

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1494

ANSWERED ON:04.03.2011

EMBEZZLEMENT OF MONEY FROM BANKS QUESTION

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Will the Minister of FINANCE be pleased to state:

- (a) whether the incidents of embezzlement of money from accounts of the customers in Public and Private Sector Banks including Citi Bank have been reported from different parts of the country;
- (b) if so, the details of such incidents reported including funds involved therein during the last three years and the current financial year, State-wise including Haryana and Bank-wise;
- (c) whether the Government has conducted any enquiry in this regard;
- (d) if so, the details thereof and the action taken against the erring officials/persons;
- (e) whether the said banks have refunded the embezzled amount to their customers; and
- (f) if so, the details thereof and if not, the reasons therefor alongwith the remedial measures taken/being taken by the Government to keep a check on such incidents, compliance of rules and to protect the interests of the customers ?

Answer

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

(a) & (b): RBI has reported that Public and private sector banks including Citibank have reported certain cases of embezzlement of money from accounts of the customers. RBI has further reported that data is not collated and stored under a separate head 'Embezzlement of money from the Accounts of Customers'. Details of Citi Bank Fraud case detected at the Gurgaon branch of Citi Bank is annexed.

(c)& (d): On receipt of fraud reports from banks, RBI after examining various aspects, advises the concerned banks to report the case to CBI/ Police/ SFIO, examine staff accountability, 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 as also procedures so that frauds do not recur.

(e) & (f): RBI have reported that they have no information to furnish in this regard. Reserve Bank of India as part of its supervisory process takes the following measures to prevent / reduce the incidence of frauds:

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

ii) Issues Caution Advices to banks to exercise due diligence while sanctioning fresh loan facilities to the borrowers mentioned in such advice.

iii) In the past, considering various concerns arising out of banks` operations, including incidents of frauds, RBI had advised the 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.

Annexure as refereed in reply to Part fa) & (b) to Lok Sabha Unstarred Question No. 1494 for answer 4.3.2011. Citi Bank Fraud Case

(a) A fraud of Rs.460.91 crore has been detected at the Gurgaon branch of Citibank N.A. and reported to Reserve Bank of India.

(b) Shri Shivraj Puri, Relationship Manager of Gurgaon branch of the bank perpetrated the fraud by mobilizing funds to the tune of Rs.460.91 crore unauthorisedly from High Networth Individual (HNI) customers and certain corporate for the purpose of investing in stock market, assuring them high returns. The details are as under:-

When one of the customers enquired with the bank's Nehru Place, New Delhi branch about the scheme offered by Citibank assuring high returns, an enquiry was conducted by the bank. It was revealed that the deposits/withdrawals were being made in/from an account jointly held in the name of Shri Premnath, Ms. Sheila Premnath and Ms. Deeksha Puri (the 'Premnath Account'). The 'Premnath Account' was opened in September, 2009, at the behest of Shri Shivraj Puri, who was working in the Gurgaon branch of Citibank as a Global Wealth Manager, Citi Global Consumer Group.

In order to induce customers to deposit amounts into the 'Premnath Account', Shri Shivraj Puri fabricated a circular of the Securities and Exchange Board of India ('SEBI') and addressed the same to Citibank Investment Management Department, whereby three individuals, including Shri Premnath, were notified as custodians of Citibank. The circular alongwith other forged documents was provided to some of the customers handled by Shri Shivraj Puri to induce them to invest funds into the Premnath Account.

The investors were issued fake receipts/acknowledgements by misusing bank's stationary.

The funds thus collected through the 'Premnath Account' were transferred to various brokerage houses for making investment in the securities market.

On respective due dates, brokerage firms transferred funds back into the Premnath Account, from where funds would thereafter be paid back into the accounts of various investors, alongwith the coupon.

There were 27 other accounts which had been opened in the branch in the names of Shri Puri's relatives. These accounts were used to channelize the customers' funds to render the fraudulent transactions layered.

Besides the transactions undertaken under the scheme involving the 'Premnath Account', there had been many other transactions through the accounts of family members of Shri Puri and in the accounts of Broker Firms like BG Financial Services, G 2S Management Consultants, Normans Martin Broker Pvt. Ltd. etc. using signed blank forms obtained from the HNI customers and the corporates.

Though Shri Shivraj Puri's activities were going on since September 2009, the major transactions took place between May 2010 and November 2010. The bank has furnished details of the fraud to the Reserve Bank of India in the Fraud Monitoring Report.

Reserve Bank of India has conducted a special scrutiny of the related accounts at Citibank, Gurgaon and other connected accounts at other banks. The final report is being completed. The bank has filed a complaint with the police at DLF Phase-2, Gurgaon on December 5, 2010 and investigations are currently being undertaken by the police.