

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
STARRED QUESTION NO. *6
ANSWERED ON-3.2.2020

BANKING FRAUDS

*6: SHRI BHAGWANTH KHUBA:
SHRI HEMANT SRIRAM PATIL:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has taken cognizance of increasing fraudulent banking practices in the country that have adversely affected many depositors and the economy, if so, the details thereof including the amount of money involved in the banking frauds during the current year so far and each of the last three financial years;
- (b) the details of Non-Performing Assets (NPAs) in Public Sector Banks during the said period;
- (c) the steps being taken by the Government to eliminate fraudulent banking practices in the country; and
- (d) the steps taken by the Government to guarantee depositors of their savings in such banks?

ANSWER

THE FINANCE MINISTER

(SMT. NIRMALA SITHARAMAN)

(a) to (d): A statement is laid on the Table of the House.

Statement as referred to in reply of Lok Sabha Starred Question no. *6 for answer on 3rd February, 2020/ Magha 14, 1941 (Saka) regarding “Banking Frauds” by SHRI BHAGWANTH KHUBA and SHRI HEMANT SRIRAM PATIL, Hon’ble Member of Parliament

(a) to (d): Government, in 2015, issued “Framework for timely detection, reporting, investigation etc. relating to large value bank frauds” to Public Sector Banks (PSBs) for dealing with suspected frauds involving sums of money in excess of Rs. 50 crore, and instituting wide-ranging structural and procedural reforms through the framework and other steps to check fraudulent banking practices. Systematic and comprehensive checking, including of legacy stock of NPAs of PSBs, for frauds under the framework has been taken note of by the Reserve Bank of India (RBI) in its Financial Stability Report of December 2019, where it has observed that this has helped unearth frauds perpetrated over a number of years. This is reflected in the increased amount involved in frauds of Rs. 1 lakh and above, reported by Scheduled Commercial Banks and select financial institutions, from Rs. 23,934 crore in the financial year (FY) 2016-17 to Rs. 41,167 crore in FY2017-18, Rs. 71,543 crore in FY2018-19, and Rs. 1,13,374 crore in the first half of the current financial year. While improved detection and reporting has increased the reported amount involved in recent years, the comprehensive steps taken to check bank frauds have resulted in the amount involved by year of occurrence of fraud showing a declining trend, reducing sharply from Rs. 38,548 crore in FY2016-17 to Rs. 16,084 crore in FY2017-18, increasing slightly to Rs. 18,893 crore in FY2018-19, and declining again to Rs. 3,010 crore in the first half of the current financial year.

The steps taken to check fraudulent banking practices include, *inter-alia*, the following—

- (1) 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 carrying out due diligence during the credit sanction process.
- (2) Government's framework for large value frauds in PSBs mandates:
 - (i) Examination be initiated for wilful default immediately upon reporting fraud to RBI;
 - (ii) Report on the borrower be sought from the Central Economic Intelligence Bureau in case an account turns NPA.
- (3) 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.
- (4) PSBs have been advised to—
 - (i) 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;
 - (ii) decide on publishing photographs of wilful defaulters, in terms of the instructions of RBI and as per their Board-approved policy; and
 - (iii) strictly ensure rotational transfer of officials/employees.
- (5) Heads of PSBs have been empowered to issue requests for issue of Look-Out Circulars.
- (6) For enforcement of auditing standards and ensuring the quality of audits, Government has established the National Financial Reporting Authority as an independent regulator.

With regard to the details of NPAs in PSBs, as per RBI's data on global operations, aggregate gross advances of PSBs increased from Rs. 18,19,074 crore as on 31.3.2008 to Rs. 52,15,920 crore as on 31.3.2014. As per RBI inputs, the primary reasons for the spurt in stressed assets have been observed to be, *inter-alia*, aggressive lending practices, wilful default/loan frauds/corruption in some cases, and economic slowdown. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of NPAs. As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Further, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of PSBs, as per RBI data on global operations, rose from Rs. 2,79,016 crore as on 31.3.2015, to Rs. 6,84,732 crore as on 31.3.2017 and Rs. 8,95,601 crore as on 31.3.2018, and as a result of Government's strategy of recognition, resolution, recapitalisation and reforms, have since declined by Rs. 1,68,305 crore to Rs. 7,27,296 crore as on 30.9.2019.

With regard to the steps taken in respect of the savings of depositors in PSBs, there is a deposit insurance scheme for paying the depositors, subject to the laid down conditions, under the Deposit Insurance and Credit Guarantee Corporation Act, 1961. Further, banks are subject to prudent regulation under the provisions of the Banking Regulation Act, 1949, which provides, *inter-alia*, for regulatory directions for preventing bank affairs being conducted in manner detrimental to depositors' interest and securing proper management of the bank. As the regulator and supervisor, RBI has taken a number of measures, including action under the prompt corrective action framework, capital adequacy norms superior to the Basel-III international framework, and prudential lending norms.
