

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

STARRED QUESTION NO. *198

TO BE ANSWERED ON THE 1ST JANUARY 2019/ PAUSHA 11, 1940 (SAKA)

Measures to avoid frauds in banks

***198. SHRI M.P. VEERENDRA KUMAR:**

Will the Minister of FINANCE be pleased to state:

- (a) whether the figures released by Reserve Bank of India (RBI) have stated that frauds involving Rs. 8670 crore have been committed in banks in recent three years;
- (b) if so, the details thereof including the losses to the banks;
- (c) whether the main reasons for such frauds are giving loans succumbing to unfair means and non-repayment, if so, the details thereof; and
- (d) the steps adopted by Government to avoid such frauds in future?

ANSWER

The Finance Minister
(SHRI ARUN JAITLEY)

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

**STATEMENT FOR RAJYA SABHA STARRED QUESTION NO. *198
FOR 1ST JANUARY 2019 REGARDING “MEASURES TO AVOID
FRAUDS IN BANKS” BY SHRI M.P. VEERENDRA KUMAR,
MEMBER OF PARLIAMENT.**

(a) to (d): Reserve Bank of India (RBI) monitors frauds reported by banks and select financial institutions (FIs), and has required them to furnish to it Fraud Monitoring Return in individual fraud cases. In this connection, 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. *E.g.*, the fraudulent issuance of LoUs in PNB was reported in February 2018 but is a continuing fraud since 2011. As a result, it is not possible from this data to arrive at year-wise amounts involved in frauds. However, as per inputs received from RBI, the aggregate reported amount for frauds involving an amount of Rs. 1 lakh and above, as reported by scheduled commercial banks (SCBs) and select FIs in financial year (FY) 2015-16, FY 2016-17 and FY 2017-18, is Rs. 18,698.82 crore, Rs. 23,933.85 crore and Rs. 41,167.71 crore respectively and the extent of loss due to frauds for the same period is Rs. 16,602.90 crore, Rs. 16,788.54 crore and Rs. 37,226.39 respectively.

With regard to reasons for frauds, it may be noted that the RBI Master Circular on Frauds – Classification and Reporting observes that frauds are committed by unscrupulous borrowers by various methods including, *inter alia*, fraudulent discount of instruments, fraudulent disposal of pledged/hypothecated stocks, fund diversion, criminal neglect and *mala fide* managerial failure on the part of borrowers. The Master Circular also refers to certain other methods, which include forged instruments, manipulated account books, fictitious accounts, unauthorised credit facilities, fraudulent foreign exchange transactions, exploitation of “multiple banking arrangement”, and deficiency on the part of third parties with role in credit sanction/disbursement.

A number of steps have been adopted for strengthening fraud risk management in banks and to ensure proper check on banking frauds in future, which include, *inter alia*, the following:

- (1) RBI has issued Master Directions on Frauds □ Classification and Reporting, which requires lenders to report frauds beyond a threshold amount to the police or Central Bureau of Investigation, monitoring and follow-up of cases by a special committee, quarterly placement of information before the bank’s Audit Committee of the Board, and annual review of frauds by banks. These cover, *inter alia*, preventive measures, fraud detection systems, strengthening internal controls, remedial action, monitoring of progress of investigation and recovery, and staff accountability.

- (2) Government has issued “Framework for timely detection, reporting, investigation etc. relating to large value bank frauds” to Public Sector Banks (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.
- (3) 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.
- (4) 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.
- (5) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.
- (6) 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.
- (7) 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, enablement of time-based restrictions in SWIFT, review of logs at regular intervals, undertaking of reconciliation in a time-bound manner, *etc.*

- (8) 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.
- (9) 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 SCBs to implement RBI guidelines to prevent skimming of ATM/debit/credit cards,
 - (iv) by RBI to SCBs to ensure legal audit of title documents in respect of large value loan accounts, and
 - (v) by RBI to SCBs to strictly ensure rotational transfer of officials/employees.
- (10) As per inputs received from PSBs, banks have adopted, inter alia, the following practices that mitigate implementation of risk of fraud:
- (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 Originating Software and Off-line Transaction Monitoring System for internal control;
 - (iii) generation of alerts for Early Warning Signal and red flagging of accounts; and
 - (iv) online verification of credit information report, CFR, wilful defaulter list, etc.
