

Government of India
Ministry of Finance
LOK SABHA
UNSTARRED QUESTION NO- †1357
ANSWERED ON 25.11.2019/ Agrahayana 4, 1941(Saka)
PMC Bank Scam

†1357. SHRI KAUSHALENDRA KUMAR:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Punjab and Maharashtra Cooperative (PMC) Bank scam in Maharashtra happened despite the vigilance and monitoring of the Government and the monitoring system could not detect it, if so, the details thereof and the reasons therefor;
- (b) whether the system for monitoring banks is proving to be callous, weak and incapable, if so, the reasons therefor;
- (c) whether people of the country are losing faith in the banking system due to the scams happened in the cooperative/ Government/private banks across the country, if so, the details thereof;
- (d) whether maximum loans given by the cooperative banks especially in Maharashtra have turned to NPA despite strict direction by the RBI, if so, the details thereof and the reasons therefor; and
- (e) whether the Government takes guarantee for the money of the people deposited in these banks and if so, the details thereof?

ANSWER

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

(a) to (e): The banking functions of Cooperative Banks are regulated by Reserve Bank of India (RBI) under Banking Regulation Act, 1949. RBI conducts statutory inspection of Urban Cooperative Banks (UCBs) under section 35 of BR Act, 1949.

RBI has reported that the fraud was perpetrated by the Punjab and Maharashtra Cooperative (PMC) bank by withholding and falsifying pertinent information about its exposure to HDIL. During the current inspection, PMC bank has admitted to having a total exposure of ₹ 6226.01 crore (inclusive of interest accrued in the related accounts) as on March 31, 2019 of the HDIL group. 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 was 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.

RBI 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 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.

RBI has also set up the Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders. CRILC's main objective is two-fold – (i) early recognition of asset quality problems by reducing information asymmetry and (ii) to help banks to take informed credit decision.

RBI has taken the following measures to protect the interest of the depositors:

- Reserve Bank of India, 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).

Meanwhile, based on a complaint filed by the bank against its officials and borrowers associated with the fraud/financial irregularities in the bank and manipulation of its books of accounts, the Economic Offences Wing, Maharashtra Police has started its investigations into the matter. Forensic Auditors have been appointed to look into the related transactions.

RBI has informed that as per the provisions of Deposit Insurance & Credit Guarantee Corporation (DICGC) Act, 1961, DICGC provides insurance for bank deposits upto ₹1.00 Lakh per depositor.

Banks are required to maintain 1% higher Capital to Risk-Weighted Assets Ratio (CRAR) than the Basel III norms framed by the Basel Committee on Banking Supervision.

Deposits in Public Sector Banks (PSBs), Private Sector Banks (PvSBs), Scheduled Commercial Banks (SCBs) and UCBs show an increasing trend during the last three years. Details in this regard are given below:

(Amount in Crore Rs.)

	March 2017	March 2018	March 2019
PSBs	72,81,365	75,40,814	80,64,967
PvSBs	28,17,630	32,49,304	37,56,398
SCBs	1,05,68,816	1,13,08,114	1,24,48,081
UCBs	4,43,468	4,56,506	4,84,315

Source: RBI

RBI vide Press Release dated October 1, 2019 has assured the general public that Indian banking system is safe and stable.

The Gross NPA Ratio (%) of UCBs, as reported by RBI, for the last three years is as under:

	31-03-2017	31-03-2018	31-03-2019
Maharashtra	7.53	7.55	7.74
All other States	6.53	6.66	6.43

Source: RBI
