

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2633
ANSWERED ON:11.03.2011
MANAGEMENT OF FUNDS
Tewari Shri Manish

Will the Minister of FINANCE be pleased to state:

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- (a) whether the Government is aware of fraudulent mismanagement of funds by relationship managers and agents in leading banks of this country;
- (b) if so, the details thereof and the action taken thereon during each of the last three years;
- (c) whether there are procedures to ensure victims are compensated for the losses suffered;
- (d) if so, the details thereof alongwith implementation status Thereof;
- (e) whether the Ministry has plans for making special provisions to ensure such incidences do not recur in future;
- (f) if so, the details thereof and if not the reasons therefor; and
- (g) the steps taken and procedures worked out to ensure that action is taken against top management of banks involved in such practices?

Answer

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

(a):- Reserve Bank of India (RBI) has reported that they have recently come across one case of fraud by relationship manager in Gurgaon branch of Citibank N. A.

(b):- The relationship manager of Gurgaon branch of Citibank N.A. perpetrated the fraud by mobilising funds to the tune of 460.91 crore unauthorisedly from High Networth Individual (HNI) customers and certain corporates for the purpose of investing in stock market, assuring them high returns. The bank has filed a complaint with the police and conducted an internal investigation. The RBI has also conducted a special scrutiny at the Gurgaon branch of Citibank N.A. on December 29, 2010.

(c) & (d):- RBI has submitted that in case of any fraud, if the branch is convinced that an irregularity / fraud has been committed by its staff towards any constituent, the branch should at once acknowledge its liability and pay the just claim, or in cases where banks are at fault, the banks should compensate customers without demur, and in cases where neither the bank is at fault nor the customer is at fault but the fault lies elsewhere in the system, then also the banks should compensate the customers (up to a limit) as part of a Board approved customer relations policy.

(e) to (g):- RBI as a 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 Cautions 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 of Rs. 1 crore and above.