

Government of India
Ministry of Finance
LOK SABHA
UNSTARRED QUESTION NO-130
ANSWERED ON 18.11.2019/KARTIKA 27, 1941 (SAKA)
PMC BANK

130. SHRI BHARTRUHARI MAHTAB:

SHRI RAHUL RAMESH SHEWALE:

Will the Minister of FINANCE be pleased to state:

- (a) whether any mechanism is available with the Banks to detect fraud cases such as Punjab & Maharashtra Cooperative (PMC) Bank fraud instead of reporting such cases by their customers;
- (b) if so, the details thereof and if not, the reasons therefor along with the amount of customers stuck in PMC Bank fraud at present;
- (c) whether the cases of such frauds in banks have increased across the country during each of the last three years and the current year;
- (d) if so, the details thereof and the reasons therefor, Bank-wise and State/ UT-wise;
- (e) whether the bank employees have been found involved in such cases during the said period;
- (f) if so, the details thereof and the reasons therefor, Bank-wise; and
- (g) the corrective steps taken/being taken by the Government in this regard?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a) to (g) Reserve Bank of India (RBI) as the regulator for banks has issued various circulars and guidelines relating to frauds. These include instructions relating to audit, cyber security, early detection and reporting etc.

In May 2015, RBI issued a framework for dealing with loan frauds of ₹50 crore and above which, *inter alia*, advised banks to classify potential fraud accounts as Red Flagged Accounts (RFA) based on Early Warning Signals (EWS) and stipulated timelines with actions incumbent on banks.

RBI has also setup Central Fraud Registry (CFR) as a tool for timely identification, control and mitigation of fraud risk as also for carrying out due diligence during credit sanction process. RBI has imposed penalty on banks for deficiencies observed in internal control leading to frauds.

Government has also taken comprehensive steps to reduce the incidence of frauds in banks. The steps taken include, *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), for systemic and comprehensive checking of legacy stock of their non-performing assets (NPAs), which provides, *inter-alia*, that—
 - (i) all accounts exceeding ₹50 crore, if classified as 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) 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.
- (3) 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 Reserve Bank of India (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.

- (4) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.
- (5) 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 ₹ 50 crore.
- (6) 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. The impact of the above steps is reflected in RBI's Financial Stability Report (FSR) of June 2019. As per FSR, systemic and comprehensive checking of legacy stock of NPAs of PSBs for frauds has helped unearth frauds perpetrated over a number of years.

In the case of the Punjab and Maharashtra Cooperative (PMC) Bank, RBI has informed that the statutory inspection of the bank under Section 35 of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) with reference to its position as on 31st March 2019, conducted by RBI, revealed large group exposure toward Housing Development and Infrastructure Limited (HDIL) Group companies to the tune of approximately ₹ 6226.01 crore (inclusive of interest accrued in the related accounts). Out of total exposure of ₹ 6226.01 crore (inclusive of interest accrued in the related accounts) as on March 31, 2019 to the HDIL group, only ₹439.58 crore was disclosed to RBI and remaining ₹5786.43 crore remained undisclosed.

The exposure to HDIL group was camouflaged/ misreported to RBI and have since been classified as NPAs by the RBI, requiring huge provisioning to be made as per RBI instructions. This resulted in a steep deterioration in the financials of the bank.

As on September 23, 2019 (date of imposition of RBI directions), total depositors of the bank were 9,15,775.

RBI has further stated that as this was a case of failure of management at the Board level, it was considered necessary to supersede the Board of Directors of the bank. Accordingly, RBI, in exercise of the powers conferred under sub-section (1) and (2) of Section 36AAA read with Section 56 of the Banking Regulation Act, 1949, superseded the Board of Directors of the bank on September 23, 2019 and appointed an Administrator in its place for a period of six months. An Advisory Committee comprising of three experienced professionals has also been appointed to assist the Administrator in discharge of his duties in terms of Section 36AAA(5)(a) read with Section 56 of the Banking Regulation Act, 1949.

Withdrawals by depositors have been restricted to the notified amount. The limit for withdrawals is presently at ₹ 50,000 effective from November 5, 2019 which enables about 78% of the depositors of the bank to withdraw their entire account balance. Further, the depositors can also withdraw on hardship grounds (medical expenses and non-medical expenses like educational expenses of self or children, marriage expenses of self, other relatives and for livelihood) an amount upto ₹ 1 lakh (with a sub-ceiling of ₹ 50,000 for withdrawal on all non-medical grounds).

Year-wise details of the number of frauds in Urban Cooperative Banks (UCBs) and the amount involved, for last three years, as reported by RBI, are as under:

FY	No. of Frauds	Amount involved (₹ in Cr.)
2016-17	27	9.3
2017-18	99	46.9
2018-19	181	127.7
Total	307	183.9

RBI has informed that data on staff accountability in frauds in UCBs is not centrally maintained.