

Case 1:

Summary: M/s MOL was incorporated on 05.08.2008. The company was closely held Public Ltd engaged in trading of agro products, Oleao chemical, & other FMCG products. Company was having reputed client base like Emami, AdaniWilmar Ltd, HUL etc. and also international presence in Asian, African & Middle East market. At the time of submission of proposal, company was banking under consortium arrangement. Considering the growth opportunities and business expansion, management decided for expansion of business for which they require enhanced working capital. As such company decided to induct new banks in existing consortium to tie up the fresh limits. The proposal was appraised based on lead bank approved note for enhancement of limit and fund based limit of Rs.10 cr & NFB of Rs.40 cr was sanctioned to the company. The credit facilities were sanctioned by Credit Approval Committee headed by General Manager. Company's account was in stress as they were in short of receiving payment from their buyers due to gap in demand and supply. Thereafter all the LCs were devolved. Subsequently, account turned NPA.

Type of the source of the Case: Account turned into NPA.

Level of officials involved: The credit appraising officials at branch and zone level. The facilities were sanctioned by Credit Approval Committee headed by General Manager.

Money involved: Fund based limit of Rs.10 cr & Non fund based limit of Rs.40 cr was sanctioned to the company. (Outstanding in the account Rs.36.12 cr.)

Examination of vigilance angle: Vigilance overtone was perceived on the basis of following lapses:

- Pre sanction appraisal not conducted properly. The account was in SMA-2 category with other banks at the time of considering credit facilities. Due Diligence, as prescribed not done.
- Terms of sanction stipulated to obtain CR from other bank confirming that account was standard, obtain statement of account for past 6 months before disbursement. CR from other bank showed adverse features. Despite these adverse features, the credit facility was disbursed and Bank was exposed to significant risk by approval of credit limits of Rs.50 crore.
- Inspection of Book Debts/Goods charged to Bank/ Borrowers and the books/records not ensured as per terms of sanction.
- Margin money at the rate of 20 % was required for ILC limit. Entire margin was debited to CC account and FDRs prepared towards margin in account.
- Stock statement and DP from Lead Bank not received and drawings were allowed without valid DP.

Action taken against the officials: Staff accountability was examined, the matter was referred to CVC and penalty was imposed against the officials as per the advice of CVC.

Lessons/Learnings from the case:

- ✓ Bank's guidelines on sharing of information amongst Banks/FIs be complied with and acted upon.
- ✓ Terms & conditions of sanction to be complied before disbursement of credit facilities.
- ✓ Inspection/Visit of primary as well as collateral security to be ensured as per Bank's guidelines.
- ✓ Bank's guidelines on Consortium/Multiple Banking arrangement to be complied.
- ✓ Bank guidelines on pre-sanction appraisal and post sanction supervision should be complied with.

Case 2:

Summary: Cash credit limit of Rs.100 lac was sanctioned for execution of civil and mechanical contracts. The firm was into execution of order on sub contract basis and there were no sales. The debits were mainly for repayment of loan and interest for finance borrowed from financial companies like SREI Equipment and Tata Capital Finance Co. In spite of meager credit summations in the account, the limit was enhanced to Rs.200 lac by Sanctioning Authority without any justification. Earlier, car loan of Rs.11.80 lac was sanctioned. CC/TL Account became NPA.

Type of the source of the Case: Account turned into NPA.

Level of officials involved: Vigilance overtone was perceived against Branch Head in the rank of Assistant General Manager.

Money involved: Cash credit limit of Rs.200 lac

Examination of vigilance angle: Vigilance overtone was perceived on the basis of following lapses:

- The borrower was in the business of carrying out civil and mechanical contracts. As per Balance Sheet, the income shown was from job order receipts. BM sanctioned hypothecation/book debt limit instead of sanctioning limit against receivables only.
- The Project report submitted by the borrower was not even signed by the borrower. Projections were not based on past record.
- In Commercial CIBIL extracted on the firm, the account was in substandard category in one demand loan. Though the same was factored in loan proposal satisfactory proof was not held on record for its regularization.
- Consumer CIBIL on one of the partners showed past dues in 6 A/cs and one account written off. These aberrations were not factored in the Loan proposal along with satisfactory documentary proof for its regularization.
- The CC limit has been enhanced when there were many drawbacks/aberrations in the commercial CIBIL report of the firm and CIBIL of the partners which have been clearly mentioned in the limit proposal but the issue was not addressed. In the proposal, it was clearly mentioned party to submit no due certificate from all these institutions before release of the limit but branch sanctioned and released the limit without satisfying the condition as per sanction.
- The credit summations in the CC account were not in commensuration with the limit.
- There was no justification in the limit proposal for enhancement of limit from Rs.40 lac to Rs.80 lac.
- Regular CR was compiled on all the partners of the firm:-
 - Without obtaining documentary proofs for IPS owned and
 - Without any official inspection of the properties.
- Stock/Book debts statements were submitted by the borrower on their letter head, not on format prescribed by the bank and the details like date of invoice, number, name of party etc. were not provided in the statements.
- Diversion of funds was observed in the CC A/C as Branch Manager transferred funds to sister concerns without ascertaining genuineness of transactions.
- The borrower was also maintaining Current account with other Bank.
- Further, the Cash Credit account was used for effecting payment towards loans availed from finance companies and transfer of amounts to group companies rather than for business needs/requirement of the firm. The end use of bank's funds were not verified by the sanctioning authority at the time of renewal of the account
- Wrong confirmation in legal compliance certificate made, whereas valid EM was not done and documents were incomplete.

- Documents were left blank. (Hypothecation agreement, Agreement of guarantee and property declaration form)
- Agreement of guarantee of all partners were not obtained in their individual capacities.

Vigilance perceived due to:

- Sacrificing/ignoring the interest of the Bank and causing loss to the Bank.
- Official did not act in accordance with rules and his recommendations were not in the interest of the Bank;

Action taken against the officials: Staff accountability was examined, the matter was referred to CVC and major penalty was proposed against the officials.

Lessons/Learnings from the case:

- ✓ All the information provided in documents i.e. CIR, Balance sheets, ITRs etc. to be analyzed/addressed properly.
- ✓ Project report/application and all other documents obtained should be signed by the borrower(s).
- ✓ While sanctioning loan/limit, the bank's guidelines on credit appraisal be complied.
- ✓ At the time of renewal of credit facilities, it is to be ensured that terms & conditions of previous sanction have been complied or not.
- ✓ At the time of enhancement of limit, proper justification and documentary evidence to be obtained.
- ✓ Utilization of CC limit to be ensured.
- ✓ Transactions to sister concerns/other allied concerns to be scrutinized and bank's guidelines on the same to be followed.
- ✓ Guidelines on maintaining current account with other banks to be complied.
- ✓ Bank guidelines on pre-sanction appraisal and post sanction supervision should be complied.
- ✓ Documents i.e. Hypothecation agreement, Agreement of guarantee and property declaration form etc. to be properly filled and signed by the borrower(s) and bank's official (s).

Case 3:

Summary: Non-borrowal fraud case amounting Rs.150 lac that occurred in the Bank due to malafide intention of Staff. A customer of the Bank complained to Branch Head regarding unauthorized withdrawals from her account in different dates.

- 175 customers submitted written complainant regarding unauthorized withdrawal in their accounts.
- There were various withdrawal slips undated and unsigned by customers, duly passed by passing officials and stitched in daily vouchers.
- There were various unauthorized payments from customers' accounts not supported by vouchers (withdrawal forms).
- Cash was received by the Head cashier, over the counter in the Branch but not credited into accounts of customer.
- Passbooks of customers were not updated since long.
- There was a practice of manual (handwritten) updation of passbooks also.
- Various transactions were made in account of family member of the staff and Loan was also sanctioned without approval from competent authority.

Type of the source of the Case: Fraud.

Level of officials involved: Head Cashier

Money involved: Rs.150 lac

Examination of fraud angle and vigilance overtone: Fraud angle & Vigilance overtone was examined on the basis of following lapses:

- The fraud remained undetected as fraudster was making transactions (entering and passing) under his own powers of single window operator.
- System generated cash receipt printer not installed in the Branch.
- Counter of Head cashier had no CCTV camera.
- Gross negligence on the part of supervisory staff at branch and lack of monitoring by Circle Office.

Lessons/Learnings from the case:

- ✓ Customers be educated for availing SMS alert facility.
- ✓ Bank's extant guidelines for entering/change of mobile number in the customer account should be complied with.
- ✓ Branch officials must remain vigilant on any suspicious activities prevailing in the branch & also the same should be reported to controlling office if role of any branch officials is suspected and checking of DMS/Exception reports invariably be done.

Case 4:

Summary: An incident of theft occurred at onsite ATM of Branch Office. The matter came into notice when HO debited the suspense account of Branch office. Thereafter on seeing the CCTV footage it came to notice that unidentified masked person opened the safe vault of ATM with duplicate keys, dial-lock password and stole the cash from all the cassettes of the ATM. Upon tallying the suspense entries and EJ log, the total amount involved in the theft was of Rs.9,71,500/-.

Type of the source of the Case: Theft/Fraud.

Level of officials involved: The branch head and other officer.

Money involved: Rs.9,71,500/-

Examination of vigilance angle: Vigilance overtone was perceived on the basis of following lapses:

- ATM EOD vouchers were not available in the branch.
- While doing ATM EOD on a particular day, there was difference in dispensed and actually reported amount from ATM. The difference was not reported.
- While doing ATM EOD on a particular day, branch reported cash of Rs. ₹1,94,400 as physical cash available in "Type One" cassette but it was physically not available on that day. Branch was continuously doing wrongly EOD, by showing this amount.
- Branch did not inform Circle Office, Zonal Office or Head Office in any way about the shortage of cash in ATM.
- No office order/duty sheet was issued by the branch incharge regarding ATM custodian duties.
- On seeing the CCTV footage it was clearly visible that an unidentified masked person opened the safe vault lock with a key and the password. There was no physical damage found on the ATM machine. Hence it was clear that the password(s) was compromised. This was an on-site ATM and all activities including cash filling were done by the branch staff.
- As per bank guidelines on ATM security – ATM cash is to be handled jointly by ATM incharge and cashier. Keys of cassettes are to be kept in main safe overnight and its custody remains with cashier during day time. The guidelines were not complied.

Action taken against the officials: Staff accountability was examined and major penalty was proposed against the officials, the branch head and other official involved.

Lessons/Learnings from the case:

- ✓ Bank guidelines on ATM security/handling to be complied.
- ✓ ATM cash is to be handled jointly by ATM incharge and cashier.
- ✓ Keys of cassettes are to be kept in main safe overnight and its custody remains with cashier during day time.

Case Study on Technology as Enabler

Executive Summary:

ABC Bank with more than 100 years of strong history having survived upheavals & disturbances in the economy had responded proactively to computerisation drive. It was the 1st Bank to bring Core Banking Solution in the country in the early years of 2000. With focused drive, it had created a digitally proactive customer base of 6 Cr to be supported by 9500 ATMs across the country. However, in May 2019, customers of City X started getting alerts of debits in their account. They started lodging complaints of unauthorised debits in Bank's Toll free numbers, mails & through physical visit to Branches/Regional Office.

They complained that:

1. Their card was used in ATMs in City Y, Z etc. despite the fact the card was in their possession.
2. They had never visited the said cities.



The next day the event was widely covered in the local newspapers. Money lost varied from Rs.10000/- to Lakhs. The Regional Office responded quickly by advising the victims of the Cyber Fraud to lodge complaints on the Bank's Toll free, Cyber cell of the nearest police station. At the same time, the IT team of the Regional Office also identified the 3 ATMs through which the data had been compromised. The event was reported to Head Office on realtime basis. Before it was discovered, close to 161 cards were compromised and were used by the fraudster to withdraw money from the accounts of innocent people from all over the country.

In a couple of cases, the help of NPCI for necessary investigation was also taken. Head Office of ABC Bank took the event seriously & steps were taken to protect the customers' interest by hot listing of all cards swiped on the 3 ATMs of city. Quick action by the management of the Bank & local authorities prevented further loss.

Modus Operandi:

- Three of the ATMs were targeted by fraudsters with high card hit rates.
- Skimmers were inserted in the card brackets.
- Pinhole camera was fixed over the keyboard.
- Cloning of Card with data fetched through skimming devices.
- Withdrawal of money at odd hours in different cities.

Action taken by ABC Bank:

- The Bank instructed the OEMs of ATMs to install Anti Skimming devices in all ATMs, which eventually shuts the Card Reader, whenever an attempt is made to fiddle with the same for attachment of external devices.
- Bank also replaced all the magnetic strip cards (which were more prone to cloning) with EMV chip cards.
- Scrutiny of Security Camera done on regular intervals.
- Pictures of the persons indulging in doubtful activities were shared with Police.
- Also, OTP authentication for the ATM transactions in odd hours implemented for preventing customer's loss due to such incidents.
- Bank provides various security features which should be used ingeniously to prevent frauds. This includes: Debit Card temporary on/off, Enabling/Disabling various channels, managing intermittent channel limits etc.

Impact on the Stakeholders/Beneficiaries:

- A customer becomes victim of card cloning leading to financial loss.
- Complaints at various forums for refund of the amount adversely affect the image of the bank.
- The reputation of the bank impacted due to adverse publicity in social media.
- Reduction in ATM hits in the City & affecting the profitability of the Bank.

Future Road Map/Sustainability to Bankers & Customers:

- All ATM/POS terminals to be inspected before using.
- The keypad should be shielded while entering PIN.
- Public awareness through Bank's website, digital channels, SMS and social media.
- Sensitizing the staff members through training, seminars & workshop.
- Increase in E-Surveillance & upgradation of ATMs.
- ATM PIN should be changed by customer at frequent intervals.
- In case of fraudulent transactions Debit Card should be hotlisted immediately. Various channels are provided by the Bank through which Debit Card can be hotlisted instantly.

Abbreviations used:

- NPCI: National Payment Corporation of India
- OEM: Original Equipment Manufacturers
- OTP: One Time Password
- POS: Point of Sale
- PIN: Personal Identification Number

Case Study on Principal - Agent Relationship

MNP Banks had a Corporate Agency agreement for Insurance Business with various Life and Non- Life insurance companies catering to diversified needs of their customers with following advantages:

- For the benefit of valuable customers and to become one stop shop for various financial products & services.
- Insurance is a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss.
- Insurance business plays a pivotal role to source Fee Based Income for the Bank.

Executive Summary:

Link road branch of MNP bank was working since 80 years and held accounts of eminent persons/ HNIs located in the area demanding good banking services. The employee of Meralife Company, Mr. Agent was very friendly and aggressive. He was posted at the branch to source life insurance business under Bank's code. The role of Mr. Agent was to convince customers of the MNP bank branch about various insurance policies by way of talking to walk in customers and firming up the business with Specified person posted in branch.



However, in wake of rejection of insurance policies / delays, the customer started complaining & the staff too expressed their reservations. Mr. Agent was asked not to sit in the Branch Premises.

Mr. Agent accepted the decision of the branch and stayed outside of the branch premises.

Later on, the Senior Officials of the Circle were surprised to find out that the fee-based income of Circle was declining. They

analysed the situation and discovered that the growth of Meralife policy and growth of MNP bank agency policy did not match. They analysed branch wise figure and found that Mr. Agent had started doing insurance policy sale under the agency code of his relative instead of Banks Code.

There was a revenue loss to MNP Bank to the tune of 100 Lacs on account of loss of insurance policy business on banks code.

Modus Operandi:

Mr Agent had all the information about the customers. He utilized that information to call customers by hiding his proper identity. Also met them outside the branch premises and sometimes inside the premises, thus raising no doubts amongst the customers who believed that they were dealing with the bank only. However, Mr Agent was working outside the corporate tie-up agreements & diverting the commission income for his personal gains.

Guidelines of MNP Bank for Insurance business

- The customer profile or information collected from the customer for the purpose of sourcing TPP is to be treated as confidential and details thereof are not to be divulged to another third party for cross selling or any other like purpose and should be in conformity with the guidelines issued in this regard.
- Any other information from the customer should be sought separately with his/her consent for the purpose of selling any third party product. The Risk assessment done for the customers are to be kept confidential and details not to be divulged except as specified in the policy.

Specified Person

- There was Contravention of roles & responsibilities as per IRDAI (Registration of corporate agents regulation 2015 code of conduct)
- There was delinquency in policy servicing / settlement of claims.

Action taken by bank

- Sensitization of Branch Heads & staff towards third party vendors/ those specified person.
- Income reconciliation of Insurance business with the HO/ Vendor.
- Monthly/quarterly analysis of fee based income.
- Ensuring Regulatory/ Statutory compliances.
- Strengthening of check points for inspecting officials.

Impact on Stake holders

- Revenue Loss of Rs 100 lacs.
- Loss of trust by prestigious customers.

Future Road Maps/ Sustainability to Roles of Field Staff

- Branch head to remain vigilant and ensure that Insurance business solicited by FLS is routed through SP.
- Cross checking of business sourced & fee based income earned on monthly basis.
- Display of the bank insurance product, also arrange meets with customers at branches/ on website etc.
- Corporate Agency agreement and Corporate Agency Regulation 2015 for sale of Insurance policy to be followed meticulously.
- FLS should not be allowed to have access to bank data.
- FLS should always wear Insurance Company I-Card to identify themselves as Insurance Staff.

Abbreviations used:

- HNI: High Net Worth Individuals
- TPP: Third Party Products
- IRDAI: Insurance Regulatory & Development Authority of India
- SP: Specified Person (bank employees who have qualified specific IRDA Exam)
- FLS: Field Level Staff