

Government of India
Ministry of Finance
Department of Financial Services

RAJYA SABHA

Unstarred Question No. 1034

Answered on Tuesday, December 12, 2023/ 21 Agrahayana, 1945 (Saka)

COOPERATIVE BANKING FRAUDS

1034. Shri G.C. Chandrashekhar:

Will the Minister of FINANCE be pleased to state:

- (a) whether Government aimed at strengthening the legal framework to tackle cooperative banking frauds;
- (b) how Government plans to streamline the legal process for swift resolution of such cases, if so, the details thereof; and
- (c) the details on the number of legal actions taken by Government against individuals or entities involved in cooperative banking frauds from 2019 to till date?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(DR. BHAGWAT KARAD)

(a) & (b): All cooperative banks are required to comply with the guidelines issued by the Reserve Bank of India (RBI) from time to time. Compliance to RBI guidelines issued to banks is examined on sample basis during the Supervisory Assessment of the banks and any non-compliance observed is taken up with the banks for rectification apart from initiating supervisory/enforcement action against the bank, as deemed fit. Some of the policy initiatives taken for strengthening Cooperative banks are at Annexure I.

(c): The Enforcement Department of Reserve Bank of India (RBI) is mandated to take enforcement action in the form of monetary penalty against the Regulated Entities including Co-operative Banks on contravention of provisions of Banking Regulation Act, 1949 and the directions issued thereunder, as per the Enforcement Policy and Framework approved by Board of Financial Supervision of RBI. As on date, RBI has imposed restrictions under the Supervisory Action Framework (SAF) on 549 Urban Cooperative Banks (UCBs).

As per Section 27 (3) of the Banking Regulation Act, 1949 (AACS), NABARD has prescribed FMS (Fraud Monitoring System) returns. The FMS returns are required to be submitted by Rural Cooperative Banks based on the event of a detection of fraud through the FMS-1 return and a quarterly reporting of the status of frauds through FMS-2 and 3 returns. In case of any violations, it is brought to the notice of RBI through recommendatory notes. RBI, depending on the level of non-compliance to fraud guidelines, imposes penalty on such banks.

Some of the policy initiatives taken for strengthening Cooperative banks are as under:

1. The Banking Regulation Act, 1949 has been amended to provide additional powers to RBI for more effective regulation of co-operative banks.
2. RBI issues regular instructions, circulars, guidelines and notifications to State Cooperative Banks (StCBs), District Cooperative Banks (DCCBs) and Urban Cooperative Banks (UCBs) under the provisions of the Banking Regulation Act, 1949 [As Applicable to Cooperative Societies (AACS)].
3. RBI issues guidelines for StCBs /DCCBs and UCBs on various matters related to capital adequacy, income recognition and provisioning norms, investments, maintenance of deposits, customer service, etc.
4. UCBs are being periodically inspected by RBI under provisions of the Banking Regulation Act, 1949 to ensure that the banks are complying with the extant guidelines/instructions/norms.
5. StCBs/DCCBs are being periodically inspected by NABARD under provisions of the Banking Regulation Act, 1949 to ensure that the banks are complying with the extant guidelines/instructions/norms.
6. In order to strengthen the StCBs and DCCBs, NABARD enters into Memorandum of Understanding (MoU) with State Coop. Banks and State Governments for implementing state-specific Development Action Plans (DAP).
7. Quarterly meetings of the high-powered forum “State Level Task Force (SLTF)” and “High Level Committee (HLC)” are conducted periodically to review the performance under DAP.
8. RBI and NABARD have informed that they undertake measures for strengthening fraud risk management in banks, including issuing caution advises, advising banks for rotation and mandatory leave of staff, compliance monitoring, cyber security advisories, conducting workshops on “Fraud Risk Management and Reporting in Banks” for officials of cooperative banks, etc.
