

Year	No. of Show Cause Notices issued for FEMA contraventions	Amount involved (in lakhs of Rs.)
2009-10	463	341756.08
2010-11	440	247505.91
2011-12	239	1179140.91

(d) and (e) Financial Intelligence Unit, India (FIU-IND) has signed MoUs with FIUs of 19 countries till date for information sharing on money-laundering and terror financing. However, not all FIUs require MoUs for information sharing. Information made available by foreign FIUs which is either request based or spontaneous, is shared with the relevant domestic law enforcement and intelligence agencies.

(f) Financial Action Task Force (FATF) Recommendations on Money Laundering and Terrorist Financing are considered as global standards. Recommendation No. 40 of FATF requires a country to effectively provide the widest range of international cooperation in relation to money laundering and terrorist financing. India is a member of FATF. As per the recommendations of FATF the member countries provide mutual assistance to each other in matters of money-laundering and terror financing.

Steps to check frauds

*292. SHRI SANJAY RAUT : Will the Minister of FINANCE be pleased to state;

(a) whether Ernst and Young financial agency has reported that different types of frauds have caused Rs. 6600 crore loss to Indian economy and banks in the last fiscal;

(b) if so, the reasons therefor and details thereof; and

(c) the effective steps that Government is taking to check these frauds?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : (a) and (b) As per the report of Ernst and Young total number of fraud cases during the FY 2011-12 stood at 204 involving an amount of Rs 6600 crore for the financial services sector.

However, as per Reserve Bank of India's record, the incidents of frauds reported by the Banks during FY 2011-12 was 5569 cases involving an amount of Rs. 4448 crore.

As reported by RBI, the reasons for frauds in banks are broadly as under:

- (a) The banks had released the loan amount in lump sum which was not used for the purpose/s for which the loan was sanctioned.
- (b) The banks had not carried out the pre-sanction inspection of property for the acquisition of which the loan was being sanctioned to ascertain if the unit/property really existed.
- (c) The loans were sourced through Direct Sales Agents (DSAs) and the banks did not carry out any due diligence on their part before sanctioning the loan.
- (d) The borrowers submitted fake title deeds of the collateral security which could not be detected through the process of search reports.
- (e) The borrowers submitted fake documents related to 'Know your Customer' (KYC) compliance and could not be found at the given addresses after release of loan amount.
- (f) The borrowers submitted fake and fabricated financial statements/salary slips to show improved financial position of the borrowers.
- (g) The assets created out of the loan amount were sold without the knowledge of the financing banks before the loan is paid in full.
- (c) The steps taken by RBI are as under:—

Reserve Bank of India has issued detailed instructions *vide* Master Circular dated July 01, 2012 on "Frauds - Classification and Reporting" containing all the details/aspects relating to frauds. On receipt of fraud reports from banks, various aspects related to the frauds are examined and concerned banks are advised to report the case to CBI/Police/Serious Fraud Investigation Office (SFIO), examine staff accountability, complete proceedings against the erring staff expeditiously, take steps to recover the amount involved in the fraud, claim insurance wherever applicable and streamline the system & also procedures so that frauds do not recur.

Reserve Bank of India as a part of its supervisory process also takes the following measures to prevent/reduce the incidence of frauds:

- (i) Sensitizes banks from time to time about common fraud prone areas through issuance of modus operandi circulars on various types of frauds and the measures to be taken by them.

- (ii) Issues caution advises in respect of borrowers who have defaulted the banks.

In the past considering various concerns arising out of bank's operations, including incidence of frauds, RBI has advised banks to:

- (a) Introduce a system of concurrent audit;
- (b) Review working of internal inspection and audit machinery in banks by the Audit Committee of the Board of Directors;
- (c) Constitute a Special Committee of the Board to exclusively monitor frauds of Rs. 1 crore and above; and
- (d) In order to make third parties and professionals accountable, who have played a vital role in credit sanction/disbursement or facilitated the perpetration of frauds, banks have been advised *vide* circular dated March 16, 2009 to report to Indian Banks' Association (IBA). IBA in turn will prepare caution lists of such parties for circulation among the banks.

Impact of global liquidity infusion

*293. SHRIMATI T. RATNA BAI : Will the Minister of FINANCE be pleased to state:

- (a) whether the global liquidity infusion is fuelling commodity prices in our country; and
- (b) if so, the details thereof and its impact on our country so far in the market?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) : (a) An accommodative monetary policy in Advanced Economies in conjunction with supply construction constraints may keep some key global commodity prices volatile and at elevated levels. Domestic prices of non-food manufacturing products (excluding urea fertilizers), petroleum products (except kerosene, LPG and diesel) and some food products, particularly edible oils are impacted both by the domestic availability of these products, global commodity prices and exchange rates.

(b) Global commodity price inflation measured in terms of World Bank's commodity prices data and domestic inflation measured in terms of the Wholesale Price Index for Food and Energy sectors are indicated below: