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LEGAL INTERTIA AND BANKING RISKS: A CRITICAL STUDY INTO WINSOME DIAMONDS FRAUD CASE

AUTHORED BY - JAYA

ABSTRACT

The Winsome Diamonds scam is one of India's largest and unsolved corporate financial scandals that exposed systemic weaknesses in the banking and legal system. This analysis critically explores the chain of events involving Jatin Mehta's Winsome Diamonds and Jewellery Ltd., and its associate Forever Precious Jewellery, which defaulted on a loan of more than ₹6,800 crore taken from a consortium of Indian banks. In spite of several probes by the Central Bureau of Investigation (CBI), the Enforcement Directorate (ED), and regulatory investigations by the Serious Fraud Investigation Office (SFIO), the case is still largely unsolved. This has created deep concerns regarding the lethargy of India's legal and regulatory machinery in prosecuting high-profile economic criminals effectively and recovering public money.

This study examines how institutional inaction, procedural delay, and complexities of international law have hindered the enforcement of justice in the Winsome case. The study points out key loopholes in regulatory control, especially the weak risk management procedures of lending banks, abuse of Standby Letters of Credit (SBLCs), and absence of cross-border legal enforcement measures. Key findings indicate a chilling trend of regulatory lethargy and political obscurity, highlighting the imperative for structural changes in India's financial and legal systems.

Methodologically, the research draws on secondary data such as forensic audit reports, court records, regulatory reports, and academic literature to identify systemic loopholes. It exposes how legal inertia—expressed in slow investigations, few prosecutions, and diplomatic failures—has enabled financial crime to thrive with impunity. Overall, the study calls for immediate reforms in the form of enhanced legal cooperation agreements, enhanced fraud risk management, and increased institutional accountability. The Winsome case is therefore a key prism through which the wider threats to India's banking integrity and legal effectiveness can be analyzed.

INTRODUCTION

In recent years, several large-scale financial frauds have thrown the Indian banking sector into a series of crises, bringing huge losses to public institutions and exposing the weaknesses of regulatory and legal frameworks. Amongst the largest and most under-prosecuted cases is the Winsome Diamonds and Jewellery Limited scam, whereby the company together with its associate firm Forever Precious Jewellery defaulted on loans over ₹6,800 crore. The company, under the leadership of Jatin Mehta, had used Standby Letters of Credit (SBLCs) to import bullion, which was then largely exported to 13 UAE-based entities allegedly controlled by a Jordanian national, Haytham Obaidah—transactions now suspected to be fraudulent or fictitious¹.

Despite multiple probes by the country's premier agencies---the CBI, ED, and SFIO---and worldwide audits by firms such as Kroll and Ernst & Young, Indian authorities failed to secure extradition or try for recovery. Instead, it was the UK court that took an early lead in freezing assets and legal pursuit, holding there to be "strong evidence of a major international fraud" involving the Mehta family². Delays and non-acting by Indian regulators and enforcement agencies have now raised questions of legal inertia, inefficiency, and possible political sheltering—especially since Mehta has now become a citizen of St. Kitts and Nevis, a country with which India has no extradition treaty³.

The Winsome scenario epitomizes the collapse of institutional due diligence and cross-border enforcement capabilities in Indian banking. Scholarly assessments have shown how such frauds thrive through systemic failures in banking controls, feeble regulatory mechanisms, and deficient frameworks for fraud prevention⁴⁵. Equally worthy of note in the anatomy of this fraud is how lax risk management practices and politically motivated lending took their toll on

¹ Thakurta, P., & Dasgupta, A. (2023). *Digging Diamonds From Banks: The Untold Story of Fugitive Diamantaire Jatin Mehta – I*. NewsClick. <https://www.newsclick.in/digging-diamonds-banks-untold-story-fugitive-diamantaire-jatin-mehta-i>

² Moneylife. (2022). *Big Bank Defaulter Jatin Mehta of Winsome Diamonds: Let Off in India, May Be Nailed by UK Courts*. <https://www.moneylife.in/article/big-bank-defaulter-jatin-mehta-of-winsome-diamonds-let-off-in-india-may-be-nailed-by-uk-courts/69045.html>

³ Khan, D. (2023). *UK court rules fraud case against Winsome's Mehtas to be tried in the UK, not India*. Hindustan Times. <https://www.hindustantimes.com/cities/mumbai-news/uk-court-rules-fraud-case-against-winsome-s-mehtas-to-be-tried-in-the-uk-not-india-101676489721140.html>

⁴ Kamal, M., Chauhan, J., & Alam, M. R. (2025). *Anatomy of financial misconduct: A critical insight into key banking frauds in India*. International Journal of Research in Finance and Management, 8, 122.

⁵ Kukreja, G., & Gupa, S. (2019). *Gem of the Indian Banking Fraud: A Case of Systemic Control Failures at Punjab National Bank*. Journal of Forensic and Investigative Accounting, 11. <http://web.nacva.com.s3.amazonaws.com/JFIA/Issues/JFIA-2019-No2-9.pdf>

the public sector banks⁶.

The following paper shall undertake an evidence-based and critical look into the Winsome Diamonds case, exploring the various institutional inefficiencies in delays in investigation, complexities in international law, all of which came together to render one of the biggest corporate defaults in India into a long-standing unresolved dispute. Using data from forensic audits, legal proceedings, regulatory reports, and academic analyses, the study makes a determinate case for urgent and sweeping reforms, such as enhanced international legal cooperation, stricter banking oversight, and prosecutorial accountability.

Objectives

- To analyze the modus operandi of the fraud
- To evaluate regulatory failures and enforcement challenges
- To suggest reforms for improving banking oversight and fraud prevention

Research Questions

- What were the key loopholes in the regulatory framework?
- How did quid pro quo elements (if any) influence the case outcome?
- What lessons can be drawn from the case?

Methodology

This study tries to understand and analyze the underlying reasons for the second-largest corporate fraud case, namely the Winsome Diamonds Case, by way of an in-detail analysis of various reports, research papers, research articles, news articles, blogs, websites, etc. Thus, the present study has been conducted based on secondary data and, hence, is descriptive.

LITERATURE REVIEW

1. Analysis of Corporate Frauds in the Indian Banking Sector By Tirumalaraju Naveen and Dr.G.V.Satya Sekhar⁷ - The current study provides deep insights into the loss of public money through major corporate frauds and their impact on the Indian Banking Sector.

⁶ Tirumalaraju, N., & Sekhar, G. V. S. (2024). *Analysis of Corporate Frauds in the Indian Banking Sector*. European Economic Letters, 14.

⁷ Naveen Tirumalaraju & G.V.Satya Sekhar, Analysis of Corporate Frauds in the Indian Banking Sector, 14 European Economic Letters (2024).

Indian Banks, both public and private, have made significant changes in their operations to ensure financial inclusion and stability; however, they have also reportedly encountered a huge loss of public money through top corporate frauds like Nirav Modi Fraud, Winsome Diamonds Scam, Vijay Mallya Fraud Case, ABG Shipyard Scam, etc. According to RBI Reports, Indian Banks lost around Rs. 5.74 lac crores during 2013-23, of which nearly Rs. 76,000 lac crores were due to frauds on major 8 independent corporate accounts.

The paper delves into the various dimensions of corporate fraud, emphasizing its causes, impact, and suggestive measures to be undertaken. The research emphasizes that corruption remains a major cause of regulatory failures and financial frauds, among other grounding reasons for forming Non-Performing Assets (NPAs) like lack of skilled officers, political influences of clients, lack of control and communication, weaker risk management and portfolio assessments, improper due diligence, etc. Cases like Punjab National Bank fraud and Kingfisher Airlines fraud show how lapses in internal controls and collusion between bank officials and corporate entities have led to massive financial losses to the economy. The research highlights how unethical conduct of bank officials, motivated by personal financial distress or pressure to meet business targets, can lead to fraud. Various preventive measures are recommended, including stricter regulatory oversight, enhanced fraud risk management, better post-sanction monitoring, and technology-driven solutions such as data analytics for fraud detection. Ultimately, researchers underscore the urgent need for robust internal controls, greater accountability, and stringent legal actions against corporate fraudsters to protect public funds and maintain the integrity of the banking sector.

2. The paper *Anatomy of Financial Misconduct: A Critical Insight into Key Banking Frauds in India* By Mohsin Kamal, Jahangir Chauhan, Md. Qaiser Alam, and Md. Rahber Alam (Aligarh Muslim University)⁸ aims to examine the underlying causes, patterns, and consequences of major banking frauds in India, with a focus on systemic vulnerabilities and institutional failures. Relying on the secondary data and following a case study-based approach of the prominent cases such as those involving Nirav Modi, Vijay Mallya, and ABG Shipyard, the authors attempt to understand recurring trends and regulatory gaps. The main research question it addresses is: What are the underlying causes, patterns, and

⁸ Mohsin Kamal, Jahangir Chauhan & Md Rahber Alam, *Anatomy of financial misconduct: A critical insight into key banking frauds in India*, 8 INTERNATIONAL JOURNAL OF RESEARCH IN FINANCE AND MANAGEMENT 122 (2025).

systemic impacts of major banking frauds in India, and how can regulatory and institutional mechanisms be strengthened to prevent such misconduct? The key findings reveal a troubling rise in both traditional and tech-enabled frauds, pointing to weaknesses in governance, regulation, and technological safeguards, and emphasizing the need for reforms in oversight, cybersecurity, and corporate ethics. However, the authors acknowledge certain limitations, including the study's reliance on secondary sources and its focus on high-profile frauds, which may not capture the full diversity of financial misconduct in India. The broader implications underscore the need for regulatory overhaul, enhanced corporate accountability, adoption of advanced technologies for fraud detection, and stronger public awareness and enforcement mechanisms to protect the integrity of India's financial system.

3. The document titled "Bank Frauds Reported in India: A Case Study" provides a comprehensive analysis of the banking fraud landscape in India, highlighting the growing challenge of non-performing assets (NPAs) and unethical practices within the sector. It does this by in-depth studying the leading corporate fraud cases in India, namely the Kingfisher Airlines Case, the Winsome Diamonds Case, the Nirav Modi Scam, and the ABG Shipyards Scam. The study underscores that despite stringent regulations imposed by the Reserve Bank of India and those imposed under the Banking Regulation Act, the RBI Act, and the Insolvency Act, the banking industry continues to suffer significant losses due to systemic weaknesses and poor governance. The rise in bank fraud is attributed to factors such as unskilled bank officials, personal gains, technological vulnerabilities, political interference, insufficient monitoring, and unethical conduct among top-level executives. High-profile cases such as those involving Vijay Mallya, Nirav Modi, and the ABG Shipyard scandal reflect the scale and complexity of financial misconduct, where fraudulent activities often involve collusion between bank employees and corporate borrowers. Statistical data from the Reserve Bank of India (RBI) reveals a sharp increase in both the number and value of fraud cases over the past decade, with major banks like ICICI, SBI, and HDFC reporting the highest volumes of fraud, which has made the Indian Banking Sector bleed to death. Banks act as a life-support system in developing economies like India, hence, a high reported volume of cases could be brought down by strengthening financial governance, enhancing technological infrastructure, and

improving employee training, which are critical to mitigating future risks and safeguarding the banking sector's stability.⁹

BACKGROUND OF THE CASE

The fraud involving Winsome Diamonds and Jewellery Ltd is the classic picture of the systemic weaknesses entrenched within the Indian banking and the legal systems. With a default presenting a massive figure of over ₹6,800 crore, the case exposes weaknesses in financial monitoring and risk assessment along with the quandaries and inertia attendant to cross-jurisdictional legal enforcement. The company was originally incorporated in 1985 as Su-Raj Diamonds (India) Ltd. But over time it changed its names and was functioning as a key player in India's diamond and jewellery export sector. The company went international through subsidiaries and acquisitions in UAE and Belgium, along with its associate firm, Forever Precious Jewellery and Diamonds Ltd., in furthering its foreign market reach¹⁰ (Thakurta & Dasgupta, 2023).

From 2011 to 2013, credit facilities were granted to Winsome Diamonds and Forever Precious by a consortium of 14 Indian banks. The facilities amounting to ₹6,800 crores were backed by Standby Letters of Credit (SBLCs) issued in favour of a few international bullion banks like Standard Chartered Bank (London), Standard Bank of South Africa, and Scotiabank. These SBLCs essentially stood as guarantees against the import of gold, which Winsome would then melt into jewellery for export mainly to 13 UAE-based firms. These foreign clients, purportedly independent businesses, were all linked to a Jordanian national named Haytham Salman Ali Abu Obaidah¹¹ (Kamal et al., 2025).

Additionally, the purported buyers had no secured storage for commodities and had no visible cash flow, which would indicate fraudulent and, possibly, a systematic withdrawal of money. The FIRs filed by the CBI and the investigations conducted by the ED corroborate this evidence, noting indicators related to money laundering, over-invoicing and round-tripping of money to companies of Mehta and family. Yet, even with significant evidence, the enforcement actions within India have remained slow. Mehta left India in 2011 and gained citizenship in St.

⁹ Dr Gurmeet Singh & Dr Simanpreet Kaur, Bank Frauds Reported In India: A Case Study, 14 Journal of Pharmaceutical Negative Results 304 (2023), <https://www.pnrjournal.com/index.php/home/article/view/6688>.

¹⁰ Supra note 1

¹¹ Supra note 4

Kitts and Nevis in 2014. St. Kitts and Nevis has no extradition treaty with India¹² (Khan, 2023).

There has been greater legal and prosecutorial movement outside India. In the UK, in 2022, the High Court found “strong evidence of a major international fraud” involving the Mehtas, and issued a Worldwide Freezing Order (WFO) freezing assets to the value of over \$932 million. The court rejected Mehta’s defence that the UAE was the right forum, not the UK, and found he had purposefully obscured the flows of funds through use of shell entities in multiple jurisdictions¹³.

In contrast, Indian agencies struggled. The CBI filed multiple FIRs but made only one formal chargesheet by 2021 and then controversially submitted a closure report. Meanwhile, the ED attached ₹172 crore worth of properties, but this represents only a fraction of the total defrauded amount. The Serious Fraud Investigation Office (SFIO) also launched inquiries, questioning numerous directors and issuing summons, but little prosecutorial progress followed. Complicating the legal narrative, a Sharjah Federal Court ruling supported Winsome’s defense that losses were commercial, not criminal. It suggested that Obaidah’s companies had genuinely failed to make payments due to derivative trading losses. This verdict, upheld by an appellate court in the UAE, could potentially undermine India’s allegations of conspiracy and laundering. However, the ruling has been criticized for relying on testimonies that lacked independent verification, and a UK judge later downplayed its relevance, emphasizing the scale and structure of the financial misconduct.

Adding to the controversy is the speculation of political protection. Jatin Mehta’s alleged links to influential business families, including the Adani Group, have led to public suspicion that law enforcement agencies have been intentionally lax in pursuing him compared to other high-profile defaulters like Vijay Mallya or Nirav Modi¹⁴. Political protection is another aspect of the subtexts that surround this matter. Jatin Mehta’s ostensible associations with influential business families, including the Adani Group, suggest to a public already wired to suspect collusion that law enforcement has been carelessly feckless in showing interest in him with the same summons as had been a focus on others such, as for example Vijay Mallya or Nirav Modi.

¹² Supra note 3

¹³ Supra note 4

¹⁴ Supra note 3

In conclusion, the Winsome Diamonds fraud is a multi-layered failure of oversight—banks did not monitor exposures or heuristic risk factors appropriately, nor did enforcement agencies correctly exercise their mandate; or finally, because the legal regime governing financial crime had proved inadequate to deal with cross-border criminality. The case serves as a lens through which to interrogate the systemic shortcomings of the inequitable treatment of economic fraud and the urgency of even broader institutional reform in India.

ANALYSIS OF LEGAL AND REGULATORY FAILURES IN THE WINSOME DIAMONDS FRAUD CASE

The Winsome Diamonds fraud case, which had a default amounting to more than ₹6,800 crore, is a glaring example of systemic failings in India's legal and regulatory systems. The case highlights the failures of each of the major elements relating to prosecutorial delays, extradition process, inter-agency coordination, statutory provisions, and international legal processes. Each of these issues will be examined to identify the range of failures that contributed to the inability to secure justice.

1. Delay in the Prosecution and Charge Sheets Initiation

In the Winsome Diamonds fraud case, the initial stages were marked by considerable delays. The default occurred in 2013 but the Central Bureau of Investigation (CBI) did not register the first set of First Information Report (FIR) until 2017¹⁵. This means that, after the incident, CBI took four years to investigate the matter and register the FIRs, giving the principal accused, Jatin Mehta, time to transfer his assets and relocate, and to create financial complexities that greatly influenced the prosecution's ability to properly investigate the case.

In addition, the Serious Fraud Investigation Office (SFIO) filed its prosecution complaint, almost a decade later, in 2024¹⁶. The above points indicate that the investigation's timeliness was unreasonably protracted, and that such delays weaken enforcement and public confidence in the justice system's ability to respond to high-profile fraud and financial crime.

2. Extradition Impediments: St. Kitts and the loophole of citizenship

Part of the reason behind the inability to prosecute Jatin Mehta has to do with him

¹⁵ CBI. (2019). FIR - CBI. Retrieved from <https://cbi.gov.in/assets/files/fir/RC0772019E0006.pdf>

¹⁶ Economic Times. (2024). SFIO chargesheet sparks summons on 2013 'fraud'. Retrieved from <https://m.economictimes.com/news/india/sfio-chargesheet-sparks-summons-on-2013-fraud/articleshow/109825558.cms>

obtaining citizenship from St. Kitts and Nevis, a Caribbean nation that currently has no extradition treaty with India¹⁷. Jatin Mehta and his wife renounced their Indian citizenship between 2013 and 2014, and after obtaining St. Kitts and Nevis citizenship, Jatin Mehta effectively puts himself beyond the purview of Indian law enforcement agencies.

This is a result of Jatin Mehta taking advantage of a significant hole in India's extradition framework, and indicates a clear need for the country to enter binding treaties with countries that have citizenship by investment programs. Without these treaties, it is very difficult for India to bring the offenders who have economically violated the law to justice when they have simply used the international legal loophole.

3. The Role of Poor Due Diligence and Poor Inter-Agency Coordination

The Winsome Diamonds case also illustrates lapses in due diligence and inter-agency coordination. Indian banks issued Standby Letters of Credit (SBLCs) to Winsome Diamonds based on a lack of proper due diligence on the creditworthiness of the overseas clients of the company. Investigations revealed that the buyers based in the UAE were shell companies without any real business activity¹⁸.

A lack of proper communication and collaboration between the investigative agencies (CBI, Enforcement Directorate (ED), and SFIO) also led to fragmented actions and duplicate investigations, which created opportunities for the accused to manoeuvre through procedural gaps and delays in the collection of evidence to further encourage the accused.

4. Legal Lacuna in PMLA, IPC and RBI Action

The legal framework governing financial crimes in India, in particular around the Prevention of Money Laundering Act (PMLA), Indian Penal Code (IPC), and Reserve Bank of India (RBI)- imposed regulations, had major flaws in the case involving the Winsome Diamonds fraud.

The Enforcement Directorate (ED) was unable to trace or attach assets under the provisions of the PMLA, mainly as a result of dark funds, international transactions, and shell companies involved in the fraud. Similarly, the provisions under the IPC around cheating and criminal breach of trust were not adequate to deal with fraud which

¹⁷ Indian Express. (2016). Winsome Diamonds promoter, wife take up St Kitts citizenship. Retrieved from <https://indianexpress.com/article/india/india-news-india/winsome-diamonds-promoter-wife-take-up-st-kitts-citizenship-2829696/>

¹⁸ The Wire. (2022). Let Off in India, UK Court Says There Is Strong Evidence of Fraud Against Jatin Mehta. Retrieved from <https://m.thewire.in/article/banking/jatin-mehta-winsome-diamonds-fraud-uk-court>

also involved cross border financial instruments and entities¹⁹.

These established regulations and laws did not go far enough to prevent the issuance of SBLCs by the RBI to entities with dubious designations and authenticity. While the regulator cannot prevent agents, agents must conduct sufficient due diligence of the ultimate client/customers. The proliferation of SBLCs demonstrates that existing checks and balances failed to prevent fraud. It raises serious concerns about the sufficiency of regulation, supervision and enforcement of financial crimes at educational institutions outside the public eye.

5. Comparative Analysis: Swift and Decisive Action by UK Courts

In sharp contrast to the slow and fragmented response exhibited in India, UK courts acted promptly (fast) and decisively in their dealings with the Mehtas. In 2022, a High Court in London issued a Worldwide Freezing Order (WFO) against Jatin Mehta and his family, freezing assets worth approximately USD 932 million²⁰.

The steps taken by the court and the appointment of liquidators and the commencement of asset recovery indicate the efficacy of a coordinated legal environment in tackling complicated financial crime. The court's willingness to exercise jurisdiction, notwithstanding the cross-border nature of the crime, also emphasizes the need for legal agility in respect of action focused on economic crimes and the value of appropriate cooperation at international levels.

The Winsome Diamonds fraud case has been a warning sign of the many kinds of failure in the legal and regulatory response to crimes to the tune of billions of rupees in India. The combination of delay in prosecution, capitalizing the ambiguity in extradition agreements, poor due diligence, poor inter-agency coordination, and gaps in legislation have caused the prosecution of the case to take so long.

If we never want to see another event like this, India needs to reform comprehensively to address:

- Extradition treaties to countries offering citizenship by investment.
- Coordinated investigations with all relevant agencies working together.
- Making sure financial institutions and the RBI really have oversight.

¹⁹ CaseMine. (2018). M/s Winsome Diamonds & Jewellery Ltd. v. The Joint Director Directorate of Enforcement, Mumbai. Retrieved from <https://www.casemine.com/judgement/in/5b7a55be18a68178be6e4172>

²⁰ Moneycontrol. (2022). Winsome Diamonds fraud case: The Mehtas face global asset tracking exercise through UK court. Retrieved from <https://www.moneycontrol.com/news/world/winsome-diamonds-fraud-case-the-mehtas-face-global-asset-tracking-exercise-through-court-in-uk-8873931.html>

- Amendments to the laws allowing for the complexity in transnational financial crimes matters from a law enforcement point of view.

By addressing the systemic issues identified in this case, India can enhance its legal architecture to directly deterring economic offenders in addition to protecting the integrity of India's financial systems.

BANKING SECTOR RISKS AND GOVERNANCE GAPS

The Winsome Diamonds fraudulent entity is linked to over ₹ 6,800 crore in defaults involving details attributed to the persistent deep-rooted weaknesses in India's banking system. The fraud, perpetrated by Jatin Mehta and his group companies, did not only aid in defeating the financial condition of lenders, it equally delayed the understanding as to how market regulatory biases and governance failures eroded the very basis of bank credibility and ultimately public trust. This section will focus primarily on a confluence of issues related to non-performing assets (NPAs), consortium lending structure, risk models errors, audit errors, and collusion, which allowed for possibly India's worst financial failure.

1. Effect on the Indian Banking Ecosystem: NPAs and Trust of the Public

The triumph of the Winsome Diamonds case was evidenced by the growth in NPAs. Banks, including Punjab National Bank (PNB), Canara Bank, and Union Bank of India, that were involved in the lending consortium have to deal with write-offs or provisions for loans in the thousands of crores that resulted from this default²¹. Furthermore, the Reserve Bank of India (RBI) stated in the "Financial Stability Report" (2023), frauds with large, corporate borrowers are the top contributor in terms of gross NPAs seen in PSBs incurred the most loss.

Additionally, the outcomes of the case had larger societal implications beyond financial loss, relying on the case that stilted the public view of banking institutions. High-profile incidents of fraud like this one create anxiety and worry for retail investors and depositors alike when considering the safety and integrity of banking and financial systems. Kumar and Shah (2023) observed that when borrowers can default with little pre-priced consequence it creates a perception of accountability that is diminished and creates cynicism for institutions' safeguards.²²

²¹ Business Today. (2018). *How rising NPAs have crippled the Indian banking sector.* <https://www.businesstoday.in>

²² Kumar, S., & Shah, V. (2023). *Trust Deficit in Indian Banking: An Analysis of NPA-Driven Public Perception.* Journal of Financial Integrity, 17(2), 45-59.

2. Consortium Lending and Bad Modelling for Risk

The case of Winsome reinforces the structural risks supplemented in consortium lending. Consortium lending has a design feature to limit institutional risk exposure to liabilities for banks by sharing credit risk across a group of banks; it also presents advantages for sharing accountability and lessened concentration of oversight as each bank had its credit appraisal and due diligence, relying substantially on the due diligence of the other banks²³.

Furthermore, the risk models deployed by the banks did not even have the capability to account for the international diamond trade complexities, and opacities of the trading transactions. The borrowers were exporting jewelry predominantly to approximately 13 UAE entities lacking transparency and questionable solvency, which were later disclosed as either shell firms or sponsors of closely held interests with the Winsome promoters; this increased risk exposure, culpability limitations subsequently, non-responsibility, and reduced levels of accountability²⁴.

Standard Chartered as the lead bank in the consortium executed Standby Letters of Credit (SBLCs) over ₹40,000 crore, and the Indian banks performed on the agreements without adequate legally-enforceable collateral in place and/or verifying the bona fides of their respective counterparties²⁵. This transactional breakdown of due diligence was extrapolated and represented a systemic issue on modelling risk, whereby our bank systems did not know, absolutely either failure to comply or failure to understand.

3. Forensic Audit Results: Inflated Inventories and Fake Invoices

A major insight into the extent of the fraud surfaced from the forensic audits conducted by the banks affected. Notably, Ernst & Young and Kroll Advisory Solutions uncovered many irregularities including inflated inventories, non-existent export orders, and fake invoices that were used to obtain further credit from Indian banks²⁶.

The audit indicated inconsistencies between Winsome's stock statements, and the true physical inventory. For example, while Winsome claimed diamond inventories constructing ₹153.46 crore, the independent verification after examining Deloitte was only ₹45 crore. In addition, the buyers from the UAE had no verifiable storage facilities or operational office, with some occupying 80 sq. feet of operational space—with a

²³ Times of India. (2022). *Winsome fraud: Final decision by bank higher-ups*. <https://timesofindia.indiatimes.com>

²⁴ Economic Times. (2019). *CBI books absconding diamantaire Jatin Mehta in a fresh case*. <https://economictimes.indiatimes.com>

²⁵ Moneylife. (2017). *Six FIRs against Winsome Group for Rs 1,530 cr fraud*. <https://www.moneylife.in>

²⁶ NewsClick. (2022). *The Untold Story of Fugitive Diamantaire Jatin Mehta – I*. <https://www.newsclick.in>

discrepancy for entities that contended to do jewellery business valued in the hundreds of crores.

In addition to the previous findings in the audits, certain export vessel shipments were also made without standard documentation such as Letters of Credit, and no proper export insurance was found. The absence of documentation should have raised alarms in standard routine audits and/or risk reviews, but eventually went undetected for years.

4. Collusion and Lapses in Oversight by Bank Executives

Even more disturbing were the indications of collusion between bank personnel and the principles associated with Winsome. The CBI's charge sheets in several cases included high-level PSB executives, including former CMDs of Canara Bank and other banks, engaged in facilitating unsecured lending and contravening internal risk controls²⁷.

The collusion took many forms, including approving SBLCs or additional credit facilities without undertaking the credit risk assessment required to identify risk at the very least, and without obtaining acceptable collateral. According to the Times of India (2022), internal audits either glossed over or failed to escalate significant inconsistencies in Winsome's financial information. The same reports indicate that many of the bank officials who were involved in the loans were either transferred before the investigation began allowing many of them to escape internal accountability.²⁸

The playing field for accountability by the government and regulatory bodies did little to prevent such malfeasances. For instance, the RBI promulgated a framework in 2015 governing the identification of loan fraud, requiring the immediate identification of fraud and pursuance of criminal routes against the culprit, and in the case of Winsome, these guidelines appear to have received only cursory attention²⁹.

The Winsome Diamonds fraud case highlights the urgent need for reform in governance, supervision and operational risk management in the banking ecosystem in India. It demonstrated how reliance on traditional mechanisms in lending like consortium lending, can be abused through collusion, lack of diligence and lacking risk modeling. It also darkly illustrated the limitations of forensics and financial audits without institutional accountability.

²⁷ Supra note 24

²⁸ Supra note 23

²⁹ Reserve Bank of India. (2015). *Framework for dealing with loan frauds*. <https://rbi.org.in>

To rectify these failures, institutional reforms must be made. These should include:

- Enhancing due diligence processes: Lending should only occur upon verified export documentation including authenticated invoices and a third party risk assessment of the overseas buyers involved.
- Creating an Improved Audit Trail and Monitoring System: Banks must adopt AI tools to monitor high-value transactions along with stock movement and fund flow in real-time.
- Real Accountability for Bank Staff: Regulatory bodies should notify criminal liability and apply strict penalties in relation to collusion and gross negligence.
- Revising Risk Modelling: Financial institutions must develop sector-based risk-modelling frameworks which must also reflect historical fraud trends and global trade behaviours.
- Transforming Consortium Lending Standards: Banks and other lenders in consortium must develop clear responsibility-sharing agreements amongst the consortium members, including a lead lender to sign off on compliance oversight.

It is only through taking these next steps that we can hope to prevent another Winsome style fraud to prevent any further erosion of trust in the governance of banks in India's financial system.

POLITICAL AND ETHICAL DIMENSIONS

1. Alleged Disparity in Treatment: Mehta vs. Nirav Modi and Vijay Mallya

Winsome Diamonds fraud, with defaults exceeding ₹6,800 crore, prompted comparisons with other prominent Indian financial scandals, in particular, Nirav Modi and Vijay Mallya. Observers noted there were different levels of legal and political response to Modi and Mallya's conduct.

Where Nirav Modi and Vijay Mallya experienced prompt legal responses - including passport revocation and extradition proceedings - Jatin Mehta, promoter of Winsome Diamonds, experienced a deferred response. Between 2013 and 2014, Mr. Mehta and his wife received citizenship of St. Kitts and Nevis. This effectively displaced Mr. Mehta beyond Indian extradition measures. Observers were left questioning the timing and effectiveness of the legal action taken against him.³⁰

Critics argue that while the scale of fraud was similar in all three cases, Mehta's fraud

³⁰ Paranjay.in. (n.d.). *The Untold Story of Fugitive Diamantaire Jatin Mehta – I*. Retrieved from <https://paranjay.in/article/digging-diamonds-from-banks-the-untold-story-of-fugitive-diamantaire-jatin-mehta-i>

did not receive the same spotlight in the media, and thus he was afforded a lesser political response. This led to conclusions of preferential treatment and sparked outcry for similar enforcement of financial regulations.

2. Media and Parliamentary Debate on Adani-Mehta Links

The Winsome Diamonds case also overlapped with broader political debates over alleged links between Jatin Mehta and the Adani Group. For example, various reports indicated that Jatin Mehta may have been related to the Adani family, either a nephew or cousin, which raises potential conflicts.³¹

These alleged links have become the basis for parliamentary debates where opposition parties have called for an investigation in order to understand the nature of these links and if they created any bias in the handling of the Winsome case.³² A failure to elaborate on these matters by the Government of India was criticized for lack of transparency and accountability.

Moreover, the Adani Group is under its own allegations of financial misdeeds and regulatory violations altogether that does generate scrutiny of corporate governance and political leverage in terms of operations.

3. Ethics in Corporate Governance and Fiduciary Failures

Beyond the political implications, the Winsome Diamonds case epitomizes fundamental ethical failures concerning fiduciary duties in corporate governance. The manipulation of overstated inventories, creation of fictitious invoices, and dealing with shell corporations overseas, reflects calculated dishonesty. The blatant lack of care, loyalty, and transparency, represent significant lapses in fiduciary duties which are foundational to ethical corporate practices³³.

The scandal highlighted deficiencies in the board's oversight mechanisms. Directors, auditors, or both evidently failed to note or ignore how a large concentration of the company's export revenues derived from unclear offshore sources would raise red flags. The anemic performance of the compliance framework is illustrative of the larger structural issues with corporate governance in India where compliance framework only exists on paper and fails to translate into practice.

³¹ Bloomberg. (2023, February 7). *India Opposition Says Modi Government Afraid of Adani Debate*. <https://www.bloomberg.com/news/articles/2023-02-07/india-opposition-says-modi-government-afraid-of-debate-on-adani>

³² National Herald. (n.d.). *How crony capitalism has benefited the Adani Group since 2014*. <https://www.nationalheraldindia.com/opinion/how-crony-capitalism-has-benefited-the-adani-group-since-2014>

³³ Sage Journals. (2014). *Changing Trends in Interpreting Fiduciary Duty*. <https://journals.sagepub.com/doi/pdf/10.1177/0256090920140301>

As highlighted by Policy Circle (2025), the reliability of a business's financial system is dependent on more than legal compliance; it is contingent on the integrity of corporate governance. The Winsome case reminds all of us that unethical business practices can quickly unfold into national financial crises if not constrained³⁴.

The Winsome Diamonds fraud case intersects the domains of political favoritism, heightened media scrutiny, and the ethical breakdown of the company and its many enablers. The seeming inconsistency in the treatment of Jatin Mehta as compared to other fugitives has raised intense debate regarding the systemic fairness of India's legal and financial systems. At the same time, linkages with politically connected business groups raise suspicion of crony capitalism and discriminatory enforcement practices. Ultimately, the ethical failures characterized by Winsome's organized deceit and high levels of governance failure, exemplifies a need for radical reform in the area of fiduciary responsibilities and board accountability.

REFORM RECOMMENDATIONS

1. Strengthening Banking Fraud Oversight: EWS, FRM and KYC Reforms

Today, one of the most important lessons from the Winsome Diamonds case is to deepen fraud detection in banking - something that the Reserve Bank of India (RBI) has reacted to by recently issuing updated guidelines on Fraud Risk Management (FRM) which enforces the use of Early Warning Systems (EWS) and strong internal controls along with real-time transaction tracking³⁵. The purpose of these measures is to catch anomalies in customer transactions/loan behaviour before defaults occur.

Furthermore, KYC compliance is being revised to further include dynamic, technology-based processes. The RBI's latest notification requires banks to use centralized KYC registries and AI-enabled verification to avoid identity theft and money laundering³⁶. These digital reforms have now also meant processes which enhance the KYC risk-based customer profiling have tightened the financial system's ability to exploit banking channels.

The Telecom Regulatory Authority of India (TRAI) and RBI have also come together,

³⁴ Policy Circle. (2025, April 25). *India needs corporate governance with a moral compass*. <https://www.policycircle.org/opinion/improving-corporate-governance-india/>

³⁵ KPMG. (2024). *RBI releases revised fraud risk management directions*. <https://assets.kpmg.com/content/dam/kpmg/in/pdf/2024/07/firstnotes-rbi-releases-revised-fraud-risk-management-directions.pdf>

³⁶ ZIGRAM. (2024). *RBI Tightens KYC Framework*. <https://www.zigram.tech/articles/rbi-kyc-framework-amendments-2024/>

and allowing banks to make use of the Mobile Number Revocation List (MNRL) by March 2025 to avoid mobile-based cyber fraud - which was also an important tactic in multi-layered frauds such as what occurred in Winsome Diamonds³⁷.

2. Legal Reform: Extradition, Corporate Liability and Speeding Up Cases

Legal inefficiencies revealed serious problems in managing cross-border economic crimes through criminal law, as illustrated in the Winsome case, when Jatin Mehta avoided prosecution entirely, in India, due to not having an extradition treaty in place with St. Kitts and Nevis. Therefore, it is essential for India to update the Extradition Act of 1962 to include the possibility of extraditing under mutual legal assistance agreements³⁸.

At the same time, there is a need to have clarity around corporate criminal liability. While courts have acknowledged the idea of holding corporations accountable, we need legislation to amend this gap by establishing liability, for cases of fraud and willful default³⁹, to ensure not only individuals are held accountable for unethical behavior, but companies too.

Additionally, we need to establish special economic offenses courts designed to assist in speeding cases upfront for high-value financial crimes. Provisional periods of not prosecuting, as occurred in the case of Winsome, diminishes deterrence and supports repeat offending.

3. Role of Forensic Accounting and International Cooperation

Forensic accounting should be an institutional margin for tackling fraud investigation. The Institute of Chartered Accountants of India (ICAI) is growing Forensic Accounting and Investigation Standards (FAIS) to toolkits, which provides enhanced information related to collecting evidence, identifying financial profiles, and mapping layered transactions⁴⁰. Adopting full-scale forensic accounting principles as part of its practice could allow auditors to investigate fraud at an earlier point in time and in a much clearer manner.

At the international level, India must also strengthen its relationship with bodies such

³⁷ Economic Times. (2025). *Cyber frauds on RBI's radar: Banks mandated to use TRAI's MNRL technology by March 31, 2025*. <https://m.economictimes.com/wealth/save/cyber-frauds-on-rbis-radar-banks-mandated-to-use-trais-mnrl-technology-by-march-31-2025/articleshow/117476102.cms>

³⁸ Observer Research Foundation. (2023). *India's challenges in extraditing fugitives*. <https://www.orfonline.org/research/india-s-challenges-in-extraditing-fugitives-from-foreign-countries>

³⁹ Indian Law Journal. (2023). *Corporate Criminal Liability in India: Legal Developments and Challenges*. <https://www.indianlawjournal.org/articles/corporate-criminal-liability>

⁴⁰ ICAI. (2023). *Forensic Accounting and Investigation Standards*. <https://www.icaai.org/post/forensic-accounting-and-investigation-standards>

as the Financial Action Task Force (FATF) and INTERPOL. They play an important role in tracing illicit financial flows, retrieving stolen assets, and identifying jurisdictions that fraudsters rely on⁴¹.

4. Strengthened RBI-SEBI Collaboration and Digital Compliance Methods

Institutional mechanisms for collaboration between the RBI and the Securities and Exchange Board of India (SEBI) regulators are critical to the integrity of systems. The RBI regulates banking and banking type activities, whereas SEBI regulates capital markets - in large corporate frauds, the two areas regulated by the two agencies are often interdependent. Improving collaboration, information sharing, joint oversight measures and harmonization of regulations would address existing regulatory gaps⁴².

The RBI has launched a digital supervisory monitoring system called DAKSH to facilitate compliance and reporting workflows. Systems like these incorporate digital compliance, reporting and oversight methods that would ultimately engage advanced analytics and machine learning capability when identifying outliers and enforcing regulatory action⁴³ (RBI, 2024).

In summary, these recommendations represent a unified proposal for strengthening trust inside financial institutions and deterrence against large scale frauds like the Winsome case.

CONCLUSION

The Winsome Diamonds fraud case provides a critical platform to view serious deficiencies with multiple facets of India's financial and legal systems. With over ₹6,800 crore disappearing through a complicated scheme of inflated invoices, forged transactions, and diversion of funds across international borders, the fraud demonstrates the serious deficiencies that exist in India's banking structure, with respect to governance arrangement, legal enforcement, regulatory action and the like.

The actions of agencies like the CBI and ED are confusing and unreliable. UK courts acted very quickly, but the CBI and ED were slow and did not capitalize on the same evidence. The effort was hindered by an absence of an extradition treaty with St. Kitts and Nevis where Jatinder

⁴¹ FATF. (2024). *Improving Asset Recovery and International Cooperation*. <https://www.fatf-gafi.org/publications/methodsandtrends/documents/asset-recovery-cooperation.html>

⁴² SEBI. (2024). *Annual Report on Inter-Agency Regulatory Cooperation*. <https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=5&ssid=57&smid=9>

⁴³ RBI. (2024). *DAKSH Supervisory Technology*. https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1324

Mehta's nationality is registered.

In banking terms, the fraud exposed the fundamental flaws in risk modelling, conduct due diligence and oversight in composite lending contexts. The forensic audits disclosed manipulation in regard to manipulating shell companies, submitting fictitious exports and gross ethical violations. These acts were allowed to exist through the toleration on the part of institutions not being held accountable.

This research highlights that meaningful reform consists of more than simply changing some policies; it requires entirely altering a structure. The reforms in this case would include identifying and implementing new systems for fraud detection, improved KYC structures, changing legal frameworks for extradition processes and new corporate criminal liability structures; enhanced inter-agency cooperation, improved digital surveillance capabilities, and new forms of international cooperation are all aspects that will need to be explored in order to restore integrity and public confidence in the institutions of finance and law in India. Without proper systemic reforms, the Winsome case may simply become the new standard for future economic crimes instead of an inflection point in the systems of governing finance.

