

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS**

**LOK SABHA
UN-STARRED QUESTION NO. 215
ANSWERED ON MONDAY, 04th DECEMBER 2023
AGRAHAYANA 13, 1945 (SAKA)**

CORPORATE FRAUD

QUESTION

215. SHRI K. MURALEEDHARAN:

**Will the Minister of CORPORATE AFFAIRS
be pleased to state:**

कारपोरेट कार्य मंत्री

(a) whether it is true that many service corporate Banks are reporting under multi crores of scam in different States;

(b) if so, the details thereof;

(c) whether the Government has taken any action against many Co-operative banks in Kerala; and

(d) if so, the details thereof?

ANSWER

Minister of State (Independent Charge) of the Ministry of Statistics and Programme Implementation; Minister of State (Independent Charge) of the Ministry of Planning and Minister of State in the Ministry of Corporate Affairs.

सांख्यिकी और कार्यक्रम कार्यान्वयन मंत्रालय के राज्य मंत्री (स्वतंत्र प्रभार); योजना मंत्रालय के राज्य मंत्री (स्वतंत्र प्रभार) और कॉर्पोरेट मामलों के मंत्रालय में राज्य मंत्री।

(Rao Inderjit Singh)

राव इंद्रजीत सिंह

(a) and (b) : No such data is maintained by this Ministry.

(c) and (d): The matter relates to Department of Financial Services (DFS), Ministry of Finance. DFS has informed that the Enforcement Department of Reserve Bank of India (RBI) is mandated to take enforcement action in the form of monetary penalty against the Regulated Entities including Co-operative Banks as per the Enforcement Policy and Framework approved by Board of Financial Supervision of RBI. Enforcement Department had imposed monetary penalty on nine Co-operative banks till date, located in Kerala for contraventions of the provisions of Banking Regulation Act, 1949 and the directions issued thereunder. The details of the action taken on nine Co-operative banks is available on official website of RBI. Penalty was imposed in the aforesaid nine Co-operative banks for contraventions of directions issued by RBI viz. 'Income Recognition and Asset Classification (IRAC) norms', 'Management of Advances- UCBs', 'Know Your Customer (KYC) Guidelines — Primary (Urban) Co—operative Banks', 'Gold Loan- Bullet Repayment', 'Customer Protection - Limiting Liability of Customers of Cooperative Banks in Unauthorised Electronic Banking Transactions' and 'Basic and Comprehensive Cyber Security Framework for Primary (Urban) Co-operative Banks (UCBs)'.

A copy of list of nine UCBs is placed at Annexure-I.

The information regarding action taken by NABARD against many Co-operative Banks in Kerala is placed at Annexure-II.



प्रवर्तन विभाग / Enforcement Department

केंद्रीय कार्यालय / Central Office

Annex-I

PQ 322 for 04.12.2023

Table: Details of monetary penalty imposed on Cooperative Banks by Enforcement Department

Sr No	Name of UCB	State / UT	Type	Amount (in ₹ lakh)	Date of press release	Link to Press Release
1	The Urban Co-operative Bank Ltd. No.1758, Perinthalmanna	Kerala	UCB	50.00	15-Dec-20	Link
2	The Irinjalakuda Town Co-operative Bank Ltd. No.55, Irinjalakuda, Thrissur District, Kerala	Kerala	UCB	50.00	18-Mar-21	Link
3	The Manjeri Co-operative (Urban) Bank Ltd.	Kerala	UCB	10.00	18-Jun-21	Link
4	The Nilambur Co-operative Urban Bank Ltd., No.F 1043, Nilambur, Malappuram District, Kerala	Kerala	UCB	5.00	07-Mar-22	Link
5	The People's Urban Co-operative Bank Ltd., Tripunithura, Ernakulam, Kerala	Kerala	UCB	5.00	07-Mar-22	Link
6	The Ottapalam Co-operative Urban Bank Ltd.	Kerala	UCB	5.00	29-Aug-22	Link
7	The Kerala State Co-operative Bank Ltd.	Kerala	StCB	48.00	10-Oct-22	Link
8	The Trichur Urban Co-operative Bank Ltd., Thrissur	Kerala	UCB	2.00	08-May-23	Link
9	The Manjeri Co-operative Urban Bank Ltd., Manjeri, Malappuram District, Kerala	Kerala	UCB	0.10	25-Oct-23	Link

UCB- Urban Co-operative Banks

StCB- State Co-operative Banks

Action taken by NABARD against Rural Cooperative Banks in Kerala

The details relating to the financial frauds reported by Rural Cooperative Banks in Kerala to NABARD during the period 01 April 2023 to 30 September 2023 are as under:

Name of the Bank	Number of Frauds	Amount Involved (Rs. in lakh)	Amount Outstanding (Rs. in lakh)
Kerala StCB	8	37.71	16.75
Total	8	37.71	16.75

Further, the details relating to outstanding cases of fraud in Kerala StCB and Malappuram DCCB as of 30 September 2023 are as under:

Name of the Bank	Number of Frauds	Amount Outstanding (Rs. in lakh)
Kerala StCB	346	892.38
Malappuram DCCB	4	139.27
Total	350	1031.65

NABARD has taken the following steps with regards to frauds reported by RCBs:

1. NABARD, in its supervisory capacity, has prescribed external circular no. NB.DoS.HO.CFMC.2579/P.80/2017-18 dated 29 September 2017 viz. 'Frauds – Guidelines for Classification, Reporting and Monitoring' for RCBs that detail the reporting of frauds to NABARD.
2. NABARD has prescribed Fraud Submission Returns to strengthen the reporting of frauds to NABARD.
3. NABARD has introduced Fraud Vulnerability Index (VINFRA) as a self-assessment tool for banks to measure their adherence to fraud management guidelines and to sensitize them on their vulnerability to fraud.
4. In the aforementioned circular, the banks are required to take stringent action against the perpetrators of fraud. The banks are required to report fraud above Rs. 1 lakh to the local police and in case of involvement of outsiders, alone or in connivance, with the internal staff of the bank, the bank is required to report to the Senior officer of State CID/Economic Offense Wing of the State.
5. NABARD takes supervisory actions based on the amount involved in the fraud:
 - In cases of fraud involving an amount of less than Rs. 1 lakh, the bank needs to identify the causes that facilitated the fraud and take relevant preventive action.
 - In cases of fraud involving an amount of more than Rs. 1 lakh but less than Rs. 20 lakhs, Regional Offices of NABARD follow up with the bank on remedial actions taken and monitor the progress on a half-yearly basis. Regional Office appraises Department of Supervision (DoS), Head Office (HO), NABARD through a half-yearly review of fraud
 - On reporting fraud of more than Rs. 20 lakh, Regional Offices of NABARD examine the modus operandi and lacunae in the internal control of the bank and suggest remedial measures. The bank has to implement them and send compliance to the concerned Regional Office.
 - In case of fraud involving an amount of more than Rs. 1 crore, in accordance with circular no. NB.DoS.CFMC/2053/P-80/2019-20 dated 04 October 2019, Regional Offices of NABARD conduct a quick study. The officers in Regional Offices visit the concerned bank and conduct a thorough analysis of the factors that contributed to the fraud like weak controls/systems/CBS, involvement of staff in the bank, and prepare a Quick Study Report and furnish it to Central Fraud Monitoring Cell (CFMC), DoS, Head Office, NABARD.

- In case of fraud involving an amount of more than Rs. 10 crore, in accordance with circular no. NB.DoS.CFMC/2053/P-80/2019-20 dated 04 October 2019, Regional Offices of NABARD conducts a portfolio inspection. The officers in Regional Offices visit the concerned bank and conduct a thorough analysis of the particular portfolio of the bank in which the fraud occurred. They also analyse the internal checks and controls and figure out the causes and lacunae in the bank that facilitated the committing of the fraud like weak internal controls, lack of monitoring or oversight by higher authorities. They prepare a Portfolio Inspection Report and furnish it to CFMC, DoS, Head Office, NABARD.
6. NABARD has standardized the format of Quick Study/Portfolio Study to ensure the coverage of all aspects and furnishing of all relevant details by Regional Offices, to ascertain the detailed reasons and causes that facilitated the committing of the fraud.
 7. DoS, HO, NABARD scrutinizes Quick/Portfolio Study reports furnished by the Regional Offices and suggests remedial measures for the bank and specific action points to the Regional Offices.
 8. DoS, HO, NABARD circulates the modus operandi of the cases that are ingenious in nature in order to make the banks aware for enabling them to take suitable actions to prevent similar instances in the future.
 9. Regional Office of NABARD writes to the concerned bank to take remedial actions in order to prevent similar instances in the future. The bank has to comply with them and send compliance to the Regional Office.
 10. Regional Office of NABARD also writes to the Registrar of Cooperative Societies (RCS) to inform them of the fraud in the bank and the lacunae that facilitated the fraud along with the remedial actions to be taken.
 11. On a half-yearly basis, Regional Offices do a review of frauds reported by Cooperatives and find out the gaps in compliance. Regional Offices ensure compliance with the guidelines on fraud by the banks.
 12. Any violation of 'Frauds – Guidelines for Classification, Reporting and, Monitoring' is brought to the notice of RBI by NABARD. RBI, depending on the non-compliance to fraud guidelines, may like to impose penalty on such banks.

In addition to the above, NABARD has Cyber Security Information Technology Examination (CSITE) Cell which looks after the technology-related fraud risks in the banks. CSITE cell looks after the following:

1. Mandatory reporting of Cyber Incidents and Frauds by RCBs and SOP for handling cyber frauds involving financial losses.
2. Issuance of Advisories and alerts to RCBs.
3. Proactive Issuance of Advisories / Threat Intelligence.
4. Cyber Security Assessment during Onsite Inspection.
5. Vulnerable banks are being identified and advised to conduct audits by external auditors with cyber-security expertise.
6. The banks are advised to acquire Vulnerability Assessment and Penetration Testing (VA/PT) tools to continuously monitor vulnerabilities and mitigate the same.

NABARD has conducted a cyber-security maturity survey of a few SEs based on two key factors viz. Inherent Risk Profile and Controls Maturity and prescribed differentiated controls and compliances in respect of vulnerable banks.