

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

UNSTARRED QUESTION NO. 2368

TO BE ANSWERED ON THE 8TH JULY 2019/ ASHADHA 17, 1941 (SAKA)

Regulatory Compliance by Private Banks

2368. SHRI KODIKUNNIL SURESH:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government is seized of instances and reports concerning non-compliance with directions on 'Know Your Customer/Anti-Money Laundering Norms' and on reporting of frauds by private sector lenders and banks;
- (b) if so, the details thereof;
- (c) whether the Government is aware of widespread deficiencies in regulatory compliance by private sector lenders;
- (d) if so, whether the Government is intending to promulgate a regulatory mechanism to check such matters; and
- (e) if so, the details thereof?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI ANURAG SINGH THAKUR)

(a) to (e): Regulatory mechanisms are in place to deal with non-compliance with directions on "Know Your Customer/Anti-Money Laundering Norms" (KYC/AML norms) and on reporting of frauds by lenders and banks, and deficiencies in regulatory compliance by lenders.

In this regard, Reserve Bank of India (RBI) has informed that with a view to developing a sound framework and process for enforcement action, a separate Enforcement Department (EFD) has been established within RBI with effect from 3.4.2017 as a centralised department to speed up regulatory compliance. RBI has further informed that instances of regulatory deficiencies, including non-compliance with KYC/AML norms by private sector lenders and banks, are flagged in RBI's inspection reports and pursued for compliance by RBI's supervisory department. Some of the deficiencies and instances of non-compliance are taken up for enforcement action (in the nature of imposing a monetary penalty) by EFD in accordance with policy framed in this regard based on, *inter alia*, materiality of the violation. Since the creation of EFD, monetary penalty amounting to Rs. 148.91 crore has been imposed on 43 private lenders and banks for regulatory deficiencies, out of which penalty of Rs. 8.30 crore has been imposed on nine private lenders and banks for non-compliance with directions on KYC/AML norms.

Further, as per inputs received from the Department of Revenue, the Director, Financial Intelligence Unit - India (FIU-IND), based on inquiry initiated under the Prevention of Money Laundering Act, 2002 (PMLA), is empowered to take suitable actions against erring entities for non-compliance of legal obligations under PMLA. Director, FIU-IND has imposed penalty against 10 private sector banks where non-compliance of the provision of Chapter IV of PMLA and the Prevention of Money Laundering Rules, 2005 had been reported or detected.

RBI has also issued Master Directions on Frauds - Classification and Reporting, which require banks to report frauds beyond a threshold amount to law enforcement agencies, monitoring and follow-up of cases by a special committee, quarterly placement of information before the Audit Committee of bank Board concerned, and annual review of frauds by the bank concerned. These cover, *inter alia*, preventive measures, fraud detection systems, systemic lacunae, remedial action, monitoring of progress of investigation and recovery, and staff accountability.
