



“PREVENTION IS BETTER THAN CURE”

Abstract

Recently large numbers of frauds across the banking industry have been reported due to non observance of the laid down procedure while processing Gold loan.

Many times frauds happen because the branches are dependent on the assayer for the complete process of the gold loans. This case study is developed to understand the importance of various guidelines with respect to empanelment of assayer, safety and operational guideline on sanctioning of Gold loan. This will help the branches to follow the preventive vigilance guidelines issued by our the bank from time to time while processing gold loan to avoid occurrence of frauds and to improve the health of the Bank's credit portfolio.

PREVENTION IS BETTER THAN CURE – Mr. J. Rajesh Kumar

Introduction/ Background

Sivapuram branch of Tamil Nadu Bank is an agriculture potential branch which has major share of rural inhabitants as a customer. Mr. Nivash joined this branch as a branch head couple of months back. He was very enthusiastic and wanted to enhance business to achieve the target set this year since the year end is fast approaching and his focus was on gold loan.

Gold loan mission

Mr. Nivash conducted a staff meeting at the branch premises wherein, the present performance of the branch and gaps in target were discussed. Credit Officer Mr. Murali acknowledged the concern of Mr. Nivash on a positive note and agreed to extend support in achieving the target.

The next day Mr. Murali called the assayer of the branch Mr. Babu and shared his view on the need for increasing the gold loan portfolio. Mr. Babu was empanelled as an assayer for the past 12 years and he is hailing from the same village and renowned personality in the branch vicinity. In the past with the help of Mr. Babu, branch has achieved various targets and also branch bagged first prize in the recently concluded gold loan campaign with his major contribution.

Mr. Murali took him to the Branch Manager's cabin and narrated the importance of building the gold loan portfolio of the branch by describing the assayer's caliber in achieving the objective. Mr. Murali was a single Officer taking care of Operations department and also advances portfolio of the branch. When Mr. Murali joined this branch there were three more Officers in that branch subsequently other two Officers were transferred from the branch. Moreover, due date for submission of Rectification Certificate for the last concluded Internal Audit had fast approaching and the branch had pendency of more than 550 accounts for data enrichment in Finacle. Mr. Murali observed the assayer and noticed his pro active customer service and dedication in discharging his duty. Since Mr. Babu was seasoned worker he thought that assayer will not place any workload from his side and allowed Mr. Babu to handle the portfolio and he started concentrating on other branch issues.

Mr. Babu gave assurance to the Mr. Nivash that, from his side he will take the necessary steps to achieve the target set for gold loan. Assayer proactively gave customer service by acting as a single point of contact for the jewel loan customers. Without making the customers to wait for long hours, he appraised the jewels and obtained signature from the custodian of jewels and also from branch head. Once the appraisal was over, he used to share his mobile number to customers and gave personalized service to the customers. Gold loan borrowers of the branch called the assayer without any hesitation for pledging and redeeming the gold.

Branch was sanctioning gold loan in full swing and increased the portfolio to Rs.45.00 crore with the increase in number of pockets from 1050 to 2100 within a couple of months. With the wholehearted support of the assayer, the branch has achieved the target. One day the Regional Manager visited the branch, Mr. Nivash introduced Mr. Babu to the Regional Manager and described about the assayer's passionate ownership in canvassing business for the bank. The Regional Head felt happy about the team coordination. During the interactions the Regional Manager inquired about the second assayer. Mr. Nivash informed that identifying one more assayer in that locality was tough and assured to find an alternative in the future. Thereafter, Mr. Nivash had not taken any initiative on empanelling a second assayer since the entire branch was happy with Mr. Babu.

The U turn

Branch inspection was carried out by the Internal Auditor of the bank which went on well without any hiccup. Mr. Babu was helping the inspecting officer in the process of reappraisal of pledged gold ornaments along with the reappraising assayer by arranging the jewel pockets serially and taking out the respective loan documents. Once the reappraisal was completed he helped in sealing the pockets quickly and with the help of the assayer the branch successfully completed the branch inspection. Mr. Babu extended the same support during the recently concluded statutory audit.

Three months later, Mr. Ganesh, Officer from Vagaikulam of the same bank visited the Sivapuram branch along with the assayer from his branch. Mr. Ganesh handed a letter issued by the Regional Office to conduct the reappraisal of gold loan to the branch head which is a usual guideline of the bank. Usually Mr. Babu was coordinating with the inspecting officer for the smooth conduct of the entire reappraisal process but unfortunately he was not available on that day. Mr. Nivash assigned this task to Mr. Murali and the reappraisal process started. One hour later, Mr. Murali along with Mr. Ganesh rushed to the branch manager's cabin with one jewel appraisal memo. There was a mismatch in the number of articles and gross weight in the appraisal memo compared to the jewel packet. When the reappraisal progressed, similar type of irregularities were observed in 53 packets. Immediately, the matter was reported to the Regional office along with the reappraisal report.

Implausible moment

In the reappraisal report it was mentioned that, one packet was found to be of lesser weight due to the missing of one item of gold ornaments vis-à-vis the appraisal memo. In the course of checking a few more packets were also found to have a loss of weight due to the difference in the number of articles. Based on the suspicion the branch got re-assayed the entire portfolio. It was found that 68 gold articles totalling 1750 grams in 53 packets are found missing. It was a huge shock for everyone in the branch. The Regional Office reported the matter to the Head Office and the investigation process started.

You are requested to examine the case study critically with respect to the following

- 1) What are the lapses you find in this case?
- 2) Do you think the irregularity could have been pointed out during Internal Audit?
- 3) Could the fraud have been prevented, if yes How?
- 4) According to you what is the role of Jewel assayer?
- 5) What is the role of Credit Officer?

NOTE FOR FACILITATOR

Synopsis

Mr. Babu empaneled as a Gold loan assayer with Sivapuram branch since 2010. With the help of the assayer, branch has achieved core targets set by the bank since he was hailing from the locality. Branch staff members extend their fullest support to the assayer in canvassing and sanctioning gold loan. Staff members were required only to open gold loan account in CBS everything will be taken care by the assyer.

Target Audience - Employees working in Branches

Level of difficulty – Moderate

Training - Credit Management, Processing

Learning Objectives

1. To make participants aware about the bank's guidelines and to understand the importance of working in accordance with the bank's extant guidelines and laid-down norms while sanctioning gold loan.
2. To enable the participants to identify fraudulent attempts and safeguard bank interest and image
3. To generate innovative ideas / ways or suggestive steps for effective monitoring of the gold loan portfolio.

Teaching plan

Faculty should administrate the case by distributing the copy of the case among the participants.

In a session 20 minutes may be given to prepare them their individual group assignment. After that there should be another 15 minutes so that each group may co-relate with other group's views. Thereafter faculty should explain assignment with necessary modifications within 25 minutes. Thus the whole case study will be completed in 60 minutes. Faculty may then discuss point-wise in detail, the major deviations/ loopholes observed in the extant case; vis-a-vis Bank's guidelines and suggestions measures to avoid such incidence.

Teaching Plan

Lapses / Loopholes

1. Mr. Babu is the only assayer working at that Branch for the past 12 years. Whenever the customer's approach for availing jewel loan, the assayer, will be advised to appraise the jewels and prepare appraisal memo to arrive at the loan value by the concerned officer of the Branch. He will then assess the purity of the gold and weight, calculates the limit to

be financed. Noting them in the appraisal memo and will hand over to the officer for verification. Officer verifies the number of gold articles and weight of the jewels in front of the customer and appraiser. The packets containing the jewels are stapled and handed over to the assayer to keep the same in his custody.

2. At the end of the day, all those jewels pledged, which are in the custody of the Assayer are rechecked by the officers. After the rechecking, the officer handover the jewels to the assayer for sealing with wax by the assayer and the sealed packets will be handed over to the branch officer to be kept in the safe custody.
3. During the process of fixing the wax, the assayer use to remove 1 or 2 jewel articles from the packets. The absence of officers during the sealing of packets, have given the assayer an opportunity to remove the jewel from the packet.

Defrauding Pattern

- a) The assayer use to keep the note of jewels which he has taken off from the packets along with the customer details in his dairy. And also he use to prepare 2 vouchers of Jewel items and hand over one copy to customer and keep a copy with him for future reference.
- b) The assayer use to pledge some of the stolen jewel articles with the same branch and reported that around -20- loan accounts amounting to Rs. 50.00 Lacs have been opened, based on the security of missing jewels. The borrowers in these loans were introduced by the assayer.
- c) Whenever customers used to come for release of jewels, he would manage the customer without the knowledge of the branch officials and amicably settle the issues without the intervention or the knowledge of the branch officials.
- d) The assayer also uses to take personnel interest on reverification process and kept a keen watch on the reappraisal and re-verification process by the bank. After reverification process is over the branch officials has handed over the unsealed packets to him for packing and waxing of jewel packets. Utilising the opportunity, the assayer utilizes the time of absence of officers during the sealing of packets, after the process of re appraisal, removes the articles from the packets. This was done with the knowledge that the interval for next reappraisal is -3- months and the same packets are not taken at a large.

Deficiencies observed in this case

- The branch was having only one assayer as per preventive vigilance guidelines branch has failed to engage minimum 2 assayer whom to be changed on rotational basis.
- The branch was fully dependent on the assayer for the complete process of the gold loans. The branch officials have failed to control on movement of jewellery. Weighing and verification of Gold ornaments has to be done by assayer at the branch premises in the presence of Branch Manager / Officer. The branch officials has failed to verify the weight of jewels and number of items in the packet after waxing of jewel packets by assayer and taken possession of jewels from assayer without verification.

- Jewel loans were sanctioned to the borrowers introduced by assayer without following proper guidelines. Additional discreet enquiry desired in new cases of jewel loan sanction to ensure ownership of the ornaments offering for pledge to avail loan facility was not carried out.
- The branch officials were absent during the sealing of packets by the assayer. The branch officials has to ensure that immediately after pledge of ornaments& verification by officer, the jewel loan bag should be transferred to the safe after the details are entered.
- Gold packets after appraisal & sealing were not kept in safe custody immediately but left with the assayer for keeping in safe custody in the evening only. Branch has failed to ensure that if for any reason the jewels are handed back to the pledger/assayer, they should be appraised once again before accepting them for keeping in safe custody. On the instruction of the assayer in the guise of the closure of jewel loan accounts jewel packets were taken out from the safe custody.
- The branch has failed to check the credibility of every existing appraiser at branches periodically and ensure to examine the desirability of retaining them periodically by the Branch Manager.
- During re-assaying process of the pledged jewellery in the Gold Loan accounts at each quarter and during RBIA inspection the re-assaying to be carried out involving officials and assayer of another branch. The branch has involved his branch assayer also during re-assaying which he could able to conceal the fraud done by him. During the regular re appraisal internal audit, the verifying officer were not vigilant and could not notice the manipulation of the assayer of showing the same jewel already reappraised (during earlier verification) packets again and again for verification purpose.

Precautions and safeguards to be followed

Eligibility of borrower, assayer & safety related guidelines as per our circular BCC: BR: 112:617 dated 15.10.2020 are to be strictly complied with.

Eligibility and procedure guidelines

- KYC norms should be duly complied invariably in all the cases & necessary documentary proofs should be kept on branch records. (Branch to be more vigilant and extra cautious while sanctioning to the borrowers identified by Assayer).
- The valuation of gold ornaments/jewellery has to be recorded in the appraisal memo which contains description of ornaments pledged, gross weight, net weight, carat, valuation rate, advance value etc. The gold appraisal memo has to be signed by the assayer, borrower & Branch officials. A copy of the appraisal memo should be given to the borrower, which has to be produced at the time of redemption of gold ornaments/ jewellery.

- All the process related to pledging of gold like valuation and sealing of packets to be done in front of the customer and branch official identified for gold loan. And the same to be immediately kept in the safe custody.
- Assayer's role to be limited to only testing of purity of gold.
- Unnecessary interaction of assayer with borrowers should be discouraged and bank officers to establish customer connect.

Assayer related guidelines

- ❖ Gold loans to jewel assayer/ appraiser and his relatives should not be permitted. Gold loans to jewel assayer/ appraiser and his relatives should not be permitted. However, other loans and advances to them may be permitted by the sanctioning authorities under their normal powers.
- ❖ Branches should not accept co-obligation/ personal guarantee of jewel assayer/ appraiser for loans to be granted to the customers. However, it can be considered only by RO on the merits of individual case.
- ❖ Wherever possible, the Branch should have two assayers & the work of appraisal be given to a particular assayer as per the prudent judgment of the Branch Manager and assayers have to be changed on rotational basis.
- ❖ The assayer may be changed on rotation basis at least once in 2 years

Precautions and safeguards to be followed

- Re-assaying for amount of loan above Rs. 3 Lakhs within 15 days of sanction (by another assayer of the same branch or assayer of another branch)
- Re-assaying of 20% of the pledged Gold ornaments/ jewellery/coin in the Gold Loan accounts sanctioned during last quarter is to be carried out by an officer and assayer of another Branch. (Regional office will ensure completion of this exercise in the first month of next quarter). The Officer from other branch has to count the total packet and get it tallied with Finacle outstanding account.
- Re-appraisal at the time of Internal Audit of the Branch by ZIAD, at least 5% of the account on random basis.
- Weighing and valuation of Gold ornaments has to be done by assayer at the branch premises in the presence of Branch Manager /Officers and the borrower concerned.
- The work of assayer should be restricted only for the purpose of assaying (purity) gold jewels and weights.
- The assayer should not be associated with the soliciting, processing, filling up of loan application, documents etc.
- Immediately after assessment and fixing of loan limit jewels should be kept in the possession of branch official /custodian in the presence of borrower with duly sealed packets in the joint safe custody
- The assayer should undertake the assaying of jewels in the presence of branch official and customer as to rule out any manipulation being done by assayer to avert frauds.

- Subsequent Verification of the jewel packets has to be done /tallied again with the appraisal memo attached with the loan documents so as to rule out any ambiguity in jewel weight, no. of ornaments etc.
- Unique serial no. is required on each set of appraisal memo.
- The appraiser shall reduce the weight of non-gold fastenings, precious or non-precious stones and other impurities from the gross weight of jewel and derived the net weight of the gold ornaments.
- The net weight of gold shall be multiplied with the prescribed carat wise advance value of gold rate per gram to arrive at appraisal value of gold.
- Ornaments below 18 carats purity shall not be accepted as security, In case of diamond jewellery, loan will be extended only against the gold component.
- Cancelled serial number Gold appraisal memo to be filled separately for audit purpose.
- Any correction in loan documents along with gold appraisal memo, borrower signature should mandatory to authentic the same.
- The Branch Officials should not share the password with anyone and prevent entry of unauthorized person in to security areas such as strong room /vault.

Safety measures

- ✓ Safe/Strong room for safe keeping of pledged gold ornaments/jewellery under dual control i.e. Branch Manager & officer. **(No temporary staff/Sub staff/assayer should be at any time involved in handling of keys or jewel packets strictly.)**
- ✓ CCTV camera at entry/exit of safe counters & other main areas. CCTV cameras should remain operative even during non-business hours and with minimum recording of 45 days. Kindly ensure that CCTV recording is kept in a safe place.
- ✓ Panic alarm/Burglary alarm to be fitted at the Branch.
- ✓ Pledged gold ornaments/jewellery to be kept in safe/strong room under dual control in a separate vault provided for the purpose of keeping the pledged gold ornaments/jewellery.
- ✓ Branch to ensure that the annual maintenance contract for CCTV/Burglary alarm/Panic alarm is valid at all time and regular maintenance is being carried out by the concerned agency. Branch Officials are advised to scrupulously observe the laid down guidelines to avoid such incidences and be vigilant and be guided with our Master Circular BCC:BR: 112:617, dated: 15.10.2020 regarding gold loan for observing KYC, assayer role & safe keeping of pledged gold ornaments.

Role & Responsibilities of Branch Officials :-

- ✓ The Joint Custodian /Branch Head will be equally responsible for all Gold Loan related transaction included safe keeping of Gold ,Custodian of storage keys with number of jewel items , gross weight of gold , net weight of gold, carat, purity of fineness, rate per gram advised by treasury department on daily basis.
- ✓ Sign the Gold Appraisal Memo and Jewel Loan Card along with the Assayer, Borrower, Joint Manager and Branch Manager with verification of securities like number of jewel items , gross weight of gold , net weight of gold, carat, purity of fineness, rate per gram

- ✓ Presence of Joint Custodian /Branch Manager is mandatory at the time of sealing pf jewel packet & release of jewellery post closure in front of customers and assayer under CCTV camera.
- ✓ The securities have to be arranged serially and kept in the safe custody under joint control.
- ✓ Management of keys to be done as per our extant Bank guidelines for Movement and Management of Keys.
- ✓ Whenever the Jewel Safe /Vault is opened for keeping or removing the jewel packets, the same is documented in jewel packet movement register ,which will carry the signature of both the Joint Custodian /Branch Manager.
- ✓ Reviewing the Jewel packet movement register and the jewel packets stock verification with System generated Jewel packets stock by Branch Head.
- ✓ Recalibration of weighing machine and check accuracy of the weighing balance machine to be cross checked with the help of weights on daily basis before commencement of business.

Supporting Materials:

- BCC:BR:111:512 dated 03.10.2019 - Preventive Vigilance- Modus operandi of recent Frauds in Gold Loans, Precautions and safe guards to be followed.
- BCC:BR:112:617 dated 15.10.2020 - Master circular on the scheme "Lending to Agriculture & Other Priority Sector and Retail Advances against the security of Gold Ornaments /Jewellery/Coins
- BCC:BR:112:784 dated 31.12.2020 - Preventive Vigilance- Modus operandi of recent incident in Gold Loans, Precautions and safeguards to be followed.
- BCC: BR:113:139 dated 17.03.2021 - Preventive Vigilance - Modus Operandi of recent fraud committed in Gold Loan Precaution and safeguards to be followed for avoiding recurrence.
- BCC:BR:113:306 dated 03.06.2021 - Preventive Vigilance - Modus Operandi of recent fraud committed in Gold Loan Precaution and safeguards to be followed for avoiding recurrence.

Note: All figures mentioned in this case are hypothetical.