



A Case Study on Increasing of Banking Frauds in India

Mamta Shah*

Abstract: *Indian Banking Industry has witnessed tremendous changes since Independence of country. Although it is regulated by Acts like Banking Regulation Act, RBI Act, SBI Act, and Insolvency Act, even then the sector faces many troubles due to various frauds and unethical practices on the part of customers and employees of the banks. The present study is based on this sensible issue that despite many regulations, industry is facing substantial losses due to unethical conduct of people, where public money is involved. The customer money is misused by exploiting different flaws and loopholes in our financial system. It is an attempt to bring light on the various issues which create mounting of NPAs and failures on part of banking industry.*

Keywords: *Lending, Banking, NPA, Stressed loan, frauds, regulations etc.*

1. INTRODUCTION

Indian Banking Industry is facing fraud related issues for the past few years. Indian Banks, especially Public Sector banks are suffering from mounting losses and rise in NPAs on account of increased level of number of frauds. In most of the cases there is a involvement of top level management creating halt on banking activities. Loan sanctioning for new projects, as happened in recent case of Nirav Modi, have brought sufferings for the industry. Many of the top executives have been charged for alleged corruption and deceitful intentions in granting loans. This creates a question mark on corporate governance and ethics in the industry. In fact, the menace of rising NPA is a global crisis that is responsible for slowdown in industry.

The strength of financial system of any economy can be judged by its level of production and consumption. The living standard and status of people can be judged with soundness of financial system; but if financial system is packed with frauds and high degree of NPAs, it should be a cause of worry for any nation. The Indian economy, in fact, is suffering for the past many years from these issues.

If the financial system or banking system is strengthened, it will be reflected in GDP growth and living standard of the people. But if the system is a failure, then it reflects

Inefficiency of the country's governance, and causes distress among various stakeholders. The number of frauds in the year 2016-17 was more than 3870, involving an insane amount of 17,750 crores including both commercial and private banks. If we Compare this with 2013-17, we seen that the number of frauds was almost doubled as a total of 17,501 frauds were reported in this period. Out of these, 2,084 had insider involvement.

Bank frauds are not only related to Advances or loan related activities, but also to Deposits and Services. In short frauds are divided into three parts- Deposit related, Advance Related and Service Related. The various reasons of increasing frauds in Banking and Financial services are increasing use of technology. On one side, the technology is giving many comforts and benefits like paperless transactions, cashless transitions and Direct home services, on the other hand however, it is also increasing risks such as spread of viruses, occurrence of financial frauds by various means like identity theft, phishing, card skimming. Fraudsters are employing newer and diverse means like, spyware, social engineering, Trojans, website cloning and cyber stalking and so on for their illegal activities.

Objective of the study

1. To determine reason of various types of frauds in Banking.
2. To check different forms of fraud and their impact on different stakeholders.
3. To find out various measures to stop these fraud, so that to protect different stakeholders for that.

2. RISK FACTORS IN FINANCIAL SECTOR

- Financial sector in evolved with following types of risk factors for frauds

1. Cybercrime- Almost all banks, offer online and mobile banking services. Debit card, credit cards and other payment methods are used for banking transactions.

*Assistant Professor-GNIM; mshah531@yahoo.co.in

ATM's machines and other electronic channels used for these payments is the main target of cyber attacks.

2. Money laundering- Money laundering activities increase the chance of terrorist funding. Rigorous Regulatory requirements and control and media scrutiny by banks and financial institutions is necessary to control frauds.
3. Black Money- Cyber crime and financial frauds lead to financial instability in the country. India is one of the top positions in the world for increasing Black money.
4. Loan loss- The risk of increasing NPA and Bad debts in India in increased manifold, due to lack of appropriate methods of monitoring of loans and not by proper due diligence.
5. Credit Growth- Increasing rate of frauds also affects credit growth of any country. The increase in frauds affects the faith on financial sector, which eventually effects the credit growth of the economy.

3. STATISTICAL REPORT

Estimated case of banking fraud is increasing year by year, as shown in the table

Year	No. of cases (Cyber Crime)	No. of Cases (ATM, Debit Card)
2015-16	9622	1159
2016-17	11522	1372
2018-18	12317	2059

As per RBI data, during the period 2013-2017, 17,504 bank frauds reported. Around 5,200 officials were held for fraud in Public sector banks during period 2015-2017. The study shows that top bank in the list of frauds by bank officials were State Bank of India (SBI), Indian Overseas Bank (IOB) and Central Bank reporting 1538, 449 and 406 cases resp. One of the popular public sector bank that is Punjab National bank is also facing fraud committed by billionaire jeweler Nirav Modi. Most of the cases in case of fraud have the insider involvement. If we see data for the period, 2013-2017, out of 3870 case, in 450 cases had insider involvements. Central Bank that is RBI has been issuing circulars to banks about how effectively report cases and also put in place mechanism to prevent them.



Cases Of Bank Fraud

- In year 2014 Rs.139 crore fraud from Kolkata based industrialist Bipin Vohra and others were booked by the CBI for allegedly cheating Central Bank of India by obtaining the loan with forged documents
- In the year 2011 Rs, 150 crore from Executives of Bank of Maharashtra, Oriental Bank of Commerce and IDBI created about 10,000 fictitious accounts and transferred loans to these accounts, a CBI investigation had found.
- In the year 2015, Rs, 2 crore fraud booked by CBI booked former deputy general manager of Central Bank of India and three directors of Jain Infraprojects Ltd — MK Jain, Rekha Jain and Sunil Kumar Dangi, for allegedly defrauding the bank.
- In the year 2017, CBI arrested the promoters of Abhijeet Group — Manoj Jayaswal and Abhishek Jayaswal — and TL Pai, a former DGM of Canara Bank, for allegedly defrauding Canara and Vijaya Banks. For Rs. 290 crore.

- In the year 2014, Officials of Ahmedabad-based Electrotherm India allegedly cheated Central Bank of India in connivance with bank employees. CBI booked the company directors in the case for Rs. 437 crore.
 - In the year 2017, CBI arrested Padmakar Deshpande, a Bank of Maharashtra officer from Pune, along with the director of Siddhi Vinayak Logistics Limited, a private logistics company from Surat, in connection with an alleged Rs 836-crore fraud case.
 - In the year 2016, CBI booked four people including Chief Manager of Syndicate Bank in an alleged scam in which the accused used fake cheques, letters of credit and LIC policies to withdraw money of Rs. 1000 crore.
 - In the Year 2015, Rs. 6000 crore fraud was related to money laundering/fund siphoning scam. Scammers exploited loopholes in remittance rules to bring back illegal money parked abroad disguised as export revenues. They also transferred money abroad claiming that to be advance payment to overseas vendors. Employees of various banks including Oriental Bank of Commerce and Bank of Baroda were allegedly party to the scam
 - In the year 2014, Rs. 8000 crore Dubbed the bribe-for-loan scam, CBI found a well-oiled nexus between top bank officials and companies. Bank chiefs were bribed by companies wanting loans. Ex-chairman and MD of Syndicate Bank, SK Jain was among those arrested.
 - In the year 2017, one of the most publicised alleged frauds of rs. 9000 crores in India's banking history, liquor baron Vijay Mallya was accused of defrauding a consortium of lenders. He is currently in the UK and Indian authorities are trying to extradite him to India.
 - In the year 2018. Rs. 12000 crores fraud of Kolkata-based gold trader Nilesh Parekh was arrested by the Directorate of Revenue Intelligence sleuths for allegedly siphoning off 1,700 kg of imported duty-free gold and defrauding 25 banks. He was earlier arrested by CBI for allegedly siphoning off bank loans worth Rs 2,672 crore through hawala channels to dummy companies in Singapore, Dubai and Hong Kong
 - One of the recent case of Diamond trader Nirav Modi and his uncle Mehul Choksi in the year 2018 for Rs. 14,000 crore, were accused of defrauding Punjab National Bank in one of the biggest financial frauds in India. Both accused fled India before they could be arrested.
- due to lack of knowledge/ awareness of procedure and systems.
2. The other reason of fraud is Non adherence of KYC guidelines. During peak season, sometimes banks officials open accounts of customers, without completing all KYC norms, due to pressure and carelessness. Fraudster uses this benefit and opens their account, deposit forged cheques and withdraw the amount.
 3. To achieve business target, staff of banks use unethical ways. Lack of proper audit and inspection and suitable system, fraudulent activities increase in the system.
 4. Lack of proper internal control system, increase the chances of fraud, poor control environment, improper documentation and inadequate accounting system increase chances of fraud.
 5. Use of new technology and financial software are also one of the causes, lack of proper data security in new technology increase chances of theft, cyber crime and other online frauds.
 6. Use of electronic channels like online banking, Debit card, credit card, ATM, NEFT, Internet banking and Mobile banking provides new ways to fraudsters.
 7. Inexperience from the side of staff and lack of awareness from the side of customer also create fraudulent activities in the financial and banking system.

4. CONCLUSION

Study reveals that there are many reasons of fraud primarily related to poor regulatory system, carelessness of employees, lack of proper supervision by top management, improper use of technology, lack of awareness of customer and employees and poor coordination. To overcome these issues Banks should constantly monitor the system and regularly review and check transactions, which may cause online fraud. With increasing usage of e-banking and internet & mobile banking, the risk of fraud is increasing. To address this issue, there is a need to educate customers and create awareness. It is high time that we make more stringent laws to curb the growing menace of corruption among the banking officials. The foremost challenge for bankers is to secure banks and customers from internet related crimes. Banking operations such as Inter branch transactions, Loans, Deposits and other online transactions should be highly secured. Legal requirements and procedural control should also be adequate to deal with that. Programmerelated to awareness and education to bank staff and customers should be organized from time to time to save the nation from these frauds, which

Causes of fraud in banking Sector-

1. First and foremost reason of frauds in case of banking sector is direct and indirect fault of their own officials. The fault could be intentional manipulations of rules and regulations for financial gains or could be unintentional

have the potential to create a question mark on the reputation of our economy.

REFERENCES

- [1] <https://www.pwc.in/publications/publications-2015/current-fraud-trends-in-the-financial-sector>.
- [2] [https://www.ijbmi.org/papers/Vol\(5\)7/version-2/A05720109.pdf](https://www.ijbmi.org/papers/Vol(5)7/version-2/A05720109.pdf)
- [3] <https://www.ndtv.com/business/fy18s-biggest-banking-frauds-punjab-national-bank-pnb-state-bank-of-india-sbi>
- [4] <https://www2.deloitte.com/us/en/pages/advisory/articles/fraud-trends-banking-industry>.
- [5] <http://www.imedpub.com/articles-images/british-journal->