

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF FINANCIAL SERVICES  
LOK SABHA

UNSTARRED QUESTION NO. †2959

TO BE ANSWERED ON THE 28<sup>TH</sup> DECEMBER 2018/ PAUSHA 7, 1940 (SAKA)

Bank Scams and Frauds

†2959. SHRI HARISHCHANDRA CHAVAN:

SHRI RAM TAHAL CHOUDHARY:

SHRI LAXMAN GILUWA:

Will the Minister of FINANCE be pleased to state:

- (a) whether the incidents of bank scams and frauds are on the rise in the country, if so, the details thereof along with the reasons therefor;
- (b) whether the Government has conducted any investigation into the role of the bank employees/officers responsible for scams/fraud cases in banks and held them accountable, if so, the details thereof during the last three years, post and bank-wise;
- (c) the details of action taken against the employees/officers identified by the Government involved in bank frauds and the outcome thereon; and
- (d) the reaction of the Government thereto?

ANSWER

Minister of State in the Ministry of Finance  
(SHRI SHIV PRATAP SHUKLA)

(a) to (d): With regard to details of incidence of fraud in banks, it may be noted that fraud data reported to RBI is by the year of reporting and not the year of occurrence of the fraud or sanction of loan, Letter of Undertaking (LoU), etc., which may be of an earlier period. As a result, it is not possible from this data to arrive at year-wise increase in banking frauds. However, RBI data as per the year of reporting by banks in respect of the number of frauds involving amount of Rs. 1 lakh and above is at Annexure I.

With regard to the reasons for frauds in banks, the RBI Master Circular on Frauds observes that frauds are committed by unscrupulous borrowers by various methods including, *inter alia*, fraudulent discount of instruments, fraudulent disposal of pledged/hypothecated stocks, fund diversion, criminal neglect and *mala fide* managerial failure on the part of borrowers. The Master Circular also refers to certain other methods, which include forged instruments, manipulated account books, fictitious accounts, unauthorised credit facilities, fraudulent foreign exchange transactions, exploitation of “multiple banking arrangement”, and deficiency on the part of third parties with role in credit sanction/disbursement.

With regard to the role of bank employees/officers responsible for fraud cases in banks and their accountability and action taken against these identified as involved in bank frauds, as per inputs received from PSBs, PSBs impose penalty against erring officials after due process including dismissal/removal from service/compulsory retirement from service etc. and further, where an element of fraud is observed, complaint is lodged with the police or the Central Bureau of Investigation. The bank-wise details of staff accountability in fraud cases in PSBs for the past three financial years, as furnished by PSBs, are at Annexure-II.

With regard to reaction to incidence of frauds in banks, Government and RBI have taken number of steps to enhance the fraud risk management framework of the banks and to ensure proper check on banking frauds, including, *inter alia*, the following:

- (1) RBI has issued Master Directions on Frauds — Classification and Reporting which requires banks, to report frauds beyond a threshold amount to the police, monitoring and follow-up of cases by a special committee, quarterly placement of information before Audit Committees of bank Boards, and annual review of frauds by banks. These cover, *inter alia*, preventive measures, fraud detection systems, systemic lacunae, remedial action, monitoring of progress of investigation and recovery, and staff accountability.
- (2) Government has issued “Framework for timely detection, reporting, investigation etc. relating to large value bank frauds” to Public Sector Banks(PSBs), which provides, *inter-alia*, that—
  - (i) all accounts exceeding Rs. 50 crore, if classified as Non-Performing Assets (NPAs), be examined by banks from the angle of possible fraud, and a report placed before the bank’s Committee for Review of NPAs on the findings of this investigation;
  - (ii) examination be initiated for wilful default immediately upon reporting fraud to RBI; and
  - (iii) report on the borrower be sought from the Central Economic Intelligence Bureau in case an account turns NPA.
- (3) Fugitive Economic Offenders Act, 2018 has been enacted to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts. It provides for attachment of property of a fugitive economic offender, confiscation of such offender’s property and disentitlement of the offender from defending any civil claim.
- (4) Central Fraud Registry (CFR), based on Fraud Monitoring Returns filed by banks and select financial institutions, has been set up by RBI as a searchable online central database for use by banks.
- (5) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.

Sample Only

- (6) For management of fraud risk and to direct the focus of banks to early detection of loan frauds, prompt reporting to RBI and investigative agencies and timely initiation of staff accountability proceedings, RBI has issued a framework for dealing with loan frauds and Red Flagged Accounts (RFA), with timelines for actions incumbent on banks, for dealing with loan frauds of Rs. 50 crore and above, requiring banks to classify potential fraud accounts as RFAs based on observation/evaluation of Early Warning Signals noticed. The red flagging is done on an information technology platform where all banks report large exposure to entities/individuals so that other banks can be forewarned about fraud risk.
- (7) RBI has issued a circular to all banks in February 2018 to implement security and operational controls such as straight-through process between the Core Banking Solutions / accounting system and the SWIFT messaging system, enable time-based restrictions in SWIFT, review logs at regular intervals, undertake reconciliation, etc. in a time-bound manner.
- (8) RBI has instructed banks to report deficient third party services (such as legal search reports, property valuers' reports etc.) and ineffective action against collusion of these providers with fraudsters to the Indian Banks' Association, which maintains a caution list of such service providers.
- (9) Instructions / advisories have been issued—
- (i) by Government to PSBs to decide on publishing photographs of wilful defaulters, in terms of RBI's instructions and as per their Board-approved policy,
  - (ii) by Government to PSBs to obtain certified copy of the passport of the promoters/directors and other authorised signatories of companies availing loan facilities of more than Rs. 50 crore,
  - (iii) by RBI to Scheduled Commercial Banks to implement RBI guidelines to prevent skimming of ATM/debit/credit cards,
  - (iv) by RBI to Scheduled Commercial Banks to ensure legal audit of title documents in respect of large value loan accounts, and
  - (v) by RBI to Scheduled Commercial Banks to strictly ensure rotational transfer of officials/employees.

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Lok Sabha UnStarred Question no. \*2959, for 28.12.2018, regarding “Bank Scams and Frauds ”

**Frauds involving amount of Rs. 1 lakh and above, reported by Scheduled Commercial Banks (SCBs) and Public Sector Banks (PSBs)**

Financial year	Number of frauds reported **		** Fraud data reported to RBI is by the year of reporting and not the year of occurrence of the fraud or sanction of loan, Letter of Undertaking (LoU), etc., which may be of an earlier period. As a result, it is not possible from this data to arrive at year-wise increase in banking frauds. However, RBI data as per the year of reporting by banks in respect of the number of frauds involving amount of Rs. 1 lakh and above is given.
	SCBs	PSBs	
2015-16	4,693	2,789	
2016-17	5,076	2,718	
2017-18	5,917	2,885	

Source: RBI

Sample Only

## Annexure II

## Lok Sabha Unstarred Question no. \*2959, for 28.12.2018, regarding “Bank Scams and Frauds”

## Details of Staff Accountability in Fraud Cases in Public Sector Banks

Financial Year(FY)	FY 2015-16		FY 2016-17		FY 2017-18	
Bank	Number of frauds reported by the bank during the year	Number of officers/ employee held responsible by the bank	Number of frauds reported by the bank during the year	Number of officers/ employee held responsible by the bank	Number of frauds reported by the bank during the year	Number of officers/ employee held responsible by the bank
Allahabad Bank	27	70	63	177	44	60
Andhra Bank	49	105	66	129	54	67
Bank of Baroda	286	106	240	121	178	108
Bank of India	168	140	176	79	170	36
Bank of Maharashtra	49	76	80	88	62	46
Canara Bank	99	295	121	317	111	289
Central Bank of India	118	111	115	61	96	39
Corporation Bank	199	256	166	105	99	131
Dena Bank	22	73	43	111	28	72
IDBI Bank Limited	445	61	392	41	964	63
Indian Bank	103	134	133	108	94	112
Indian Overseas Bank	119		106	180	74	118
Oriental Bank of Commerce	117	130	62	72	274	47
Punjab and Sind Bank	12	22	16	39	23	45
Punjab National Bank	212	342	185	445	213	436
Syndicate Bank	299	694	191	358	187	197
UCO Bank	55	15	58	32	74	54
Union Bank of India	165	169	127	94	128	44
United Bank of India	171	93	35	68	81	135
Vijaya Bank	21	40	61	129	19	2
State Bank of India	1,180	199	1,119	178	1,789	172

Source: PSBs

Sample Only