

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
LOK SABHA

UNSTARRED QUESTION NO. 701

TO BE ANSWERED ON THE 14TH DECEMBER 2018/ AGRAHAYAN 23, 1940 (SAKA)

Measures to Prevent Bank Frauds

701. SHRI RAJAN VICHARE:

Will the Minister of FINANCE be pleased to state:

- (a) whether a Committee has recommended for taking corrective measures and bring regulation to plug loopholes and ensure that such frauds as happened in the PNB do not take place, if so, the details thereof;
- (b) whether the said Committee also recommended scrutiny of large loans in the cooperative sector, if so, the details thereof;
- (c) whether the Committee has urged the Government to instil confidence of customers and investors in the credibility of State run banks to rub aside the cry to privatise Public Sector Unit banks, if so, the details thereof; and
- (d) the reaction of the Government thereto?

ANSWER

**Minister of State in the Ministry of Finance
(SHRI SHIV PRATAP SHUKLA)**

(a) to (d): The Fifty Seventh Report of the Standing Committee on Finance on Demands for Grants (2018-19) of the Ministry of Finance made recommendation in this behalf.

With regard to prevention of frauds, Reserve Bank of India (RBI) mandated banks to implement certain measures for strengthening the SWIFT operating environment within stipulated deadlines. Further, Government issued instructions to Public Sector Banks (PSBs) on "Framework for timely detection, reporting, investigation etc. relating to large value bank frauds", which provides, *inter-alia* that all accounts exceeding Rs. 50 crore, if classified as Non-Performing Assets, should be examined by banks from the angle of possible fraud. Other measures taken to control and prevent frauds in banks, are as follows:

- (i) For deterring economic offenders from evading the process of Indian law by remaining outside Indian jurisdiction, Government has introduced the Fugitive Economic Offenders Bill, 2018 to provide for attachment and confiscation of fugitive economic offender's property and has advised PSBs to obtain certified copy of the passport of the promoters/directors and other authorised signatories of companies availing loan facilities of more than Rs. 50 crore.
- (ii) For enforcement of auditing standards and ensuring the quality of audits, Government has initiated establishment of National Financial Reporting Authority as an independent regulator.
- (iii) To send a clear message that borrowers cannot wilfully default and continue to enjoy ownership of their assets, wilful defaulters and connected persons have been debarred from participating in the resolution process under the Insolvency and Bankruptcy Code (IBC).

- (iv) Launch of Central Fraud Registry (CFR), a web-based searchable database of frauds reported by the banks, containing data for the last 13 years has been made operational by RBI in January 2016.

In addition, under the PSB Reforms Agenda announced by the Government, PSBs have committed to clean and commercially prudent business through Stressed Asset Management Verticals for focused recovery, rigorous due diligence and appraisal for sanction by scrutinising group balance sheets, at least 10% share in consortium lending, ring-fencing of cash flows, initiating use of technology and analytics for comprehensive due diligence across data sources, building capacity for techno-economic valuation, clean and effective post-sanction follow-up on large-value accounts by tying up with Agencies for Specialised Monitoring, and strict segregation of pre- and post-sanction roles for enhanced accountability.

As regards scrutiny in the cooperative sector, National Bank for Agriculture and Rural Development (NABARD) has informed that very few cooperative banks have issued large loans, and these loans are mainly financed by State Cooperative Banks and few District Cooperative Central Banks. The top 20 accounts of cooperative banks are examined by NABARD during the course of statutory inspections with reference to their appraisal, operations, monitoring, documentation and asset classification. Thus, there is a system in place for scrutiny of large loans in cooperative banks.

To instil confidence of customers and investors in the credibility of State run banks, Government has followed a comprehensive 4 R's approach of Recognition, Resolution, Recapitalisation and Reforms *i.e.* Recognition of restructured standard assets as NPAs, initiated with Asset Quality Review in 2015, Resolution process has been strengthened by changing the creditor-debtor relationship through the Insolvency and Bankruptcy Code, Recapitalisation amounting to Rs. 2,11,000 crore has been initiated in October 2017 to strengthen balance-sheets of public sector banks and PSB Reforms Agenda.
