

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
UNSTARRED QUESTION NO-†143
ANSWERED ON-3.2.2020

MONITORING OF BANK FRAUDS

†143. SHRIMATI RAMA DEVI:
SHRIMATI POONAMBEN MAADAM:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government proposes to strengthen and separately develop the monitoring mechanism in banking system to prevent bank frauds;
- (b) if so, the details thereof including the mechanism put in place for the aforesaid purpose at present;
- (c) the reaction of the Government thereto; and
- (d) the corrective steps taken by the Government in this regard?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI ANURAG SINGH THAKUR)

(a) and (b): Reserve Bank of India (RBI) has issued a Master Circular on Frauds, which contains, *inter-alia*, instructions for strengthening the monitoring mechanism in the banking system to prevent bank frauds. The monitoring mechanism provides for, *inter-alia*, reporting all fraud cases to RBI, reporting of frauds to various law enforcement agencies depending on the amount involved, follow-up of cases by a special committee, quarterly placement of information before Audit Committee of bank Boards, and annual review of frauds by banks. It covers, *inter-alia*, preventive measures, fraud detection systems, systemic lacunae, remedial action, monitoring of progress of investigation and recovery, and staff accountability.

(c): 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 large sums of money. Wide-ranging structural and procedural reforms have been instituted through the framework 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 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. 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.

(d): 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) Governments 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.
- (7) In order to bring transparency and accountability in the larger financial system, bank accounts of 3.38 lakh inoperative companies have been frozen.
