

Address by CVC

Vigilance Awareness Week - Conference of CVOs of PSBs on 2.11.2011

Dear Shri Garg; Shri Mittal; Shri Balwinder Singh; Shri Anurag Jain; Members of the Vigilance Fraternity; Ladies & Gentlemen

1. Today the Indian Economy is the 4th largest in the world in terms of PPP. Much of this economic growth has been propelled by a strong financial sector. The World Economic Forum's Global Competitiveness Index, 2010-11, ranks the Indian financial market among the first 17 in the world. In terms of soundness of the banking sector, India is ranked 25th. Availability and affordability of financial services, easy access to loans and local equity market are considered to be the competitive advantages of India. The good performance of banking stocks in the stock market also reflects the faith of the public on the banking sector. The security of the Indian banking sector was amply demonstrated during the recent economic meltdown. While the financial institutions in Europe and America crumbled the Indian financial institutions withstood the crisis.

2. One of the reasons for this commendable performance is that the Indian banking sector is supported by a good oversight and regulatory system. Due emphasis on internal controls, internal audit, fraud risk management and good vigilance administration have provided the necessary resilience.

3. However, there is a less positive side to this story. In the last two decades, the nation has been rocked by financial scams at regular intervals. There has been an increasing trend in the incidence of frauds. According to an RBI report the number of frauds detected increased by 78% from 2005 to 2010. Financial scams have a devastating effect on the markets. Citizens and ordinary investors lose their hard earned money and financial institutions suffer heavy losses. Financial sector is predominantly based on public faith. Repeated scams and undetected frauds erode public faith in the financial system and cause frustration among investors.

4. We are now witnessing increasing public anger and outcry around the world against the way businesses are being run. It is a wakeup call not only for the industry but also the regulators and the integrity institutions. It is a means to an end, an aid to management.

5. Maintaining integrity and reducing the risk of corruption is the primary responsibility of the executive and the oversight agencies only assist the management in doing so. Vigilance is not something external.

6. Combating corruption and maintaining integrity cannot be the sole responsibility of the anti-corruption or vigilance authorities. It requires the active participation of all stakeholders in the governance process. The primary stakeholder is the citizen who is finally at the receiving end of corruption. Therefore, the focus of this year's Vigilance Awareness Week is on enhancing

the value of participation and to promote a participative approach in fighting corruption in public life.

7. The Vigilance Awareness Week is an occasion for all of us to reaffirm our commitment to ensuring integrity in public life. It is an occasion for the management and the vigilance community to rededicate themselves to this important public cause. Spreading awareness and knowledge about ethics is the first step in the fight against corruption. Awareness implies empowerment - empowering people to resist and desist from corruption.

8. As an organisation grows, its integrity management evolves from a Rule-Based to a Value-Based system. This means, during its initial years the organisation relies on external controls, strict supervision and threat of punishment to maintain integrity. As the organisation grows and evolves, its integrity is maintained through ethical values and work culture. Vigilance should assist the management in this evolution of its integrity system.

I wish to highlight few important issues pertaining to the vigilance administration in the Banking and Insurance sector:

9. Risk management is an important aspect of financial sector operations. Similarly vigilance management in the financial sector should be based on assessment of risk of fraud and corruption. Efforts and resources needs to be focussed on the high risk areas. Areas like real estate financing, illicit financial flows, fraud in mortgage of property etc. needs to be given due attention.

10. While much of the focus is on punishing the public officials, the equally culpable supply side or the private players should not be allowed to go scot free.

11. The increasing complexity of the financial market, development of new financial instruments, faster communication and information technology has increased the complexity of fraud and corruption. Therefore, the anti-corruption agencies need to be trained and equipped with the necessary skills to deal with this challenge.

12. The banking sector offers is an important public service to the citizens. With 87% of the bank branches in India belonging to the public sector banks, they have a high level of citizen interface. Social banking as a priority area plays a vital role in economic development of the poorer regions as well as poorer sections of the society. Much of Government's social benefits are delivered through the public sector banks, be it wage payments pertaining to rural development programmes like NREGA, payment of pension to the aged and the widows; or the education loan to needy students. Banks need to give higher priority to addressing corruption in these areas. Citizens' grievance and perception of corruption often get intermingled and therefore customers' grievance should be redressed promptly. In the quest for detecting high value frauds and corruption, petty corruption which affects ordinary citizens should not be lost sight of.

13. Information technology has proved to be an antidote to corruption. Therefore, banks and insurance companies which have been leaders in the use of IT should leverage it to the full

extent to prevent fraud and corruption. Collection and exchange of information plays a crucial role in preventing fraud and corruption in the financial sector, as most of the cases of fraud and corruption involve transactions with multiple banks and financial institutions. This again calls for a high degree of cooperation and coordination between the different agencies involved in oversight, enforcement and regulation. Credit Information Bureau (India) Ltd. (CIBIL) is playing an important role in gathering and exchange of information to improve efficiency, objectivity and integrity in disbursement of loans. Computerisation of land records and registration of property by the State Governments would go a long way in reducing the risk of fraud and corruption.

14. Intermediaries like Lawyers, Chartered Accountants and Valuers play an important role in banking and insurance operation as they certify documents and provide assurance on the basis of which banking transactions are carried. This is an area of high concern and the integrity of the intermediaries needs to be regulated.

15. Financial institutions should identify sensitive positions and adopt a transparent and objective staff rotation and mandatory leave policies for employees in sensitive areas such as treasury operations or relationship managers handling high-value clients.

16. Transactions and decision making in the financial sector involve a certain element of commercial risk taking and the vigilance administration should be sensitive to this. While the

corrupt are dealt with ruthlessly officers who make honest mistakes or take genuine risk should not be penalised.

17. Fraud or corruption is ultimately a form of human behaviour and the success of any integrity management system finally depends on the attitude, the mindset and the ethos of the individuals in the organisation. It is here that leadership plays an important role. The top management should inculcate the core values of integrity which then permeates downwards.

18. While we generally talk of the public sector adopting the best practices of the private sector, it is heartening to know that the Reserve Bank of India has issued directions to private and foreign banks to adopt the system of Chief Vigilance Officer as prevalent in the public sector banks.

19. We are living in times of increasing public expectation of good governance. I am confident that the Indian banking sector will rise up to the expectations and will be able to provide not only an efficient but also a fair and corruption free banking service to the nation.
