

BL EXCLUSIVE

HSBC India under RBI lens for breaches

Rahul Wadke



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Central bank found HSBC may have encouraged FEMA violations, reveals RTI

Mumbai, February 22:

A scrutiny report by the Reserve Bank of India on the processes followed by HSBC's India unit has revealed a number of inconsistencies in the banking operations, including allowing a decoy customer to open a dubious account.

The RBI has concluded that HSBC may have possibly encouraged Foreign Exchange Management Act (FEMA) breaches by allowing certain customers to bank with offshore private banking locations despite not qualifying for the same. Checks carried out by the central bank have revealed that HSBC may have breached the limits under the Liberalised Remittance Scheme. Under this scheme, Indians are allowed to open accounts abroad, but outward remittances are limited to an annual ceiling. "A test check of outward remittances made from the sampled accounts was, therefore, carried out to see whether the monetary ceilings were adhered to or not. This check revealed a few breaches in the LRS limits," stated the report, obtained by *BusinessLine* through an RTI application.

It added that deficiencies were observed in KYC, including an instance where a decoy customer was able to persuade the bank to open a dubious account in September 2014.

While replying to the RTI, the RBI, however, censored out a significant part of the report, including the names of individuals who had allegedly violated the remittance norms on grounds that such information was exempt from disclosure under the RTI Act, 2005.

The UK-based bank has been under the scanner of enforcement agencies in many countries. In December 2012, the bank was fined \$1.9 billion for breaking US anti-money laundering rules. In its own declaration today, as part of its account statements, the bank said it was "fully cooperating" with authorities, and warned that the resulting financial impact of the investigations globally could be "significant."

The RBI had decided to scrutinise the accounts of HSBC on March 19, 2015, and the actual scrutiny operations were carried out between March 27 and April 10, 2015.

The scrutiny had a mandate to check for collusion HSBC India may have had with its offshore branches in providing wealth management and advisory services and aiding offshore branches of HSBC in opening of bank accounts by HSBC India; logistics support, if any, by HSBC in the collection/delivery of cash; adherence to the KYC process in general; and test-check of outward remittances from the FEMA angle.

On the issue of logistics support for cash delivery, the report said, "Evidence of logistics support in collection/delivery of cash by HSBC India was not apparent from the correspondence or email exchanges. It may be mentioned that such transactions, if not routed through the account or undertaken outside the banking channels, can be probed only by law enforcement agencies."

The RBI report also observed that the bank did not have a policy to archive emails of key persons prior to October 2009. After October 2009, emails were archived once a month; however, before the archival, the user had the option to delete any emails. Only after February 23, 2015, were all emails, including the deleted ones, being archived.

An HSBC spokesperson declined to comment on the report.

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