

PRESS RELEASE:

Cobrapost Refutes the Wishy-Washy Manner with which the RBI Deputy Governor Gives Clean Chit to Banking Majors in India

New Delhi: Cobrapost.com takes strong exception to RBI Deputy Governor K.C. Chakrabarty's statement on March 21, 2013, with regard to the *Cobrapost* expose on the money laundering practices of HDFC Bank, ICICI Bank and Axis Bank. Chakrabarty had said: "There is no scam (that) has happened ... As no transaction has taken place. Let us not unnecessarily downgrade ourselves. Our system to prevent money laundering is perfect ... absolutely nothing (wrong with it)."

The manner in which the RBI Deputy Governor has rushed to issue the statement, even before the Central Bank could complete the inquest it has initiated into money laundering practices by the three banks, even before these banks could complete their own investigations into the alleged misdemeanour of their officials, and even before the Income Tax Department could come up with its own finding, is tantamount to be self-serving and is a brazen attempt on the part of the Deputy Governor to not only give these banks a clean chit but also mask the miserable failure of the banking regulatory mechanism of the RBI. One gets the impression that the RBI deputy governor has taken upon himself to become the spokesperson of the three banks concerned.

Cobrapost.com thus refutes the statement of the RBI Deputy Governor, a self-laudatory exercise, as something premature, presumptive and preposterous aimed at sweeping under carpet the alleged involvement of the banking majors in money laundering. **For the RBI to say that there is no offence as there was "no transaction" is a very novice reading of the law and a willful ignorance of rules and regulations supposed to be crafted and implemented by the RBI itself.**

Let Cobrapost remind RBI that India is a signatory to FATF (Financial Action Task Force on Money Laundering) and has treaty obligations to block precisely the kind of money laundering that the Cobrapost expose shows has been happening

rampantly in the country's leading three private banks. Operation Red Spider by Cobrapost clearly shows that RBI and the Financial Intelligence Unit of the Finance Ministry have failed in their jobs and instead of heads rolling there the RBI is intent on diluting the nature of what has been found and saving its own skin.

Perhaps the banking regulatory and supervision functions should be taken away from the RBI and a new agency created for the same.

Cobrapost Found Clinching Evidence of Money Laundering Practices:

It will not be out of place to recall what Cobrapost had unearthed as a result of its undercover investigation, "Operation Red Spider." A gist of what the various bankers had suggested to help the imagined politician make his money clean would suffice:

- ***Accept huge amounts of cash and invest it in insurance products and gold.***
- ***Open an account to route the cash into various investment schemes of the bank.***
- ***Do it even without the mandatory PAN card or adhering to the KYC norms laid down by RBI.***
- ***Split the money into tranches to get it into the banking system without being detected.***
- ***Use "benami" accounts to facilitate the conversion of black money.***
- ***Use accounts of other customers to channelize the black money into the system for a fee.***
- ***Get demand drafts made for the client either from their own banks or from other banks to facilitate investment without it showing up in the client's account.***
- ***Keep the identity of the investor/depositor secret.***
- ***Open multiple accounts and close them at will to facilitate the investment of black money.***
- ***Invest black money in multiple instruments in the names of different individuals, not necessarily drawn from among the family.***

- **Allot lockers for the safekeeping of the illegitimate cash, including special very large size lockers to accommodate crores of hard cash.**
- **Personally come to the residence of the client to take the black money deal forward and collect the cash, even bring along counting machine.**
- **Use provisions like Form 60 to deposit the illegitimate cash into the account to route it into investment.**
- **Help the client to transfer black money abroad through NRE (Non-Resident External)/NRO (Non-Resident Ordinary) account; transfer the money telegraphically or through means other than regular banking procedures.**

Other than these imaginative means, the officials of these banks offered such convenient cash laundering services as the operation of lockers (with cash in them) after regular banking hours both to ensure the secrecy of the customers' identity and to mask the nature of the transactions; make a suitable profile for the client, such as showing him as an agriculturist or engaged in some businesses, so as to make the investment unquestionable; use "sundry" accounts of the bank to deposit all the illegal cash from where it is to be routed into investment; use accounts of other customers, for a fee, to transfer money abroad or use some shell company and take away a chunk of foreign currency as expenses toward business-cum-leisure trip.

What the Law of the Land has to Say on Money Laundering?

Although the Deputy Manager has chosen to overlook these findings under the pretext that "**no transaction has taken place**," challenging thus the common wisdom, a cursory look at them makes apparent the gross violation of rules and regulations, framed under various laws of the land, namely, the Prevention of Money Laundering Act of 2000, the Income Tax Act and the Indian Penal Code, among others.

Take for example Sections 118, 119 and 120 of the Indian Penal Code which clearly establish an offence in both the scenarios: If an offence has been committed and if an offence has not been committed. If we test the Cobrapost findings on

these provisions, although “no transaction” took place, their willingness to conduct transaction establishes their design of committing an offense and hence their culpability beyond doubt. The IPC also establishes concealing the design to commit as an offense and as such holds it punishable to a term defined therein. Here is what Section 120 of The Indian Penal Code, 1860 says:

CONCEALING DESIGN TO COMMIT OFFENCE PUNISHABLE WITH IMPRISONMENT

Whoever, intending to facilitate or knowing it to be likely that he will thereby facilitate the commission of an offence punishable with imprisonment, voluntarily conceals, by any act or illegal omission, the existence of a design to commit such offence, or makes any representation which he knows to be false respecting such design,

IF OFFENCE BE COMMITTED- IF OFFENCE BE NOT COMMITTED

Shall, if the offence be committed, be punished with imprisonment of the description provided for the offence, for a term which may extend to one- fourth, and, if the offence be not committed, to one- eight, of the longest term of such imprisonment, or with such fine as is provided for the offence, or with both.

As to the sweeping statement of the RBI Deputy Governor that “Allegations do not mean flouting norms,” we can only hold the various provisions of Prevention of Money Laundering Act of 2002 as mirror to what he claims to be “transactional issues and have nothing to do with money laundering”. Section 3 as defined in the Act 2002 emphasizes:

Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering.

The statement of the Deputy Governor of the RBI leaves one wonder if all the manner of proposals made by the bankers as enumerated above do not constitute soliciting of customers then what does, although solicitation itself constitutes the essential ingredient of Section 3 and thus a crime.

Now coming back to what the Deputy Governor says: “Allegations do not mean flouting norms.” If we take a look at the above-mentioned ways suggested by the bankers involved in money laundering, it establishes beyond an iota of doubt that the banks are brazenly flouting the KYC norms

The KYC framework is very clear and expressive. Even if an advice against the framework is given by any financial institution, it shall be considered a crime. The twofold KYC framework is:

1. To ensure appropriate customer identification
2. To monitor transactions of a suspicious nature

Branches/offices should obtain all information necessary to establish the identity/legal existence of each new customer, based preferably on disclosures by customers themselves. Easy means of establishing identity would be documents such as passport, driving licence, etc. Where such documents are not available, verification by existing account holders or introduction by a person known to the bank may suffice.

Section 12 of PML Act 2002 is self-explanatory as to what constitutes the gross violation of KYC norms and RBI regulations framed to prevent money laundering.

Section 12 says:

Every banking company, financial institution and intermediary shall

- (a) maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month;
- (b) furnish information of transactions referred to in clause (a) to the Director within such time as may be prescribed;
- (c) verify and maintain the records of the identity of all its clients, in such a manner as may be prescribed.

Provided that where the principal officer of a banking company or financial institution or intermediary, as the case may be, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value so as to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

[(2)(a) The records referred to in clause (a) of sub-section (1) shall be maintained for a period of ten years from the date of transactions between the clients and the banking company or financial institution or intermediary, as the case may be.

(b) The records referred to in clause (c) of sub-section (1) shall be maintained for a period of ten years from the date of cessation of transactions between the clients and the banking company or financial institution or intermediary, as the case may be.

However, nowhere in the course of investigation, was the Cobrapost reporter turned away by the bankers when he declared his intent of fronting for a politician (imaginary) who wanted to launder his money.

All the conversation between the bank employees and the reporter sums up together the violation of KYC norms. Such practice further leads to the offence of Money Laundering. There are certain indicators that are supposed to be reported by the bankers whenever they find something suspicious with regard to a client or transactions done by him.

Here is gist of all such indicators the observance of which was flouted by the bankers during the course of our investigation:

Indicators for suspicious transactions

- **Customer who conducts transactions in a pattern consistent with criminal proceeds**

- **Unusual single or aggregate transfers**
- **Transaction is inconsistent with customer profile**
- **Routing of transfer through multiple locations or accounts or unexplained**
- **transfers between accounts**
- **Structuring - transactions split to evade reporting**
- **Use of agents or associates to disguise the beneficial owner**
- **Transactions inconsistent with customer's profile**
- **Maintaining multiple accounts without explanation**
- **Unexplained cash deposits in bank account**
- **Frequent cash transactions just under the reporting threshold**
- **Multiple cash transactions in multiple accounts**

Non Financial Indicators

- **Usage of Lockers**
- **Behavioural Indicators**
- **Customer is hurried, nervous or evasive**
- **Customer makes inquiries or tries to convince staff to avoid reporting**

Knowledge Indicators

- **Customer tries to convince staff not to complete the formalities**
- **Customer thoroughly aware of legal position on suspicious**

transaction reporting.

- **Customer seems very conversant with money laundering or terrorist activity financing issues.**

Transactions indicators

- **Frequent cash transactions in large amounts which is not normally done by the customer.**
- **Small denominations frequently changed for large ones.**
- **Customer consistently makes cash transactions that are just under the reporting threshold amount in an apparent attempt to avoid the reporting threshold.**

Accounts Indicators

- **Intra bank transfer of funds - accumulated into one account for foreign remittance.**
- **Opening of several accounts simultaneously, some of which remain dormant for long periods.**
- **A third party appears to be using the account of customer.**

All the bold highlighted indicators are violated or promised to be violated during our undercover investigation and thus are in sheer violation of the KYC norms.

Instead of hiding their failure in monitoring the activities of these banks and stopping money laundering by these banks it would have been more creditable for the RBI and other enforcement agencies to go into details of the Cobrapost expose. A thorough inquest into all aspects of the phenomenon is need of the hour, not the

statement that the Deputy Governor of RBI has given, to help the nation check the scourge of money laundering.

***BANKERS OWN CONFESSIONS TO THE COBRAPOST
REPORTER ABOUT THEIR PAST CRIMINALITY NEEDS TO BE
INVESTIGATED. BELOW ARE A FEW EXCERPTS OF THEIR
CONFESSIONS:***

There are many officials of these banks, caught on camera, who confessed to being old hands in slipping in cash money into the banking system and making it clean. Here are some excerpts:

A.Mishra, Deputy Manager, Axis Bank, East Delhi

“Kaiyon ka kaafi saal ho gaye hain ... aisi koit dikkat nahin hoti ... kaafi ache naam hain... lekin charcha nahi honi chahiye to acha hai... ye ksi bhi business ka rule hota hai...kisi ka bhi disclosure nahi hota hai

S. Srivastava, Deputy Manager (Operations); S. Kaur, Branch Head, Noida, Uttar Pradesh

“Safe hai hundred per cent hai ... two hundred per cent hai ... maine cases niptaye hue hain yahan pe

*“Wo main karwa doongi ... maine karwaye huye hain sir... don't worry (**regarding conversion of rupees 5 to 7 crore into white using the account of some company or some other accounts**)*

N. Gupta, Assistant Manager, Axis Bank, Panchkula, Haryana

“Humare Sir jo hain wo yahan pe three years tak branch head the Solan mein ... toh jaise aise unhone bahut saari wahan pe uthai hain yahan pe uthi hain ... kyunki logon ko tax saving chahiye ... aur upar se jo poora white ho raha hai to wo bhi cheez hai ek ...to us wajah se ab ... fourth year mein yahan pe aye hain kaafi achha hai baaki ye hai ki aapko jo thodi bahut problem lag rahi hai jaise white black jo aap bata rahe hain wo aapko poora clear karenge.

A. Gupta, Assistant Vice President, Axis Bank; P. Sinha, Relationship Associate, MAX Life Insurance, Sahibabad, Ghaziabad

“Bahut saari policy daali hain ... cash mein hi to daali hain ... abhi pichli baar... paanch lakh rupaye cash.

“Ek pichli baar Sir pachis lakh ka karaya tha...Sir ne karaya tha white money dikha kar ke aaram se nikaal diya... returns bahut hi ache mile the

V. Juneja, Manager (Operations/Investments); S. Singh, Manager (Business Banking), Axis Bank, Noida, Uttar Pradesh

Builders ke liye toh bahut kari hai... builders ho gaye... brokers hote hai na...ek banda ITR panch lakh dikha raha hota hai wo saaal mein kum se kum panch crore kama raha hota hai ...kahan jana hai paisa saara

A.K. Gupta, Branch Head; A.K. Bansal, Assistant Manager (Operations), Axis Bank, Ghaziabad, Uttar Pradesh

“Koi politics se hi related the... Bank of Baroda mein ek company jo hai NPA hui thi...us company ko unhone kharida tha....wo company thi baais crore ki... baais crore ek number ka paisa nahi hota...wo bhi cash se poora... poore process mein humne chaar–chhe mahine laga diye the... satve mahine mein case clear ho gaya tha

S. Bhattacharya, Deputy Vice President/Branch Head; T. Anand, Deputy Manager, Axis Bank, South Delhi

“Humlog toh sir ek ek derh derh crore bhi karte hain... main bataoon wo log kaise karte hain...wo log na churning karte hain...jaise kuch to wo guaranteed plans le lete hain...kuch wo log daalte hain...but agar aap mutual fund mein daalenge to fir PAN card compulsory hai...ya to fir aap gold kharid lijiye

P. Bhowmik, Personal Banker, HDFC Bank, South Delhi

“Main aapko naam nahin bataungi par yahan pe saare bade accounts, bade accounts yahan pe hain, politicians ke bhi hain ... aur main kisi ka naam nahin bataoongi. Kisi ko kuch nahin pata ki kiska kya amount hai. Doosri cheez aap update karoge aap chaho to aa sakte ho banking hours ke baad ... na koi dekhega kab kya kar rahe ho na. Branch mein single person rahega

A. Gupta, Sales Development Manager; M. Jain, Circle Manager, HDFC Standard Life Insurance, East Delhi

“Amount to aap 20 lakh kar lo 50 lakh kar lo aap ki marzi hai wo toh. Main bata to rahi hun 25, 30, 50 to aaram se uthta hai cash ka wohi bata rahi hun na. Sir adjust karna parega. Aisa hoga fir ek product mein 10 lakh chala jayega. Doosre product mein aapka 10 lakh chala jayega. Wo divide ho jayega yahan pe

K. Gerard, Branch Manager; M. Kumar, Financial Consultant, HDFC Bank, Venkateswaran K, Territory Manager, HDFC Standard Life Insurance, Chennai

“Bahut hai. Wohi main bol raha hun na 2005 mein main 50 lakh accept kara tha. Thoda din kam ho gaya because anti-money laundering jab se aaya, sabhi 20 lakh tak to hum log jaate hain. Isiliye 20 lakh ka humne baat hi nahin kiya. Hum aapse

10 lakh hi baat kar rahe hain taki. Aap bhi comfortable rahein hum bhi comfortable rahein. Kisi ko nahin maloom hoga

N. Mahajan, Senior Manager; Shabee, Sales Development Manager, HDFC Bank, South Delhi

“Kara hua hai na. Ek NRI tha. Usne 10 lakh rupaye ka investment kiya tha cash mein. Wo maine karwaya hua hai

S. Singh, Branch Head, HDFC Bank, Central Delhi

“Sir humnein toh, humnein jo hai Janakpuri, Rohini mein panch crore rupaye dalwaye hue hain

“Ye jo fund humara hai, ismein bhi hai, ispe humare Sir 498 crore rupaye dale hue hain, ye November tak ki hai

N. Singh, Backup Branch Manager (Branch Banking), HDFC Bank, Faridabad, Haryana

“Haan, haan, roz ka kaam hai humara. Humara roz ka kaam hai. Pehla case nahin hai ye

N. Gupta, Portfolio Relationship Manager/Deputy Manager; K. Jain, Personal Banker, HDFC Bank, Jaipur, Rajasthan

Wo to hota hi hai. Sir naam nahin batayenge. Johari Bazaar mein baithe hain to aap khud hi samajh sakte ho. HDFC Bank aur Johari Bazaar dono cheez aisi hain

A.G. Toppo, Senior Manager, HDFC, Kolkata, West Bengal

“Haan, haan... don’t worry... sub log aise hi karte hain Sir. In fact, saara jo kala paisa hota hai na sub insurance mein hi jaata hai

J. Bajaj, Branch Manager; N. Sharma, HDFC Bank, Faridabad, Haryana

“Kum hi hain. Ek-doh hain. Koi problem nahi ha

“Sir disclose nahin kar sakta, already daala hua hai. Safe hai

V. Srivastava, Privilege Banker, ICICI Bank, Central Delhi

“Haan clients wo kaafi saare hain arre aapka ye account bhi hai ek do politician account se related wo bhi dekhta rehta hun main ... hain kuch achche jigar wale

R. Gupta, Branch Manager, ICICI Prudential, Agra

“Agar aap aisi baat karte hain toh main aapke saamne aise customers ke naam bhi khol sakta hun jo aapko bolenge ki Guptaji ke barabar jaanne wala shahar mein koi nahin hai

Gayathri, Branch Manager; C. Sridhar, Sr. Customer Service Associate (Operations), ICICI Bank, Bangalore, Karnataka

“One customer came and invested 90 lakhs...90 lakhs cash in this table only...I have only counted that cash ... yes ... yes... just one month back one customer came and invested 90 lakhs... this is not the first customer.”

“Kiya hai ... kiya hai

“You are not the first customer.”

*“Wo sab daala hai... aap chahe toh... policy history dikha sakta hun (**Regarding any politician money**)*

“Humare Bangalore mein thoda kum ho gaya ... Mumbai and all mein politician zyada hai ... Bihar mein to politician hi daalta hai paisa insurance mein

N. Kumar, Business Manager; Aastha, Deputy Branch Manager, ICICI Bank, Noida, Uttar Pradesh

“Sir, ek crore bhi daala hai aur usse zyada ki bhi daala hai

Deepanshu, Branch Manager; H. Maheshwari, Assitant Manager ICICI Bank, Aligarh, Uttar Pradesh

“Already branch mein NRI customers aise hain jinko main de chuka hun

R. Sharma, Branch Manager, Faridabad, Haryana

“Bahut contacts hain humare aisi baat nahin hai...sabke hote hain ...bas wohi hai ki hum as a bank hum kuch share na toh karte hain...aapne poocha na hum jante hain, main chahti toh chaar naam le sakti thi...par nahin le sakti hun ... aaj pehli baar nahin ho rahi hai main bata rahi hoon aapko

“Saare logon ka funds jo hai ... property sell karte hain ... aapko pata hi hai aaj kal sab black mein hi milta hai saara paisa, black mein milta hai, property sale proceeds karke letter le lete hain aur kar lete hain deposit kya hai...humein sirf ek letter chahiye hota hai ...ki ye fund ...is ... ka source of fund ye hai ... as per the guidelines humare ko audit ke hisaab se ek letter rakhna hota hai

Cash mein humne kiya hua hai Sir aisa kuchh nahin hai... humne Sir account se hi debit karke diya hai ... lekin account mein NRIs ke cash deposits hote hain because unhone property bechi, black mein paisa aaya, dus–dus lakh unhone deposit karaye hain humse... unhone investment kiya hai, usme koi issue nahin hai...Noida 18 mein main NRI Banking hi dekhti thi...usme property sale proceeds NRIs ki bahut aati thi ... paanch paanch crore ki property bikti thi, wo paisa kuch white mein aata tha kuch black mein aata tha. Toh black mein wo cash deposit karte hi the aur usise hum fir investment karte the us account se

R. Ranjan, Associate Key Relationship Manager; A. Kumar, Deputy Branch Manager, ICICIC Bank, South Delhi

“Haan hain clients hain ... haan haan wo clients hain ... daala hua hai safe hai ... isiliye aapko bataya ... maine pehle hi clear ki itna cash hum

A. Pathak, ICICI Lombard, Mumbai, Maharashtra

DD to jo banda rahega wo banwa dega kyunki 10 lakh ka aur 5 lakh ka pehle bhi kiya hua hai

A. Dubey, Assistant Manager, ICICI Bank, West Delhi

“Pandrah lakh ka ek kiya hai

S.Walia, Branch Manager, ICICI Bank, Chandigarh

“Ye bahut politicians karte hain ... even jo aapke ... main chalo share nahin karta ... matlab karte hain kaafi

“Paanch lakh ka humne cash kiya hua hai... koi issue nahi aata usmein

Aniruddha Bahal

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