



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

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RBI imposes Monetary Penalty on Three Banks; cautions Eight

The Reserve Bank of India has imposed monetary penalty on the following three banks for violation of Reserve Bank of India instructions, inter alia, on Know Your Customer (KYC)/ Anti Money Laundering (AML). The details of the penalty are:

Sl. No.	Name of the bank	Penalty Amount (in ₹ mn)
1.	Bank of Maharashtra	15
2.	Dena Bank	15
3.	Oriental Bank of Commerce	15

Eight other banks, namely, Central Bank of India, Bank of India, Punjab and Sind Bank, Punjab National Bank, State Bank of Bikaner & Jaipur, UCO Bank, Union Bank of India and Vijaya Bank have been cautioned to put in place appropriate measures and review them from time to time to ensure strict compliance of KYC requirements in future.

The penalties have been imposed in exercise of powers vested in the Reserve Bank under the provisions of Section 47(A) (1) (c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, taking into account the violations of the instructions/directions/guidelines issued by the Reserve Bank from time to time. This action is based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank and its customers.

Background

On the basis of a complaint received by the Reserve Bank from a private organisation, a scrutiny of fixed accounts opened in its name in Mumbai based branches of certain public sector banks was undertaken in July 2014. With more complaints and involvement of other banks coming to light, a wider thematic review was conducted and in all 12 branches of 11 Public Sector Banks were covered. The scrutiny/thematic review looked into the modus operandi of the alleged frauds involving accounts of certain organisations in these banks, deficiencies / irregularities while opening Fixed Deposits (FD) and extending Overdraft (OD) facility there against. Besides the effectiveness of systems and processes in place pertaining to implementation of KYC norms / AML standards in respect of these accounts was also looked into.

The findings revealed violation of certain regulatory guidelines issued by the Reserve Bank as also other disquieting actions on the part of the banks, as under:

- non-adherence to certain aspects of KYC norms of the Reserve Bank like customer identification and acceptance procedure

- non-adherence to the Reserve Bank's instructions on monitoring of transactions in customer accounts
- non-adherence to the Reserve Bank's instructions regarding funds received through Real Time Gross Settlement System (RTGS)
- opening of fixed deposit accounts and granting overdrafts there against without due diligence or process
- weaknesses in the internal control systems, management oversight, use of internal accounts for parking customer funds, etc.
- involvement of middlemen/intermediaries in opening of the accounts as also subsequent operations in those accounts

Based on the findings, the Reserve Bank issued a show cause notice to 11 banks, in response to which the individual banks submitted written replies. After considering the facts of each case and individual bank's reply, as also, personal submissions, information submitted and documents furnished, the Reserve Bank came to the conclusion that some of the violations of serious nature were substantiated and warranted imposition of monetary penalty on three banks, namely, Bank of Maharashtra, Dena Bank and Oriental Bank of Commerce. Failure on the part of these banks to take timely remedial measures had aggravated the seriousness of the contraventions and its impact.

In respect of eight other banks, namely, Central Bank of India, Bank of India, Punjab and Sind Bank, Punjab National Bank, State Bank of Bikaner & Jaipur, UCO Bank, Union Bank of India and Vijaya Bank, based on written and oral submissions, it was decided not to impose any monetary penalty as the banks' explanations were judged to be reasonable. However, these banks have been cautioned to put in place appropriate measures and review the same from time to time to ensure strict compliance of KYC requirements in future.

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Alpana Killawala
Principal Chief General Manager