

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
**LOK SABHA**  
**UNSTARRED QUESTION NO-96**  
ANSWERED ON-3.2.2020

**FINANCIAL STABILITY REPORT**

96. SHRI GAUTAM SIGAMAANI PON:  
DR. HEENA GAVIT:  
SHRI DHANUSH M. KUMAR:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India (RBI) has released 20th issue of the Financial Stability Report (FSR) recently, if so, the details thereof and the issue raised by the RBI in the report;
- (b) whether as per the aforesaid report the frauds reported by the banks touched an all time high in the financial year 2019, if so, the details thereof and the response of the Government thereto;
- (c) whether as per the aforesaid report only few banks had gross non-performing asset ratio higher than 20 per cent and if so, the steps being taken by the Government to reduce the NPA in the system; and
- (d) the other corrective steps taken by the Government on the FSR?

**ANSWER**

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI ANURAG SINGH THAKUR)

(a) and (b): RBI has apprised that the 20<sup>th</sup> issue of the FSR was released by RBI on 27.12.2019. FSR reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council on risks to financial stability, as also the resilience of the financial system. It also discusses issues relating to development and regulation of the financial sector.

Government, in 2015, issued “Framework for timely detection, reporting, investigation etc. relating to large value bank frauds” to Public Sector Banks (PSBs) for dealing with suspected frauds involving sums of money in excess of Rs. 50 crore, and instituting wide-ranging structural and procedural reforms through the framework and other steps to check fraudulent banking practices. Systematic and comprehensive checking, including of legacy stock of NPAs of PSBs, for frauds under the framework has been taken note of by the RBI in its Financial Stability Report of December 2019, where it has observed that this has helped unearth frauds perpetrated over a number of years.

In the period of FY10-FY14, there was aggressive lending accompanied by frauds (with credit growth averaging 18% and amount involved in fraud averaging 0.58% of gross advances between 2009 and 2014).

Post FY14, checking of legacy NPAs for fraud was initiated, as a result of which average amount involved in fraud averaged 0.55% between FY15-FY17. Simultaneous fraud prevention reforms were also introduced, and consequently, fraud occurrence has declined, averaging 0.16% in FY18-H1FY20.

(c) and (d): As per RBI's data on global operations, aggregate gross advances of PSBs 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 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 PSBs, as per RBI data on global operations, rose from 4.28% as on 31.3.2015 to 11.18% as on 31.3.2018 (with nine out of 93 SCBs having GNPA ratio higher than 20%), and as a result of Government's strategy of recognition, resolution, recapitalisation and reforms, have since declined to 9.08% (with four out of 92 SCBs having GNPA ratio higher than 20%, as per December 2019 FSR) as on 30.9.2019.

The steps taken to check fraudulent banking practices include, *inter-alia*, the following—

- (1) An online searchable database of frauds reported by banks, in the form of Central Fraud Registry, has been set up to enable timely identification, control and mitigation of fraud risk and carrying out due diligence during the credit sanction process.
- (2) Government's framework for large value frauds in PSBs mandates:
  - (i) Examination be initiated for wilful default immediately upon reporting fraud to RBI;
  - (ii) 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 provide 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) PSBs have been advised to—
  - (i) 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;
  - (ii) decide on publishing photographs of wilful defaulters, in terms of the instructions of RBI and as per their Board-approved policy; and
  - (iii) strictly ensure rotational transfer of officials/employees.
- (5) Heads of PSBs have been empowered to issue requests for issue of Look-Out Circulars.
- (6) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.
- (7) In order to bring transparency and accountability in the larger financial system, bank accounts of 3.38 lakh inoperative companies have been frozen.

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