

VIGEYE VANI



Quarterly Newsletter Central Vigilance Commission

Special issue on Banking Sector

October to December, 2019



The Editorial Team



Sh. P. Daniel is working as an Additional Secretary in the Central Vigilance Commission and is also the Chief Editor of this Newsletter.



Sh. Nitin Kumar is working as a Director (Admin) in the Central Vigilance Commission.



Sh. P. K. Singla is working as an Advisor in the Central Vigilance Commission.



Smt. Deepmala Meena is working as an Assistant Advisor in the Central Vigilance Commission.



Sh. A. Aravind is working as Chief Vigilance Officer in Andhara Bank.



Sh. Ambrish Kumar Mishra is working as Chief Vigilance Officer in Oriental Bank of Commerce.



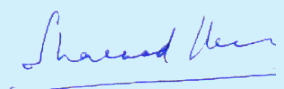
Smt. S. Srimathy is working as a Chief Vigilance Officer in NABARD.



The Commission observed Vigilance Awareness Week (VAW) from 28th Oct to 02nd Nov, 2019 on the theme “**Integrity: a way of life**”.

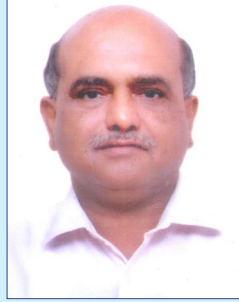
1. I believe that Integrity plays an important role in eradicating corruption. Amongst various factors, it plays a vital role in forming the foundations for laying pillars for Good Governance and in inculcating integrity in general public which later helps in building the Nation in right direction. It has to come naturally to individuals without any force.
2. I feel privileged that through the Commission’s Newsletter “Vigeye Vani”, I am able to communicate not only with the officials working in the vigilance set up of our country but also with every organization and individual fighting against corruption.
3. I congratulate CVOs and their team for spreading awareness about eradicating corruption through organizing various VAW Outreach activities emphasizing Integrity as a way of life.
4. Through this edition, I urge every citizen of our Country to inculcate the values of the Integrity as part and parcel of their life which I feel not only help in the good cause of eradicating corruption but also help in realizing the dreams and vision of every individual of leading a happy and contented life.

Dated :
21-02-2020



(Sharad Kumar)


Central Vigilance Commissioner



I take immense pleasure in bringing out new edition of the VIGEYEVANI for the quarter October-December, 2019 focusing on the Banking Sector.

1. I am sure that this edition of VIGEYE VANI will serve as an effective medium to disseminate Vigilance concepts and practices and facilitate easy reference to Rules, Commission's Circulars and Guidelines, especially for the banking sector.
2. I expect and wish that this new edition of VIGEYE VANI will go a long way in promoting the concept of Integrity: a way of life, by creating Vigilance awareness among the common citizens of the Country.

Dated :
20-02-2020


(Anindo Majumdar)
Secretary

The journey of the Commission's Newsletter "VIGEYE VANI" began in April, 2011. This is the Commission's 45th edition, being brought out as a Quarterly Newsletter.

An innovative idea has been adopted, beginning with this issue, to publish the Newsletter with inputs from a particular Sector every quarter. Experts from that Sector are also co-opted in the Editorial Committee, to enhance the quality of articles published. This quarter, we are bringing articles from the Banking Sector, with articles on topics such as Credit Monitoring, Risk Management and Forensic Investigation.

Infrastructural improvements made in the Commission recently include designing and construction of a new fountain in the centre of the building, renovation of the entry gate to the Commission's premises and improvements in the frontage of the building. Photographs of the same are published in this Newsletter.

The Commission has also made immense strides in solving long-pending issues pertaining to the CVC cadre and gave promotions to a number of employees. We are proud to note that in the last one year, 70 employees of the cadre have been promoted to higher grades. This is a new record for the Commission.

The Editorial team is grateful to the Hon'ble Central Vigilance Commissioner and the Secretary, Central Vigilance Commission for their valuable advice, support and encouragement in bringing out this edition of VIGEYE VANI.

The Editorial team of the CVOs and officers and staff of the Commission have immensely contributed in making this edition of VIGEYE VANI a reality. I acknowledge their hard work and sincerity, and convey my gratitude to them.

Suggestions and feedback to improve further editions are welcomed from our discerning readers.

Dated :
20-02-2020



(P. Daniel)
Addl. Secretary
Chief Editor

Important Activities in the Commission

1. The Commission convened Annual Zonal/Sectoral Review Meeting with the Chief Executives/CMDs and Chief Vigilance Officers of Steel and Mines Sector on 10.10.2019 at Kolkata, Power Sector on 15.10.2019 at Shillong and Banking and Financial Sector from 21.11.2019 to 22.11.2019 at Chandigarh.



Annual Zonal/Sectoral Review Meeting of Banking and Financial Sector held from 21.11.2019 to 22.11.2019 at Chandigarh



Annual Zonal/Sectoral Review Meeting of Steel and Mines Sector on 10.10.2019 at Kolkata



Annual Sectoral Review Meeting of Power Sector on 15.10.2019 at Shillong

2. Our Hon`ble Central Vigilance Commissioner visited as Chief Guest for the Vigilance Seminar of Northern Railway Hqrs., Delhi during Vigilance Awareness Week, 2019 on 30.10.2019.



3. Sh. Anindo Majumdar, Secretary, CVC has been invited by the Lal Bahadur Shastri National Academy of Administration (LBSNAA), Mussoorie to address the participants on "Prevention of Corruption Act and Role of CVC" on 4th Nov, 2019. He was also invited as a Chief Guest by M/o Railways for the seminar on "Challenges in Government Procurement" held on 23.12.2019 at Baroda House, Delhi. Secretary, CVC has also chaired a National Committee which was constituted by Govt. of India for short listing the winners amongst the poster and video entries at Semi Final Level in the International Youth Contest of Social Anti-Corruption Advertising "Together Against Corruption" in India. Further, it is an honor that Advertising "Together Against Corruption" in India. Further, it is an honor that Secretary, CVC was also invited to attend an Award Ceremony organized by Prosecutor General of Russian Federation for giving away awards to winners.



Important Activities in the Commission

4. Sh. P. Daniel, Additional Secretary, CVC has attended “UNODC’s pre-conference events on Collaboration between Supreme Audit Institutions and Anti-corruption Agencies Across the World” at Abu Dhabi (UAE) from 14th to 15th December, 2019.



5. The Commission celebrated Sawachat Bharat Abhiyan on 01st Oct, 2019. Every staff of the Commission contributed in the cleaning the premises with an intention that the same will be followed every day of the official duty.



6. **Pledge taking ceremony:**

The Commission has taken a pledge during Vigilance Awareness Week, Unity Day and Constitution Day.



Pledge taken on Constitution Day: 26th Nov, 2019



Pledge taken on Unity Day: 31st Oct, 2019



Pledge taken during Vigilance Awareness Week 2019

7. The Commission inaugurated the Preventive Vigilance Initiatives Booklet 2019 on 31.10.2019. This compilation on preventive vigilance is the fourth in the series of such booklets. This compilation incorporates some important initiatives taken by some organizations. The same can be downloaded from the link on the Commission's website:



<http://cvc.gov.in/preventive-vigilance-initiatives>

8. The Central Vigilance Commission has initiated training and capacity building of All India Services and Central Services Officers posted as CVOs in Government Departments and CPSEs. The Training programme organized during this quarter by the Commission are as under:

- Workshop on “Vigilance Administration”:**

The Commission has organized workshops on “Vigilance administration” of 5 days from 14th to 18th Oct, 2019 for officers (other than CVOs) in the Vigilance department of various government organisations and PSUs at ISTM, Delhi.



- **Customized Training Programme at IACA, Austria:-**

The Commission organized customized vigilance related training programme at IACA, Austria from 04th to 15th Nov, 2019 for 25 participants.



**“INTEGRITY IS TELLING MYSELF THE TRUTH
AND HONESTY IS TELLING THE TRUTH TO OTHER
PEOPLE.”**

-Spencer Johnson

Vigilance activity in an organization forms an integral part of the managerial function to protect the organization from various internal and external threats. Banks being a Public Institution are no exception. As the Banks deal in public money and are involved in accepting deposits and lending for useful purposes, they have a great responsibility to maintain the quality of the assets to recover the interest and other dues in time.

Though adequate precautions are taken during assessment and sanction of a loan as per prescribed guidelines, a Banker has to be more vigilant after sanction of a loan. Not long ago, longer association of a customer with Bank was considered as one of the important parameters in deciding the value of a connection. However, over the last few years, due to change in the economic environment, competition and advent of new Management Techniques, such sentimental subjective factors slowly giving place to a more objective evaluation of the economic value of connection in terms of quantification of risk rather than mere longevity of the connection.

A. RBI GUIDELINES ON CREDIT MONITORING:

Pursuant to the directions of the Board for Financial Supervision, RBI had constituted an in-house group to identify and recommend the measures that could be instituted by the Banks. On the basis of study submitted by the group and on suggestions from the different Banks RBI issued Guidelines for classifying assets under Special Mention Categories for assets with Potential Weaknesses which deserve close attention and can be resolved through timely remedial action.

I. Early Identification And Reporting Of Stress:

During course of time Reserve Bank of India has been stressing upon early recognition of weakness in the account through implementation of various nomenclatures like Early Alert Signals, Special Mention Accounts-0, Special Mention Accounts-1 and Special Mention Accounts-2. Reserve Bank has deliberated on above terms through different circulars on different dates. The present guidelines on classifying the account as SMA as issued vide RBI Circular dated 07.06.2019 are as under:-

SMA Sub categories	Basis of classification for Loan Accounts	Basis of classification for revolving limits like Cash Credit Accounts
	Principal or interest payment or any other amount wholly or partly overdue between	Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of:
SMA-0	1-30 days	-NA-
SMA-1	31-60 days	31-60 days
SMA-2	61-90 days	61-90 days

Banks need to put in place a very sound and effective Credit Monitoring System for watching the borrower’s account from various angles. In order to ensure that the asset quality does not slip from performing to non-performing status, there is need for an automated system. The tracking of EWS in loan accounts should not be seen as an additional task but must be integrated with the credit monitoring process in the bank so that it becomes a continuous activity and also acts as a trigger for any possible credit impairment in the loan accounts, given the interplay between credit risks and fraud risks.

II. Implementation Of Resolution Plan:

- All lenders must put in place Board-approved policies for resolution of stressed assets, including the timelines for resolution. Since default with any lender is a lagging indicator of financial stress faced by the borrower, it is expected that the lenders initiate the process of implementing a resolution plan (RP) even before a default. In any case, once a borrower is reported to be in default by any of the lenders, lenders shall undertake a prima facie review of the borrower account within thirty days from such default (“Review Period”). During this Review Period of thirty days, lenders may decide on the resolution strategy, including the nature of the RP, the approach for implementation of the RP, etc. The lenders may also choose to initiate legal proceedings for insolvency or recovery.
- In cases where RP is to be implemented, all lenders shall enter into an Inter-Creditor Agreement (ICA), during the above-said Review Period, to provide for ground rules for finalization and implementation of the RP in respect of borrowers with credit facilities from more than one lender.
- RP shall be implemented within 180 days from the end of Review Period. The Review Period shall commence not later than:
 - (a) The reference date, if in default as on the reference date; or
 - (b) The date of first default after the reference date.
- The reference dates for the above purpose shall be as under:

Aggregate exposure of the borrower to lenders mentioned	Reference date
Rs. 2000 crore and above	07.06.2019
Rs.1500 crore and above, but less than Rs.2000 crore	January 1, 2020
Less than Rs. 1500 crore	To be announced in due course

III. Implementation Conditions for RP:

The accounts with aggregate exposure of Rs.100 crore and above shall require independent credit evaluation from Credit Rating Agency. The accounts with aggregate exposure of Rs.500 crore and above shall require independent credit

evaluation from two Credit Rating Agencies.

IV. Delayed Implementation of Resolution Plan:

Where a viable RP in respect of a borrower is not implemented within the timelines given below, all lenders shall make additional provisions as under:

Timeline for implementation of viable RP	Additional provisions to be made as a % of total outstanding, if RP not implemented within the timeline
180 days from the end of Review Period	20%
365 days from the commencement of Review Period	15% (i.e. total additional provisioning of 35%)

V. Prudential Norms:

In case of restructuring, the accounts classified as 'standard' shall be immediately downgraded as non-performing assets (NPAs), i.e., 'sub-standard' to begin with. The NPAs, upon restructuring, would continue to have the same asset classification as prior to restructuring. In both cases, the asset classification shall continue to be governed by the ageing criteria as per extant asset classification norms.

Disclosures: Lenders shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to RPs implemented.

B. PREVENTIVE VIGILANCE VIS A VIS CREDIT MONITORING (Practices adopted by Banks)

The enormous increase in stressed assets specifically Special Mention Accounts (SMA) prompted Banks to set up Credit Monitoring Vertical at Corporate Offices alongwith designating credit monitoring nodal officers at field level in circle offices for effectively monitoring loan portfolio of the Banks. The main focus of Credit Monitoring Vertical is to arrest further slippage of standard borrowal accounts to Non Performance Asset Category. The following measures have been taken by the Banks to arrest slippage and effective monitoring:-

- I. **Dissemination and Monitoring Of SMA Accounts:** Apart from SMA data being available online through reports, Credit Monitoring Vertical also disseminates actual and mock data of SMA accounts on weekly basis to Field functionaries to monitor the accounts. SMA/NPA data related to accounts having exposure above Rs.5 crore is generated from CRILC report and is sent to field functionaries on daily basis.
- II. **Monitoring Of Standard Accounts Through Sanction Letters:** Monitoring of standard accounts having exposure above say Rs.5.00 Cr may be done at Head Office by way of checking sanction letters received from credit verticals on various parameters. Monitoring of accounts having exposure below Rs.5 crore may be done at Regional/Circle Offices.

III. Alert Based Monitoring Mechanism: Unless Early Warning Signals through online system are captured, Banks may not be able to take proper remedial measures to avoid siphoning/diversion of funds and to arrest quality slippage. As a part of alert based monitoring mechanism, the Banks have implemented the same on different platforms and alerts on the basis of different scenarios across the Banks are generated.

The generation of alerts should cover the entire loan book of the Bank. The list of few important alerts implemented is given as under:-

Alert Scenario	Alert Scenario
Non Renewal of Account	BG invoked/ LC devolved in an account.
SMA accounts	Bouncing of High value cheque
Stock statement due	Documents Time barred
Reduction in drawing power based on stock statement	Downgrade in External and Internal rating.
Valuation Alert detail (Valuation Expired)	Frequent Adhoc/TOD
Non Insurance, Under insurance and Over Insurance of inventory	Insufficient credit/No Credit received for the last 15 days in CC/OD accounts.
Heavy Cash Withdrawal in Loan Accounts	Continuous over drawings in account

One of the best practices adopted in Oriental Bank of Commerce is that alerts are placed before a GM Committee for accounts having exposure of Rs.50 crore and above and for accounts having exposure from Rs.5 crore to Rs.50 crore may be placed before DGM Committee at Corporate Office. The time line for disposal of alerts normally shall be 90 days and if the same is not closed within 90 days then account is kept under Monitorable Action Plan for next 90 days. If the alert is still open after 180 days, the same is referred to respective Vertical for taking a view on the account regarding declaration of account as RFA through another GM Committee. Other Banks may also adopt the similar mechanism.

IV. Through Enterprise Data Warehousing Solution: One of the solutions in EDW project is Early Warning Signals for credit monitoring. In the background of increasing incidences of diversion of funds in loan portfolios, RBI brought into force the systematized framework of Fraud Risk Management in Banks. The framework provided the Banks 42 Early Warning Scenarios for accounts having exposure of Rs.50 crore and above which gives alerts regarding incipient weakness or raises Red Flags which may ultimately turn out to be fraudulent. Apart from RBI instituted 42 EWS, 84 EASE alerts have been provided by DFS for implementation and the Banks have either implemented most of the alert scenarios or are in the process of implementation of same. Banks may use technology, warehouse and MIS data to capture and trigger these warning signals on real time basis for quick corrective action.

- V. Scrutiny of Sanctions Of Circle/Regional Office:** In some banks viz OBC, the Credit Monitoring Vertical scrutinizes sanctions by Circle Offices to ensure that there is no loan policy and discretionary power deviations. This is a good preventive action to avoid deviations to take corrective action wherever required.
- VI. Early Identification Of Stress Within SMA Accounts:** The Credit Monitoring Vertical identifies inherent stress in the accounts (SMA-1 and SMA-2 accounts above say Rs.10.00 crore), in consultation with the respective credit vertical, which is beyond rectification in normal course so as to initiate the process of reference to the identified account to the Stressed Asset Management Vertical for necessary course correction.

C. GUIDELINES/PRECAUTIONARY MEASURES CIRCULATED:

Following tools and techniques are used to improve credit quality and improve Preventive Vigilance in Credit Portfolio.

- There should not be excessive reliance on securities in preference to viability and cash flow.
- Credit concentration to borrower/group/industry/Sector be avoided.
- At the time of sanction of loan there should not be overvaluation of securities.
- Symptoms of sickness, weakness and deterioration of asset quality must be recognized well in time and acted upon promptly.
- The charges on securities should be properly created.
- All the covenant stipulated as per sanction should be complied with.
- Stock statement should be submitted in time and should be analysed w.r.t. stock, debtors and creditors both in terms of amount and quality.
- Diversion of funds viz. related party transactions, banking outside the consortium, advances to associate/group concerns for purpose other than for which the finance has been made.
- Cross verification of Books of accounts with MCA record.
- System for verification of high value debtors and creditors should be in place.
- Transactions between related, interconnected/known entities should be monitored.
- Regular monitoring of sanctions to check that there is no breach of loan policy and discretionary power.
- Proactive participation during visits/inspections/consortium meeting and independent and unbiased collection of information about company/promoters.

Proper identification/empanelment of vendors is also very important. Valuers, Advocates, legal counsels, CA, CS etc. should be taken on Board after proper due diligence is taken on that basis. It shall also enable the Banks to ascertain proper utilization of funds. In the

context of increasing incidence of frauds in general and in loan portfolios in particular, it is imperative to direct the focus of banks on the aspects relating to Preventive Vigilance which includes early detection, prompt reporting to the RBI (for system level aggregation, monitoring & dissemination) and the investigative agencies (for instituting criminal proceedings against the fraudulent borrowers) and timely initiation of the staff accountability proceedings (for determining negligence or connivance, if any) while ensuring that the normal conduct of business of the banks and their risk taking ability is not adversely impacted.

The above shall lead to a sound credit portfolio in the Banks and shall lead to a healthy Banking system which shall be a pillar to the growth of Economy.

Rajneesh Karnatak, General Manager, Oriental Bank of Commerce



Trend In Banking Frauds

Banking today is threatened more than everbefore by dishonest borrowers and fraudsters attacking from all directions to rob the public money in banks' custody. Despite strong policies, procedures, rules and regulations and monitoring mechanism in banks, unscrupulous and fraudulent persons are able to breach our system to defraud the banks. As per RBI annual report 2018-19, released recently, we observed that during the year 2018-19, an amount of ₹71542 crore worth of frauds have been detected by banks as a whole involving 6801 incidents while 5916 cases of frauds were reported during 2017-18 amounting to ₹41167 crores. This indicates a serious 15% Y-o-Y growth in frauds during 2018-19 in number of cases and 73.8% in terms of amount of frauds. In the last 11 financial years, 53334 fraud cases worth ₹2.05 lacs crores have been reported. The data not only shows the magnanimity of the problem but also reflects upon lack of vigilance and its effectiveness in the system. Let us see how frauds affect us.

Whenever a fraud is detected, a 100% provision has to be made by the Bank from its profits. During last 11 years, ₹2.05 lac crores of frauds have been reported which is almost equal to ₹2.50 lac crores capital infused by the government during the last 5 years. It means the capital which was meant for growth has been consumed by provisioning against frauds. As a consequence, many innocent bankers have also been implicated in the frauds. Frauds not only tarnish the image of the Bank but also adversely affect the morale of employees.

Frameworks For Early Detection And Reporting Of Frauds

Fighting the menace of the frauds requires a prompt and proactive action on the part of the Bank. Reserve Bank of India vide its circular no RBI/DBS/2016-17/28 DBS.CO.CFMC.BC.No.1/23.04.001/2016-17 dated July 01, 2016 (Updated as on July 03, 2017) has kept in place the mechanism of prevention, early detection and reporting of frauds. These directions are issued with a view to enable the Banks to detect and report the frauds early for taking timely consequent actions like reporting to investigating agencies so that the fraudsters are brought to book, early examining staff accountability and do effective fraud risk management. The summary of these directions is produced below:

*RBI/DBS/2016-17/28 DBS.CO.CFMC.BC.No.1/23.04.001/2016-17 July 01, 2016
(Updated as on July 03, 2017)*

The 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.

Classification of Frauds:

In order to have uniformity in reporting, frauds have been classified as under, based mainly on the provisions of the Indian Penal Code:

1. Misappropriation and criminal breach of trust.
2. Fraudulent encashment through forged instruments, manipulation of books of accounts or through fictitious accounts and conversion of property.
3. Unauthorized credit facilities extended for reward or for illegal gratification.

4. Cash shortages.
5. Cheating and forgery.
6. Fraudulent transactions involving foreign exchange.

Reporting of frauds to Reserve Bank of India:

Banks need to furnish Fraud Monitoring Return (FMR) in individual fraud cases, irrespective of the amount involved, to RBI electronically using FMR Application in XBRL System supplied to them within three weeks from the date of detection.

Fraud reports should also be submitted in cases where central investigating agencies have initiated criminal proceedings suo moto and/or where the Reserve Bank has directed that such cases be reported as frauds.

Banks may also report frauds perpetrated in their subsidiaries and affiliates/joint ventures in FMR format in hard copy only.

Banks (other than foreign banks) having overseas branches/offices should report all frauds perpetrated at such branches/offices also to RBI.

In addition to the FMR, banks are required to furnish a Flash Report (FR) for frauds involving amounts of ₹50 million and above within a week of such frauds coming to the notice of the bank's head office.

Delays in Reporting of Frauds:

Banks should ensure that the reporting system is suitably streamlined so that delays in reporting of frauds, submission of delayed and incomplete fraud reports are avoided. Banks must fix staff accountability in respect of delays in reporting fraud cases to RBI.

Reports to the Board:

Banks should ensure that all frauds of ₹0.1 million and above are reported to their Boards promptly on their detection. Such reports should, among other things, take note of the failure on the part of the concerned branch officials and controlling authorities, and give details of action initiated against the officials responsible for the fraud.

Quarterly Review of Frauds:

Information relating to frauds for the quarters ending June, September and December shall be placed before the Audit Committee of the Board of Directors during the month following the quarter to which it pertains. A separate review for the quarter ending March is not required in view of the Annual Review.

Annual Review of Frauds:

Banks should conduct an annual review of the frauds and place a note before the Board of Directors/Local Advisory Board for information. The reviews for the year-ended March shall be put up to the Board before the end of the next quarter i.e. quarter ended June 30th.

Special committee of the Board:

While Audit Committee of the Board (ACB) shall monitor all the cases of frauds in general, banks are required to constitute a Special Committee of the Board for monitoring and follow up of cases of frauds (SCBF) involving amounts of ₹10 million and above exclusively. The Special Committee is to be constituted with five members of the Board of Directors, consisting of MD & CEO in case of public sector banks and MD in case of SBI and private sector banks, two members from ACB and two other members from the Board excluding RBI nominee. The periodicity of the meetings of the Special Committee may be decided according to the number of cases involved. In addition, the Committee should meet and review as and when a fraud involving an amount of ₹10 million and above comes to light.

Cases of Attempted Fraud:

Banks need not report cases of attempted frauds of ₹10 million and above to Reserve Bank of India. However, banks should continue to place the report on individual cases of attempted fraud involving an amount of ₹10 million and above before the Audit Committee of its Board.

Closure of Fraud Cases:

Banks shall report to CFMC, RBI and the SSM (Senior Supervisory Manager) of RBI, the details of fraud cases of ₹0.1 million and above closed along with reasons for the closure after completing the process.

Guidelines for Reporting Frauds to Police/CBI:

In dealing with cases of fraud/embezzlement, banks should not merely be actuated by the necessity of recovering expeditiously the amount involved, but should also be motivated by public interest and the need for ensuring that the guilty persons do not go unpunished. Therefore, as a general rule, the following cases should invariably be referred to the State Police or to the CBI as detailed below:

Category of bank	Amount involved in the fraud	Agency to whom complaint should be lodged	Remarks
Private Sector/ Foreign Banks	10000 and above	State Police	If committed by staff
	0.1 million and above	State Police	If committed by outsiders on their own and/or with the connivance of bank staff officers.
	10 million and above	In addition to State Police, SFIO, Ministry of Corporate Affairs, Government of India	Details of the fraud are to be reported to SFIO in FMR Format.

Public Sector Banks	Below 30 million 10,000/- and above but below 0.1 million.	State Police	If committed by staff
	0.1 million and above but below 30 million	To the State CID/ Economic Offences Wing of the State concerned	To be lodged by the Regional Head of the bank concerned
	30 million and above and up to 250 million	CBI	To be lodged with Anti Corruption Branch of CBI (where staff involvement is prima facie evident) or Economic Offences Wing of CBI (where staff involvement is not prima facie evident).
	More than 250 million and up to 500 million	CBI	To be lodged with Banking Security and Fraud Cell (BSFC) of CBI
	More than 500 million	CBI	To be lodged with the Joint Director (Policy) CBI, HQ New Delhi.

Note : CBI has informed that it has been decided that for all bank fraud cases/complaints, including the complaints of large value frauds being received by CBI under DFS guidelines, Head of Zone BS&F Zone, CBI Delhi be the designated Nodal officer on behalf of CBI instead of Joint Director (Policy), CBI. Presently Sh. Anurag, IPS is functioning as Head of Zone, BS&F Zone, CBI, 5-B, 10th floor, "A" wing, CGO Complex, Lodhi Road, New Delhi and shall function as Nodal Officer for the aforesaid purpose with immediate effect.

All fraud cases of value below ₹10,000/- involving bank officials should be referred to the Regional Head of the bank, who would scrutinize each case and direct the bank branch concerned on whether it should be reported to the local police station for further legal action.

In the recent years, it has been observed that the incidence of frauds in the banking industry have increased substantially. There may be various reasons for such frauds but one such reason is delay in action against the fraudsters. As per RBI annual report for 2018-19, 73% of the total frauds are large ticket corporate frauds worth ₹100 crores and above, involving a total amount of ₹5.22 lac crores. The average lag between the date of occurrence and its detection by banks was 22 months while for large ticket frauds of ₹100 crores and above, the time lag was whopping 55 months. Due to such an inordinate delay, the law fails to play a deterrent for the fraudsters and rather works as an incentive. This issue needs to be addressed on urgent basis so that the fraudsters are brought to book in a very short span of time in terms of RBI guidelines and appropriate action is taken as per prevalent law of the land.

Amrish Kumar Mishra, Chief Vigilance Officer, Oriental Bank of Commerce

Nowadays Indian banking industry is facing a daunting challenge of experienced & talented bankers owing to retirement decade in banking industry. In the process, PSBs are recruiting huge number of officers most of them having technical background through various channels mainly through IBPS who need meticulous and proper grooming by the seniors.

Organizations always strive to retain the talents and groom them so that in an era of cut-throat competition they can survive tomorrow. Mentoring programs can be proved as a very good tool to tap the collective wisdom of people & nurture them for long term growth of the organization. It is a nurturing process that fosters the development of the mentee bankers towards his full potential in which the wisdom of the mentor is acquired and applied by the beneficiary.

In contemporary era, mentors (senior bankers) have played a vital role in the development of individuals in business organizations. The focus of mentoring is to develop the whole person and so the techniques require wisdom in order to be used appropriately. Different techniques may be used by mentors according to the situation and the mindset of the mentee.

Mentoring is time-proven strategy that can help young people to capitalize their potential in all circumstances. Mentors are caring individuals who, along with parents or guardians, provide young people coaching, counseling & developing roadmaps through a constructive feedback.

Why Mentoring?

- To provide job specific knowledge and insight for those positions requiring huge experience for decision taking.
- To create and reinforce a positive organizational culture through systematic deliberations & knowledge transfer mechanism.
- To confer opportunities to shape the workforce of the future to meet the challenge of tomorrow.
- To identify talent and development of organizational leadership.

Mentoring leads mentee to feel more supported. If they're happy employees, the clients are happier, and that leads to more referrals and more returns. This drives our bottom line.

Types of Mentoring

Mentoring can be a powerful growth experience for not only for mentors & mentee but also for organization. It is a process of engagement that is most successful when done collaboratively with dedication.

- **Workplace Mentoring**

It is a learning partnership between employees for purposes of sharing technical information, institutional knowledge and insight with respect to a particular occupation, profession, organization.

- **Situational Mentoring**

In this type of mentoring, Short-term relationships are established with an expert mentor employee to make mentees more knowledgeable about a specific topic or skill.

- **Supervisory Mentoring**

This kind of mentoring is done by supervisors who have answers to many questions, and can advise to take the best plan of action. This can be a conflict of interest relationship because many supervisors do not feel comfortable also being a mentor.

- **Peer (buddy) Mentoring**

It is an opportunity for a caring youth to develop a guiding, teaching relationship with a younger person. These youth mentors serve as positive role models. They require ongoing support and close supervision. Usually in a peer mentoring relationship, the mentor and the mentee meet frequently.

- **E- Mentoring**

They communicate via the Internet at least once a week over a period of six months to a year. Often the mentor serves as a guide or advisor in career-related areas.

- **High Potential (HiPo) Mentoring**

This is Used to create a second line leadership in the organization to bridge the vacuum. The junior employees deemed to have the potential to move up into leadership roles are paired with a senior level leader /leaders.

- **Reverse Mentoring**

The younger generations can help the older generations to expand and grow towards current trends. Everyone has something to bring to the table, this creates a two Way Street within organization where younger employees can see the larger picture, and senior employees can see things from a different point of view.

Mentoring Model

Effective mentorship program is based on **ACR Model** i.e. **A**pprentice, **C**ompetency and **R**eflective

- Apprentice model- The mentee observes the mentor and learns in the process.
- Competency model: The mentor gives the mentee systematic feedback about performance and progress.
- Reflective model-The mentor helps the mentee to become a reflective practitioner.

Role & responsibilities of a good mentor:

A good mentor needs to be more than just a successful individual. A good mentor must also have the disposition and desire to develop other people. Great mentors must be able to both “talk the talk” and “walk the walk.”

Being a good mentor requires more than just experience. It requires a willingness to reflect and share on one’s own experiences, including one’s failures. Great mentors are often those who are constantly trying to learn themselves.

Essential qualities for an effective Mentor:

- A desire to develop and help others. A good mentor is sincerely interested in helping someone else without any “official” reward. Good mentors do it because they genuinely want to see someone else succeed.
- Commitment, time and energy to devote to the mentoring relationship.
- Current and relevant knowledge, expertise, and/ or skills.
- A willingness to share failures and personal experiences. Mentors need to share both their “how to do it right” and their “how I did it wrong” stories. Both experiences provide valuable opportunities for learning.
- Required skill to help in development of others. This includes the very real skills of listening, asking powerful questions and being able to tell stories, which includes personal anecdotes, case examples and honest insight.

Role of a good mentor:

Maintains a steady connect through either face to-face meeting or e -calls .

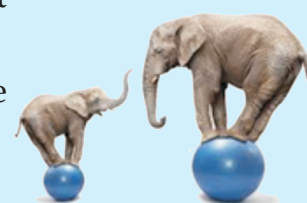
- Mentors need to understand that they are not substitutes for parents.
- They should not use authoritative tone/ communication.
- Put more emphasis on changing the mentee’s behavior than on developing a warm relationship based on trust and respect.
- Mentors should be task experts.
- Be prepared to help the mentee through difficult situations.
- Work with the mentee to develop his/her self-confidence.
- Ensure communications are clear, open and reciprocal.
- Help mentee develop creative and independent thinking.
- Maintain confidentiality.

Mentors “lead mentees along the journey of their lives ... they cast light on the way ahead, interpret arcane signs, warn us of lurking dangers, and point out unexpected delights along the way”.

Qualities of successful mentees

Mentees need to be :

- Committed to expanding their capabilities and focused on achieving professional results.
- Willing to ask for help.
- Open and receptive to learning and trying new ideas.
- Able to accept feedback—even constructive criticism—and act upon it.
- Willing to experiment and apply what they learn back on the job.
- Able to communicate and work cooperatively with others.
- Be personally responsible and accountable.
- Ready, willing and able to meet on a regular basis.



Role of the mentee:

- Develop mutually agreeable goals for the mentoring relationship that are SMART specific, measurable, achievable, realistic and timely
- Communicate openly and honestly with the mentor
- Take responsibility for establishing expectations between the mentor and mentee
- Make good use of time spent with the mentor
- Be mindful of the mentor's needs and expectations
- Be trustworthy and maintain confidentiality

Finally, Mentoring is one of the most effective tools in people development. So it should be DNA of the organization. This tool can be very helpful in today's banking scenario when good number of new hands is joining the bank. To blend these dynamic, tech savvy youngsters with rich experienced hands, **Mentoring** will play a pivotal role.

Mentor's role should shift from "**sage on the stage**" to the "**guide on the side.**" The model of a mentor "**for all seasons and all reasons**" is an unrealistic expectation, and is a major reason why many qualified potential mentors shy away from the mentor's role.

Attracting, Developing & Retaining the Talent in today's banking scenario is paramount task for the organization. In this process Mentor administers not only the ethics and values of the organization which has a long history, but also takes the mentee through the process of sharing his vast knowledge space and practical circumstances which helps the Mentee to face the challenges in day today professional life. It gives a unique access to skills, knowledge, experience and insight that other initiatives do not provide.

Mentoring offers the common path to travel on the road of success by Mentor & Mentee both, wherein the Wisdom Worker & Knowledge Worker align themselves with cohesive personal, professional & emotional bonding to achieve personal & organizational goals. **“The past empowers the present and the groping footsteps leading to the present mark the pathways to the future.”**

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Risk Management Framework – A New Tool for Preventive Vigilance

Banking and financial sector in recent past is under gruelling lens of various stakeholders particularly news media. The coverage in the media was not from good perspective of the banking and financial sector, whereas it is on account of piling up of stress assets and non-performing assets especially exposure to the big corporate houses. Not only this, these exposures are being declared as Fraud, basically on the ground of miss utilization / divergence of funds. One of the reasons is that poor risk assessment and putting in inadequate mitigants for such risk factors through proper monitoring activity by the banks. As frauds are has moved beyond siphoning of funds by way of mis-utilizing delegated powers. There are new sophisticated that are disrupting entire bank or particular industry or even countries economy. This scenario given ground for the questioning the managerial qualities of the banking professionals as well as effectiveness of the systems and procedures followed by the entire banking fraternity. Unfortunately, Frauds cannot be eliminated from banking business, but it can be mitigated and managed in a systematic and professional manner.

In view of this, it is the need of the hour to look at the basics of the banking activity and put on the emphasis on the best available tools for prevention of such incidents. Among the existing setup for prevention of the frauds in the banks, two critical and important disciplines will perform vital role in this aspect. First discipline is Vigilance setup of the organization and the other one, which is complementary to vigilance activity, is the Risk Management discipline. Through this discussion, let us explore these two disciples for the benefits of the banking sector. Firstly we will take insight about the Vigilance discipline.

Dictionary meaning of 'Vigilance' is as keeping careful watch to avoid possible danger or difficulties, for understanding take an example like security agencies keep a watch over all check points to avoid any untoward incident or accident. The Vigilance is being watchful and wary to detect danger; being ever awake and alert.

Similarly, in the commercial organisation context, 'Vigilance' means keeping a watchful eye on the activities of the personnel and taking prompt action to promote fair practices and ensure integrity and honesty in the official transactions & behaviours.

There are individuals who indulge in unethical activities of getting personal gains at the cost of the organization. Such persons not only lead to wastages, losses and economic decline but also infect others and damage the image and goodwill of the organization. Hence, to rein in such persons' mis-endeavours and promote organizational interest, vigilance is essential.

Basically, Risk taking is an integral part of the business of banking. The purpose of vigilance activity is not to stifle such ability or obstruct the achievement of organizational goals and objectives but to enhance the managerial effectiveness, both at micro as well as at the macro level. Vigilance is essential for promoting ethics and probity in organization and assisting the organization to achieve a good image and excellence.

To promote the growth of anti-corruption movement, it is the responsibility of everyone to be honest in discharging his/her duties. It is also a moral duty of every individual to help exposing any detrimental activity of unscrupulous elements / dishonest employees in the organization. Employees being important stakeholders of the organization are required to play a major role in this process and to facilitate and encourage the participation of the employees; Bank has a “**WHISTLE BLOWER**” policy which can be used to expose corrupt practices. This will help in strengthening the foundation of the bank.

Banks have initiated several initiatives like formation of preventive vigilance committees at Branch level for creating more awareness among staffs and tackling incidences of frauds with coordinated efforts of all the employees of branch. Through this approach, a strict compliance of established systems and procedures is ensured by all and with a vigilant and attentive attitude by every employee will surely curtail not only occurrence of frauds but also ensure healthy and stress free asset quality. Compliance of laid down rules and procedures should be integral part of our working culture. Every customer wants safe and risk free banking.

Such alertness ensures a safer banking business environment not only for customers but also for employees. Preventive Vigilance protects Bank’s interest in every action/ transaction performed by bank’s employees. In brief, it helps in striving for zero tolerance for corruption and thereby enhancing the image of the organization.

Following are some of the important points for bankers that will ensure better result;

- While being vigilant is important in all walks of life, the observance of vigilance becomes more critical in the financial sector and particularly for institutions like banks, which deal with public money.
- Banks, which act as an intermediary between depositors and lenders, are duty bound to observe the highest standards of safeguards to ensure that money accepted from depositors is not mis-utilised and is put to gainful use or is available with them to be paid on demand.
- In order to ensure this, banks are not only required to do due diligence on borrowers but are also expected to put in place appropriate safeguards to ensure that the transactions being undertaken by the staff are as per laid down guidelines.
- The watchfulness enforced by the vigilance function is required to ensure that public money, which banks hold in fiduciary capacity is not allowed to be misused by the delinquent elements in any manner.
- In a sense, an effective vigilance is a sine qua non for good Governance

Achieving these set objectives of Vigilance discipline and managing business operations in a profitable and sustainable manner, the Risk Management discipline plays very critical role in commercial organisations like banks. Let us discuss about the usefulness of risk management practices for achieving best Corporate Governance standards and systems.

Risk Management Frameworks is the backbone for the risk management practices. This framework talks about the three lines of defence in the banking organisation, these are

- First Line of Defence – All field functionaries including branch outlets, online as well as offline selling points etc.
- Second Line of Defence – Auditing and controlling functions at various level of organisational hierarchy
- Third Line of Defence – Risk Management functions and actions.

Among these three lines of defence, the Risk Management works independently and analyses the risk through a well-documented system and procedures and proposed necessary control measures to the business units so that the best possible outcome is achieved by maintaining optimum trade-off between Risk and Return. Few of these risk mitigating techniques are discussed herein below;

Planning :

The most important parameter considered during the planning process is the risk on account of macroeconomic environment, banking industry specific risks etc. Growth targets in the various sectors, have been planned taking into account the macroeconomic as well as idiosyncratic risks of the sectors. Bank's risk appetite levels are also defined taking into account the risk- return profile.

Quality Management Systems :

The performance of the risk parameters against the threshold is reviewed which includes the parameters like Capital Adequacy, Asset Quality, Liquidity, Solvency etc. New as well as existing Products and processes are reviewed by the risk management department of the bank, in which risk exposures of the product are analysed and mitigation strategies are suggested.

Bank assesses the inherent & residual risks of the products and processes during the Risk & Control Self-Assessment (RCSA workshops). Existing controls are strengthened and new controls are suggested/ implemented for the residual risks assessed. Risk Assessment in the processes is monitored on an on-going basis and triggers for the action are initiated as a part of bank's Key Risk Indicator framework.

Management processes for implementation :

Bank, through this Risk Management Framework approach adopted comprehensive Management processes defined for the implementation of the new processes, frameworks, MIS etc. Before any new process is integrated into the Bank's systems, it is thoroughly validated and back tested; model risk assessment is made using various qualitative and quantitative processes.

Management processes for the product / processes approval, new frameworks approval

has been well structured. Bank follows a Committee approach, has various risk management committees viz. Credit risk Management Committee, Operational Risk Management Committee, Asset liability Management Committee etc. Risk Management department analyses all these implementation requirements, and suggests risk mitigants / controls.

Primary objective of the Vigilance setup in a bank is to prevent frauds and corruption from the organisation. However, on account of statutory nature of Vigilance setup in the bank particularly in public sector banks, can never be fool proof and increasing investment in acquiring systems often yields only marginal benefit along with unwelcome side effects like slow disposal of credit decisions. As the Risk Management Framework spelt out in detail about the Identification, Assessment, reporting, management and monitoring of risk drivers in the banking business through its business supportive and risk mitigative approach. Organisation like bank can explore the collaborated activity of these two disciplines i.e. Vigilance and Risk Management for monitoring emerging threats, identifying anomalies in business processes, managing stoppages from third party vendors and preparing for risk related workplace disruptions. Such collaborated activity will assist banks to build fraud resilience towards approaching risk as a critical threat that with vigilance and application of best risk management practices can be managed confidently.

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The need for this article to be put together and get published in an important publication of Central Vigilance Commission is because it has been the focus of this esteemed organisation on preventive vigilance. It is endeavoured to look for solutions which would be the ways to have systemic improvements to prevent misuse of authority, systems, hierarchy and ignorance to perpetrate acts for undue advantages for self or others.

In the financial service space most of the frauds, malfeasance, corruption and other misdeeds are due to lack of transparency as well as lack of control over inter organisational coordination. To obviate such an opaque and restrictive practice in financial sector many technical models have been flourishing to lessen the intermediation and make the transactions seamless, faceless and cost effective. However, most of such digital solutions still have limitation of data storage, data protection and data concentration due to centralised data systems. This is where the excitement in the “**Fintech**” space is with the “**Blockchain**” technology.

“**Fintech**” is an abbreviation for Financial Technology that describes the evolving intersection of financial services and technology. Since the internet revolution, the term Fintech stands for technologies that are disrupting traditional financial services including mobile payments, money transfers, loans, fundraising, and asset management. Every time you go online to see your financial transactions or use tools to manage your spending and investments, you are making use of the Financial technology or Fintech.

The other often heard term has become the “**Blockchain**”. Originally, the brainchild of Satoshi Nakamoto, a pseudonym of the initiator of this technology to conceive and roll out the digital crypto currency known as Bitcoin.

Understanding Blockchain

Blockchain is a public ledger of information collected through a network that sits on top of the internet. The information recorded on a blockchain can take on any form, whether it be denoting a transfer of money, ownership, a transaction, someone’s identity, an agreement between two or multiple parties, or even how much electricity a light bulb has used. The information is stored in the form of blocks.

When a block stores new data it is added to the blockchain. In order for a block to be added to the blockchain, however, four things must happen:

- A transaction must occur
- That transaction must be verified.
- That transaction must be stored in a block
- That block must be given a unique, identifying code called a hash.

The block is also given the “**Hash-value**” of the most recent block added to the blockchain. Once hashed, the block can be added to the blockchain and becomes part of the record.

This technology enables the distribution and copying of digital data across different nodes. Any change or modification will alter the hash values in the chain, and it is easy to detect a malfunction. This is because of the complicated and intricate “**cryptography**” behind it.

The basic principles underlying blockchain technology:

- **A distributed database:** Each entity on a blockchain can access records on the entire database, but no single entity controls the data or the information.
- **Peer-based communication:** Communication is not through a central node, but occurs directly between peers. Each node stores and forwards information to all other nodes.
- **Transparency:** All transactions and associated values are visible to anyone with access to the system. However, each user can choose to provide their identity to others or remain anonymous.
- **Permanent records:** Once a transaction is entered, the records cannot be altered as they are linked to every transaction record that came before them in the “chain”. This immutability is what makes blockchain such a good foundation for fintech applications.
- **Computational logic:** Due to its digital nature, blockchain transactions can be tied to computational logic and in essence, programmed. Users can set up algorithms and rules that automatically trigger transactions between nodes.

For centuries we have trusted a third party for carrying out all our transactions. All the data is centrally stored and these central parties majorly formed the way economies work. There is immense possibility of foul play if one or all of these third parties went corrupt. With Blockchain the data is decentralized and there is no single authority. The Blockchain potentially cuts out the middleman, giving back the power to the owner of the assets — data or tokens carrying some financial value.

Participants: Governments, financial services companies, regulators, logistic service providers, corporates, etc. together form an ecosystem. All the participants of this ecosystem face different challenges and opportunities and with the advancement in technology every day, this landscape becomes more dynamic and complex than ever.

The blockchain sector in fintech has been intended to provide banking with a more seamless and effective experience, from cost reductions to uncheck unconditional bureaucracies in the traditional banking sector. This augurs well for both the bank and the clients.

- The most significant effect this technology will probably have is to reduce fraud and cyber attack in the financial world, significantly.

- Blockchain assists in curbing data breaking and other comparable fraudulent operations to enable fintech businesses to share or transfer safe and unaltered information through a decentralised network.
- Smart contracts are one such invention which guarantee that before a contract or transaction between two parties is concluded commitments are met.

Blockchain In Fintech : Blockchain enthusiasts are continuously experimenting with this technology to bring out new use cases and applications to solve the redundant and complex issues in the fintech industry. A few of the blockchain applications which are already popular among the Banking, Financial Services and Insurance (BFSI) sector are:

Smart Contracts: A smart contract is a computer code running on top of a blockchain containing a set of rules under which the parties to that smart contract agree to interact with each other. When these predefined rules are met, the agreement is automatically enforced. The smart contract code has the ability to facilitate, verify, and enforce the negotiation or performance of an agreement or transaction.

Digital Payments: The transfer of value or assets has always been a slow and expensive process. When you have to send money from one country to another, who has an account with a local bank, it takes a number of banks and institutions to finally collect the money. The idea is to provide frictionless and near-instant payment solutions. Unlike traditional services, a blockchain network doesn't rely on a slow process of approving transactions, which usually goes through several mediators and requires a lot of manual work. With Blockchain, this process is simplified and faster at a cost much less than the traditional banking institutions.

KYC Verification & Digital Identity: When identity management is moved to blockchain technology, users are able to choose how they identify themselves and with whom their identity is shared. Users still need to register their identity on the blockchain of course. But, they don't need a new registration for every service provider, provided those providers are also connected to the blockchain. Blockchain solutions are being used widely for authentication, verification and storage of electronic records in the banking industry as well as to create a KYC utility for any National Stock Exchange.

Share Trading: Buying and selling stocks and shares involves many middlemen, such as brokers and the stock exchange itself. Eliminating the middlemen from the share trading process speeds up the settlement process and allows for greater trade accuracy. Blockchain will also help eliminate the dark tactics of the stock market such as stock tampering, processing time and charges, naked short selling, as well as commissions of all intermediaries.

Supply Chain Financing and Management: Blockchain allows significantly higher settlement turnaround at lower costs. This happens by providing a single source of truth

regarding pivotal points in the supply chain, like creditworthiness, supplier inventory levels, purchase order receipt and approval, invoice receipt and approval, etc.

Records Storage and Management: Documents in physical or digital form can be modified and copied. While there are many products and services that provide secure and verified document management, they tend to be expensive and often require the involvement of a third party. Blockchain embeds authentication into the document itself and using a closed-loop tracking system to protect against tampering or modification.

Secure Digital Regulatory Process: Blockchain's immutability lends itself to the application of proof-of-process for compliance. Blockchain could be used to keep track of the steps required by regulation. Recording actions and their outputs immutably in a blockchain would create an audit trail for regulators to verify compliance.

Disrupting Digital Insurance: By allowing policyholders and insurers to track and manage physical assets digitally, blockchain technology can codify business rules and automate claims processing through smart contracts, while providing a permanent audit trail. Insurance giants and startups alike are attempting to use blockchain technology to prevent insurance fraud, digitally track medical records, and more.

Credit Scoring: Fintech companies are widely using blockchain to cater to the unbanked population lacking CIBIL score and helping them get credit. Earlier this year, Telangana government joined hands with London-based startup Cognito Technologies to kick off a pilot project, wherein it will leverage blockchain technology to come up with credit scores of those from economically weaker sections of society.

Faster Processing Speed: The distributed ledger could make it possible to connect all parties in a financial trade in real-time for faster processing of a payment. For instance, if you use another bank's cash machine (ATM) today, that bank must contact your bank to make sure you have enough funds in your account before dispensing the cash. If both banks used the same blockchain ledger, the bank could dispense the funds instantly without waiting for approval.

Eliminating Audit Trails: The transparency of information and permanence of records makes it nearly impossible to alter or manipulate the data, so banks no longer have to keep redundant audit trails of transactions; the transaction ledger is the audit trail.

Examples of Present Day Factual Happenings

Banks in Canada, Europe and other countries – some of those being IBM, SecureKey, HSBC, Deutsche Bank and KBC – are using blockchain to place their customers' identities on it as well as developing a blockchain system for trade finance. This clearly indicates the reliance placed on blockchain and its potential for making innovations come alive while driving business. Blockchain technology was initially used to support the digital currency Bitcoin but is now being explored for a wide variety of applications that don't involve Bitcoin.

In India, following are examples of happenings lately:

- Indian Institute for Development and Research in Banking Technology (IIDRBT a part of RBI) is working on use of Block Chain technology in Banking
- **YES Bank** uses blockchain in its Invoice Financing product and is in process and is registering vendors.
- **YES Bank** has facilitated the issuance of a commercial paper (CP) of INR 100 Cr using blockchain technology for Vedanta, a natural resources conglomerate. The bank used R3 Corda enterprise blockchain platform developed by US-based MonetaGo to facilitate the issuance.
- **AXIS BANK** is using Blockchain for Inward remittances solution for retail customers in Gulf and Singapore by partnering with RAKBank and Stanchart. Using Ripple for Cross Border Transactions network .
- **ICICI BANK** is trying specific Block chain technology for trade finance and remittances as also a small closed loop wallet transaction.
- **SBI** is planning to use Blockchain for smart contracts or KYC.
- **IIN** (Interbank information Network) platform is initiated by JP Morgan has Indian Banks partnering in its (Pvt Banks- ICICI, AXIS, Yes, Federal bank; Public Banks – Canara Bank, Union Bank of India). These banks have joined a live application of Blockchain Technology mainly for providing secure exchange information associated with cross border payments such as compliance sanctions, AML inquiries. Globally 330 Banks have signed in to IIN

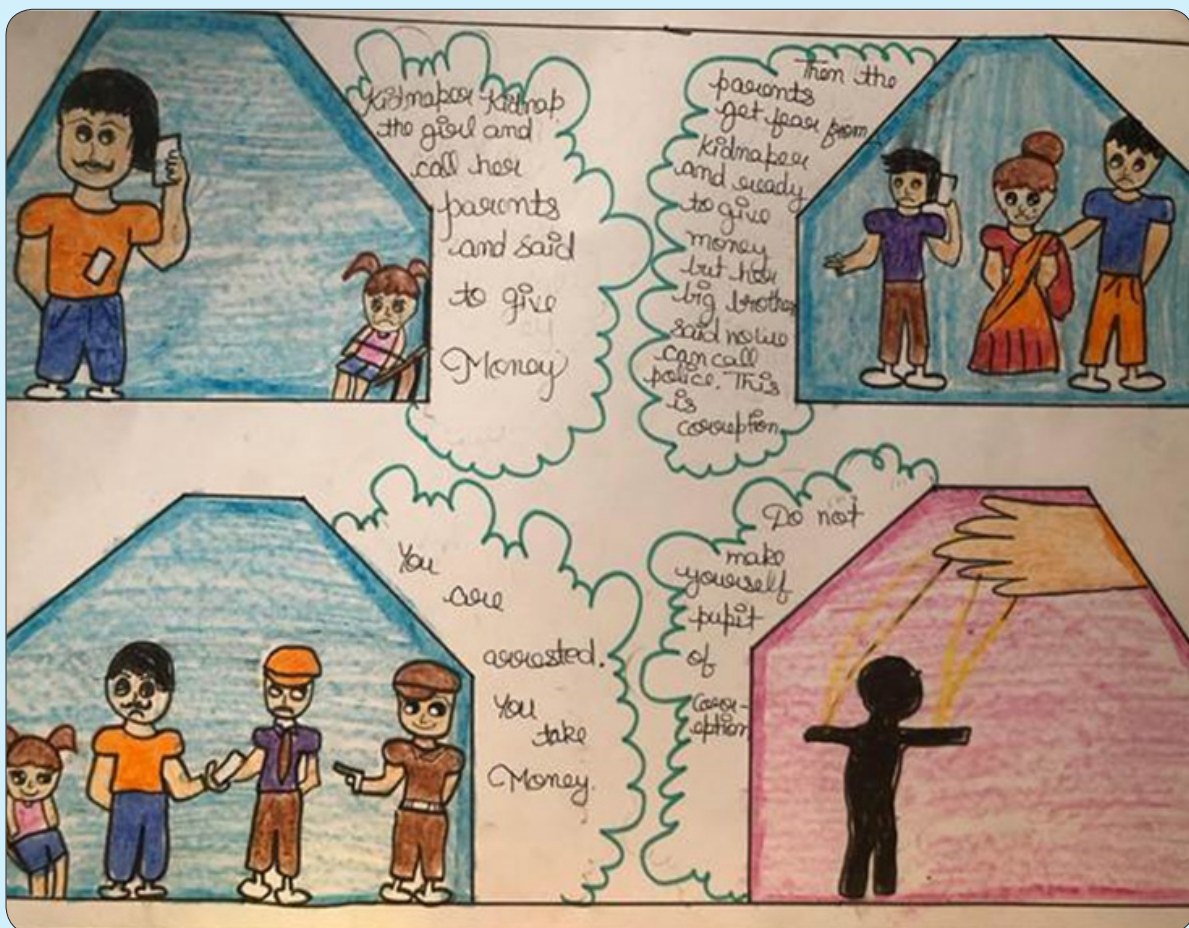
Conclusion:

The Blockchain technology is now not to be considered as new as it is more than a decade old with the advent of crypto currency “Bitcoin”. There was quite an excitement in the banking circles initially, however, the idea of Peer-to-Peer transactional capability also had a disruptive potential for the Financial intermediaries such as banks, their need and existence was also challenged. Hence, with initial excitement there was period of lull for a few years. However, with advancement in the understanding they have realised that this technology can be adapted in models without total elimination of role of banks/ FIs. They can utilise the benefits of greater speed, reduced costs in transactions across the national and international borders by sharing the platform and provide seamless transparent services.

With the potential seen by the Fintech industry in blockchain, in my opinion the technology will take a few more years to become a mainstream financial model. As with any emerging technology- Blockchain poses certain challenges that need to be addressed to fully utilize its potential in the financial services industry. The on-boarding of all the participants in the financial eco-systems particularly Government, Regulators, 3rd party

service providers, logistics owners, FIs, Banks, Corporates, legal custodians, etc. working with different technologies and their tech integration is the main challenge. However, the private blockchains as a subset within the mentioned fintech participants is a definite possibility.

Devendra Sharma, Chief Vigilance Officer, Bank of India



Preventive Vigilance - Foundation/Key Stone of Quality Lending

Lending is a basic banking function and quality lending underlines the health of the bank. Vigilance function should play a supportive and contributory role to facilitate the lending function. Importance of Preventive Vigilance is always underlined for any organization in general and very specific as far as PSBs as lenders are concerned. It is adoption of a package of measures to improve systems and procedures to eliminate / reduce corruption, promote transparency and ease of doing business. Being a tool of management and good governance, requires to be practiced not only management but by all employees of organization.

Despite universally accepted principle – “Prevention is better than cure”, practically significant efforts/energy are channelized in compliance of guidelines in post vigilance/post events, as a curing of the process. In fact, the sole objective of Preventive Vigilance is to put in place efforts so as to eliminate all misdeeds like corruption/frauds/misappropriation/cheating/forgery/fabrication/breach of trust/ falsification/impersonification etc. which are likely to happen during the course of normal banking/lending transactions. Keeping in view the recent increasing trend of vigilance/fraud cases in the bank’s loan assets, practicing Preventive Vigilance proactively is need of hour and it is expected to be followed as a part of normal lending process and not in isolation. Therefore, adherence to Systems & Procedure, Manuals, SOPs and guidelines through circulars coupled with inbuilt sense of Preventive Vigilance will lay foundation of Preventive Vigilance essential for lending.

A. Preventive Vigilance Measures: Lending Function:

I. Understanding components of Preventive Vigilance in Lending Function -

Following are the key areas of credit handling where things can go wrong and hence due care and diligence is required:

- Due Diligence (which is a pre-sanction exercise). Borrower identification, KYC verification, management scrutiny, credit history tracking through CIBIL, RBI/ ECGC defaulters’ list etc. some of the due diligence measures required to be taken. Pre-sanction visit is a must to ascertain the credibility of the information provided to the bank for sanctioning the credit facility.
- End Use Verification (mainly an exercise at the time of loan disbursement; but can be an ongoing exercise in case of working capital loans). Ensuring that our loan proceeds are disbursed directly to the vendors and asset proposed is actually purchased/created and also ongoing monitoring to ensure the availability of assets is essential.
- Security perfection – Ensuring that proper/valid mortgage is put through or our lien/pledge/hypothecation is noted are necessary.

II. The various components of preventive vigilance function in credit arena can be discussed further as under:

i. **Borrower:** Borrower's credibility in terms of credit history can be verified from CIBIL, credit reports, wilful defaulter list, ECGC list, RBI defaulter's list, exchange of information, CERSAI, Central Fraud Registry, CRILC, Serious Irregularities in loans (RBI circulated) data base. However, knowing borrower from other than above stated sources may give us more comfort to take a decision. Therefore, meaningful direct interaction with borrower, family members and market sources is likely to provide reasonably reliable information to judge the borrower. An effort should be made to extract the informal information / non-financial information from the borrower which will be helpful in assessment of borrower's aspirations / intentions and also genuineness of credit needs. Need and justification of the credit requirement, reasons for selecting the activity, self-preparedness for conducting the proposed activity etc. all such aspects are required to be explained by the borrower himself instead of his financial consultant.

ii. **Importance of Cross Verification:** Normally, Due Diligence of borrower is believed/ relied upon the documents /information submitted by the borrower. However, information which is important from credit decision point of view should be put to cross verification. Authenticity of information is also required to be verified taking into account reliability aspect.

Inadequate/scant information as to associate/sister/group concerns and nature of transactions with such entities as well as with related parties should be made available at the time of appraisal. All information submitted should be put to verification before taking decision based on such information.

iii. **Business Model:** It is utmost important for lender to understand the business model existing /proposed by the borrower. Taking into account various business activities and conduct of business in terms of local conditions, knowing business model is an essential part of credit appraisal. Clarity on conduct of business will give broad idea as to type of activity like trading/manufacturing/service activity. Financial requirements will depend on type of activity proposed/ conduct of activity and as such lender should correlate the requirements vis-a-vis business activity. Detail discussion on business activity / business model and conduct of the same may give intricacies of business like understanding of working capital cycle, specific requirement of fixed assets, procurement details, tie-ups, marketing network, storage facilities, customers and supplier details, turnover plans, profit margins, business plans etc.

iv. **Financial Data and assessment of credit requirement:** Financial information submitted by the borrower includes actual data as well as estimates/ projections. Authenticity of actual data requires to be verified and cross checked. Borrowers

also provide latest information for some important financial parameters like sales, debtors and creditors. Normally, this information is expected to be extracted by the borrower from the books of accounts maintained at their end. Therefore, an effort should be made to verify this information from books of the firm during the course of inspection /visit. Lender should have better idea of underlying assumptions made by the borrower.

It is required to discuss the justification for accepting the projected financials so as to justify the quantum of finance. Although, audited/estimated financials are required for analysis and assessment, financials should be analyzed on fund flow basis over and above balance sheet basis. An effort should be made to justify the existing and proposed stake of the promoter in the business based on the sources thereof.

Therefore, understanding Business Model / activity for undertaking finance is very important and effective application of Preventive Vigilance measures well before sanction of facility will definitely add value to the credit /asset quality of the bank.

- v. **Security Creation:** Apart from assessing prime security creation out of bank finance at the time of assessment of finance, it is imperative on the part of banker to ensure an access to the securities at any point of time during the currency of loan. Keeping in view the utility of security at a future date, constant watch/vigil on the securities is expected. All withdrawals in working capital lending are regulated/permited based on the Drawing Power calculated on relying the information submitted by the borrower in this regard periodically. However, repetitive submission of such information becomes a ritual and being mandatory requirement of lender for maintaining the status of the account, it results into overreliance of lenders on such information submitted by the borrower and acceptance of the same on its face value. So borrowers tend to manipulate this information and in the absence of an effective verification of the same by lender, there is increased risk of evaporation of prime security. As such, evolving effective preventive vigilance measures to keep constant watch on the prime securities is utmost essential and practicing the same will safeguard the lenders interest.

Moreover, collateral security offered by the borrower should be subject to all Preventive Vigilance tests, being vulnerable to various risks like defective titles, disputed assets, impersonification, inflated valuations, forged /fabricated documents, lack of identity/demarcation, illegal structures, and assets already encumbered with charge of other lenders etc. It is absolutely necessary to assess/view the collateral security from sale/liquidation/realization point of view in future.

- vi. **Assessment of Supplier:** Strict adherence to policy guidelines on Supplier Due Diligence will ensure Preventive Vigilance in this regard. It is suggested to initiate the process of identification and assessment of supplier since beginning i.e. during the course of appraisal before sanction. This may lead to crystallize the vendor/

supplier entity in whose favor disbursement will be made. At times, after sanction of credit facilities, borrowers request for change in the suppliers and insist for urgent disbursements. Experience in this regard suggests that change in the supplier should be treated as important modification in term of sanction. With change in supplier, the assessment/due diligence of supplier carried out earlier at the time of sanction will be of no use and new supplier's due diligence may go haywire and diluted in view of already sanctioned proposal and pressure of disbursement thereof by the borrower.

Supplier Due Diligence may be incorporated and made part of the proposal. Sanctioning authority should have adequate information about suppliers. It is argued that, supplier due diligence may not be made applicable in respect of Cash Credit limits keeping in view practical difficulties on account of running account facility. Normally, fresh release of CC limits and even subsequent payments are carried through RTGS facility. In the absence of information of supplier entities, bankers are acceding to the request of borrowers for transfer of funds from Cash Credit accounts. It is also observed that, even the first time disbursements made from Cash Credit limit through RTGS or otherwise have gone in favor of those entities which are not related to the core business activity of the borrower. Such diversions happened initially comes to surface only after turning the account NPA and during the course of investigations. Therefore, even in case of cash credit limits discussion on the suppliers of goods should be made part of the proposal so as to monitor the transactions in CC accounts to ensure end use of funds.

vii. Authenticity of information: It is a common practice of banker to call for information from the borrowers and the same may be submitted by the borrower in the form of letters, undertakings, certificates, reports etc. It is desirable to confirm the authenticity of such information/data, so as to make use of such information for taking decision. It may be practically difficult to verify and confirm authenticity of each and every information submitted, however, random verification may be possible.

Any routine information which may be incorrect/inflated/spurious submitted to the bank and when gets accepted and acted upon by the bank, then the same is treated as authentic and acceptable on ongoing basis to make it normal practice by the borrower.

We as a lender do receive financial information submitted by borrowers such as, debtors, creditors, stock statement, CA's certificate, LIE certificate/progress reports, financial follow up reports, etc. All such information is submitted for taking all important decisions like fresh sanction/renewal/review/enhancement/drawing power / disbursement/ asset classification etc. Therefore, reliability of information

is utmost important as important decisions like approvals, disbursements, drawing power are based on such information.

viii. KRA/Check list compliance point of view:

KRA/Checklist gives idea about various information/ pre-requisites required to be collected as a part of credit appraisal. These are in fact very powerful PV tools if made use in true perspective. It can not be simply treated as compliance requirement and part of proposal. The summarized presentation of these tools may reveal compliance but the contents, verification, authenticity, analysis and interpretation of such information and formation of view are very important ingredients to be practiced on ongoing basis as an effective Preventive Vigilance measure.

- ix. Verification of Books of Accounts:** The borrower is expected to maintain adequate books of account as per applicable accounting practices and standard, which should correctly reflect the financial position and scale of operations and should not radically change the accounting system without notice to the bank. Bank may stipulate the term that, bank will have right to examine at any time borrowers' books of accounts by the officers of the bank and/or qualified auditors and/or technical experts and/or management consultants of the bank's choice. After stipulating such terms as Mandatory Covenant, Bank should make an attempt to make use of these terms as Preventive Vigilance tool. Verification of books of accounts before /during sanction, post disbursement and ongoing as a part of stock inspection may help the lender to know the financials of the borrower in a better way and on real time basis. There will be an opportunity to verify the correlation between transactions through bank account with transactions recorded in the books of accounts of borrower.

Some accounting heads like unsecured loans, capital account, loans and advances, investment accounts, expenses accounts like purchases, provisions, secured borrowings etc. the information on which is normally accepted on the face, can be verified through such exercise of verification of books of accounts of borrower. It may help to understand related parties and nature of transactions with such entities. Verification of major suppliers and major customers of borrower and interrelated transactions if any can be ascertained. There is scope and opportunity for lenders to check and understand the movement of borrowed funds through an effective verification of books of accounts of the borrower.

- x. Non Fund Based Limits:** Above all aspects are applicable equally to non-fund based facilities like Bank Guarantees and Letter of Credit facilities and are required to be assessed with same rigour as if Fund Based facility.
- xi. Bank Guarantee:** It is essential to understand the business activity and underlying contract between borrower and beneficiary which originates the requirement of BG. It is necessary to ensure that, demand of BG in terms of business transactions is in sync with the business line of our customer.

xii. Letter of Credit facility: Of late, it is observed that, customers are misusing the facility of LC for their funds requirement irrespective of business transactions through accommodation bills. Normally, banker understands the facility as Documentary Credit and concludes all transactions as per LC terms i. e. based on documents as stipulated in LC. The trend shows that, borrowers submit all required documents like invoice, bill of exchange and transport documents to comply meticulously with the requirement of Documentary Credit. However, these documents may not be related to genuine trade transactions and there may be absence of any trade as such. Based on LC, beneficiary gets LC negotiated with their banker and remits back the funds to our borrower. Such LC transactions ensure movement of funds and not movement of goods. Therefore, banker has to move a step ahead to confirm the use of facility for genuine transactions based on random checking of physical movement of goods as per LC terms. As such, paper / document based Due Diligence is though important may not be adequate enough to rely upon.

This aspect is narrated keeping in view the emergence of observations such as non-existing of beneficiary / beneficiaries not related to the line of business of borrower/ related party as beneficiary/ non-existence of transporter etc. during the course of investigation i.e. after a lapse of considerable time.

Another risky area of lending is funding (majorly non-fund based funding) for overseas merchant trading transactions. In these types of transactions, the goods are often sold on high sea and the merchandise do not touch our shores. Hence, these are practically clean advances and need close watch and monitoring. The underlying trade transactions need to be verified and RBI guidelines on leg-to-leg matching of import and export transactions need to be complied with. Because of the inherent risk involved, higher margins and securities are stipulated for these transactions. Thus, importance of Preventive Vigilance can not be ignored even in case of non-fund based facilities.

Looking Forward

In recent past, in respect of corporate exposures, lenders have experienced unprecedented increase in NPAs and subsequent identification/reporting of such exposures as frauds. The common feature emerged in such frauds is Diversion/ Siphoning of borrowed funds. It is also observed that, these financial irregularities are committed by borrowers through related parties, associate/sister concerns, customers, suppliers, employees, non-existing entities etc. wherein bankers have hardly any idea and literally no control / clue to check it.

Now, the biggest challenge before lenders is how to check the trend with available traditional monitoring tools which necessarily work based on the information provided by borrowers only. Therefore, time has come to explore the possibilities to strengthen

the lenders by evolving/modifying the existing modes / methodologies/tools, so as to track end use of funds on ongoing basis and to restrict/curb/regulate the same if warranted. This leads to emerge a concept of developing “**Preventive Vigilance Tools**” for effective Preventive Vigilance. Lenders should initiate efforts to develop the ways and means in this direction so as to overcome the problems. Moreover, lenders may also look for developing “**Credit Investigation Cells**” (CIC) to facilitate existing **Credit Processing Centers (CPC)** and to ensure support to CPCs for reliable information/data/inputs/market intelligence etc. through CICs during the course of processing.

Conclusion:

Preventive Vigilance is an important tool and it is required to be used/practiced by default while assessing and sanctioning credit facility to constituents. All out efforts made at the beginning may lead to eliminate and avoid the unwanted business transactions/customers to enter in the bank. We should keep in mind any extra care in the form of Preventive Vigilance will ensure to keep away the bad elements. There is practice of meticulous investigation/ verification post NPA/ Fraud to understand the modus operandi, misdeeds by the borrower etc. Such practices at pre-sanction stage probably may lead to eliminate such risky elements/exposures at the beginning only.

“**Effective Preventive Vigilance**” probably is the only way through which a banker can safeguard its interest while developing its credit portfolio. This leads to conclude that, bank following strong, determined, dedicated preventive vigilance measures will emerge as a sound, stable, growing and acceptable bank.

Anil Kulkarni, Chief Manager, Bank of Baroda



**Knowledge without
integrity is dangerous
and dreadful.**

The sharp rise in the incidence of frauds in rural credit institutions in recent years has been a matter of serious concern. Equally disturbing is the delay in detection and reporting of frauds by banks. A national level study covering sixteen Regional Rural Banks and Co-operative Banks across the country was conducted by the National Bank for Agriculture and Rural Development (NABARD) in 2019 to examine the fraud monitoring system in these banks and the degree of adherence to guidelines on fraud monitoring and reporting issued by Reserve Bank of India (RBI) and NABARD from time to time. The study revealed that staff involvement (with or without the collusion of the customer) was a common feature in 92% of the frauds.

Based on the provisions of the Indian Penal Code (IPC), frauds may be classified into:

- A. Misappropriation and criminal breach of trust.
- B. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
- C. Unauthorized credit facilities extended for reward or for illegal gratification.
- D. Negligence and cash shortages.
- E. Cheating and forgery.
- F. Irregularities in foreign exchange transactions.
- G. Any other type of fraud not coming under the specific heads as above.

Frauds in rural credit institutions generally fall into the following categories:

- A. Frauds related to loans and advances
- B. Frauds related to deposits
- C. Frauds related to branch adjustment account/Inter branch account/Sundry deposit account/Suspense account/migra account
- D. Others/misuse of technology/falsification of accounts

Instances of frauds committed under the above mentioned categories are discussed below:

A. Frauds Related to Loans and Advances :

Fraudulent change in authorised signatories and withdrawal of loan amount; Loan sanctioned against fictitious record of right (ROR) over a period of ten years by submitting forged "No due certificate"; Misuse of discretionary power and sanction of multiple loans in violation of policy guidelines; Gold loans, involving crores, issued without receipt of gold or against spurious gold, without maintaining dual custody of gold ornaments and putting valuation at highest rate of past 12

months; Sanction of Loans to ineligible societies based on fudged accounts and bogus members and misappropriation thereof.

Lacunae observed:

1. Due diligence check not done - Photostat copy of meeting notice and resolution giving effect to change of signatory accepted.
2. Letter authorising change signed by one signatory only as against two signatories required.
3. Fresh cheque book issued by bank casually
4. Due diligence check of borrowers and their property not carried out.
5. Spot verification not conducted to ensure end-use of loans.
6. Use of discretionary power not monitored at HO.
7. Violation of guidelines not observed by internal inspection.
8. MIS failed to notice abnormal transactions at branch level. 8. Due diligence check of societies and KYC compliance of society members while opening SB account not done.
9. Societies not inspected by the bank.
10. Dissent expressed by a Board member and adverse comments of inspector/loan department not taken cognizance of while sanctioning loans.

B. Frauds related to Deposits :

FD receipt books sent by HO to Branch taken by the Daily Deposit Agent (DDA) in connivance with branch manager (BM) and used to collect deposit amounts from customers. When FD receipt holders came to Bank to encash FDs, Bank found that there was no FD outstanding in their names as per bank records; Opening of account with fake KYC documents and Fake cheques involving crores deposited in the account immediately after opening of account and sent for collection through banker's clearing house. Proceeds of cheques received and credited to the bank who had sent the cheques for clearing and subsequently withdrawn/remitted to different parties through NEFT.

Lacunae observed:

1. FD Receipt book not given to Branches against acknowledgement.
2. Reconciliation of FD Receipt books not done.
3. Confirmation of FD receipt book from branch manager not ensured at HO.
4. KYC policy not followed properly - KYC documents incomplete.
5. Account opening form filled in by Branch manager
6. Photo affixed on form and that captured on CCTV different.
7. Red flag indicators for suspicious transactions not in place.

C. Frauds related to branch adjustment account/Inter branch account/Sundry deposit account/Suspense account/migra account:

Amount debited to Branch adjustment account and credited to the account of staff and misappropriated; Supervisor at branch altered/inflated credit advices received from the HO manually and drew higher amount at the branch while responding to the advice; Amount credited to sundry deposits without supporting details/document and withdrawn over a period of two years by transferring to SB account of the business facilitator; Interbank HO account debited and amount credited to suspense account of branch, then transferred through NEFT to account of persons outside the bank who were not legally entitled to get credit.

Lacunae observed:

1. Branch adjustment account not reconciled.
2. Monitoring of Return on inter branch transactions by branches not done at HO.
3. Person responding credit advice allowed access to books of account.
4. Secrecy of password for operating CBS system not maintained.
5. Transfer to sundry deposit and transfer from sundry deposit not supported with any details.
6. Reconciliation of sundry deposits not done periodically.
7. Branches are allowed to operate suspense account without HO permission.
8. Scrutiny of suspense account at controlling office/HO weak.

D. Others/misuse of technology/falsification of accounts :

Misuse of user ID and password to carry out fictitious cash deposits and remittance through NEFT to different accounts in other banks, without receiving cash physically; Creation of fictitious accounts of fake SHG CC/OD accounts using CIF Nos. of dormant and inoperative SB accounts, transfer of amounts to these fake accounts; Issue of Bank Guarantee (BG)s by BM far exceeding his delegated powers and ceiling fixed by the bank. BGs not sent for ratification to HO, as required by the bank's policy.

Lacunae observed:

1. Monitoring of closing cash balance on day to day basis in intra site not done at RO level.
2. Surprise verification of cash not carried out once in a week
3. Preventive vigilance of branches and monitoring of control returns not done.
4. KYC of SHG groups not done

5. E-VVR checking not done properly.
6. No mechanism in place to monitor issue of BGs and sanctioning powers vested with BMs.
7. CBS of the bank did not capture off-balance sheet transaction like BGs.
8. No return prescribed by the HO to cover BGs, which were also consequently overlooked in internal inspections. To reduce the quantum of loss which the continuance of the Fraud may entail.

In most of the above cases, the fraud had occurred due to laxity in following systems and procedures and delays in inter-branch reconciliation. There were also cases which had fallen through the net due to the weakness of the inspection or vigilance mechanism and could be detected only after considerable delay. The delay in detection was observed in over 50% of the fraud cases. The early detection of Fraud and necessary corrective action are important to reduce the quantum of loss which the continuance of the Fraud may entail.

It was also observed that despite migrating to CBS, there were instances of manual record keeping. This was particularly so in the case of rural co-operatives where the age profile of the staff did not lend itself to a higher comfort level in a technology based environment, leading to the by-passing or abuse of the system itself.

While the primary responsibility of preventing frauds lies with the banks themselves, NABARD has been advising the banks under their supervisory control from time to time about the major fraud prone areas and the safeguards necessary for prevention of frauds. Details of frauds of an ingenious nature, not reported earlier, had also been circulated so that banks could introduce necessary safeguards/preventive measures by way of appropriate procedures and internal checks. Banks are also being advised about the details of unscrupulous borrowers and related parties who have perpetrated frauds on other banks so that they could exercise caution while dealing with them.

It was observed that Banks tend to report an account as fraud only when they exhaust the chances of further recovery. It is essential that complete information about frauds and the follow-up action taken thereon is reported immediately. Among other things, delays in reporting of frauds also delays the alerting of other banks about the modus operandi through various measure that may result in similar frauds being perpetrated elsewhere. More importantly, it delays action against unscrupulous borrowers by law enforcement agencies which impact the recoverability aspects to a great degree and also increases the loss arising out of the fraud.

NABARD has developed a portal for the electronic submission of various returns by banks, called "ENSURE". The cases of individual frauds are required to be reported to NABARD through the "ENSURE" portal, in a prescribed format within three weeks from the date of detection. Fraud reports are also required to be submitted in cases

where central investigating agencies have initiated criminal proceedings suo-moto and/or where NABARD/RBI has directed that such cases be reported as frauds.

Banks should initiate and complete a staff accountability exercise within six months from the date of classification as a Fraud. In cases involving very senior executives of the bank, the Board may initiate the process of fixing staff accountability. NABARD has also circulated an illustrative list of Early Warning Signals (EWS) to enable banks to red flag accounts for suspicions of fraudulent activities. These could be used as a trigger to launch a detailed investigation into the account.

The most effective way of preventing frauds in loan accounts is for banks to have a robust appraisal and an effective credit monitoring mechanism during the entire life-cycle of the loan account. Any weakness that may have escaped attention at the appraisal stage can often be mitigated when the post disbursement monitoring remains effective.

Employees should be encouraged to report fraudulent activity in an account, along with the reasons in support of their views, to the appropriately constituted authority, under the Whistle Blower Policy of the bank, who may institute a scrutiny through the Fraud Monitoring Group (FMG). The FMG may 'hear' the concerned employee in order to obtain necessary clarifications. Protection should be available to such employees under the whistle blower policy of the bank so that the fear of victimization does not act as a deterrent.

Auditors coming across instances where transactions in the account or the documents point to the possibility of fraudulent transactions in the account should immediately bring it to the notice of the top management and if necessary to the Audit Committee of the Board (ACB) for appropriate action.

Title deeds and other documents in respect of credit exposures beyond a certain cut off should be subject to periodic legal audit and re-verification with relevant authorities as part of regular audit exercise till the loan stands fully repaid. A review note in respect of such legal audits is required to be placed before the Board/ACB at quarterly intervals.

The Board should review the information relating to frauds quarterly and also conduct an annual review. While the ACB would monitor all cases of frauds in general, banks are required to constitute a Special Committee of the Board (SCBF) for monitoring and follow up of cases of frauds involving amounts above a certain cut-off, exclusively. The functioning of the SCBF should also be reviewed on a half-yearly basis and the review put up to the Board of Directors.

Cases of attempted frauds (above a certain cut-off) are also required to be placed before the ACB, indicating the modus operandi, the failure of the attempt and measures taken by the bank to strengthen the existing systems and controls.

Deepa Guha, General Manager, NABARD

A forensic audit is an examination and evaluation of a firm's or individual's financial records to derive evidence that can be used in a court of law or legal proceeding. Forensic auditing is a specialization within the field of accounting. Forensic audits require the expertise of accounting and auditing procedures as well as expert knowledge about the legal framework of such an audit.

Bankers and the investigating agencies have now started engaging Forensic investigators to lift the veil from the transactions, to identify the fraudulent acts, if any, on the part of the big borrowers, to discover the modus operandi with names of persons involved, the quantum of fraud and loss, the trail of funds/bank's money and the possible legal procedure and routes to recover bank's money together with tracing and collecting legally enforceable evidences.

With advancement of technology available for putting through interbank transactions on real time basis with full secrecy, it has become very difficult to rightly understand the nature of banking transaction and the final destination of funds. Many unscrupulous borrowers resort to different kinds of mischievous and fraudulent activities in a very clandestine and dubious manner to defraud the banks. Such borrowers conceal and camouflage fraudulent transactions with such an alacrity and adroitness that it becomes virtually impossible for an average investigator to detect the fraud, its modus operandi, the identity of perpetrators and their malafide acts and above all, the trail and exact final destination of the funds.

Basic purpose of forensic investigation:

- to probe & discover whether suspected fraud has actually occurred
- who are the perpetrators of fraud / other persons responsible
- to quantify the amount of fraud or loss due to fraud
- tracing, collecting & identifying legally tenable evidence
- ensuring the safety of collected / traced evidence
- Preparing & presenting the structured evidence based findings which have definite potentials to stand before the examination & scrutiny of courts.

Features / Objectives of Forensic Investigation:

- The process of investigation is undertaken with the objective in mind to find legally enforceable evidences, which may be acceptable to the courts.
- Sometimes, the investigators are assigned altogether different duty of probing into the non-financial matters, especially where the monetary disputes are to be settled pursuant to closure of business / unit.
- It involves systematic approach i.e. first planning, then collection of evidence and then co-relation of evidence with the suspected fraudulent activity and review of information.

- Forensic auditing strengthens control mechanisms and will protect the business enterprise against financial crimes.
- Forensic auditing can play an important role for companies under review by regulatory authorities and can also be invaluable to ensure regulatory compliance.
- Forensic auditing can help protect organisations from the long-term damage to their reputations caused by the publicity associated with insider crimes.
- Forensic auditing can improve efficiency by identifying areas of waste and by revealing the gaps / loop holes in the system.

Forensic Audit and Vigilance Investigations in Banks:

- In domestic enquiries in banks, the standard of proof is related to preponderance of probability. However, evidential material should point to the guilt of the delinquent in respect of each charge with some degree of definiteness. Therefore, gathering of correct and strong evidence in vigilance investigations is essential. This is all the more important in respect of high value frauds.
- The importance of forensic audit practices in bank vigilance investigations have been well recognized by RBI. RBI has advised that from the operational point of view they may take certain measures in order to ensure effective and quick investigation, monitoring and follow up. Public Sector Banks, in line with RBI guidelines, may consider developing procedures for performing routine tasks, such as imaging a hard disk, capturing and recording volatile information from systems, or securing physical evidence. The goal for the guidelines and procedures is to facilitate consistent, effective and accurate forensic actions, which is particularly important for incidents that may lead to prosecution or internal disciplinary actions.
- In Bank Vigilance investigations, the investigating officials perform an almost similar role as that played by Forensic Auditors. However, forensic audit is an advanced and scientific method of investigation of frauds deploying specialized skills and techniques for optimum results.
- Training in forensic audit for bank vigilance investigating officials will enable them in unearthing appropriate evidence, in ruling out the role of innocents and thereby protecting them, in arriving at the exact financial loss, in clearly establishing the modus operandi; in revealing the loop holes in the system and finally in booking the culprits in a more efficient manner.
- The biggest advantage of forensic scrutiny for banks is to identify assets created by the borrowers out of funds siphoned off including personal properties and properties held in the names of their associates.

Vigilance Department, Andhra Bank

It is time we should look beyond KYC (Know your Customer) and also focus on KYE (Know Your Employee) and KYP (Know Your Partner) like Vendors, Agents, Outsourcing Agencies, Valuers, Advocates, Chartered Accountants etc.). Non-compliance to 3K causes financial frauds.

KYC / KYE / KYP :

The root cause of financial frauds can be reduced to one single phenomenon. It is failure to Know - Somebody - i.e. failure to Know Its Customer (KYC), or failure to Know Its Employee (KYE), or failure to Know Its Partner/Vendor (KYP).

A. Know Your Customer (KYC) :

- Prescribed documents should be obtained from an account holder to comply with the KYC norms.
- Apart from obtaining the relevant documents, effort should be made to 'Know the Customer' in the real sense - his background, his stated activities/profession. Discreet enquiries be made on the suppliers / buyers to check if they are in the same line of business or are bogus entities. Such timely checks help identify frauds at an early stage.
- Customers be segmented on their risk profile and transaction patterns and develop appropriate response systems for exceptional patterns noticed and fortify systemic level controls.

B. Know Your Employee (KYE):

Several frauds are insider jobs or perpetrated with the abetment of insiders. Techniques of background check for antecedents, periodic rotations, vigilance assessments, internal audits, etc. have to be effectively employed to know the employees better.

C. Know Your Partner (KYP) :

- I. Modern day banking necessitates to work hand in hand with partners, agents and vendors, etc. Outsourcing, peripheral and several operational activities involve deploying and trusting outside agency's employees. Varied activities as diverse as cash logistics to IT and data management are being entrusted to third parties. Banking Correspondents and Banking Facilitators are emerging as another set of persons closely associated with a bank. If frauds are to be prevented, appropriate mechanism to be strictly applied to screen their partners.
- II. Due diligence on other professionals like Chartered Accountants, Valuers and Advocates involved in the loan assessment and sanctioning processes is also an essential safeguard. There have been instances where some of these professionals have facilitated perpetration of frauds by colluding with the borrowers to fabricate / fudge financial statements, inflate security valuation reports and

prepare defective search reports for title deeds of mortgaged property and banks have been led to overestimate the funding requirements and security cover.

Wherever, it is found that the professional service providers like CAs, etc., engaged by the bank are found to be conniving with the perpetrators of the fraud on the bank, apart from de-panelling them, requisite reporting has to be made to their respective affiliated professional bodies like ICAI/Bar Council, etc. through a centralised system.

Vigilance Department, Andhra Bank

एक मुलाकात “खुद से”

एक मुलाकात खुद से
इतनी आसान नहीं होती।
सामना करना होता है
सामना करना पड़ता है
अपनी कमजोरियों अपनी गिरावटो से
रुबरू होना पड़ता है
अपनी कमी अपनी खताओं से।
गिरे हम कितना नीचे
जबकि छूना आसमां को था
चुराई खुद से नजरें जबकि
नजरों को आईना बनाना था
देखना था खुद के अंदर
गर्व से फिर मुस्कुराना था
ना बन पाना आईना अपना
कसक ये सहनी, दोस्त मेरी आसान नहीं होती
एक मुलाकात खुद से
इतनी आसान नहीं होती।
कभी पैसे कभी आराम का लालच
याद आता है फिर अपनी कुछ
जज्बात का लालच
जो छोड़ा तब नहीं जब छोड़ना
कितना जरूरी था

वो क्यों सोचा नहीं जो सोचना
कितना जरूरी था
तमाम उम्र ये यादें जुदा हमसे नहीं होते
एक मुलाकात खुद से
इतनी आसान नहीं होती।
जब दोस्ती में, दोस्तों में
डूब जाना था
सर्द सूखे अहम को
प्यार की गर्मी से पिघलाना था
किसी के अपनेपन को
जब सर आंखों पर बैठाना था
ये लम्हे फिर ना होंगे
सोचकर जब खिलखिलाना था
जमाने गुज़रे पर अपनी खताएं
याद अब भी हैं
जिये जाते हैं लेकिन ये बलाएं
साथ अब भी हैं।
परेशानी की राहें इतनी भी आसान नहीं होती
एक मुलाकात खुद से –
इतनी आसान नहीं होती।

वरिष्ठ प्रधान निजी सचिव, केन्द्रीय सतर्कता आयोग

Common Irregularities / Lapses Observed In Reviewing Impaired Asset Study (IAS) Reports – Staff Accountability Report



The common irregularities observed by the Vigilance Department based on the irregularities reported in Impair Study Report, FRMG Report and Complaints etc. which should be avoided by adhering to the Systems & Procedures and Policy Guidelines of the Bank are detailed as under. (Illustrative and not exhaustive)

Non-adherence of the systems & procedures is not only putting Bank to the Financial & Reputational loss but also attract disciplinary action against the staff found accountable. Employees to keep themselves updated on all Policies, Systems & Procedure and Circulars and follow these guidelines strictly and do not indulge in any conflicts of interest.

A. **KYC & Due Diligence:**

- I. KYC norms not followed. Genuineness of KYC documents not verified. KYC documents not verified with the originals as well as through the portals of issuing authority.
 - PAN verification-IT Department site;
 - Voters' ID through EC Site
 - DTH/Phone bill/Electricity bill: Respective company website
 - Aadhar: UIDAI site to verify address and other details of customer
 - All key documents not authenticated by directors/promoters.
- II. Verification of name of the borrower company/ Promoters/ Directors/ guarantors not done in
 - RBI Defaulter/Wilful Defaulters list
 - ECGC Caution list
 - CIC Caution list
 - CIC suit filed list
 - Banned list of promoters
 - CIBIL and CRILC DATA.
- III. Due diligence of new borrowers not done as per laid down guidelines.
- IV. Due diligence of Dealers/Suppliers not done.

B. **Appraisal & Sanction:** (Illustrative and not exhaustive)

- Assessment of eligibility of loan not done as per laid down guidelines.
- On many occasions it is observed that loans are sanctioned by Branch Manager without the proposals being appraised by the second level officials.
- Scale of finance fixed for Agriculture Advance not followed.
- Genuineness of the Salary Certificate/Income proof/ITRs/ Bills/ Invoice/ receipts etc. not ensured.
- Failure in conducting of Pre Sanction and Post Sanction Unit Inspections.
- Inflated valuation of properties & land locked properties offered as security is accepted.

- Accommodation of loans – No borrower, No asset, No registration of sale deed etc.
- Enhancement in Loans and advance without proper justification/assessment
- Primary / Collateral Security Verification not done as per extant guidelines.
- Third party Collateral Security accepted without obtaining permission from competent authority
- Financials submitted to the Bank with the financials submitted to ROC by the borrower not verified.
- Frequent ad-hoc sanctions.
- Non verification of credentials of Associates/ Group concerns by taking independent report from their existing Bankers.
- Performance of Associate/Group concerns not verified.
- Working Capital Level/Holding Period is increased without any justifiable reason at the time of Renewal / Enhancement.
- When multiple housing loans are considered relating to single builder, proper due diligence to be conducted with regard to loans availed by the Builder.
- Valuation of the properties not done by approved valuer situated within area of operation/district.
- Sanction of fresh loans in the name of Associate/Group concerns to upgrade the existing stressed accounts of Borrower.
- Loans sanctioned to close relatives without adhering to laid down guidelines.
- Exceeding discretionary powers in sanction of loans.
- Sanctions with deviations without approval of competent authority.
- Minimum coverage of collateral securities not ensured as stipulated in the product features/guidelines.
- Conversion of Agricultural land to Non-Agriculture land certificate should be made mandatory as one of the terms of Sanction/Disbursement.
- Mandatory approvals and other statutory approvals not obtained before processing the proposal.
- Strict adherence to take over norms not ensured.
- Due diligence of supplier, genuineness of Quotation/Invoices not done.

C. Documentation: (Illustrative and not exhaustive)

- Equitable Mortgage is not created according to the formalities required by the law of the State where property is located.
- Non Execution of documents by all the legal owners.
- Title Deeds not obtained despite disbursement of full loan amount.
- Failure to verify Flow of Title/Encumbrance of the property.
- Demarcation of properties not done.

- Memorandum of Deposit of Title Deeds (EMs) were not registered with SRO and continuation of EC not obtained.
- Deposit of Fake Title Deed.
- Mortgage created by impersonation.
- Immovable properties accepted as collateral securities not verified with “Bhoomi” portal to ascertain genuineness of documents.

D. Disbursement:

- Confirmation for the deviation not obtained from the competent authority.
- In many cases loans are disbursed without obtaining/ensuring legal opinion/EVR or rectification of deficiencies observed.
- Loan Proceeds credited directly to customers Savings/ Current account.
- Failure to obtain prior permission for release of limits.
- Disbursal of Term loan in disproportionate to the stage wise Completion report.
- Compliance to Sanction terms not adhered to.
- Large Cash withdrawals allowed.
- Disbursement to suppliers other than mentioned in the sanction letter without proper justification.
- Collateral securities are not revalued as per periodicity and the guidelines in vogue.
- Legal Opinion and Valuation Report should be cross verified by another set of officers who have not processed the loan.
- In case of vehicle loans, “Vahan” website available in public domain not verified
- Payments not made to the suppliers and credited to borrower’s current account.
- Borrower’s margin not ensured.
- In case of Vehicle Loans, handing over of the DDs to the supplier by the Bank not ensured.
- Lien not marked with revenue authority on agriculture land accepted as security.
- Administrative Clearance wherever required not obtained.

E. Monitoring: (Illustrative and not exhaustive)

- Proportionate sales not routed through in the account.
- Periodical submission of Stock Statements not ensured.
- Periodical confirmation of Book debts not obtained from Debtors
- Periodical Unit Inspection not done properly.
- Monitoring of Early Warning Signals not done.
- Failure in timely submission of Control returns to Controlling authority within the stipulated time.
- Non-obtention/Review of MSOD / QIS wherever applicable to ensure that the

borrower is achieving turnover vis-à-vis projections/estimates

- Security documents delivered to borrower without closure of loans.
- Non-compliance of Audit Observation/Inspection Irregularities and Despite the irregularities sanctions/enhancement of limit is considered
- For any deviation in sanction, ratification not obtained from the controlling office / competent authority.
- Excess drawls are allowed more than the stipulated times by Branch heads beyond their delegated powers & in overdue accounts also.
- Excess Drawls /Ad-hoc Sanctions s not regularized within timeline and also adjusted by enhancement of CC limit.
- Transfer of funds between accounts done without proper written mandate.
- Misutilisation of subsidy amount received in Government sponsored schemes. Subsidy to be credited to loan account only and not to borrower's personal account.

F. Operations:

- Not exercising caution while allowing huge withdrawals & operations in new accounts.
- Non-verification of specimen signatures.
- Payment made to bearer of high value cheque, identity not established.
- Govt. cheques paid without obtaining independent verification of payees.
- Cash payments against fake/forged/altered cheques.
- Laxity of joint custodian in handling keys.
- Laxity of security systems viz., alarm, access, etc.
- Security Item not maintained properly.
- Middlemen/agents are entertained.
- Cash replenishments at ATMs are being undertaken by Single Officer, instead of being accompanied by the other Joint Custodian Officer.
- General Ledger / Current account / P&L account / Customers' accounts are debited without their mandate to adjust overdue in PNPA & NPA Accounts.
- Accounts of close relatives of Officers are operated without written mandate.

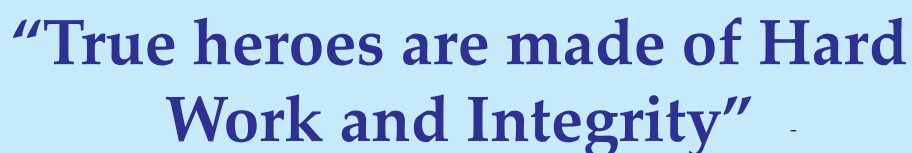
G. Areas where Borrowers Misrepresent/Suppress Facts:

Loan Applicants / Borrowers tend to suppress the facts / mislead the Banks in the following aspects. Appraising officer and Sanctioning Authority shall exercise precaution to avoid the following and safeguard the interest of the Bank.

- Overstatement of assets.
- Recording sales pending fulfilment of contractual obligations.
- Stretched Accounting Period.
- Showing Bogus/False Sales: Back to Back Arrangement of goods return

- Maintaining different books of accounts for Income Tax, customs, Banks, MOCA etc.
- Retrospective changes in sales recognition policy/ accounting practices.
- Manipulating profits with onetime events.
- Intercompany expenses shown as customer receivables.
- Frequent invocation of BGs and devolvement of LCs.
- Funding of interest by sanctioning additional facilities.
- Significant increase in working capital borrowing as percentage of turnover.
- Frequent request for general purpose loan.
- Movement of an account from one Bank to another.
- Frequent ad-hoc sanctions.
- High value RTGS payment to unrelated parties.
- Non submission of original bills.
- Funds coming from other Banks to liquidate the outstanding loan amount.
- Financing of the unit far away from the branch.
- Request received from the borrower to postpone inspection of the godown for flimsy reasons
- Liabilities appearing in ROC search report, not reported by the borrower in the annual report.
- Material discrepancies in the annual report.
- Disposal / Replacement of vital machinery without Bank's knowledge.

A. Aravind, Chief Vigilance Officer, Andhra Bank



“True heroes are made of Hard Work and Integrity”

The OECD Toolkit states that “Serving the public interest is the fundamental mission of governments and public institutions.” Public officials are universally expected to be “attentive, fair, and impartial” while performing their duties “efficiently, effectively, and with integrity”. The Oxford dictionary describes conflict of interest as a situation in which a person is in a position to derive personal benefits from actions or decisions made in their official capacity. The UN and OECD have further expanded upon this definition by stating that conflict of interest situations of public officials are potentially a conflict between their public duties and their private interests and therefore, should not be allowed, for it can influence their duties and responsibilities inappropriately. They therefore, seek to lay down provisions for a more ethical framework for day to day conduct of business. The emphasis is more on identifying the potential source of corruption and forming an “effective long-lasting strategy of enforcement and education against corruption.” Managing COIs is therefore, critical to curbing corruption, as it is a forward-looking mechanism to reduce corruption at its early formation stage.

The ancient Code of Hammurabi lays down that nobody shall be the judge in his/her own case. This ethical premise forms the very basis on which the conflict of interest in our working spheres are governed. COI situations have their basis in ethical situations, and an important part of information about conflict of interest situations lies in educating the stakeholders or informing them about the pitfalls that befall individuals in such situations. In the U.S., all federal executives are required by regulation to receive an initial ethics orientation within 90 days of entering the federal government. Comprehensive guides are available at both federal and state levels to help public officials evaluate COI situations and take appropriate action. Similarly in countries like China, specific rules have been framed keeping in mind COI situations like accepting and offering gifts or hospitality, parameters for domestic and foreign official business, family activities and interests, and employment after retirement.

Most of the public sector organizations in India have enumerated for themselves Codes of Conduct both for Board Members as well as Senior Management, and have abrogated appropriate provisions in the Conduct Rules relating to partaking of gifts, employment of near relatives as defined under the Company Laws in official positions or bestowing of favors directly or indirectly, acceptance of gifts, online annual declaration of immovable/movable properties, shares and debentures etc. But despite this, COI situations are allowed to be exacerbated, day in and day out. The general belief in such situations is that if not declared, nothing comes out in the open.

A real life case study showcases such a situation. Mr. A, an Engineer posted at a remote site was informed by his wife one day that her only brother had tried to commit suicide. He had lost his job recently and the inability to feed his family had driven him over the edge. However, he had been saved by some of his friends in the nick of time. The engineer decided to appoint his brother-in-law as the labour contractor in his project. He would have to manage a lot of things but that should not be a problem he thought,

with his immediate bosses sitting far away. Everything was smooth for a while. He managed to get payments for the labour contractor in a bank account which his brother-in-law had opened jointly with his wife. One day he fell ill while at work and had to go through an emergency bypass operation. A few days later the Vigilance officer visited his office and began to ask questions about his brother in law as well as the joint account being operated by his wife and her brother. He tried to impress upon the Officer the circumstances in which he had helped his brother in law, but that was of little help. He was served with a major penalty charge sheet. Mr. A clearly placed himself in a vulnerable situation when he decided to help his near relative in a clear conflict of interest situation.

Then there is the case of the son of a Director in a public sector organization who was employed by a MNC which had business dealings with his father's company. His father informed the Ministry about his son's employment with the MNC. Subsequently when his company was deliberating over a contract to be awarded to his son's company, the father sat through the proceedings in the BOD meeting till the government nominee on the BOD sent him a hand written note asking him to leave.

There are numerous examples of the contractor or vendor supplying tickets of an IPL final or a musical concert or paying for a holiday in exotic destinations by combining work with pleasure, and the more recent phenomenon payment for funding of overseas education of children and their subsequent livelihood on foreign shores. But that comes at a tremendous cost, not only is there a loss of reputation in the eyes of the contractor but also the added conundrum of obligation for future services at a loss to the organization. Then there is the added fear of facing investigation and disciplinary action in the organization. The CEO of a public sector organization deputed one of his subordinate officers having very good technical expertise for negotiations with a dealer located in a foreign country. For this purpose, the officer had to visit the country several times and on one occasion he took his family along and partook of free hospitality at the expense of the dealer. Fortunately, for the organization before any further damage could take place, the news of the free hospitality reached the CEO and he took timely action of removing the executive from the job at hand.

While some amount of preventive action is taken by organizations to educate or inform the stakeholders of the pitfalls of conflict of interest situations and how to avoid them; rather the tools are there, but perhaps the will to realize that actions which jeopardize the ethical standards of an organization are not to be ignored, is mostly lacking. Despite there being a ban on the acceptance of gifts during festivals, it is a common occurrence that costly gifts are bestowed on senior employees of organizations. The venue has merely shifted from the official to the personal. Heads of Corporate organizations are aware of these activities but are unwilling to 'bell the cat' due to their own vulnerabilities. Our societal norms essentially lay emphasis on "being nice" to colleagues, one in which COI situations are intentionally overlooked. Also, there

is lack of effective implementation in managing COI situations in a timely, strict, or thorough manner. One such area is the post retirement scenario, in which tracking and ensuring implementation of procedures are either lacking or not uniformly put into practice.

The above situations are examples of potential conflict of interest situations which could have been avoided by both the parties. The partaking of gifts, accepting hospitality of vendors or awarding work to near relatives are stepping stones into the domain of conflict of interest. Although in our country the rules are clear on such issues, these are also regularly compromised. But once it is revealed the penalties can be very damaging, as the above gentlemen realized to their detriment. While in developed countries, the penalties in COI situations are stringent as evinced in the case of the secretary of State for International Development in UK who had to resign from her post in 2017 after conflict of interest situation surfaced out of undisclosed meeting she had with Israeli officials while on holiday in the country; or in Portugal, where sanctions for COI situations range from loss of mandate for political officials, immediate termination of office, fine as well as return of all sums inappropriately received.

While we may have learned from the events in their lives, there is no getting away from such situations which comes to us in some form or the other in our working lives. It is important to realize them and take action without hurting ourselves or our organizations. The anti-corruption history of Hong Kong where similar societal norms exist shows that an active implementation of systems and procedures can overcome the cultural obstacle.

While Conflict of interest situations cannot always be avoided or outlawed totally, there is a compelling need to identify, disclose, and effectively manage such situations as part of an important corruption prevention strategy so that it turns out to be beneficial in the long run for the public sector. Not only are opportunities for corruption or improper conduct reduced with the introduction of effective policies and procedures, it also becomes possible to counter unfounded accusations of bias more easily and efficiently. Most importantly it reinforces commitment to good governance by addressing an issue that is commonly associated with corruption and misconduct. This way we will be contributing to a more ethical atmosphere in our working spheres.

Sources:

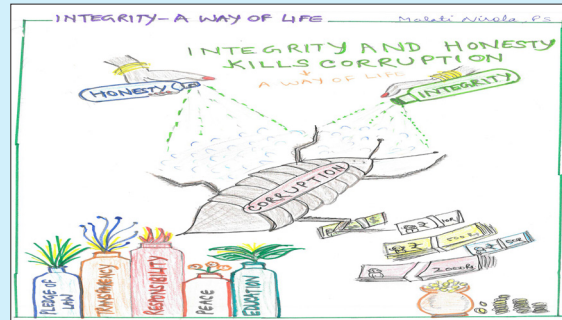
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R. Chatterjee, Advisor, CVC

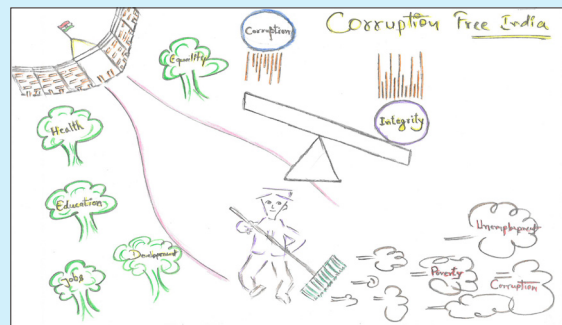
Prize Distribution During the Vigilance Awareness Week in the Commission



First Prize (Cartoon Competition) Smt. Malati Nirola



Second Prize (Cartoon Competition) Sh. Raj Kumar



First Prize (Debate): Sh. Sameer Adhlaka



Second Prize (Debate): Sh. Manish Raj



First Prize (Quiz): Shri Ashutosh Tiwari and Shri Ashutosh Narayan



Second Prize (Quiz): Sh. P. S. Jacob and Sh. Rajesh



Prize Distribution During the Vigilance Awareness Week in the Commission



First Prize (Poem): Shri Ashutosh Tiwari



Second Prize (Poem): Sh. Sameer Adhlaka



First Prize (Slogan Competition) Sh. S.P Gautam

**Combating Corruption
Needs no Nitty Gritty,
It demands in life.....
Simply... The Integrity!**

Submitted by:
S.P.Gautam, T.E.



Second Prize (Slogan Competition) Smt. Neetu Virk Arora

Slogan writing - VAW 07/11/19

इमानदारी एक आदत है
अपना लौ इसे - ये इबादत है !



First Prize (Speech): Shri Manish Raj



Second Prize (Speech): Sh. Sameer Adhlaka





Vigilance Awareness Week 2019 in the Commission



बनना ऐसा बादल है

बीत गया जो था कल देखो, आएगा वो भी कल है,
 कल अच्छा था, या कल होगा, इसका तुममें ही बल है।
 हाहाकार मचा है देखो, सब कहते हम दुर्बल हैं,
 मान चुके हैं झुकना होगा, लेन देन ही एक हल है।
 मैं कहता हूँ नहीं अंधेरा, उजियारे की हलचल है,
 जो करते थे ऊंची मांगे, जीना उनका मुश्किल है,
 अब न होगा लेना देना, बदल रहा अपना कल है,
 उन मांगों पर ना तुम झुकना, तेरा मन तो निर्मल है।
 जीवन में जो लक्ष्य बनाये, पूरा करने का फल है,
 सच्ची निष्ठा हो जो दिल में, मिलता कर्मों का फल है।
 सड़ता है वो रुकता पानी, बहता जल तो अविरल है,
 भ्रष्ट आचरण चिंता देते, बिन इनके मन शीतल है।
 जन-जन की जो चिंता करते, मरुथल के वो बादल हैं,
 स्वार्थ सिद्धि से परे जो रहते, दुनिया उनकी कायल।
 अब हमको यह तय है करना, जीना कैसा जीवन है,
 मृगतृष्णा को चुनना है या बनना ऐसा बादल है।

—vk kqsk frokjh अनुभाग अधिकारी, केन्द्रीय सतर्कता आयोग

कविता

आओ भारत वीरो आओ, देश धर्म पर बलि बलि जाओ,
 आजादी का लाभ उठाओ, हम भी खाएं तुम भी खाओ।
 विजिलेंस ने छापा डाला, कितना व्हाईट कितना काला,
 ले-दे कर हो गया फैसला, खुश है अफसर, खुश है लाला।
 कुर्सी छूटी, छुट जाने दो, हंडिया फूटी फूट जाने दो,
 बहुत करी जनता की सेवा, अब हमको मेवा खाने दो।
 मस्ती से दिन काट रहे हैं, डाकू मक्खन चाट रहे हैं,
 कैदी उनसे थर-थर काँपे, जेलर को भी डांट रहे हैं।
 नितप्रति गीत प्रगति के गाएँ, गलत आंकड़े मन बहलाएँ,
 मजे मारते चमचे भइये, अँधी पीसे कुत्ते खाएँ।
 करो प्रशंसा हित हो जाओ, आलोचक बनकर पिट जाओ,
 शासन के आसन पर बैठे, उनके आगे पूँछ हिलाओ।
 धन दौलत, शोहरत है कैसी, स्वर्ग नरक की ऐसी तैसी,
 भ्रष्ट लाल सा लाल न कोई, किसकी किस्मत उनकी जैसी।
 आजादी का लाभ उठाओ, हम भी खाएँ तुम भी खाओ,
 अगर उठाए कोई उंगली, देशद्रोह में बंद कराओ।

&l ehj vny [kk] ए.एस.ओ. केन्द्रीय सतर्कता आयोग

Some interesting facts emerged in a recent inspection of work of expansion of already developed facility which have been discussed as below:

1. The subject facility was already in existence and PSU was charging the user fee for the same. This facility was to be expended by the contractor on BOT basis. Following were the conditions of tender document for the above work of expansion of facility:
 - The fund was to be arranged by successful contractor as debt equity ratio of 70:30.
 - Firm was allowed to collect the user fee for the existing facility, from the very first day of handing over the site. Later after expansion of the facility also, the contractor was to continue to charge the user fee. The collection of the user fee was to go to one escrow account. However certain percentage of this collection was to be given back to PSU, from the escrow account.
 - Lenders' Engineer was to be appointed by the consortium of banks. Loan for the project was to be released by banks' consortium, in stages, on recommendations regarding expenses & project progress made by lenders' engineer.
 - Utility shifting was not part of the subject tender. PSU had to pay to successful contractor separately for the utility shifting, on the basis of estimate prepared by the owner of the utilities. There was no tendering for awarding of these works of utility shifting inspite of the fact that the volume of utility shifting work was as high as Rs 175 cr.
 - There was no provision of tri-partite agreement between banks, successful contractor and PSU. Hence the lenders' engineer appointed by consortium of banks, was not answerable to PSU for any report or recommendations, made by him. In other words, the lenders' engineer could make any report without considering the view point of PSU.

M/s A was selected as successful bidder after quoting least number of years for which M/s A will charge the user fee before handing over the expended facility again to PSU.

2. Following complication arose after award of the work to M/s A:
 - The project got delayed but without any accountability fixed on the firm M/s A.
 - As a result the project cost was increased by the firm M/s A. The lenders' Engineer also allowed more fund to be released to M/s A, as debt. Accordingly the debt on the project got increased more and more.
 - PSU could not stop it because lenders' Engineer was not answerable to them, due to non-availability of tri-partite agreement and agreement being only between banks and M/s A.
 - Now the starting amount which PSU was getting from the escrow account was also stopped, citing that there was no fund available for releasing payment to PSU after meeting all expenses. Only very little amount was being paid to PSU and that too, under waterfall mechanism. Thus PSU had to lose its earning which it was getting as collection of user fee initially before the expansion project was awarded to M/s A.

- Now the contractor M/s A has gone into arbitration and demanded more compensation (in terms of demand for expansion of user-fee collection period), with the plea that it has already suffered huge expenses on the project, as certified by the lenders' engineer of the banks' consortium. In nut shell, Following are the losses which PSU is suffering in this deal:
 - a) Loss due to not getting initial collection of user fee (which it was getting prior to expansion of facility) from the escrow account;
 - b) Loss due to not getting increased user fee after expansion of facility by M/s A;
 - c) Would-be loss due to demand of increased period for which user-fee will be collected by the M/s A.

The benefits on the other hand, which M/s A, has obtained are as below:

- a) Right to collect the user fee from the very first day of handing over the project, even without spending a rupee on the project;
 - b) Award of utility shifting works of worth about Rs 175 cr, on nomination basis and without rate reasonability thereof;
 - c) Non-paying the share of PSU from the monthly collection of user fee;
 - d) Demanding longer period of user-fee collection in the name of higher expenses incurred as certified by the lenders' engineer.
3. Tender's terms & conditions which allowed the situation to get worse:
- a) Allowing the collection of user fee from the very first day of handing over the site;
 - b) Not making the utility shifting works part of the original scope of work and then awarding them on nomination basis;
 - c) Payment being released to contractor M/s A on the recommendation of lenders' engineer who certifies the work's progress without getting feedback from the PSU;
4. This is a classic case where the contractor is getting undue advantage due to lack of proper provision in the tender. Had there been proper safeguard of interest of PSU then situation wouldn't have been so worse. At least a tripartite agreement between PSU, Banks and M/s A would have avoided the situation of passing the unlimited expenses in the name of project due to which PSU is now not getting its share of collection and also the contractor has demanded increased period of collection of user fee. Secondly, if estimated cost of utility shifting would have also been part of tender then other bidders would have had quoted their rate accordingly and nomination basis award of this high value work of utility shifting could have been avoided.

The above case shows how important is framing the terms and conditions in NIT, by evaluating their pros & cons so that it takes care of the proper safeguard of the interests of any of the PSUs.

S.P. Gautam, Technical Examiner, CVC



Brief Introduction

Having worked in the Commissioner for Departmental Inquiry wing for the betterment of my career in the Central Vigilance Commission, I really feel it is my privilege to discuss various aspects and stages in the Departmental Inquiries.

A. Role of Departmental Inquiry

Departmental Inquiry plays an important role in administrative Principles of Natural Justice and its part of Vigilance and Administration.

The different stages involved in the Departmental Inquiry are Preliminary Hearing, Brief Hearing and Regular Hearing.

I. Preliminary Hearing:

After appointment order of PO/CO received by the IO he will fix the date for the PH. Basically PH is meant for preparing the road map for the schedule for the completion of Inquiry.

a) Things to be ensured in the PH:

In case the CO is not present in the inquiry the inquiry will be proceeded ex-parte. However, it will be mentioned in the order sheet that CO will be given opportunity to participate in the inquiry at later stage whenever fixed (brief hearing and regular hearing) and also copy of the proceedings detailing the requirements to be completed by the PO/CO will be endorsed to him to facilitate his participation in the future hearings. Further, CO also be given opportunity to present his case through his nominated defence assistant authorizing him to present his case on his behalf.

In the Preliminary Hearing IO will first ascertain from the CO whether he received the charge sheet and also other related documents such as IO/PO order, Article of Charge(charges in brief), Statement of Articles of Charges(describing the charges levied), list of prosecution documents and witnesses cited to substantiate charges. These are in four parts. In case, no witness is cited it should be indicated as NIL in column IV. These also form part of the charge sheet.

Further, CO's reply to the charges levelled against him should also be attached with the Memorandum. This is mandatory to ensure that the CO denied the charges or admitted the charges in part. In case, the charges are admitted by the CO fully there is no necessity for the inquiry and the report will be submitted by the CO accordingly. If the charges are admitted in part by the CO, the inquiry need to be conducted only for that part of the portion not admitted by the CO. If reply to the charges are not received from the CO within the specified time and Department decided to proceed with the inquiry, these should be mentioned in the Charge sheet specifically and will also be recorded in the order sheet that department proceeded with the inquiry without the reply being received from the CO due to the fact that even after waiting

for specified time and reminders CO has not submitted his reply to the Charge.

CO will be given opportunity to nominate a Defence Assistant as per the rules if he so desires.

b) Schedule for Inspection of documents:

Time frame for inspection of listed documents will be fixed. Normally 15 days time is given for inspection of listed documents. On a date and time mutually convenient to both the CO, CO will inspect the original documents. Photo copies of the documents will be given to the CO wherever feasible.

In case the documents are in court, the photo copies will be furnished to the CO. If CO still desires to inspect the originals PO will arrange for the inspection of the same after getting permission from the Court.

c) Schedule for inspection of defence documents:

Time limit for submission of defence documents and their procurement and providing copies to the CO will be indicated in the order sheet.

For this purpose, CO will be given 15 days time for inspection of defence documents, indicating their relevance to the charge, custodian and other details.

Tentative dates for the Regular Dates will also be indicated in the order sheet, keeping in view all the above formalities.

Once inspection of listed documents and defence documents completed dates for Regular Hearing will be informed to the PO/CO.

II. Brief Hearing

Normally, brief hearing is fixed where there is a delay in the process of inspection of documents (both prosecution and defence). In the brief hearing IO could ascertain from the time required for completion of inspection of documents and also fix the date for the Regular Hearing of the case.

III. Regular Hearing

Regular Hearing forms one of the important part of the Departmental Inquiry.

Mainly, it consists of the marking of prosecution and defence documents and examination of the prosecution and defence witnesses.

Examination –in –chief of prosecution witnesses and cross-examination of the prosecution witnesses will be conducted by PO and CO respectively.

In the Examination-in-Chief, direct questions are not allowed. Further, it is not necessary to get the authenticity verified or repeat its contents if the documents are already admitted or authenticity is not disputed. In case, CO disputes authenticity of any documents or statement of witnesses, this needs to be confirmed and authenticated

from the witnesses. Then only it will be marked during the inquiry.

After the prosecution case is completed, it is mandatory for the CO to confirm whether he accepts or denies the charges. In case CO accepts the charges after hearing prosecution evidence, the hearing will be concluded. If CO denies the charges, he will submit his written statement of defence which may even be an one line statement 'at the end of prosecution case I still deny the charges and I may be permitted to lead my defence.'

He can also deny the charges orally. In that case, it will be mentioned in the charge sheet that charges are denied orally.

After completion of prosecution and defence witnesses, before concluding the hearing, it is obligatory on the part of IO to inform whether he desires to opt himself his own defence witness or not. In case, he opts himself as his own defence witness, in that case he will be treated as defence witness and PO will be allowed to cross-examine him. This marks the completion of defence case.

Thereafter, both PO/CO will be given time for submission of their briefs. PO/CO may opt for oral or written submission. In case the briefs are to submitted in written, two weeks' time limit will be given for both the CO and PO to submit their briefs.

B. Analysis of Evidence

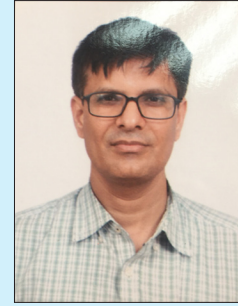
After Briefs of both and CO were received IO will submit the inquiry report to the Disciplinary Authority for taking a view. In the report basically case will be viewed from the point of the charges and statement of imputations which is boundary limit within which everything should revolve around. Hence, it is very essential that the briefs should be concise, clear and to the point.

It is very essential that IO keep this mind and base his report. Many a times important aspects are not covered in the prosecution documents and witnesses and the same will be brought out in defence documents and witnesses, while CO representing the case. Hence, it is essential to look each and every aspect concerning the inquiry before arriving at a decision.

P. Balasubramanian, PS, CVC



Dr. Praveen Kumari Singh,
IRPS-1993,
joined as Additional Secretary, in
the Commission on 01.11.2019



Sh Birendra Pratap Singh,
IOFS-2004,
joined as Director in the
Commission on 26.12.2019

We wish them all a happy innings in the Commission

Farewell Corner



Sh. Mukesh Kumar, Director was relieved from the
Commission on 30.11.2019.

Sh. Philip Bara, Director was superannuated from the
Commission on 30.11.2019



Sh. Gajender Malhotra, Assistant Technical Examiner was
relieved from the Commission on 09.12.2019

Sh. G. K. Srivastava, Director was relieved from the
Commission on 17.12.2019



Sh. Dalbir Singh, SCD was superannuated from the
Commission on 31.12.2019.

We wish them a bright future and success in their new assignments



New Year celebration at the Commission.



Diwali celebration at the Commission.



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