

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-†1979
ANSWERED ON- 19/12/2022

FRAUD RISK MANAGEMENT MECHANISM IN BANKS

†1979. SHRIMATI BHAVANA PUNDALIKRAO GAWALI
SHRI KRUPAL BALAJI TUMANE

Will the Minister of FINANCE be pleased to state:-

- (a) whether the Government asked banks to strengthen their fraud risk management mechanism as bank frauds are still on the rise;
- (b) the steps taken by the Government/banks to plug the security loopholes and ensure proper investigation of banking frauds; and
- (c) the number of such frauds that occurred during each of the last five years and the current year, bank-wise?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(DR. BHAGWAT KARAD)

(a) to (c): In regard to strengthening of fraud risk management, Reserve Bank of India (RBI) has issued Master Direction on Frauds in 2016, whereby banks are required to frame internal policy for fraud risk management and fraud investigation function, duly approved by their respective Boards. Further, as per the said direction, fraud risk management, fraud monitoring and fraud investigation function must be owned by the bank's CEO, Audit Committee of the Board and the Special Committee of the Board. The improved detection and reporting accompanied with the comprehensive steps taken to check frauds have resulted in sharp decline in the occurrence of such frauds, from Rs. 46,772 crore in the financial year (FY) 2017-18 to Rs. 12,213 crore in FY2020-21, and to Rs. 67 crore during the first six months of the current financial year. As per RBI data, bank-wise and year-wise details of number of frauds in scheduled commercial banks (SCBs), in respect of amount involved of Rs. 1 lakh and above in each fraud, by the year of occurrence, for the last five financial years and the current financial year are at **Annex**.

Comprehensive steps taken to keep a check on frauds and to address various issues concerning frauds in banks, include, *inter-alia*, the following:

- (1) As per RBI's Master direction on Frauds, banks are required to report frauds beyond a threshold amount to the police, monitoring and follow-up of cases by a special committee, quarterly placement of information before Audit Committees of bank Boards, and annual review of frauds by banks.
- (2) For management of fraud risk and for 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),

requiring banks to classify potential fraud accounts as RFAs based on observation or evaluation of early warning signals noticed.

- (3) RBI has instructed banks to report deficient third-party services (such as legal search reports, property valuers' reports, etc.) and collusion of these service providers with fraudsters to the Indian Banks' Association, which maintains a caution list of such service providers.
- (4) Issuance by the Government in 2015 of "Framework for timely detection, reporting, investigation etc. relating to large value bank frauds" to Public sector banks (PSBs) for dealing with suspected frauds involving sum of money in excess of Rs. 50 crore.
- (5) An online searchable database of frauds reported by banks, in the form of Central Fraud Registry, has been set up to enable timely identification, control and mitigation of fraud risk and also to carry out due diligence during the credit sanction process.
- (6) The Indian Cyber Crime Coordination Centre (I4C), working under the Ministry of Home Affairs has operationalised Financial Cyber Fraud Reporting and Management System module, for immediate reporting of financial frauds and to stop siphoning-off of funds by the fraudsters.
- (7) The Indian Computer Emergency Response Team (CERT-IN) under the Ministry of Electronics and Information Technology issues alerts and advisories regarding latest cyber threats and countermeasures.
- (8) PSBs have been advised to strictly ensure rotational transfer of officials/employees.

In addition, measures have also been taken to deter fraudsters, which include, *inter alia*, the following:

- (i) The Fugitive Economic Offenders Act, 2018 has been enacted to provide 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.
- (ii) Heads of PSBs have been empowered to issue requests for issuance of Look-Out Circulars.
- (iii) Advisory has 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 policies.
- (iv) 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.

Lok Sabha Unstarred question no. †1979, regarding FRAUD RISK MANAGEMENT MECHANISM IN BANKS

**Number of frauds reported by scheduled commercial banks
in respect of amount involved of Rs. 1 lakh and above, by the year of occurrence**

Bank	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23 (Up to June) 2022
Aditya Birla Idea Payments Bank Limited	--	24	--	--	--	--
Airtel Payments Bank Limited	--	--	--	58	--	1
American Express Banking Corp.	337	226	168	87	61	21
AU Small Finance Bank Limited	4	9	9	11	6	--
Australia and New Zealand Banking Group Limited	--	--	1	--	--	--
Axis Bank Limited	372	372	344	506	595	44
Bandhan Bank Limited	56	56	26	30	17	3
Bank of America, National Association	16	10	4	2	2	--
Bank of Bahrain & Kuwait B.S.C.	--	--	--	--	1	--
Bank of Baroda	211	128	125	88	71	5
Dena Bank	11	3	Amalgamated into Bank of Baroda			
Vijaya Bank	22	2				
Bank of India	148	146	101	49	54	2
Bank of Maharashtra	64	86	33	19	12	2
Bank of Nova Scotia	1	--	--	--	--	--
Barclays Bank Plc	--	--	1	--	--	--
BNP Paribas	--	--	3	1	--	--
Canara Bank	111	96	57	35	23	--
Syndicate Bank	169	78	37	Amalgamated into Canara Bank		
Capital Small Finance Bank	--	--	--	1	2	--
Catholic Syrian Bank Limited	30	24	32	65	41	8
Central Bank of India	95	99	109	81	126	3
Citibank N.A	210	275	247	117	137	7
City Union Bank Limited	13	9	11	16	6	--
Coastal Local Area Bank Limited	--	1	--	1	--	--
Cooperative Rabobank U.A.	2	--	--	--	--	--
CREDIT SUISSE AG	--	--	--	1	--	--
DBS Bank India Limited	1	10	9	9	7	--
DCB Bank Limited	9	10	14	8	4	--
Deutsche Bank Ag	8	3	9	3	3	--
Doha Bank Qsc	--	--	--	--	1	--
Equitas Small Finance Bank Limited	19	29	20	30	14	3
ESAF Small Finance Bank	5	7	8	9	8	2
Federal Bank Limited	46	49	38	71	34	3
Fincare Small Finance Bank Limited	2	19	4	5	10	1
Fino Payments Bank Limited	3	19	30	23	25	2
Firststrand Bank Limited	1	--	--	--	--	--
HDFC Bank Limited	408	456	446	335	294	20
Hongkong And Shanghai Banking	302	222	241	140	85	9
ICICI Bank Limited	562	491	677	556	1198	63
IDBI Bank Limited	159	178	153	116	102	18
IDFC First Bank Limited	34	67	93	62	17	--

Bank	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23 (Up to June) 2022
India Post Payments Bank Limited	--	1	7	2	1	--
Indian Bank	76	75	71	60	48	3
Allahabad Bank	143	56	10	Amalgamated into Indian Bank		
Indian Overseas Bank	90	95	65	39	24	--
Indusind Bank Limited	46	82	120	367	1098	108
Jammu & Kashmir Bank Ltd	13	12	5	3	5	--
Jana Small Finance Bank Limited	15	32	57	29	26	6
Jpmorgan Chase Bank National	--	--	--	1	--	--
Karnataka Bank Limited	17	17	50	6	6	--
Karur Vysya Bank Limited	32	23	24	5	21	--
KEB Hana Bank	1	--	--	--	--	--
Kotak Mahindra Bank Limited	289	384	653	828	896	189
Krishna Bhima Samruddhi Lab Ltd.	--	--	--	1	--	--
Lakshmi Vilas Bank Limited	43	49	31	5	--	--
Nainital Bank Limited	5	--	5	4	2	--
North East Small Finance Bank Limited	--	2	3	6	2	--
NSDL Payments Bank Limited	--	--	--	1	1	--
Paytm Payments Bank Limited	--	2	1	--	--	--
Punjab and Sind Bank	28	19	38	51	2	--
Punjab National Bank	202	136	117	79	73	4
Oriental Bank of Commerce	29	14	8	Amalgamated into Punjab National Bank		
United Bank of India	22	65	25			
RBL Bank Limited	27	36	57	44	41	3
SBM Bank (India) Limited	2	1	1	1	--	--
Shinhan Bank	--	--	--	2	--	--
Shivalik Small Finance Bank	--	--	1	--	--	--
Sonali Bank	--	--	1	--	--	--
South Indian Bank Limited	29	55	32	31	42	3
Standard Chartered Bank	96	91	229	126	85	9
State Bank of India	966	1008	748	369	330	8
Sumitomo Mitsui Banking Corporation	--	--	--	1	--	--
Suryoday Small Finance Bank Limited	7	1	12	13	3	2
Tamilnad Mercantile Bank	39	42	44	45	14	--
The Bank of Tokyo-Mitsubishi Ufj Ltd	1	1	--	--	--	--
The Dhanalakshmi Bank Limited	8	19	5	1	2	--
UCO Bank	61	85	144	194	64	--
Ujjivan Small Finance Bank Limited	11	13	34	27	16	--
Union Bank of India	172	113	122	93	60	--
Andhra Bank	55	35	4	Amalgamated into Union Bank of India		
Corporation Bank	20	12	4			
United Overseas Bank Limited	1	--	--	--	--	--
Utkarsh Small Finance Bank Limited	8	10	7	11	1	--
Woori Bank	--	--	1		--	--
Yes Bank Limited	51	61	42	35	23	--

Source: RBI
