

# To prevent frauds, banks plan to appoint agencies to monitor large-value accounts

**K Ram Kumar** Mumbai | Updated on March 05, 2019 Published on March 05, 2019



Under IBA aegis, banks set up a committee of senior bankers to shortlist the agencies

In a bid to prevent frauds in large-value accounts, banks are planning to engage the services of specialised monitoring agencies to closely track their activity, including purchases/invoices, actual production vis-a-vis projections, high-value transaction/payment as regards beneficiary and purpose, and cash inflows/outflows.

Banks, under the aegis of the Indian Banks' Association (IBA), have set up a committee of senior bankers to shortlist and empanel the agencies (for an initial period of three years) for specialised monitoring of loan accounts where the collective exposure is ₹500 crore and above.

Once the agencies are empanelled, the lead bank in a consortium of banks will select one lender and give the assignment to it for monitoring an account. The move to appoint an external agency to monitor loans comes in the backdrop of banks reporting a 72 per cent year-on-year jump in frauds at ₹41,168 crore in FY2018, against ₹23,934 crore in FY2017. According to the RBI, frauds have emerged as the most-serious concern in the management of operational risk, with 90 per cent of them located in the credit portfolio of banks.

## Working capital

In the case of working capital, banks will seek the help of specialised agencies to monitor purchases/invoices on daily/weekly basis and compare them vis-à-vis the monthly operations budget submitted by the company; review inventory build-up; monitor the actual operations vis-a-vis projections; verify high-value transaction/payment as regards beneficiary and purpose; and assess financial information.

Further, banks expect the agencies to undertake additional verification of evidence of end-use of facilities to a company and its utilisation, and to look into the source of margin towards working capital/ letter of credit/ bank guarantee. In the case of term loans, banks will engage the agencies to ensure proper monitoring of project implementation, as per the schedule and utilisation of funds (physical progress of the project vis-a-vis fund-infusion).

The agencies will conduct physical inspection of the project at regular intervals or deploy an official at the project site for continuous monitoring and document reviews, and monitoring of progress reports on continuous basis especially vis-à-vis original timelines to avoid sudden shocks of overrun.

They will determine the progress and appropriateness of related transactions (such as payments made to contractors and sub-contractors, vendors, orders placed and commercial terms thereof), and deviations in project progress vis-a-vis timelines and amount disbursed.

S Ravi, Chartered Accountant and banking expert, said while the move to appoint an external agency for monitoring loans is a good initiative, the role between the monitoring agencies and operational people in banks must be well defined.

“Most of the frauds in the recent past have been mostly on account of diversion of funds/unrelated activity. If a specialised agency is appointed, it will be monitoring all the transactions in an account on a day-to-day basis at the back-end. Such an agency may be able to do a better job than a normal banker,” said BK Divakara, former Executive Director, Central Bank of India.

## Non-financial parameters

Banks expect the monitoring agencies to keep a close watch on industry-specific trends, cyclical changes, government policies, and suggest precautionary/mitigation measures, sustainability/sensitivity in products/business; conduct vendor due diligence; flag technological obsolescence; and recommend substitution measures, among others.

Published on March 05, 2019



Save 61% on BusinessLine e-Paper  
Now at just ₹ ~~2,100~~ ₹ 799\* per year [SIGN UP](#)

banking

0

COMMENTS



THE WORLD BANK

Next Story

World Bank to provide \$250 mn to boost rural income

**You May Like**

Sponsored Links by Taboola

**Flat 80% Discount on Swiss Luxury Watches, Sale End Today**

Watch Forest

**Term Insurance of 75 Lakh Cover For as Low as Rs 456.13 Per month. Know More.**

Term Life Insurance

**11 Month PG Diploma in Business Analytics & Intelligence**

Amity University Online

**Top Things To Do In The Great Barrier Reef**

**Singapore Airlines**

