

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2163

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BANKING FRAUDS

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Will the Minister of FINANCE be pleased to state:

- (a) whether incidents of banking frauds and other irregularities have been reported ;
- (b) if so, the details of such incidents/cases reported alongwith the amount involved therein during the last three years and the current year;
- (c) whether the Government has conducted any inquiry in this regard;
- (d) if so, the details thereof alongwith the action taken against such erring bank employees involved in these fraud; and
- (e) the further steps taken/being taken by the Government to check such incidents?

Answer

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

(a) & (b) : Data related to incidents pertaining to Banking frauds during the last three years and the current year, as reported by Reserve Bank of India are tabulated as under:

Sr. No.	Year	(in Rs. crores)	
		Total cases reported	Amount involved
1.	2008	22156	1454.86
2.	2009	26913	2392.19
3.	2010	20638	2634.87
4.	Till June 2011	7863	2766.04

Part (c), (d) & (e): On receipt of fraud reports from banks, various aspects related to the frauds are examined by the Department of Banking Supervision in the RBI and concerned banks are advised to report the case to CBI/ Police/Serious Fraud Investigation Office (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.

Reserve Bank of India as a part of its supervisory process takes 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 in respect of borrowers who have defrauded the banks. In the Caution Advice the banks are advised to exercise due diligence while considering proposal for fresh loan facilities from such borrowers.
- 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.

iv. Further, on receipt of fraud reports from nationalized banks, they are advised to examine staff accountability and complete proceedings against the erring staff within the time limit prescribed by Central Vigilance Commission. RBI has also issued circulars on "Frauds in banks - Action against delinquent staff" and "Vigilance cases – adherence of CVC guidelines"

v. 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 internalisation of BPC, strengthening internal checks and internal controls and introducing Legal Compliance Audit.

vi. 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.

vii. 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 Reserve Bank of India. The bank which detects a fraud is required to immediately share the details with all other banks in the multiple banking arrangements.

viii. 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 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.