

CREDIT INFORMATION REVIEW



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BANKING

Minimising Incidence of Frauds

Observing that there were administrative lapses in the processing of applications and in monitoring of accounts in a large number of cases reported as frauds, the Advisory Board on Bank, Commercial and Financial Frauds has offered an illustrative list of deficiencies noticed at the sanctioning/monitoring stage and suggestions to improve the system. The list of deficiencies noticed and the suggestions for minimising the incidence of frauds in the advances portfolio are:

Deficiencies

At the sanction stage

- (i) Credit proposals were not appraised with due diligence. High projections of the borrowing company were not critically analysed. In some cases, credit limits were sanctioned on the basis of appraisal made by the Merchant Banking Division for the purpose of public issue and no separate assessment for credit risk was done.
- (ii) Term loans were sanctioned without insisting on the project report, cost of project and means of finance.
- (iii) Additional loans were sanctioned at the time of mid-term review of projects, without proper appreciation of the market conditions and the factors which led to time and cost overruns.
- (iv) Irregularities based on stock verification reports, audit reports, etc., pointed out by lower level functionaries were overlooked.
- (v) Officials in controlling offices/branches did not give full facts about borrowers and projects to the sanctioning authorities.
- (vi) Despite being aware of the unsatisfactory position of borrowal accounts, facilities were sanctioned overlooking the deficiencies.
- (vii) The fact that at the time of take over of accounts the borrowing company had irregular accounts with the previous bank/s, was overlooked.
- (viii) Adhoc limits were sanctioned frequently even when the company had regular limits and its accounts were running irregularly.

- (ix) The terms and conditions prescribed at the time of sanction of loan facilities were subsequently relaxed while disbursing funds without any justification for such relaxation.
- (x) In some cases, the sanctioning authorities acted on extraneous influences, rather than deciding on the merits of the case.

At the monitoring stage

- (i) Terms and conditions for sanction of loans and advances laid down by the central office were blatantly violated by branch officials.
- (ii) Companies' financial standing and end-use of funds by borrowers were not properly monitored.
- (iii) Chartered accountants'/valuers' certificates were unduly relied upon without co-relating them with other relevant procedures.
- (iv) Banks failed to detect disappearance of stocks given as security resulting in misappropriation of funds/sale of stock and realisation of receivables without their knowledge.

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- (v) Banks failed to ensure adequacy of the security offered by borrowers, and also failed to verify whether the same asset was mortgaged to another bank/Fl.
- (vi) After the funds were lent, accounts were not reviewed periodically.
- (vii) Proper assessment of the financial standing of the projects was not carried out when the accounts were taken over from another bank.
- (viii) Excess drawings in the borrowal accounts permitted by the branch/regional office level functionaries, were ratified by the head office in a routine manner without examining the need for such permissions.
- (ix) Limits sanctioned were allowed to be interchanged indiscriminately without proper authority.
- (x) As regards term loans for financing projects, important terms and conditions of the sanction stipulated by the board of directors, such as, induction of technical directors, constitution of audit committees and independent project monitoring committees were not taken seriously.

Suggestions

- (i) Lending banks should obtain a certificate from the borrowers on a quarterly basis furnishing details of accounts opened with other banks.
- (ii) Banks may consider setting up of independent cells for valuation, to be manned by technical personnel with the right expertise.
- (iii) Immediate action should be taken where the malafides/gross negligence by dealing officials are noticed. Wherever there is a prima-facie case against the dealing officials, appropriate action in terms of the Central Vigilance Cell (CVC) guidelines for their inclusion in the list of officers with doubtful integrity should be initiated in consultation with the Central Bureau of Investigation.
- (iv) Banks should evolve a process of check listing to enable them to take note of any deficiency while releasing funds to the borrowers or monitoring their end-use.
- (v) Banks should build up a cadre of officials with proper educational background and training to take care of at least large projects.
- (vi) In the case of project finance, disbursements should be made only after the promoter/borrower brings in his stipulated contribution.

Opening of Current Accounts

The Reserve Bank has clarified to scheduled commercial banks (SCBs) that where due diligence is carried out on the request of a prospective customer who is a corporate or large borrower enjoying credit facilities from more than one bank, banks should inform the consortium leader, if under consortium, and the concerned banks, if under multiple banking arrangement.

In case no response is received from the existing bankers after a minimum waiting period of a fortnight, banks may open current accounts of prospective customers. If a response is received within a fortnight, banks may assess the situation with reference to the information provided on the prospective customer. In such a case, banks are not required to solicit a formal no objection.

RTGS Services for Bank Customers

The Reserve Bank has announced that its Real Time Gross Settlement (RTGS) System has now been enabled for 'Straight Through Processing' at the participant's, that is, the bank's end for putting through customer transactions. Straight through processing of customer transactions allows banks, on receipt of the credit advice, to directly credit the customer's account without any manual intervention. This would facilitate introduction of T+1 settlement in respect of the stock exchanges. Thirty-two out of the 72 banks, that are participants in RTGS system, offer customer related RTGS fund transfer services through 840 branches in 134 major centres across the country, accounting for bulk of the banking business in the country.

The Reserve Bank has also stated that the receiving bank is under an obligation to credit the beneficiary customer's account within two hours of receiving the credit notification at its payment systems gateway. The list of bank branches, offering RTGS services to their customers is available on the Reserve Bank's website (www.rbi.org.in) under the RTGS link for the benefit of bank customers.

It may be recalled that the RTGS went live on March 26, 2004. Initially, it was open to the settlement of inter-bank transactions. From April 29, 2004, the RTGS has been open also for the settlement of customer transactions. RTGS is a 'Systemically Important Payment System' and covers the banking and financial sector in the country. It is a secure electronic fund transfer system, providing real-time on-line settlement for inter-bank transactions and customer-based inter-bank transactions of any amount across the country. All the scheduled banks in the country can be RTGS participants and provide this electronic fund transfer facility to their customers. Currently, there are 72 banks participating in the RTGS System for inter-bank settlement, accounting for more than 90 per cent of the total value of inter-bank settlement in Mumbai.

POLICY

Ceiling for Lok Adalat Cases Raised

The monetary ceiling of the cases to be referred to Lok Adalats, organised by Civil Courts has been enhanced from Rs. 5 lakh to Rs.20 lakh with immediate effect. Banks are advised to get in touch with state/district/taluka level legal services authorities for organising Lok Adalats. The convener banks of state level bankers' committee (SLBC) and lead banks of districts have been advised to give necessary publicity to the scheme through various modes under their areas of operation.

Inclusion of Self Help Groups under PMRY

To make the Prime Minister's Rozgar Yojana (PMRY) more effective, self help groups (SHGs) have been included for assistance under the scheme. The scheme has been modified as below -

- Educated unemployed youth who volunteer to form SHG to set up self-employed ventures (common economic activity) should satisfy the eligibility criteria laid down under the scheme.
- A SHG may consist of 5 – 20 educated unemployed youth.
- There would be no upper ceiling on the loan.
- The loan may be provided as per individual eligibility taking into account the requirement of the project.

- A SHG may undertake common economic activity without onward lending of the loan to its members.
- Subsidy may be provided to the SHG as per the individual member's eligibility taking into account relaxations provided in North Eastern States, Uttaranchal, Himachal Pradesh and Jammu and Kashmir.
- Required margin money contribution should be brought in by the SHG collectively (subsidy and margin should be equal to 20 percent of the project cost).
- The exemption limit for obtaining collateral security would be Rs. 5 lakh per borrowal account for projects under the industry sector. Exemption from collateral would be limited to an amount of Rs. 1.00 lakh per member of SHG for projects under the service and business sectors. In deserving cases, banks may consider enhancement in limit of exemption of collateral
- Implementing agencies may consider imparting pre-disbursal training to all the members/majority of the members in the group.

Additional Provisioning for NPAs

All regional rural banks (RRBs) have been advised that from March 31, 2005, graded higher provisioning according to the age of non-performing assets (NPAs) in 'doubtful for more than three years' category would be introduced. Consequently, the increase in provisioning requirement on the secured portion would be applied in a phased manner over a three year period in respect of the existing NPAs classified as 'doubtful for more than three years' as on March 31, 2004.

RRBs have been further advised that in respect of all advances classified as 'doubtful for more than three years' on or after April 1, 2004, the provisioning requirement would be 100 per cent. Accordingly, from March 31, 2005, the provisioning norm for advances identified as 'doubtful for more than three years' would be as indicated below :

Unsecured portion

The portion of the advance, which is not covered by the realisable value of tangible security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis, provision would be to the extent of 100 per cent as earlier.

Secured portion

<i>Advances which have remained in doubtful category for more than three years</i>	<i>Provision requirement on secured portion</i>
(i) outstanding stock of NPAs as on March 31, 2004	(i) 60 per cent as on March 31, 2005 75 per cent as on March 31, 2006 100 per cent as on March 31, 2007
(ii) advances classified as 'doubtful for more than three years' on or after April 1, 2004	(ii) 100 per cent

UCBs

UCB Directors not to stand as Surety/Guarantors

The Reserve Bank has clarified that directors of primary urban co-operative banks (UCBs) and their relatives cannot stand as surety/guarantor to the loans and advances (both secured and unsecured) sanctioned by the UCBs.

Opening of Current Accounts

Keeping in view the importance of credit discipline for reduction in NPA level, UCBs have been advised that at the time of opening of current accounts, they should -

- Insist on a declaration from the account-holder stating that he is not enjoying any credit facility with any other commercial bank. Alternatively, UCBs may obtain a declaration from the account holder giving particulars of credit facilities enjoyed by him with any other commercial bank(s).
- Ascertain whether he/she is a member of any other co-operative society/bank, if so, the full details, such as, the name of the society/bank, number of shares held, details of credit facilities, such as, nature, quantum, outstanding, due dates etc., should be obtained.

In case the account holder is already enjoying any credit facility from any other commercial/co-operative bank, the bank opening the current account should duly inform the concerned lending bank(s) and also specifically insist on obtaining a no-objection certificate from them. If a facility has been availed from a cooperative bank/society, it is essential for the bank to comply with the requirements of the Co-operative Societies Act/ Rules of the state concerned regarding membership and borrowings.

UCBs have been further advised that non-adherence to this procedure would be perceived as abetting the siphoning of funds and such violations which are either reported to the Reserve Bank or noticed during its inspection would render the concerned banks liable for penalty under the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

It had been brought to the notice of the Reserve Bank that some borrowers open current accounts with banks other than the lending bank, with a view to overcoming credit discipline that is imposed on them by the lending bank. They usually resort to this practice when their loan accounts turn irregular and they have no intention of depositing receipts into the loan accounts for regularising them.

90-Day Norm for Gold/Small Loans

With a view to strengthening the financial health of UCBs and achieving regulatory convergence of the prudential norms applicable to various players in the financial sector, it has been decided that the 90-day loan impairment norm would also be applicable to gold loans and small loans upto Rs 1 lakh from the year ending March 31, 2005. In other words, from the year ending March 31, 2005, UCBs would be required to classify an asset as non-performing if interest and/or installment of principal remain overdue for a period of more than 90 days, without any exception.

Earlier, both gold loans and small loans upto Rs 1 lakh were exempted from the 90-day norm for loan impairment and were governed by the 180-day norm for classification as NPA .

Temporary Overdraft/Cheque Purchase Facilities

The Reserve Bank has reiterated to UCBs that they should not sanction temporary overdraft/cheque purchase facilities, which are unsecured in nature, to borrowers beyond the limits prescribed in its circular of April 2003

Capital Investment Subsidy Scheme

The National Bank for Agriculture and Rural Development (NABARD) is implementing a credit linked Capital Investment Subsidy Scheme for construction/ renovation/expansion of rural godowns. Under the scheme NABARD would release back-ended subsidy for all projects financed by institutions eligible for availing refinance from NABARD. UCBs have been advised to retain the subsidy admissible to promoters under the scheme in the "Subsidy Reserve Fund Account" (borrower- wise) in their books till the loan component (net of subsidy) is fully repaid.

It is also advised that the balance lying to the credit of the Subsidy Reserve Fund Account would not form part of demand and time liabilities (DTL) for the purpose of statutory liquidity ratio (SLR)/cash reserve ratio (CRR) under Section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies)/Section 42 of the Reserve Bank of India Act, 1934.

INFORMATION

Proposed Board for Payment and Settlement Systems

The Reserve Bank is in the process of constituting a Board for Payment and Settlement Systems. The Board will be a Committee of the Reserve Bank's Central Board. Draft regulations have been forwarded to the Government. The salient features of the draft Regulations of the Board for Payment and Settlement Systems are :

- Supervision and regulation of the payment and settlement systems.
- Laying down policies relating to the regulation and supervision of the payment and settlement systems.
- Laying down of the standards for both existing and future payment and settlement systems.
- Authorisation of the payment and settlement systems.
- Determination of the criteria for membership of payment and settlement systems,
- Administration of rules and guidelines framed under any statute for the operators of the payment and settlement systems.
- Taking steps deemed necessary for the effective regulation and supervision of the payment and settlement systems,
- Creating necessary administrative structure for ensuring effective regulation and supervision of the payment and settlement systems.
- Other functions and exercise other powers as may be notified by the Central Board of the Reserve Bank from time to time.

Source : Parliament Questions

NPAs and Recoveries* of Public Sector Banks

(Rupees in Crore)

Name of the Bank	NPAs		Recoveries	
	(31.3.2004)	(31.3.2002)	(31.3.2003)	(31.3.2004)
State Bank of India	11,837	3,415	4,559	6,668
State Bank of Bikaner and Jaipur	484	228	218	172
State Bank of Hyderabad	691	273	415	425
State Bank of Indore	266	123	166	142
State Bank of Mysore	515	143	170	242
State Bank of Patiala	504	157	239	260
State Bank of Saurashtra	200	98	233	176
State Bank of Travancore	662	309	235	225
Total	15,159	4,746	6,236	8,312
Allahabad Bank	1,418	280	350	571
Andhra Bank	615	168	155	180
Bank of Baroda	3,799	836	731	1,039
Bank of India	3,451	941	1,067	1,144
Bank of Maharashtra	954	186	212	216
Canara Bank	3,115	596	782	865
Central Bank of India	3,092	543	635	831
Corporation Bank	722	85	143	107
Dena Bank	1,484	259	549	673
Indian Bank	1,166	1,035	561	1,039
Indian Overseas Bank	1,547	356	360	526
Oriental Bank of Commerce	1,214	388	235	436
Punjab National Bank	4,670	531	500	706
Punjab & Sind Bank	1,204	91	181	160
Syndicate Bank	1,586	179	171	266
Union Bank of India	2,347	357	339	716
Uco Bank	1,450	564	373	357
United Bank of India	764	263	294	340
Vijaya Bank	390	177	182	246
Total	34,990	7,835	7,823	10,418
Grand Total	50,149	12,581	14,059	18,730

* including write-offs

Source : Parliament Questions