

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

UNSTARRED QUESTION NO. 1549

TO BE ANSWERED ON THE 1ST JULY 2019/ ASHADHA 10, 1941 (SAKA)

Performance Evaluation of PSBs

1549. SHRI SYED IMTIAZ JALEEL: SHRI ASADUDDIN WAISI:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government, in consultation with Reserve Bank of India and Bank Board Bureau, is developing an objective framework for performance evaluation of public sector banks;
- (b) if so, the details thereof and the extent to which this step is likely to improve transparency, accountability and efficiency of the State-owned banks;
- (c) whether in view of the frauds in recent past the Government proposes to introduce a mechanism through this framework in banks to immediately track frauds especially where employees of the banks are involved; and
- (d) if so, the details thereof and the time by which this objective framework is likely to be implemented?

ANSWER

The Finance Minister

(SMT. NIRMALASITHARAMAN)

(a) and (b): Financial performance and operational efficiency of banks is objectively reflected in their annual financial statements. As per the existing framework, under various applicable laws, all banks including Public Sector Banks (PSBs) are required to have their annual financial statements approved by their respective Board of Directors transparently disclose the same to stock exchanges, furnish copy thereof to the Reserve Bank of India (RBI), and present these at the annual general meeting of their shareholders for approval and adoption after discussion. As part of this, bank's Board and shareholders discuss and review the bank's performance and, in addition, market and the regulator also take note of the performance, which serves to strengthen accountability by subjecting the bank to market discipline and regulatory supervision.

Further, bank-wise performance regarding implementation of reforms in PSBs for enhanced efficiency and strengthened arrangements for accountability is being tracked and measured through an independent agency, using an objective, transparent and publicly reported 'Enhanced Access and Service Excellence (EASE)' Reforms Index.

(c) and (d): 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;
- (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.

In addition, a number of other measures have also been taken to improve prevention, detection and reporting of frauds, including *inter-alia*, the following:

- (i) 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;
- (ii) for enforcement of auditing standards and ensuring the quality of audits. Government has established the National Financial Reporting Authority as an independent regulator;
- (iii) 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);
- (iv) RBI has issued a circular to all banks in February, 2018 to implement security and operational controls with respect to SWIFT messaging system in a time-bound manner;
- (v) 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; and
- (vi) Government has formed an inter-agency coordination committee to look into the large value bank frauds.

Further, all PSBs have a well-established vigilance mechanism headed by a Chief Vigilance Officer (CVO) directly appointed by the Government of India. CVOs of banks keep a close watch on various aspects of the bank's functioning. RBI has issued various guidelines on examining staff accountability under various circumstances. As per RBI instructions on the internal control and inspection/audit system in banks, banks are advised regarding fixing of staff accountability aspect of irregularities, malpractices *etc.*, at all levels, at the appropriate time. Further, as per inputs received from PSBs, PSBs impose penalty against erring employees after due process including dismissal/removal from service/ compulsory retirement from service *etc.* and complaints lodged with the police or the Central Bureau of Investigation.
