

[Translation]

### Frauds in Banks

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\*422. SHRI PRAMOD MAHAJAN :  
SHRI RAMSAGAR :

Will the Minister of FINANCE be pleased to state :

(a) the details of cases of fraud, misappropriation, mismanagement of funds and serious irregularities in public sector banks noticed during 1995 and in 1996 so far, Bank-wise;

(b) the amount involved in each of the cases and the action taken against the Bank officials and other persons found involved;

(c) the details of the cases in which CBI has made enquiries, carried out searches on the premises of bank officers and the outcome thereof; and

(d) the steps taken or proposed to be taken to check corruption in banks and streamline the banking system?

[English]

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : (a) to (d). A statement is laid on the Table of the House.

### STATEMENT

Information readily available with Reserve Bank of India (RBI) relating to bank-wise position of frauds detected and amount involved therein and action taken against delinquent employees for frauds in public sector banks during the years 1995 and 1996 (upto March, 1996) is given at **Annexure**.

Withdrawal of deposit accounts through forged instruments, fraudulent encashment of negotiable instruments by opening accounts in fictitious names, misappropriation through manipulation of books of accounts, frauds in clearing transactions, misuse/overstepping of lending/discretionary power and frauds in foreign exchange by providing fake import bills etc. are some of the methods used in perpetrating of the frauds.

Central Bureau of Investigation have reported that during 1995 and 1996, they have registered 378 cases for investigation of frauds, misappropriation, mismanagement of funds and serious irregularities in public sector banks. During 1995 and 1996, chargesheets have been filed in Courts in 218 cases and the matter was referred to banks for departmental action in 15 cases. CBI have also reported that during the period from January 1995 to October, 1996, a total of 172 searches were conducted in 84 cases relating to bank frauds and incriminating documents and assets were detected during the searches.

For prevention of frauds and irregularities in public sector banks, steps have been taken for strengthening the internal control and audit systems. Board level Management Committees and Audit Committees have been set up. Public sector banks have also been advised by the RBI to appoint concurrent auditors at their large and extra large branches with a view to detect non-adherence to laid-down procedures and prevent irregularities and frauds, if any, without loss of time. All public sector banks have vigilance machinery without is responsible for preventive and detective steps so as to prevent frauds and corrupt practices by the bank officials.

RBI constantly reviews the working of internal inspection and vigilance machinery of banks. RBI has also issued comprehensive guidelines for strengthening the control mechanism in banks. It also carries out a review of fraud cases on a continual basis advising the banks of modus-operandi in ingenious cases along with required safeguards to prevent their recurrence, proper training of operational personnel and investigations and scrutiny into reported cases of major frauds. RBI also conducts snap inspections of systems and procedures and control arrangements in fraud prone areas. In addition to on-site inspections which are conducted at prescribed intervals, RBI have put in place the mechanism of off-site monitoring system to enable improved supervision. In order to exercise integrated supervision over the financial system, the Board for Financial Supervision (BFS) with its Advisory Council was constituted in 1994.

### ANNEXURE

*Statement showing bank-wise number of frauds detected, the amount involved therein and action taken against the delinquent employees of public sector banks during the years 1995 and 1996 (upto March, 1996)*

Name of the Bank	No. of Frauds	Amount Involved	No. of employees convicted/awarded major/minor penalty
1	2	3	4
State Bank of India	657	2119.16	266
State Bank of Bikaner & Jaipur	21	203.54	35
State Bank of Hyderabad	41	157.79	21
State Bank of Indore	11	19.87	03
State Bank of Mysore	42	25.66	15
State Bank of Patiala	35	614.53	10
State Bank of Saurashtra	11	119.16	13
State Bank of Travancore	30	183.96	18

1	2	3	4
Allahabad Bank	62	226.51	37
Andhra Bank	48	528.60	44
Bank of Baroda	147	1325.08	31
Bank of India	209	632.61	43
Bank of Maharashtra	39	1935.38	31
Canara Bank	216	1996.12	122
Central Bank of India	111	208.14	85
Corporation Bank	30	90.29	25
Dena Bank	20	158.46	36
Indian Bank	51	117.31	100
Indian Overseas Bank	53	332.31	93
Oriental Bank of Commerce	16	632.74	04
Punjab National Bank	83	403.75	234
Punjab & Sind Bank	21	88.49	38
Syndicate Bank	131	805.11	71
Union Bank of India	77	383.24	30
United Bank of India	49	65.01	34
UCO Bank	82	401.01	47
Vijaya Bank	51	149.96	19
Total	2344	13923.79	1505

SHRI P. CHIDAMBARAM : In the Annexure to the Statement, in Column No. 3, the word 'in lakhs' may be added. It is not typed. I am sorry for that.

SHRI NIRMAL KANTI CHATTERJEE : Sir, I am the Chairman of the Sub-Committee which inquired into it. So, I want a chance here also.

MR. SPEAKER : How can you say that?

SHRI NIRMAL KANTI CHATTERJEE : Sir, as Chairman of the Sub-Committee I had visited nine banks and there are so many things which he has not answered.

MR. SPEAKER : Shri Chatterjee, you are one of the seniormost Members of the House. Your right, on the floor of the House is as a Member and not as the Chairman of the Sub-Committee.

SHRI NIRMAL KANTI CHATTERJEE : Sometimes you permit a Member.

SHRI PRAMOD MAHAJAN : Sir, like the Congress Party, the Communist Party also should have the rule of one man one post. He is holding too many posts which is creating problems.

[Translation]

Mr. Speaker, Sir, faith is the soul of bank and fraud and scams are the biggest factors hampering their growth. During the last few years, the number of frauds and scams in banks are increasing continuously. In 1991 there were 1717 bank scams to the tune of Rs. 65 crores and in the reply given today, it has been stated that the number of bank scams is 2344 and the amount

involved in it is Rs. 140 crores. All of us know that these figures pertain to only known scams. But this is only a tip of the iceberg and actual figure would be many times more than this. The number of scams and the amount involved therein is a point of concern, but it seems that the government does not appreciate our concern, otherwise our hon'ble Minister of Finance while speaking in the other House would not have put the blame on Commercial mismanagement and criminal carelessness to save the person involved in a big scam. Today the responsibility to take action in respect of Bank scams is mainly that of Central Intelligence Bureau ... (Interruptions)

[English]

MR. SPEAKER : Your two minutes are about to be exhausted.

SHRI NIRMAL KANTI CHATTERJEE : Mismanagement of funds is a non-performing asset. Since you are not allowing me, I wish to tell this to the House.

MR. SPEAKER : I do not think that Shri Pramod Mahajan requires such help. He is intelligent enough to put the question.

[Translation]

SHRI PRAMOD MAHAJAN : That is why I come to my point. My question is further divided into two supplementary questions. First is that some high-class persons have misused the money of banks for personal ends and the Minister of Finance, wanted these persons to be saved in the name of Commercial mismanagement. What action government propose to take to control the amount involved in the scam? My other question is that the task of investigation today is entrusted to C.B.I. It has so many cases to investigate that it has no time to enquire into the bank scams. Will the government constitute a special department under C.B.I. to go into the mismanagement in banks or amend the rules of the Reserve Bank of India and Banking Regulation Act of provide more powers to bank officers in this regard.

[English]

MR. SPEAKER : Thank you for not asking part 'd'.

SHRI P. CHIDAMBARAM : In my written reply I have indicated the steps taken to control frauds and serious offences in banks. Following the report of the JPC in 1994, the RBI has constituted a Board for Financial Supervision. There is a Department of Supervision which reports to the Board. The Board has two arms; one is the Advisory Council and other is the Audit sub-Committee. The other instruments, which are already in place, have been strengthened. For example, the Concurrent Audit, issue of caution advice, insistence on staff accountability in cases where the loan has either gone sour or is found to be suspect and strengthening

the inspection and audit systems in banks are some. Every bank is now required to constitute an Audit Sub-Committee of the Board of Directors. I think, these steps will have a salutary effect once they take root and results begin to come.

It is not correct to say that only big frauds are being unearthed. In fact, if you look at the Annexure and take the first case, against the State Bank of India there are 657 cases of frauds involving Rs. 21.19 crore in which 266 employees were either convicted or awarded a major or a minor penalty. So, small frauds are also being unearthed. Only a certain number of cases go to the CBI and not all of these cases go to the CBI. Many of these cases are dealt with departmentally. Many of these cases are prosecuted through the State Police. Only a small number of cases go to the CBI because the CBI itself can take only a small number of cases per year. The CBI cannot possibly take all these cases.

To the specific question, whether it is proposed to set up a cell in the CBI, there is already a group in the CBI which deals with financial frauds. To the best of my knowledge there is no proposal to do anything more except perhaps strengthening this group or cell, whatever you call it, in the CBI which is already looking into the financial frauds.

I think we must give time for the new system to show results. This new system has been in operation for two years. Let us wait for some more time before it show results. The operating profits of banks have increased two-fold in the last five years and so also the cases of misdemeanor and frauds. I think we must look at it with a sense of proportion. We are determined to clamp down heavily on frauds.

[Translation]

SHRI PRAMOD MAHAJAN : Mr. Speaker, Sir, Hon'ble Minister of Finance just now said in his reply that Financial Supervisory Board has been constituted. It was constituted two years ago. And even then the number of frauds has doubled. In such a situation the Board has received suggestions wherein it has been stated that so long as you do not give more rights to the officers of the Reserve Bank, the Board would not be able to do anything except asking for Statements from Banks. That is why I have asked whether the government would consider giving more powers to the officers of Reserve Bank by amending the Reserve Bank Act or the Banking Regulation Act to dispose off the cases frauds.

[English]

SHRI P. CHIDAMBARAM : I do not share the criticism that bank frauds have increased despite the Board of Financial Supervision having been set up. For example, in the public sector banks, in 1993, the total number of cases classified as fraud was 2,213; in 1994, this

number was 2,266; but in 1995, the number has come down to 1,890 and in the first quarter of 1996, it is only 454. I am not saying that there has been a dramatic improvement. Certainly, I do not agree that there has been a worsening of the position. I think, the Board of Financial Supervision must be given a fair trial. It is a Board with a new Department under it. Let us see how it works. Now the question is : Do I propose to make any amendment? I have not received any proposal from the RBI asking for any more powers under the RBI Act. Since a very distinguished Member is raising this issue, I will talk to the RBI Governor and ask him whether he feels handicapped because of lack of power.

[Translation]

SHRI RAMSAGAR : Mr. Speaker, Sir, there are a number of complaints against the functioning of Banks. Big industrialists are given loans immediately to run their industry but Medium and Small businessman have to go frequently to banks for the purpose. Such other irregularities are there in the country and it takes months to settle the commission. On the contrary when time for recovery comes....

MR. SPEAKER : Please ask the question.

SHRI RAMSAGAR : Sir, I am asking the question. Big industrialists are given more concessions as compared to the small entrepreneur. Small persons are put in jail if they are unable to pay the amount of loan. Such complaints are received regularly. Therefore, Sir, through you, I want to know if any steps are being taken by the Hon'ble Minister of finance of make the working of banks more transparent.

[English]

SHRI P. CHIDAMBARAM : Sir, it is true that there is a general feeling that the small borrower, the small entrepreneur is neglected by the banks. That is true. I share this concern. And I have impressed at every forum that the banks must not become urban oriented and elitist. That must also look at small borrowers, small entrepreneurs and small businessmen. We have created a number of institutions which are tailored to meet the requirements of small borrowers. The SIDBI is one and Regional Rural Banks are the other ones.

In my Budget speech, I had announced creation of the local area banks. Specialised branches are being created, specialised branches for small scale industries. The attitudes must change, attitudes not only of management but the attitudes of employees must also change. If it is of any comfort, let me say that until last year, we were not able to reach the priority sector targets and we were only able to achieve about 37 per cent target. This year till two weeks ago, the Governor told me that we might have crossed 40 per cent priority sector lending. That is a good sign that priority sector is getting the credit which it ought to be getting. But if

there are defaulters. I do not think, that the banks are putting them in jail. The banks can only take civil action. If there is fraud and if there is prosecution and the court finds that there is a fraud and some crime is committed, surely punishment will have to follow. I think, banks are only taking civil action. The banks are not taking criminal action against borrowers.

[Translation]

SHRI RAMSAGAR : Sir, the process is very difficult. I wanted to know from the hon'ble Minister about simplification of the process. I would again like to know from the Minister about the steps being taken to simplify the process of providing loans.

Through you Sir, I want to know about this and want your protection too. As there are many difficulties in it, I would like to know the steps being taken by the Hon'ble Minister of Finance to simplify the procedure?

[English]

SHRI P. CHIDAMBARAM : Sir, the business of the banks is to lend. I do not think any bank would not like to lend. But a climate was created until some time ago by which all lending came under a cloud and I have said it on many occasions that banks exhibited a shyness to lend. I think, we have overcome that now. There was a judgement which was, I think, erroneously interpreted to mean that if you took a little risk in lending you would be penalised. Since then by talking to the Chairmen, by talking to the RBI, we have asked them to restore the normal lending practices instead of pushing everything up to the Chairman.

On November 30, the RBI had issued further instructions asking the Board of Directors of banks to delegate powers to their field formations so that lending takes place at the field level, at the branch level, at the zonal level, at the regional level instead of all cases coming up to the Chairman.

The flow of credit has improved. The flow of credit had been choked, for the first half of this year, but the flow of credit has improved since October.

DR. T. SUBBARAMI REDDY : Sir, it is very much painful to the whole House and also to the country to find so many cases of frauds and misappropriation taking place in banks.

I am happy that the Minister's reply is showing that they are taking various steps to see that in future such frauds do not take place. But, there is a gross confusion growing on in the minds of the banks Management, Chairmen and Executives whether to take any decision or not, whether to give any assistance to any industry or not. At the same time, we have to keep in mind the growth of the country and the growth of the economy. The prosperity and progress of the nation depend on the action being taken everyday by the banks by

participating in giving assistance financially to the industry also.

As of today, we know, Sir... (Interruptions)

MR. SPEAKER : Please do not tell what you know, you ask the question.

SHRI P. CHIDAMBARAM : If he knows, he should not ask. He should ask what he does not know.

MR. SPEAKER : Yes, you ask what you do not know.

DR. T. SUBBARAMI REDDY : We all know that the industry is in a very bad shape on the one side because of the fall of the capital market and on the other because of lack of spirit, inspiration and confidence in the minds of the bank officials in taking a decision. We have a very sensitive role to play now. On the one side we have to curb and control the frauds and on the other side... (Interruptions)

MR. SPEAKER : I am sorry, I cannot allow you any more. Hon. Members, this is not an Hour for lectures. What is this? If you do not understand the subject, you do not ask any question. It only shows that you have a lack of knowledge about the subject, if you cannot frame your question.

DR. T. SUBBARAMI REDDY : Therefore, I would like to know what steps the Government is taking to make the banks, hereafter, to participate in giving assistance to industries by not getting scared of those reasons that scared them.

SHRI P. CHIDAMBARAM : Sir, I have already answered that the banks must lend. The shyness in lending is wearing off. I have encouraged the banks to lend and I am sure that the banks will lend. It is changing and it will change.

[Translation]

SHRI MOHAN RAWALE : Sir, Hon'ble Minister has replied.

[English]

"All public sector banks have vigilance machinery which is responsible for preventive and detective steps so as to prevent frauds and corrupt practices by the bank officials."

[Translation]

Through you Sir, I would like to ask from Minister that all the banks issue overdrafts for more than Rs. 50 lakhs. Branch Managers and the high officers are party to it. How much amount has been recovered? How many persons were given loans of more than Rs. 50 lakhs and what is the number of persons with whom you have compromised and even principal amount has not been recovered from them and the interest has also been waived? Sir, is it not a fraud?

[English]

SHRI P. CHIDAMBARAM : With great respect, I would like to say that this does not arise out of this question as he says, 'how many cases of banks giving over Rs. 50 lakh'. I cannot give the information based on that.

[Translation]

SHRI MOHAN RAWALE : Does this overdraft business not come under fraud?

[English]

SHRI P. CHIDAMBARAM : It is not a fraud. Overdraft is not a fraud.

[Translation]

### Gold Import Policy

\*423. PROF. RASA SINGH RAWAT : Will the Minister of FINANCE be pleased to state :

(a) the quantity of gold brought in India by the Non-Resident Indians and Indian citizens working/serving abroad after liberalising the gold import policy till date;

(b) the quantum of gold imported during 1995-96;

(c) the efforts being made by the Government to fulfil the requirement of gold in the country;

(d) whether Union Government have conducted any study regarding the quantity of gold available and kept as reserve in the country; and

(e) if so, the details thereof?

[English]

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : (a) to (e). A statement is laid on the Table of the House.

### STATEMENT

The import of gold into the country was liberalised and a Gold Import Scheme was import Scheme was introduced by the Government with effect from 1.3.1992. 825.8 tonnes of gold was imported under this Scheme by the Non-Resident Indians and other eligible Indian citizens coming from abroad between March '92 and November '96 and 218.2 tonnes of gold was similarly imported during 1995-96.

2. The liberalised Gold Import Scheme allows import of gold by Non-Resident Indians and permits imports by MMTS and SBI for delivery of such gold in India to the returning NRIs and against Special Import Licences. This Scheme aims at improving the availability of gold imported through licit channels and on payment of customs duty in foreign exchange at the rate of Rs. 220 per 10 gms. The said Scheme has had a salutary effect

on containing gold smuggling. There is no reliable estimate available regarding the quantity of gold available and retained within the country.

(Interruptions)

[English]

MR. SPEAKER : Shri Datta Meghe, we are on the next question.

(Interruptions)

MR. SPEAKER : Nothing will go on record.

(Interruptions)\*

SHRI NIRMAL KANTI CHATTERJEE : An Half-an-hour Discussion is required on this. Is it not?

MR. SPEAKER : I do not know. You can give a notice in the next Session.

[Translation]

PROF. RASA SINGH RAWAT : Mr. Speaker Sir, India was known as a golden bird but unfortunately the quantum of gold mined from the mines is not as much as it should have been and we have to import it. The Government had formulated the gold import policy on March 1, 1993 under liberalised economic policy and you are aware of the objects of the policy. I understand the meeting of the World Gold Council was held in Delhi in India. Several people and even newspapers say that all this did not bring the smuggling down. With the improvement in financial condition of middle class and rural population have started investing in gold. To meet their demand, jewellers export the ornaments to get the foreign exchange. Whether government propose to reconsider and make the gold policy more liberal and transparent to stop the smuggling.

[English]

SHRI P. CHIDAMBARAM : It is a good suggestion. I will consider it.

MR. SPEAKER : Your suggestion is accepted.

SHRI P. CHIDAMBARAM : Yes, I accept his suggestion.

[Translation]

PROF. RASA SINGH RAWAT : When will it be done. My other question is that according to an estimate 477 tonne gold was consumed last year, out of which 371 tonne was imported, 2 tonne was mined and 106 tonne old gold was used. Government has said in its reply that authentic estimates are not available. Even then the government would have got it studied. I would like to know the amount of gold imported and the gold left with people? Smuggled gold is also seized. I would like to know the amount of gold available in the country and the amount of gold with public in the form of ornaments. Hon'ble Minister says no figures are available. I would like to know clearly as to how much gold is available

Not recorded