

Fixing Accountability

India has no dearth of regulators, elaborate regulatory frameworks or institutional or constitutional watchdogs to detect and prevent frauds. India's banking regulator, the Reserve Bank of India has from time to time issued guidelines to strengthen systems and procedures for electronic banking transactions, internet banking and mobile banking. The RBI has recently instructed through a circular all banks to put in place effective systems to ensure secure electronic banking transactions.

The objective is clear: Customers must feel safe about carrying out electronic banking transactions. Banks must put in place robust and dynamic fraud detection and prevention mechanisms plugging gaps in the existing systems and reporting of unauthorised transactions by customers to banks with 24x7 access through multiple channels ensuring that complaints are resolved within 90 days. Banks shall formulate transparent, non-discriminatory customer relations policy for customer protection and customer liability of unauthorised electronic banking transactions, fraud risk management, fraud monitoring and fraud investigation function must be owned by the bank's CEO, audit committee of the board and the special committee of the board and nominate a general manager for submitting fraud returns.

The circular was necessitated to implement the Government of India's decision to bifurcate the post of chairman and managing director of public sector banks in April, 2015 into a non-executive chairman, responsible for giving an overall policy direction to the bank; and a full-time executive managing director and CEO in charge of overseeing the day to day functioning. The RBI has made it clear that in banks where the board of directors is chaired by a non-executive chairman, there will not be any restriction if she or he is also nominated to the audit committee of the board of directors (ACB). The ACB has to "oversee the internal inspection, statutory audit, inter-branch and inter-bank accounts, balancing of books, major areas of house-keeping, etc." and focus on monitoring of frauds and taking preventive and corrective actions on frauds.

The chief vigilance commissioner has also emphasised that there must be effective monitoring of frauds at the highest level. The CBI director insisted that the board of the PSB banks must monitor fraud cases. The ACB must monitor all the cases of fraud. The committee is required to identify the systemic lacunae that caused perpetration of the fraud and review the efficacy of the remedial action taken to prevent recurrence of frauds.

Bank auditors may notice fraudulent transactions and must bring them to the notice of the top management and to the ACB for appropriate action. The bank may deploy forensic experts or an internal team for investigations. Unscrupulous borrowers enjoy credit facilities from "multiple banking arrangement". Such borrowers may siphon funds by diverting from the bank on which the fraud is being perpetrated. The RBI was emphatic that "all the banks which have financed a borrower under 'multiple banking' arrangement should take co-ordinated action, based on commonly agreed strategy, for legal, criminal actions, follow up for recovery, exchange of details on modus operandi, achieving consistency in data and information on frauds reported to Reserve Bank of India."

As in the case of NPAs, banks must initiate and complete a staff accountability exercise. Banks should complete the exercise within six months and lodge the complaint with the law enforcement agencies immediately. Despite having strict instructions and the issuing of repeated circulars stipulating responsibilities of the board, audit committee, auditors and special committee, big borrowers have been defrauding the PSBs.

Despite the mother of all instructions for fraud detection, prevention, control, monitoring and

periodical reporting to the RBI, there seems to be a laxity in implementation in different levels leading to NPAs and bank frauds. Even with elaborate stipulations and procedures laid down, how do big borrowers take the system for a ride and get huge loans sanctioned and get away from the rules? Does it mean that fraudsters know the art of influencing decision-makers or is there collusion from likeminded authorities? Who are responsible for the huge bad debts accumulated in PSBs? Is there an effective system of fixing responsibility of all the delinquent personnel who run away foreign lands after looting the public sector institutions in the country?

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