

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

STARRED QUESTION NO. *216

TO BE ANSWERED ON THE 9TH MARCH 2018/ PHALGUNA 18, 1939 (SAKA)

Scams in Banking Sector

***216. SHRI MUTHAMSETTI SRINIVASARAO (AVANTHI):
SHRI RAMMOHANNAIDUKINJARAPU:**

Will the Minister of FINANCE be pleased to state:

- (a) whether scams in the banking sector keep hitting the Indian economy quite often, including the latest case of the Punjab National Bank (PNB) and if so, the reasons for the scams;
- (b) whether the officials of Hong Kong branches of Indian lenders including Allahabad Bank, State Bank of India, Union Bank of India, UCO Bank and Axis Bank are part of the entire Punjab National Bank fraud which continued for seven years and if so, the details thereof;
- (c) the number of Letters of Undertaking (LoU) issued to the businessmen involved in PNB scam from 2011-14 and subsequently from 2014 to January 2017 and the reasons for inactiveness of the internal/external auditors for the last seven years in this regard;
- (d) whether as per guidelines, the tenure for the encashment of LoUs for the gems and jewellery sector is usually of 90 days and not 365 days, if so, the details thereof and the reasons for such deviation from the usual practice being missed from the minds of officials working at the Hong Kong branches of other lenders along with the action taken by the Government against such delinquent officials; and
- (e) the details of the steps taken by the Government to stem the rot in the banking system and for strict enforcement for appraisal of exposures of all kinds in the banking system of the country?

ANSWER
THE FINANCE MINISTER
(SHRI ARUN JAITLEY)

(a) to (e): A Statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO.*216 FOR 9TH MARCH 2018 REGARDING “SCAMS IN BANKING SECTOR” BY SHRI MUTHAMSETTI SRINIVASA RAO (AVANTHI) AND SHRI RAM MOHAN NAIDUKINJARAPU, MEMBERS OF PARLIAMENT.

(a) to (e): The Reserve Bank of India (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.

In respect of involvement of officials of Hong Kong branches of Indian lenders, the Central Bureau of Investigation (CBI) has stated that investigation in this regard is in progress.

With regard to the number of LoUs issued to those involved in the PNB case, CBI has stated that the matter is under investigation.

As per RBI Master Direction on External Commercial Borrowings, Trade Credit Borrowing and Lending in Foreign Currency by Authorised Dealers *et al*, the maturity period for trade credit for non-capital goods is up to one year from the date of shipment or the operating cycle whichever is less. As per RBI Master Direction on Import of Goods & Services, Suppliers' and Buyers' credit (trade credit) including the usance period of Letters of Credit opened for import of gold in any form, including jewellery made of gold/precious metals or/and studded with diamonds/semi-precious/precious stones, should not exceed 90 days from the date of shipment. The Master Direction further provides that for import of other precious metals, *viz.*, platinum/palladium/rhodium/silver rough, cut and polished diamonds/precious and semi-precious stones, the period of Suppliers' and Buyers' credit (trade credit) including the usance period of Letters of Credit opened for import of platinum, palladium, rhodium and silver and rough, cut and polished diamonds, precious and semi-precious stones should not exceed 90 days from the date of shipment. As regards the issue of observance of tenure guidelines for encashment of LoUs for the gems and jewellery sector, as per CBI inputs, the matter is under investigation.

RBI has issued instructions mandating banks to implement, within stipulated deadlines prescribed measures for strengthening the SWIFT operating environment in banks. Further, it has constituted an Expert Committee under the chairmanship of Shri Y. H. Malegam to look into, *inter alia*, factors leading to increasing incidence of frauds in banks and the measures (including information technology interventions) needed to curb and prevent it, and the role and effectiveness of various types of audits conducted in banks in mitigating the incidence of such frauds.

Government has issued an advisory to Public Sector Banks (PSBs) to take immediate action as per extant legal/regulatory framework to ensure that such/similar fraudulent activity (as reported by PNB) is not prevalent in the bank. They have also been asked to ensure that robust systems and procedures are in place for confirming due approvals necessary applications/documents and entry in the bank's system in respect of all Letters of Undertakings/Comfort and SWIFT messages, and ensuring scrutiny and reconciliation of Nostro accounts, and to take all necessary steps to safeguard against occurrence of such frauds. Government has further advised PSBs to collectively prepare a report for effective management of operational risks, including technology risk, so as to safeguard against occurrence of frauds. Government has also asked PSBs to examine all accounts exceeding Rs. 50 crore, if classified as Non-Performing Asset (NPA), from the angle of possible fraud. For clean lending, banks would ensure strict role segregation, online processing, clean consortium lending arrangements, Stressed Asset Management verticals for stringent recovery, and clean post-sanction follow-up for loans above Rs. 250 crore.
