

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

STARRED QUESTION NO. *218

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

Losses Incurred by PSBs

***218. SHRI ASHWINI KUMAR:
SHRI BHARAT SINGH:**

Will the Minister of FINANCE be pleased to state:

- (a) whether incidents of frauds caused by individuals/shell companies to the Public Sector Banks (PSB's) including the Punjab National Bank (PNB) are increasing and if so, the details thereof;
- (b) the details of incidents which came to light recently indicating the names of the banks, amount involved and the steps taken by the Government to recover the money;
- (c) the details of losses incurred by PSB's during the last three years due to such frauds/scams and the amount misappropriated year/bank-wise;
- (d) the measures taken by the Reserve Bank of India (RBI) and the Government to prevent such frauds/scams in the wake of development in PNB; and
- (e) the details of action taken/initiated by the agencies concerned in the detected cases during the said period against the officials and other involved therein?

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.*218 FOR 9TH MARCH 2018 REGARDING “LOSSES INCURRED BY PSBS” BY SHRI ASHWINI KUMAR AND SHRI BHARAT SINGH, MEMBERS OF PARLIAMENT.

(a) to (e): As per RBI inputs, the year/bank-wise details of frauds reported by PSBs in the last three financial years, where the amount involved is Rupees one lakh or more, are at Annex.

Information regarding incidence of frauds caused by individuals/ shell companies to Public Sector Banks is not centrally maintained.

As per Reserve Bank of India (RBI) inputs, Punjab National Bank (PNB) reported fraudulent issuance of Letters of Undertaking/ Foreign Letters of Credit for payment of import bills, amounting to Rs. 12,645.97 crore, to RBI through its Fraud Monitoring Reporting System.

RBI has taken a number of measures to prevent and control frauds. These include the following:

- (i) a framework for dealing with loan frauds of Rs. 50 crore and above, under which banks classify potential fraud accounts as red-flagged accounts based on observation/evaluation of early warning signals, and take time-bound action;
- (ii) an online searchable database of frauds reported by banks, in the form of Central Fraud Registry, as a tool of timely identification, control and mitigation of fraud risk and for carrying out due diligence during credit sanction process;
- (iii) issuance of caution advices by RBI, detailing names of fraudsters and their *modus operandi*; and
- (iv) re-verification of title deeds in respect of all credit exposures of Rs. 5 crore and above by banks, as mandated by RBI.

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 nationalised banks 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 nationalised banks 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 nationalised banks to examine all accounts exceeding Rs. 50 crore, if classified as Non-Performing Asset (NPA), from the angle of possible fraud.

Central Bureau of Investigation (CBI) has registered two cases relating to the matter and has made several arrests. On the basis of FIRs registered by CBI, Directorate of Enforcement (ED) has filed two cases under the provisions of the Prevention of Money Laundering Act, 2002 and conducted searches at various locations and seized movable properties and attached immovable properties. Further, mutual funds and bank accounts have been frozen. Letter of Request to 13 countries have been issued by the court seeking details of properties, bank accounts of companies, etc. ED has moved the court for obtaining non-bailable warrants against accused persons. Further investigation is in progress.

Ministry of Corporate Affairs has apprised that it has ordered investigation into the affairs of 107 companies and 7 Limited Liability Partnerships (LLPs) belonging to Nirav Modi and Mehul Choksi Groups, to be carried out by the Serious Fraud Investigation Office. The Ministry has also filed a petition/application against the individuals, groups and their entities belonging to Nirav Modi and Mehul Choksi Groups before National Company Law Tribunal, Mumbai Bench and the tribunal has passed an injunction against all the respondents and other companies, LLPs, trusts and individuals from removal transfer or disposal of funds, assets and properties of the individuals until further orders.
