

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-†3240
ANSWERED ON-9.12.2019

BANK FRAUDS

†3240.

SHRI RAMCHARAN BOHRA:
SHRI KHAGEN MURMU:

SHRI SUKHBIR SINGH JAUNAPURIA:
SHRI TALARI RANGAIAH:

Will the Minister of FINANCE be pleased to state:

- (a) whether the losses in public and private sector banks have been caused by increasing frauds in these banks, if so, the details thereof including the profit and loss incurred in these banks during each of the last three years and the current year, bank and State-wise;
- (b) whether the Government is taking any effective steps to stop the frequent bank frauds in public, private and cooperative banks in the country, if so, the details thereof and if not, the reasons therefor; and
- (c) the details of the action taken against the bank officials responsible for the bank frauds?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI ANURAG SINGH THAKUR)

(a): As per Reserve Bank of India (RBI)'s data on global operations, aggregate gross advances of Scheduled Commercial Banks (SCBs) increased from Rs. 25,03,431 crore as on 31.3.2008 to Rs. 68,75,748 crore as on 31.3.2014. As per RBI inputs, the primary reasons for the spurt in stressed assets have been observed to be, *inter-alia*, aggressive lending practices, wilful default/loan frauds/corruption in some cases, and economic slowdown. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of non-performing assets (NPAs). As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Further, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of SCBs, as per RBI data on global operations, rose from Rs. 3,23,464 crore as on 31.3.2015 to Rs. 10,36,187 crore as on 31.3.2018, and as a result of Government's 4R's strategy of recognition, resolution, recapitalisation and reforms, have since declined by Rs. 97,996 crore to Rs. 9,38,191 crore as on 30.6.2019, and SCBs have recovered an amount of Rs. 4,01,393 crore over the last

four financial years (FYs), including record recovery of Rs. 1,56,702 crore during FY 2018-19.

Public Sector Banks (PSBs) posted aggregate operating profits during FY2017-18 and FY2018-19 of Rs. 1,55,603 crore and Rs. 1,53,871 crore respectively. However, primarily due to continuing ageing provision for NPAs, they made aggregate provision for NPAs and other contingencies of Rs. 2,40,973 crore and Rs. 2,35,623 crore respectively, resulting in aggregate net losses of Rs. 85,370 crore and Rs. 81,752 crore respectively. Further, Public Sector Banks have returned to profitability in the current FY, reporting an aggregate profit of Rs. 3,221 crore in the first half of the current FY. Bank-wise details of operating profit, provision and net profit/loss during the last three FYs and the current FY for PSBs and Private Sector Banks are at Annex.

(b): Government and RBI have taken number of steps to enhance the fraud risk management framework of the banks and to stop the frequent 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.
- (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 imposed penalty on banks for deficiencies observed in internal control leading to frauds in deposit accounts, cheque misuse etc. It had also issued 'Letter of Warning' to some banks with regard to the lapses in following the procedures / guidelines / reporting etc.
- (8) 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.
- (9) 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.
- (10) 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. The heads of PSBs have also been empowered to issue requests for issue of Look Out Circulars.
 - (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.
- (11) RBI has issued guidelines on important safeguards on Frauds, Misappropriation, Embezzlements and Defalcation of Funds for Urban Cooperative Banks (UCBs). Further, a reporting mechanism has also been put in place by RBI, exclusively to monitor frauds reported by UCBs. UCBs have also been advised to constitute a Special Committee on Frauds headed by the Chairman for monitoring and following up cases of frauds involving amounts of Rs. One crore and above exclusively, while Audit Committee of the Board is required to monitor all the cases of frauds in general.

(c): 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.

Lok Sabha unstarred question no. †3240 for 9th December 2019, regarding “Bank Frauds”

Details of operating profit, provisioning and net profit/loss of Public Sector Banks

Amount in Rs. Crore

Bank	Operating Profit				Provisions made during the period				Net Profit			
	FY 2016-17	FY 2017-18	FY 2018-19	H1' FY2019-20	FY 2016-17	FY 2017-18	FY 2018-19	H1' FY2019-20	FY 2016-17	FY 2017-18	FY 2018-19	H1' FY2019-20
Allahabad Bank*	3,867	3,438	2,767	1,492	4,180	8,113	11,101	3,478	-314	-4,674	-8,334	-1,986
Andhra Bank*	4,400	5,378	5,039	2,562	4,226	8,791	7,825	2,440	174	-3,413	-2,786	122
Axis Bank#	17,585	15,594	19,005	11,844	13,905	15,319	14,329	10,586	3,679	276	4,677	1,258
Bandhan Bank#	1,793	2,430	3,748	1,986	681	1,085	1,797	721	1,112	1,346	1,952	1,265
Bank of Baroda*	10,975	12,006	13,487	9,612	9,592	14,437	13,053	8,165	1,383	-2,432	434	1,447
Dena Bank	1,390	1,171	198	Merged with Bank of Baroda	2,254	3,094	6,536	Merged with Bank of Baroda	-864	-1,923	-6,339	Merged with Bank of Baroda
Vijaya Bank	2,421	3,098	2,419		1,671	2,371	4,853		750	727	-2,434	
Bank of India*	9,733	7,139	8,092	4,731	11,291	13,183	13,639	4,222	-1,558	-6,044	-5,547	509
Bank of Maharashtra*	1,827	2,191	2,198	1,410	3,200	3,337	6,981	1,214	-1,373	-1,146	-4,784	196
Canara Bank*	8,914	9,548	10,591	4,985	7,792	13,770	10,244	4,291	1,122	-4,222	347	694
Catholic Syrian Bank#	152	74	13	104	150	172	211	59	2	-97	-197	44
Central Bank of India*	3,089	2,733	3,126	2,131	5,528	7,838	8,768	1,878	-2,439	-5,105	-5,641	252
City Union Bank#	994	1,208	1,240	698	491	616	557	319	503	592	683	379
Corporation Bank*	4,440	3,950	3,894	1,871	3,878	8,004	10,227	1,638	561	-4,054	-6,333	233
DCB Bank#	418	525	647	351	219	280	321	179	200	245	325	172
Dhanalakshmi Bank#	94	146	95	77	82	171	83	35	12	-25	12	42
Federal Bank#	1,925	2,291	2,763	1,502	1,094	1,412	1,519	701	831	879	1,244	801
HDFC Bank#	25,931	32,893	39,933	22,959	11,382	15,406	18,855	11,045	14,550	17,487	21,078	11,913
ICICI Bank#	26,730	25,021	25,165	13,381	16,928	18,243	21,802	10,818	9,801	6,777	3,363	2,563
IDBI Bank Ltd.#	4,578	7,905	4,052	1,960	9,737	16,142	19,168	9,220	-5,158	-8,238	-15,116	-7,260

IDFC First Bank#	1,753	1,263	-1,749	735	734	404	195	2,032	1,020	859	-1,944	-1,297
Indian Bank*	4,001	5,001	4,881	2,876	2,595	3,742	4,559	2,152	1,406	1,259	322	724
Indian Overseas Bank*	3,650	3,629	5,034	1,574	7,067	9,929	8,800	4,170	-3,417	-6,299	-3,766	-2,596
IndusInd Bank#	5,451	6,656	8,088	5,191	2,583	3,050	4,787	2,375	2,868	3,606	3,301	2,816
Jammu and Kashmir Bank Limited#	1,294	1,382	1,718	747	2,927	1,179	1,253	724	-1,632	203	465	23
Karnataka Bank#	996	1,473	1,450	763	544	1,148	973	482	452	326	477	281
Karur Vysya Bank#	1,571	1,777	1,711	876	965	1,432	1,500	740	606	346	211	136
Kotak Mahindra Bank#	5,985	7,158	8,348	4,907	2,573	3,074	3,483	1,823	3,412	4,084	4,865	3,085
Lakshmi Vilas Bank#	634	355	-12	-66	378	940	882	529	256	-585	-894	-594
Nainital Bank#	110	98	109	67	61	49	82	38	48	49	27	29
Oriental Bank of Commerce*	4,170	3,703	3,754	2,201	5,264	9,575	3,699	1,963	-1,094	-5,872	55	239
Punjab and Sind Bank*	1,242	1,145	1,397	520	1,041	1,889	1,940	1,019	201	-744	-543	-499
Punjab National Bank*	14,565	10,294	12,995	7,043	13,240	22,577	22,971	5,518	1,325	-12,283	-9,975	1,526
RBL Bank#	920	1,331	1,940	1,255	474	696	1,073	933	446	635	867	321
South Indian Bank#	1,215	1,481	1,239	729	822	1,146	991	571	393	335	248	158
State Bank of India*	61,031	59,511	55,436	31,445	62,410	66,058	54,574	26,121	-1,379	-6,547	862	5,324
Syndicate Bank*	4,233	3,864	2,819	1,766	3,874	7,087	5,407	2,496	359	-3,223	-2,588	-729
Tamilnad Mercantile Bank#	876	1,006	884	440	559	784	626	289	317	222	259	151
UCO Bank*	2,926	1,334	2,760	2,408	4,777	5,771	7,081	3,902	-1,851	-4,436	-4,321	-1,493
Union Bank of India*	7,430	7,540	7,521	4,127	6,875	12,787	10,468	5,096	555	-5,247	-2,947	-969
United Bank of India*	1,553	1,024	1,412	1,281	1,333	2,479	3,728	1,052	220	-1,454	-2,316	229
Yes Bank#	5,833	7,750	8,137	3,417	2,507	3,525	6,417	3,904	3,326	4,225	1,720	-486

Source: RBI # data for H1 of FY 2019-20 is provisional

**data for H1 of FY 2019-20 is audited (source: PSBs)*
