

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:502
ANSWERED ON:19.05.2006
CORRUPTION/FRAUD CASES IN BANKS
Patel Shri Kishanbhai Vestabhai;Singh Shri Sugrib

Will the Minister of FINANCE be pleased to state:

- (a) the details of cases of corruption and fraud detected during each of the last three years and current year, bank-wise;
- (b) the action taken to check corruption/frauds in banks;
- (c) whether the Mitra Committee set up by the Government had submitted its report on the subject; and
- (d) if so, the details of recommendations so far implemented by the banks in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

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

Statement referred to in reply to part (a) to (d) of Lok Sabha Starred Question No. 502 for 19.5.2006 by Shri Sugrib Singh and Shri Kishanbhai V.Patel regarding Corruption/Fraud cases in banks

(a) A statement showing bank-wise number of fraud cases and amounts involved as reported by Public Sector Banks to Reserve Bank of India during the years 2003, 2004, 2005 and upto 313.06 is at Annex.

(b) RBI and Government have taken several measures to prevent frauds in the banking industry. Banks have been advised from time to time to strengthen the vigilance set up and introduce preventive and prohibitive measures. The function of vigilance system is reviewed during the course of onsite inspection. RBI as a part of its supervisory responsibility, has been advising banks about common fraud prone areas and the measures to be taken by them to prevent/ reduce the incidents of frauds including frauds in computerized environment in banks. This includes introduction of a system of concurrent audit; monitoring of working of internal inspection and audit machinery at the top most level in banks; clear demarcation of duties and responsibilities of employees; periodical rotation of staff; prompt disciplinary action; intensive screening of candidates at the time of recruitment and setting up the Board for Financial Supervision. Government have also set up the Serious Fraud Investigation Office to investigate serious financial frauds.

(c) & (d): Yes sir, Mitra Committee had submitted its report to RBI in August 2001. The report is in two parts. Part-I deals with preventive measures which do not require legislative changes and could be implemented by the banks. As regards recommendations in Part-II, they essentially deal with defining financial frauds and setting up of special courts for trying financial frauds which require legislative changes. The major recommendations of Mitra Committee include development of best practice code, internal check and control, criminalisation of financial frauds, separate investigating authority for investigating frauds, serious financial frauds, special court for trying such offences and separate act to deal with financial frauds.

RBI advised banks in May 2002 to implement recommendations set out in Part-I of Mitra Committee Report by September 2002. Almost all banks have implemented the recommendations in Part I of the report. The implementation of the recommendations is being closely monitored by RBI on an ongoing basis. However, Part-II of the report of Mitra Committee required legislative changes. It was decided not to take any action on the recommendations contained in Part-II, keeping in view that the existing legal provisions facilitate initiation of desired action with respect to frauds without any legal amendments and considering various steps taken by the Government including setting up of . Serious Fraud Investigation Office (SFIO).