

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1355
ANSWERED ON:05.03.2010
BANKING FRAUDS
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Will the Minister of FINANCE be pleased to state:

- (a) whether the incident of banking frauds have been increasing in the country;
- (b) if so, the number of such incidents/cases reported during the last three years; and
- (c) the steps taken/being taken by the Government to check such incidents and against the erring bank employees involved in these frauds?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI NAMO NARAIN MEENA)

(a) & (b) : RBI has reported that the total number of cases of frauds, as reported by the commercial banks during last three calendar years, i.e. 2007, 2008 and 2009 have been 22,280; 21,980 and 26,952 respectively, which reflects a mixed trend.

(c) : On receipt of fraud report from banks, RBI advises the concerned banks to report the case to CB/Police/SFIO, examine staff accountability and complete proceedings against the erring staff expeditiously, take steps to recover the amount involved in the fraud, claim insurance wherever applicable and streamline the system and procedures so that frauds do not recur.

Reserve Bank of India as a part of its supervisory process has taken the following steps to check incidents of frauds in banks –

i) To sensitize banks from time to time about common fraud prone areas through issuance of modus operandi on various types of frauds and the measure to be taken by them.

ii) By issuance of Caution Advice to banks to exercise due diligence while sanctioning fresh loan facilities to the borrowers in the Caution Advice.

iii) Advise banks to : a) Introduce a system of concurrent audit. b) Review working of internal inspection and audit machinery in banks by the Audit Committee of the Board of Directors. c) Constitute a Special Committee of the Board exclusively for monitoring frauds of Rs.1 crore and above. d) Examine staff accountability and institute disciplinary action expeditiously against the staff involved in frauds.

iv) On the basis of recommendations made by the Mitra Committee on legal aspects of bank frauds, banks were advised to take various preventive steps viz. Development of Best Practice Code (BPC), System of internalization of BPC, strengthening internal checks and internal controls and introducing Legal Compliance Audit.

v) As the frauds in the area of housing loans were on the increase, RBI had issued several circulars including steps to be taken by banks to prevent such frauds, such as conduct of due diligence of borrowers/builders, scrutiny of documents by legal experts, verification of identity of the borrowers, multi layered decision making process, pre-sanction visit to a project site and strict post disbursement supervision etc.

vi) All the banks which have financed a borrower under 'multiple banking' arrangement have been advised to take co-ordinated action, based on commonly agreed strategy, for legal/criminal actions, follow up for recovery, exchange of details on modus operandi, achieving consistency in data/information on frauds reported to RBI. The bank which detects a fraud is required to immediately share the details with all other banks in the multiple banking arrangements.

vii) In order to make the third parties such as builders, warehouse/cold storage owners, motor vehicle/tractor dealers, travel agents, etc. and professionals such as architects, valuers, chartered accountants, advocates, etc. accountable who have played a vital role in credit sanction/disbursement or facilitated the perpetration of frauds, banks have been advised to report to Indian Banks Association (IBA) the details of such third parties, including professionals involved in frauds. IBA in turn will prepare caution lists of such parties for circulation among the banks.