

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

STARRED QUESTION NO. *177

TO BE ANSWERED ON THE 21ST DECEMBER 2018/ AGRAHAYANA 30, 1940 (SAKA)
Banking Frauds

*177. SHRI KAMALNATH:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government is aware that banking frauds have increased by 20 per cent in the past two years;
- (b) if so, the details thereof;
- (c) whether the Government has asked banks to enhance their fraud risk management framework and in spite of that the incidents of frauds have increased; and
- (d) if so, the details thereof and the steps the Government/banks propose to take to remove the security gaps and ensure proper check on banking frauds?

ANSWER
The Finance Minister
(SHRI ARUNJAITLEY)

(a) to (d): A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO. *177 FOR 21ST DECEMBER 2018 REGARDING “BANKING FRAUDS” BY SHRI KAMAL NATH, MEMBER OF PARLIAMENT

(a) to (d): Reserve Bank of India (RBI) monitors frauds reported by banks, in terms of its Master Directions on Frauds ■ Classification and Reporting, which requires banks to furnish Fraud Monitoring Return (FMR) in individual fraud cases to RBI electronically within three weeks from the date of detection.

It may be noted that fraud data reported to RBI is by the year of reporting and not the year of occurrence of the fraud or sanction of loan, Letter of Undertaking (LoU), etc., which may be of an earlier period. As a result, it is not possible from this data to arrive at year-wise increase in banking frauds. However, RBI data as per the year of reporting by banks in respect of the number of frauds involving amount of Rs. 1 lakh and above is at Annexure.

A number of steps have been taken to enhance the fraud risk management framework of the banks and to ensure proper check on banking frauds, including, *inter alia*, the following:

- (1) Government has issued “Framework for timely detection, reporting, investigation etc. relating to large value bank frauds” to PSBs, which provides, *inter-alia*, that
 - (i) all accounts exceeding Rs. 50 crore, if classified as Non-Performing Assets (NPAs), be examined by banks from the angle of possible fraud, and a report placed before the bank’s Committee for Review of NPAs on the findings of this investigation;
 - (ii) examination be initiated for wilful default immediately upon reporting fraud to RBI; and
 - (iii) report on the borrower be sought from the Central Economic Intelligence Bureau in case an account turns NPA.
- (2) Fugitive Economic Offenders Act, 2018 has been enacted to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts. It provides for attachment of property of a fugitive economic offender, confiscation of such offender’s property and disentitlement of the offender from defending any civil claim.
- (3) Central Fraud Registry (CFR), based on Fraud Monitoring Returns filed by banks and select financial institutions, has been set up by RBI as a searchable online central database for use by banks.
- (4) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.

- (5) For management of fraud risk and to direct the focus of banks to early detection of loan frauds, prompt reporting to RBI and investigative agencies and timely initiation of staff accountability proceedings, RBI has issued a framework for dealing with loan frauds and Red Flagged Accounts (RFA), with timelines for actions incumbent on banks, for dealing with loan frauds of Rs. 50 crore and above, requiring banks to classify potential fraud accounts as RFAs based on observation/evaluation of Early Warning Signals noticed. The red flagging is done on an information technology platform where all banks report large exposure to entities/individuals so that other banks can be forewarned about fraud risk.
- (6) RBI has issued a circular to all banks in February 2018 to implement security and operational controls such as straight-through process between the Core Banking Solutions/ accounting system and the SWIFT messaging system, enable time-based restrictions in SWIFT, review logs at regular intervals, undertake reconciliation etc. in a time-bound manner.
- (7) RBI has instructed banks to report deficient third party services (such as legal search reports, property valuers' reports etc.) and ineffective action against collusion of these providers with fraudsters to the Indian Banks' Association which maintains a caution list of such service providers.
- (8) Instructions/ advisories have been issued—
 - (i) by Government to PSBs to decide on publishing photographs of wilful defaulters, in terms of RBI's instructions and as per their Board-approved policy,
 - (ii) by Government to 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,
 - (iii) by RBI to Scheduled Commercial Banks to implement RBI guidelines to prevent skimming of ATM/debit/credit cards,
 - (iv) by RBI to Scheduled Commercial Banks to ensure legal audit of title documents in respect of large value loan accounts, and
 - (v) by RBI to Scheduled Commercial Banks to strictly ensure rotational transfer of officials/employees.
- (9) As per inputs received from PSBs, banks have adopted, *inter alia*, the following fraud mitigating practices:
 - (i) implementation of measures such as Fraud Risk Management Solution for prevention, detection and monitoring of fraudulent transactions;
 - (ii) processing, appraisal and sanction of loans through Loan Origination Software, Off-line Transaction Monitoring System for internal control;
 - (iii) generation of alerts for Early Warning Signal and red flagging; and
 - (iv) online verification of credit information report, CFR, wilful defaulter list, etc.

Lok Sabha Starred Question no. *177, for 21.12.2018 regarding "Banking Frauds"

Frauds involving amount of Rs. 1 lakh and above, reported by Scheduled Commercial Banks (SCBs) and Public Sector Banks (PSBs)

Financial year	Number of frauds reported**		** Fraud data reported to RBI is by the year of reporting and not the year of occurrence of the fraud or sanction of loan, Letter of Undertaking (LoU), etc., which may be of an earlier period. As a result, it is not possible from this data to arrive at year-wise increase in banking frauds. However, RBI data as per the year of reporting by banks in respect of the number of frauds involving amount of Rs. 1 lakh and above is given.
	SCBs	PSBs	
2015-16	4,693	2,789	
2016-17	5,076	2,718	
2017-18	5,917	2,885	

Source: RBI
