

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:149
ANSWERED ON:16.08.2013
KYC NORMS
Bhoi Shri Sanjay;Singh Shri Yashvir

Will the Minister of FINANCE be pleased to state:

- (a) whether instances of some public/ private sector banks allegedly being involved in money laundering and violating Know Your Customer (KYC) norms have come to the notice of the Government/ Reserve Bank of India (RBI) in the recent past;
- (b) if so, the details thereof, bank-wise;
- (c) whether the Government/RBI has conducted any inquiry in this regard;
- (d) if so, the details and the findings thereof and the action taken thereon, bankwise; and
- (e) the other remedial steps taken / proposed to be taken by the Government / RBI in this regard?

Answer

FINANCE MINISTER (SHRI P. CHIDAMBARAM)

(a) to (e): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PART (a) TO (e) OF LOK SABHA STARRED QUESTION NO. 149 FOR 16th AUGUST, 2013 TABLED BY SHRI SANJAY BHOI AND SHRI YASHVIR SINGH REGARDING KYC NORMS.

(a) to (c): The media reports dated March 14, May 6 and May 9, 2013 regarding the allegations made by an online media portal against various banks had come to the notice of Government / Reserve Bank of India (RBI). RBI had carried out a scrutiny of books of accounts / internal control, compliance systems and process of 39 banks at their offices during March-May, 2013. However, the investigation did not reveal any prima facie evidence of money laundering. The scrutiny of these banks revealed violation of certain regulations and instructions of RBI, namely non-adherence to certain aspects of Know Your Customer (KYC) norms and Anti Money Laundering (AML) guidelines like customer identification procedure, risk categorisation, periodical review of risk profiling of account holders, periodical KYC updation; non-adherence of KYC for walk-in customers including for sale of third party products, omission in filing of cash transaction reports (CTRs) in respect of some cash transactions, sale of gold coins for cash beyond Rs. 50,000; non-adherence to instructions on monitoring of transactions in customer accounts; non-adherence to instructions on classification of accounts as 'in-operative' /dormant and lapses in monitoring of transactions in dormant accounts; non-adherence to instructions which prohibits acceptance of cash above Rs. 50,000 from customers for sale of gold coins and issue of Demand Drafts etc.; not-obtaining of permanent account number (PAN) card details or form 60/61 as required; non-verification of source of funds credited to a few non-resident ordinary (NRO) accounts; failure to re-designate a few accounts as NRO accounts though required, non-submission of proper information called for by the Reserve Bank, etc.

(d): Based on the findings of the investigations, the RBI issued a show cause notice to these banks and also came to the conclusion that some of the violations were substantiated and warranted imposition of monetary penalty. The details are as under:

(Rs. in Crore)		
Sl. No.	Name of the Bank	Penalty amount
1	Axis Bank Ltd.	5.00
2	HDFC Bank Ltd.	4.50
3	ICICI Bank Ltd.	1.00
4	Andhra Bank	2.50
5	Bank of Baroda	3.00
6	Bank of India	3.00
7	Canara Bank	3.001
8	Central Bank of India	3.00
9	Deutsche Bank A.G.	1.00
10	Development Credit Bank Ltd.	1.00
11	Dhanlaxmi Bank Ltd.	2.00
12	Indian Overseas Bank	3.002
13	ING Vysya Bank Ltd.	1.50
14	Jammu & Kashmir Bank Ltd.	2.501
15	Kotak Mahindra Bank Ltd.	1.501
16	Oriental Bank of Commerce	2.00

17	Punjab and Sind Bank	2.50
18	Punjab National Bank	2.50
19	State Bank of India	3.00
20	The Federal Bank Ltd.	3.00
21	The Lakshmi Vilas Bank Ltd.	2.50
22	The Ratnakar Bank Ltd.	0.50
23	United Bank of India	2.50
24	Vijaya Bank	2.00
25	Yes Bank Ltd.	2.00

In respect of seven other banks, no violation of serious nature has been established and as such no monetary penalty was imposed on these banks. However, cautionary letters were issued to these banks. The details of these banks are as follows:

Sl. No.	Name of the Bank
1	Barclays Bank PLC
2	BNP Paribas
3	Citibank N.A.
4	Royal Bank of Scotland
5	Standard Chartered Bank
6	State Bank of Patiala
7	The Bank of Tokyo Mitsubishi UFJ Ltd.

(e): As part of the Monetary Policy Statement 2013-14, it was announced that by June, 2013 (i) draft guidelines on Wealth Management Services offered by banks (ii) detailed guidelines on marketing and distribution of third party financial products and (iii) detailed guidelines on Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards / Combating of Financing of Terrorism (CFT) would be issued. The draft guidelines on Wealth Management / Marketing / Distribution Services offered by banks have been issued by RBI on 28.06.2013 for comments and feedback. RBI has issued circular dated 12.07.2013 on KYC norms / AML standards / CFT to reiterate and strengthen existing guidelines on KYC / AML / CFT for strict compliance.

A meeting of the representatives of RBI with other financial sector regulators like Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) and agencies like Central Board of Direct Taxes (CBDT), Financial Intelligence Unit-India (FIU-IND), Central Economic Intelligence Bureau (CEIB), Directorate of Enforcement and Indian Banks' Association (IBA) was also convened to discuss the ways to plug the loop holes and bring about further harmonisation as far as formulation of KYC / AML guidelines by different regulators is concerned.