

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO: 1447
TO BE ANSWERED ON THE 1st JULY, 2019/ASHADHA 10, 1941(SAKA)

Bank Frauds

1447: SHRI MANISH TIWARI:

Will the Minister of FINANCE be pleased to state:

- (a) the details of the number of cases of bank frauds in the Reserve Bank of India (RBI) during each of the last five years, bank-wise and party-wise;
- (b) the criterion used by the RBI/public/private sector banks to declare a transaction or a series of transactions as a bank fraud;
- (c) the number of criminal cases registered in bank fraud cases and the number of such cases resulted in convictions and the status of each case during the said period, case-wise;
- (d) the amount of money recovered by the public/private sector banks as a consequence of legal actions initiated by banks during the said period; and
- (e) the details of the legal distinction between a bank fraud and a non-performing asset?

ANSWER

**To be answered by
FINANCE MINISTER
(Smt. Nirmala Sitharaman)**

- (a) to (e): Comprehensive measures have been taken to tighten fraud prevention systems and deter perpetration of frauds in banks, including *inter-alia*, the following:
- (1) 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.
 - (2) As per RBI’s instructions on wilful defaulters, lenders may initiate criminal proceedings against wilful defaulters, wherever necessary. Proactive action has been taken against wilful defaulters, with FIRs being registered by PSBs against 3,154 wilful defaulters.
 - (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. The act 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) PSBs have been advised 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 and, decide on publishing photographs of wilful defaulters, in terms of RBI's instructions and as per their Board-approved policy and to strictly ensure rotational transfer of officials/employees. The heads of PSBs have also been empowered to issue requests for issue of Look Out Circulars (LOCs).
- (5) 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. In order to bring transparency and accountability in the larger financial system, bank accounts of 3.38 lakh inoperative companies were frozen over the last two financial years.
- (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) 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.
- (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 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, and 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.
- (11) Government has formed an inter-agency coordination committee to look into the large value bank frauds.

As per the reports by Public Sector Banks (PSBs) to RBI, based on date of occurrence the bank-wise details of number of frauds of Rs. 1 lakh and above for the last five financial years is at Annex, which shows continuous decline in the number of frauds over this period.

With regard to the criterion used to declare a transaction or a series of transactions as a fraud, RBI has informed that in terms of RBI's Master Direction on Frauds, in order to

have uniformity in reports, frauds have been classified as under, based mainly on provisions of the Indian Penal Code:

- (a) misappropriation and criminal breach of trust;
- (b) fraudulent encashment through forged instruments, manipulation of books of account, fictitious accounts, and conversion of property;
- (c) unauthorised credit facilities extended for reward or for illegal gratification;
- (d) cash shortages;
- (e) cheating and forgery;
- (f) fraudulent transaction involving foreign exchange; and
- (g) any other type of fraud not coming under specific heads as above.

The distinction between a bank fraud and a Non-Performing Asset (NPA) is that while a fraud is a criminal offence, an NPA is a loan or advance where the interest and/or instalments of the principal remain overdue for more than 90 days.

As per inputs received from the Central Bureau of Investigation (CBI), during the period from the year 2014 till 31.5.2019, 847 cases were registered with CBI by banks, out of which 371 cases are currently under investigation, 450 cases are under trial, 14 cases have been closed, four cases have resulted in conviction, court has ordered stay in two cases, and regular departmental action has been advised in six cases.

As per inputs received from PSBs, an aggregate amount of Rs. 2,06,586 crore has been recovered from NPA accounts during the last five financial years as a consequence of legal actions initiated.

Lok Sabha Unstarred Parliament Question No. 1447, for 1.7.2019

Bank-wise data on number of frauds as reported by Public Sector Banks based on date of occurrence (amount involved Rs. 1 lakh and above)

	FY 2014- 15	FY 2015- 16	FY 2016- 17	FY 2017-18	FY 2018-19
	35	20	63	11	
	40	58	36	37	
	263	153	140	84	
	160	121	95	99	
	64	36	34	32	
imited	1	3	■-	■-	
	153	89	48	50	
	121	79	59	56	
	75	57	52	12	
	30	36	24	11	
	92	130	91	94	
	70	48	70	47	
	113	74	53	34	
ce	124	108	42	24	
	27	17	22	3	
	142	142	101	108	
	588	514	469	618	
				Associates banks merged with SBI with effect from 1.4.2017	Associates banks merged with SBI
ipur	18	8	5		
	25	18	6		
	26	75	12		
	17	15	6		
	16	22	15		
	200	249	127	78	
	65	36	31	41	
	117	95	83	69	
	21	39	29	15	
	27	57	32	22	
	2,630	2,299	1,745	1,545	

Note: Comprehensive measures have been taken to prevent frauds including directions to banks to examine all NPA accounts above Rs. 50 crore from the angle of possible fraud, initiation of criminal proceedings enactment of Fugitive Economic Offenders Act 2018, creation of Central Fraud Registry, empowering Bank Heads to request for issue of Look Out Circular, establishment of National Financial Reporting Authority

Straight through processing between Core Banking System and SWIFT, advice to banks to obtain certified copy of passport of promoters/directors of companies availing loan exceeding Rs. 50 crore etc.
