



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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May 26, 2011

Chairmen/Chief Executive Officers
All Private Sector Banks/Foreign Banks

Dear Sir,

Internal Vigilance in Private Sector/foreign Banks

As you are aware the Central Vigilance Commission has issued guidelines to Public Sector Banks on the appointment of Chief Vigilance Officer in all public sector Banks. The purpose of this is to ensure that all the internal vigilance functions in the public sector banks are addressed through a set of predetermined and structured procedures to ensure comprehensive treatment and transparency.

2. RBI has also issued various circulars for the prevention of frauds and malpractices in banks. In this connection reference is specifically drawn to circulars DBOD. No.BC.20.17.04.001 dated August 25, 1992 on the recommendation of the Committee to enquire into various aspects relating to frauds and malpractices in bank; DOS.No.PP.BC.20/16.03.026/96-97 dated November 01, 1996 conveying the recommendations of the Working group on Internal Controls and Inspection/ Audit Systems in banks;DBS.FrMc.No.7/23.04.001/2004-05 dated September 20, 2004 on strengthening of Internal Vigilance machinery in banks & Financial Institutions.

3. In an endeavor to align the vigilance function in Private sector and Foreign Banks to that of the Public Sector Banks the existing vigilance functions of a few private sector and foreign banks were mapped with the existing guidelines in the

matter and it was observed that the practices vary widely among the banks. It has therefore been decided to lay down detailed guidelines for private sector and foreign banks on similar lines so that all issues arising out of lapses in the functioning of the private sector and foreign banks especially relating to corruption, malpractices, frauds etc can be addressed uniformly by the banks for timely and appropriate action.

4. The detailed guidelines placed at the annex are aimed towards bringing about uniformity and rationalisation in the function of internal vigilance. You are advised to put in place a system of internal vigilance machinery as per the guidelines within a period of three months from the date of this circular with the approval of your Board. A compliance report to this effect may be submitted to RBI on or before August 31, 2011.

5. Please acknowledge receipt.

Yours faithfully,

(A. Madasamy)

Chief General Manager

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Annex

Guidelines on Internal Vigilance Setup in Private Sector and Foreign Banks

Preamble

Vigilance is an inseparable part of management. It promotes clean business transactions, professionalism, productivity, promptness and transparent practices and ensures putting in place systems and procedures to curb opportunities for corruption which results in improving efficiency and effectiveness of the personnel as well as the organization. These factors make it mandatory to have a dedicated vigilance setup in the banking industry. The following guidelines aim at structuring efficient and effective vigilance system in banks in the larger interest of all concerned stakeholders.

1. Anti – corruption agencies in Private Sector and Foreign Banks

Introduction

Anti-corruption measures of the banks are a responsibility of the disciplinary authority identified in the bank and it has the over-all responsibility of looking into the acts of misconduct alleged against, or committed by, the employees within its control and to take appropriate punitive action. It is also required to take appropriate preventive measures so as to prevent commission of misconducts/ malpractices by the employees under its control and jurisdiction. The designated Officer [similar to CVO in case of Public Sector Banks] acts as a Special Assistant/Advisor to the CEO of the concerned bank in the discharge of these functions. He also acts as a liaison officer between the bank and the Police/ SFIO/ other law enforcement authorities.

Chief of Internal Vigilance

An officer of suitable seniority is required to be designated as Chief of Internal Vigilance (CIV) who will head the Internal Vigilance Division of the bank concerned. Vigilance functions to be performed by the CIV would be wide ranging and include collecting intelligence about the corrupt practices committed, or likely to be committed, by the employees of the organisation; investigating or

causing an investigation to be made into verifiable allegations reported to him; processing investigation reports for further consideration of the disciplinary authority concerned; referring the matters to the CEO of the bank for advice wherever necessary, taking steps to prevent commission of improper practices/misconducts, etc. Thus, the CIVs' functions can broadly be divided into three parts, viz. (i) Preventive vigilance; (ii) Punitive vigilance; and (iii) Surveillance and detection.

What is Vigilance Angle?

Vigilance angle is obvious in the following acts

- (i) Demanding and/or accepting gratification other than legal remuneration in respect of an official act or for using his influence with any other official.
- (ii) Obtaining valuable thing, without consideration or with inadequate consideration from a person with whom he has or is likely to have official dealings or his subordinates have official dealings or where he can exert influence.
- (iii) Obtaining for himself or for any other person any valuable thing or pecuniary advantage by corrupt or illegal means or by abusing his position as an employee.
- (iv) Possession of assets disproportionate to his known sources of income.
- (v) Cases of misappropriation, forgery or cheating or other similar criminal offences.

In case of other irregularities like gross or willful negligence; recklessness in decision making; blatant violations of systems and procedures; exercise of discretion in excess, where no ostensible organizational interest is evident; failure to keep the controlling authority/ superiors informed in time ; the disciplinary authority with the help of the CIV should carefully study the case and weigh the circumstances to arrive at a conclusion whether there is reasonable ground to doubt the integrity of the officer concerned.

2. Preventive Vigilance

The CIV may take the following measures on preventive vigilance

- (i) undertake a study of existing procedure and practices prevailing in his organisation with a view to modifying those procedures or practices which provide a scope for corruption, and also to find out the causes of delay, the points at which it occurs and devise suitable steps to minimize delays at different stages;
- (ii) undertake a review of the regulatory functions with a view to see whether all of them are strictly necessary and whether the manner of discharge of those functions and exercise of powers of control are capable of improvement;
- (iii) devise adequate methods of control over exercise of discretion so as to ensure that discretionary powers are not exercised arbitrarily but in a transparent and fair manner;
- (iv) identify the areas in his organisation which are prone to corruption and to ensure that the officers of proven integrity only are posted in those areas;

3. Appointment, Role and Functions of Chief of Internal Vigilance

Appointment of CIV in Private Sector/ Foreign Banks

The basis for appointment of CIV should be experience, track record, proven integrity and ability to inspire confidence among personnel in the organization.

Tenure of CIV

The normal tenure of a CIV would be three years extendable up to a further period of two years. But if a CIV has to shift from one bank to another without completing the approved tenure in the previous bank, the principle of overall tenure of six years will apply.

Association of CIVs with sensitive matters

The vigilance functionaries should not be a party to processing and decision-making processes or be involved in other administrative transactions of such nature, which are likely to have clear vigilance sensitivity. While it may not be

difficult for full-time vigilance functionaries to comply with this requirement, the compliance of these instructions could be achieved in respect of part-time vigilance functionaries by confining their duties, other than those connected with vigilance work, as far as possible, to such items of work that are either free from vigilance angle or preferably serve as input to vigilance activities such as inspection, audit, etc.

Submission of reports and returns- Review

CIV should invariably review all pending matters, such as investigation reports, disciplinary cases and other vigilance complaints/cases in the first week of every month and take necessary steps for expediting action on those matters. The CIV would arrange periodic meetings to be taken by the Chief Executive for reviewing the vigilance work done by the organization. CIV would also be required to furnish a report on the vigilance activities in the bank to the Board/ Local Governing Council on a periodic basis.

3. Staff rotation and mandatory leave

The banks should identify sensitive positions and frame specific Board approved internal policy on staff matters such as rotation of staff in general and in respect of sensitive desks in particular. The bank may, while framing such policy, include the minimum period for staff rotation and mandatory leave that would apply to the staff at all levels. The minimum period of mandatory leave in each category of staff, including the CEO, may also be indicated.

4. Complaints

Receipt of information about corruption, malpractice or misconduct on the part of employees, from whatever source, would be termed as a complaint. Information about corruption, malpractice or misconduct on the part of employees may flow to the administrative authority/the Police/ SFIO/ RBI from any of the following sources:

(a) Complaints received from employees of the organisation or from the public;

- (b) Departmental inspection reports and stock verification surveys;
- (c) Scrutiny of annual property statements;
- (d) Scrutiny of transactions reported under the Conduct Rules;
- (e) Reports of irregularities in accounts detected in the routine audit of accounts; e.g. tampering with records, over-payments, misappropriation of money or materials etc;
- (f) Audit reports of the accounts of the bank;
- (i) Complaints and allegations appearing in the press etc;
- (j) Source information, if received verbally from an identifiable source, to be reduced in writing; and
- (k) Intelligence gathered by agencies like CBI, local bodies etc.

In addition, the CIV concerned may also devise and adopt appropriate methods to collect information about any malpractice and misconduct among the employees. Anonymous/ pseudonymous complaints received by the CIV may be dealt with on merit.

5. Investigation agency for conducting investigations

As soon as a decision has been taken to investigate the allegations contained in a complaint, it will be necessary to decide whether the allegations should be inquired into departmentally or whether a police investigation is necessary. Instructions as to with which agency the complaint is to be lodged are contained in the Master Circular DBS. FrMC. BC. No.1/23.04.001/2010-11 on 'Frauds – Classification and Reporting' dated July 1, 2010.

6. Review of cases entrusted to Police/ SFIO

No review should ordinarily be made by the administrative authority of a case registered by the Police. If, however, there are special reasons for discussion/review, the Police should invariably be associated with it.

7. Action against persons making false complaints

If a complaint against an employee is found to be malicious, vexatious or unfounded, it should be considered seriously whether action should be taken against the complainant for making such a false complaint.

8. Close liaison between the law enforcement authorities and the administrative authorities

There is a need for close liaison and co-operation between the CIV of the bank and the police authorities/ SFIO during the course of an inquiry and investigation and the processing of individual cases as both the police authorities/ SFIO and the CIV, receive information about the activities of the officer from diverse sources. Such information could be crosschecked at appropriate intervals to keep officers of both the wings fully apprised with the latest developments through periodical meetings between the CIV and the Officers of the Police/ SFIO.

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