RBI enforces Rs 14-crore penalty on 7 banks for flouting norms

Lenders failed to follow directions on fraud reporting, KYC and current account-opening norms, according to Financial Stability Report

The Reserve Bank of India has undertaken enforcement action against seven banks (including a payments bank and a cooperative bank) and has imposed an aggregate penalty of Rs 14.20 crore for a wide range of contraventions in the period between July 1, 2018 and October 31, 2018, according to the latest Financial Stability Report.

The enforcement action was initiated for non-compliance with/contravention of directions on fraud classification and reporting, discipline to be maintained while opening current accounts and reporting to the Central Repository of Information on Large Credits platform and Risk-Based Supervision; and violations of directions/guidelines on KYC norms. The action was also initiated for violation of Income Recognition and Asset Classification norms; delay in resolution of ATM-related grievances; violation of all-inclusive directions and non-compliance with specific direction prohibiting opening of new accounts.

During the period between July 1, 2017, and June 30, 2018, the Enforcement Department undertook action against 14 banks (including a payments bank and a small finance bank) and imposed an aggregate penalty of Rs102.40 crore.

With a view to separating the function of identification of contravention of respective statutes/ guidelines and directives by the regulated entities from imposition of punitive action and to make this process endogenous, formal and structured, a separate Enforcement Department was created within the Reserve Bank in April 2017.

To begin with, the department focussed on the enforcement of penalty provisions in case of commercial banks, under section 47A of the Banking Regulation Act. Enforcement of regulations pertaining to cooperative banks and non-banking financial companies, too, has been brought under the Department with effect from October 3, 2018.

The core function of the department is to enforce regulations and improve compliance, with the overall objective of ensuring financial system stability and promoting public interest and consumer protection.

Foreign banks

Meanwhile, the RBI has observed some deficiencies during its thematic study on operations of service centres/business process outsourcing subsidiaries of major foreign banks. Some of the concerns/ risks observed were that employees in the outsourced agency had the same access rights to the bank's core banking solution (CBS). Further, it was also observed that user control-related activities such as password re-setting, access rights to bank's applications and change request were handled by the outsourced agency.

The report said banks' Service Level Agreements (SLAs) with their outsourced agencies did not recognise the Reserve Bank's right to inspect the service provider of the banks and their books and accounts by one or more officers or employees or other persons.

People-risk was elevated on account of a significant amount of cost being incurred on outsourced services, the report added.

The RBI said the deficiencies observed were taken up with the respective banks for rectification.

(The Hindu)