22 banks fined Rs 50cr for know your customer violations

The Reserve Bank of India on Monday imposed a fine of Rs 49.5 crore on 22 banks following investigations into allegations of money laundering levelled against them by a web portal, which had conducted a sting operation on their branches.

The second round of investigations did not bring out any instance of money laundering but resulted in the largest collective penalty on Indian banks for violation of 'know your customer' norms that are aimed at preventing money laundering.

The banks that have been fined include the State Bank of India, Canara Bank, Bank of Baroda, Central Bank of India, Indian Overseas Bank and Federal Bank, which have been fined around Rs 2 crore each. Six other public sector banks have been fined between Rs 1 and Rs 2.5 crore each. Among the new generation private banks, Yes Bank and Kotak Mahindra Bank have been fined Rs 1.5 crore and Rs 2 crore, respectively. The old generation private banks that have been fined Rs 2.5 crore each are Jammu & Kashmir Bank and Laxmi Vilas Bank.

Besides penalizing the 22 banks, RBI also cautioned five foreign banks - Barclays, BNP Paribas, Citibank, Royal Bank of Scotland, Standard Chartered and Bank of Tokyo Mitsubishi. It also cautioned State Bank of Patiala without imposing any fine. A senior banker said that KYC violation does not amount to money laundering. "If a PAN number has not been obtained, it is a KYC violation. But this does not mean that money laundering has taken place," he said.

This is the highest penalty levied by RBI following a single investigation. The penalty comes close on the heels of the Rs 10.5 crore fine imposed by RBI on three new generation private banks - HDFC Bank, ICICI Bank and Axis Bank. In the second round of investigations conducted in April-May 2013, RBI had gone through the books of 38 banks which were named by the portal. Prior to the sting operation, the highest penalty was imposed by RBI on private and foreign banks for similar KYC violations in opening depository accounts in the IPO scam. That round of activism led to a major clean-up of multiple depository accounts.

The violations for which the penalties have been imposed include omission in reporting cash transaction limits, sale of gold coins for cash beyond Rs 50,000, non-adherence to instructions on monitoring transactions, failing to stick to the limit for remittance or repatriation of funds abroad and importing of gold on consignment basis. Bankers say that they have already become extremely strict in obtaining PAN cards for bank accounts. Some of the banks have done a review of their KYC documentation and are asking customers to resubmit their KYC documents.

(The Times of India)