

PNB fallout: focus back on 'KYE'

RBI had stressed importance of KYE as early as 2005.

The Rs. 11,500-crore fraud in the state-run Punjab National Bank (PNB) has brought back into focus the importance of Know Your Employee (KYE) norms for banks, according to some experts.

Firewall against frauds

As early as 2005, when the banking sector was in the initial stages of adopting technology, Reserve Bank of India (RBI) had highlighted the importance of banks enforcing KYE norms which would act as a firewall against frauds committed in connivance with employees.

The latest scam at PNB involves issuing unauthorised Letters of Undertaking (LoUs) in favour of companies for availing buyers' credit, allegedly in connivance with a former employee and a present employee.

In September 2005, the central bank had cited the recent cases of technological mishaps, resulting in mainly employees or ex-employees of banks-induced financial losses which had also damaged the lenders' reputation.

G Padmanabhan, the then chief general manager of RBI, had urged the banking community to enforce KYE norms not only prior to staff recruitment but even more vigorously thereafter.

Background screening

Rahul Belwalkar, CEO, SecUR Credentials — a listed background screening company — says proper and systematic employee background verification is the need of the hour but the number of public sector units that opt for background checks are low in India because human resources practices have not evolved and there is a resistance to change. "We also suspect that there are push backs from unions as well because of which HR policies haven't changed in a while. There has been a rise in number of private sector banks and NBFCs that are not only conducting background screening but are also doing regular credit checks on their employees who at the end of the day handle large amounts of clients' money," Mr. Belwalkar said.

Not only the banking regulator but the central vigilance commission (CVC) has also talked about the importance of KYE recently.

According to a vigilance manual released last year, CVC said that several frauds were insider jobs or perpetrated with the help of insiders.

It had asked banks to take extra care and have continuous vigil on their staff while highlighting the need for KYE and Know Your Partner norms.

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