

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:424

ANSWERED ON:23.11.2012

RBI GUIDELINES TO BANKS QUESTION

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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government/Reserve Bank of India(RBI) has instructed Public Sector Banks (PSBs) to put in place the machinery to strengthen their internal controls to prevent operational irregularities/frauds;
- (b) if so, the details thereof including guidelines issued by RBI to the banks;
- (c) whether any violation of guidelines by banks have been reported during the last three years and the current year;
- (d) if so, the details thereof, bank-wise; and
- (e) the action taken by the Government/RBI against the erring banks during the aforesaid period, bank-wise?

Answer

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

(a)&(b): In terms of Master Circular RBLDBS.FrMC.BC.No.1/23.04.001/2012-13 dated July 02, 2012 on 'Frauds - Classification and reporting' the Chairmen and Managing Directors (CMDs)/Chief Executive Officers (CEOs) of banks must provide focus on the 'Fraud Prevention and Management Function' to enable, among others, effective investigation of fraud cases and prompt as well as accurate reporting of them to appropriate regulatory and law enforcement authorities including Reserve Bank of India. Further, fraud risk management, fraud monitoring and fraud investigation function must be owned by the bank's CEO, its Audit Committee of the Board and the Special Committee of the Board, at least in respect of large value frauds. Banks with the approval of their respective Boards are required to frame internal policy for fraud risk management and fraud investigation function, based on the governance standards relating to the ownership of the function and accountability for malfunctioning of the fraud risk management process in their banks.

Reserve Bank of India as a part of its supervisory process has issued the following circulars :-

- i. Circular No. DBS.CO.FrMC.BC.No. 11/23.04.001/2010-11 dated June 30, 2011 on 'Efficacy of Concurrent Audit.
- ii. Circular No. DBS. CO.FrMC.BC.No. 10/23.04.001/2010-11 dated May 31, 2011 on 'Findings of Forensic Study - Guidelines for prevention of frauds'.
- iii. Circular No. DBS.FrMC.BC.No.14119/23.04.001/2010-11 dated April 05, 2011 on 'Fraud in Retail Loans-Sanction of Bulk proposals'.

(c), (d) & (e): Frauds take place on account of certain violations of the laid down procedures and norms laid down by the regulator and their respective boards with regard to implementation of Know Your Customer (KYC) norms. RBI has imposed penalty of Rupees five lakhs only on ICICI Bank Ltd. in the year 2010-2011 and a penalty of Rs. Twenty five lakhs on Citi Bank NA in the year 2011-2012 in exercise of powers vested in RBI under the provision of Section 47(A)(1)(b) read with Section 46(4) of Banking Regulation Act, 1949 for violation of guidelines on KYC / Anti Money Laundering (ALM) standards issued by RBI on November 24, 2004. RBI has not imposed any penalty on any public sector banks during the last three years and the current year.