

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
LOK SABHA
STARRED QUESTION NO-†*185
ANSWERED ON- 08/03/2021

BANK FRAUDS

†*185. SHRIMATI KESHARI DEVI PATEL

Will the Minister of FINANCE be pleased to state:-

- (a) the steps being taken by the Government to prevent increasing incidents of fraud in banks along with the details thereof;
- (b) the number of bank officers and staff against whom action has been taken during the last three years for co-operating/acquiescence in online fraudulent activities along with the details thereof;
- (c) whether the Government proposes to make up its losses by taking action against the guilty officers and staff involved in co-operating/acquiescence in fraudulent activities in banks within a fixed time limit;
- (d) if so, the details thereof along with the steps taken in this regard during the last three years, bank-wise; and
- (e) whether the Government has developed or proposes to develop any mechanism for timely prevention of bank frauds and if so, the details thereof?

ANSWER

THE FINANCE MINISTER

(SMT. NIRMALA SITHARAMAN)

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

Statement as referred to in reply of Lok Sabha Starred Question no. †*185 for answer on 8th March, 2021/ Phalguna 17, 1942 (Saka) regarding “Bank Frauds” by SHRIMATI KESHARI DEVI PATEL, Hon’ble Member of Parliament

(a) to (e): Various mechanisms are in place and comprehensive steps have been taken for prevention of bank frauds, which, 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) For enforcement of auditing standards and ensuring the quality of audits, the National Financial Reporting Authority has been established as an independent regulator.
- (3) RBI has issued Master Directions on Frauds — Classification and Reporting, which requires banks, 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. These cover, *inter alia*, preventive measures, fraud detection systems, systemic lacunae, remedial action, monitoring of progress of investigation and recovery, and staff accountability.
- (4) 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.
- (5) RBI has imposed penalty on banks for deficiencies observed in internal control leading to frauds in deposit accounts, cheque misuse etc., and also issued letter of warning to some banks with regard to the lapses in following the procedures, guidelines, reporting etc.
- (6) RBI has issued a circular to all banks in February 2018 to implement security and operational controls such as straight-through process between the bank’s core banking solution or accounting system and the SWIFT messaging system, enable time-based restrictions in SWIFT, review logs at regular intervals, undertake reconciliation, etc. in a time-bound manner.
- (7) RBI has instructed banks to report deficient third party services (such as legal search reports, property valuers’ reports, etc.) and ineffective action against collusion of these providers with fraudsters to the Indian Banks’ Association, which maintains a caution list of such service providers.
- (8) Instructions/advisories have been issued—
 - (i) by Government to PSBs 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;

- (ii) by RBI to SCBs to implement RBI guidelines to prevent skimming of ATM/debit/credit cards;
- (iii) by RBI to SCBs to ensure legal audit of title documents in respect of large value loan accounts; and
- (iv) by RBI to SCBs to strictly ensure rotational transfer of officials/employees.

Government, in 2015, issued “Framework for timely detection, reporting, investigation etc. relating to large value bank frauds” to Public Sector Banks (PSBs) for systematically and comprehensively dealing with frauds in accounts exceeding Rs. 50 crore, if classified as non-performing assets (NPAs), and instituted wide-ranging structural and procedural reforms through the framework and other steps to check frauds in banks. Such systematic and comprehensive checking for frauds, including of the legacy stock of NPAs, led to unearthing of frauds perpetuated over the years. While such systematic and comprehensive checking has increased the annually reported amount involved in frauds of Rs. 1 lakh and above, as reported by Scheduled Commercial Banks (SCBs) and select financial institutions based on the date of reporting, the improved detection and reporting accompanied with the comprehensive steps taken to check frauds have resulted in the amount involved in frauds occurring annually, decreasing from a peak of Rs. 62,398 crore in the financial year (FY) 2013-14 to Rs. 24,406 crore in FY2019-20 and, further, to Rs. 9,819 crore in the first three quarters of the current financial year, as per RBI data on frauds reported up to 31.12.2020.

In addition, measures have been undertaken to help deter frauds, 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

With regard to bank officers and staff involved in fraudulent activities online and action against such personnel for fraudulent activities, as per RBI, data in respect of the number of such personnel in terms of fraudulent activities online are not maintained by it, while RBI circular requires banks to examine staff accountability in all cases of frauds and to take action as required for completion within stipulated timeline.
