

An Empirical study on banking frauds in India.

*DIKSHA MISHRA

** Dr. BRIJESH KUMAR JAISWAL

*Research Scholar, Department of commerce, Mahatma Gandhi Kashi Vidyapith, Varanasi- 221002. **CMA(Dr.) Brijesh K. Jaiswal, Professor, Department of commerce, Harishchandra P. G college, Varanasi-221001.

Abstract

In India banking sectors plays very important role, it is a dominating segment for financial sector. Indian banking sector has experienced considerable growth and changes since nationalisation of banks in 1969 and liberalisation of economy in 1991. As blood is important for human life, banking sector is also like a lifeblood for our economy. But now there are some frauds and illegal activities have taken place which making banking sectors weak and it results that banks are not capable of giving their hundred percent towards economic growth, With the rapidly growing banking industry in India, frauds are also increasing and fraudster state using various new ways so they cannot be caught. They started using innovative ways and the don't much afraid of doing that because once they caught the move to other country easily. Banking frauds are increasing not only in form of non-payments of loans and advances of false identity of documents in banks but also in form of internet banking, and it is very easy now a days. Although there are many preventive security controls for checking banks frauds so that banking sectors could become well at its best way. This paper is mainly for finding the causes of bank frauds and to study about all initiatives that has taken by government to improve banking sickness. And this study endeavours to cover issues such as wilful defaulters, NPAs, money laundering, mounting credit card debt and so on with a detailed analysis using secondary data.

Keywords: Banking frauds, Prevention and control, Banking Sectors.

Introduction

Earlier banks were considered equal to security of money, but with the passes of time its loosing trust of public because these days' banks are being duped of crores of rupees, so destabilising investors believes. In recent years increase of financial frauds have increased and there are so many examples that will be discuss in this paper. Bank fraud is an illegal act of stealing money assets or property of depositors by fraudster from bank or any financial institution or to obtain money from depositors. In several instances, bank fraud is a criminal offence whereas specific parts of particular banking fraud laws vary looking on jurisdictions. Bank fraud also consider as white-collar crime. Moreover, wilful defaulter (NPAs) which causes banking illness. Banking frauds are increasing day by day and creating disbelieves in public.

Banking frauds in India

According to Reserve bank of India (RBI), the regulator of banks in India, Fraud can loosely be defined as "any behaviour by which one person intends to gain a dishonest advantage over another". In other words, fraud involves deceit with the intention to illegally or unethically gain at the expenses of others. There are many fraud cases in India such as -:

- 1) Rs. 11400 PNB Nirav Modi case; Diamonds are a man or woman's best friend, but diamond manufacturer like Nirav Modi don't seem to be. The PNB fraud was allegedly organised by jeweller and designer Nirav Modi. Nirav, his wife Ami Modi, brother Nihal Modi and uncle Mehul Choksi, all partner of the firms was involved in this scam. Nirav Modi and his family ran away in early 2018, days before the news of the scam bust in Asian nation.
- 2) In 2014 industrialist Bipin Vohra caught by CBI for allegedly cheating Central Bank of India for obtaining loan worth Rs. 139 crores with forged documents in Kolkata.
- 3) In 2015 CBI arrested former deputy general manager of Central Bank of India and three directors of Jain infra project Ltd for allegedly defrauding the bank of Rs 212 crores.
- 4) In 2017 promoters of Abhijit group – Manoj Jaiswal and Abhishek Jaiswal got arrested by CBI for defrauding Canara and Vijaya Banks worth Rs 290 crores.
- 5) Rs 9,000 crore | 2017 | Vijay mallya case. People used to call him 'king of good time' but today things are different. Vijay mallya allegedly owes various banks over Rs. 9000 crores, which he has taken from bank for kingfisher airlines to rescue his business from falling down. And now Indian government is trying to extradite him from UK as he ran away from India snot paying his debt.
- 6) In 2021 July the ED said it has arrested Kewal Krishan Kumar, chairman and managing director (CMD) of Delhi-based Shakti Bhog Foods Limited, in a money laundering case linked to an alleged multi-crore bank loan fraud of Rs. 3,269 crores on an association of 10 banks command by the State Bank of India.
- 7) Delhi-based Hanung Toys & Textiles Limited (HTTL) and its directors caught by CBI for claimed cheating an association of 12 banks of Rs. 2,040.63 crore from 2012 to 2014. As on date, the banks have to collect Rs. 4900 crores from its guarantors, promoters and company.
- 8) In 2017 CBI arrested Padmakar Deshpande, officer of Bank of Maharashtra Pune for the charges of making fraud along with the director of Siddhi Vinayak Logistic Ltd company for Rs. 836 crore fraud case.

Review of literature

Dr Madan lal Bhasin (2015) has explained that there are poor employment practices and lack of effective training, over burden of staff, weak internal control system and low compliances levels on the part of bank managers are reasons of increasing bank fraud.

Charan Singh (2016) had conducted semi structured interview with the to know actual scenario of fraud. He explained frauds can b result from lack of awareness of staff towards appropriate procedures in place and red flags they should be aware of. He further explained that Technology related frauds are primarily due to nonadherence to standard procedures and system in place, by the employee. Even when any employee detects some fraudulent activities inexistence involving people in power, whistle blower protection policy does not guarantee adequate safety.

Mrs Sunindita Pan (2020) has clearly explained the underlying causes behind increasing trends in frauds in Indian banking sectors. The cause may be due to faulty incentive mechanism for employees, weak regulatory system, lack of appropriate tools and technologies etc. She suggested that there should be strong internal rating agencies which evaluate each project before sanction of loan and also there should be well trained bank staff.

P. Mary Jeyanthi, A. Mansurali (2020) founded that fraud is recognised as crucial crisis within the bank, even supposing the relative extent of fraud conducted was simple and comparatively small. They also explained various type of bank frauds and detailed survey on it. The authors determine and prevent fraud in small banking product.

Ahmad Kabir Usman And Mahmood Hussain Shah (2013) has majorly focused on e banking frauds and explained that the type of fraud that are commonly experienced by financial institution includes sales fraud, purchase fraud, cheque payment fraud and ATM fraud and security issues are major reasons in internet banking and e commerce activity fraud.

Objective of the study

1. To know about the framework of banking frauds.
2. To study about the type of bank frauds.
3. To study about the remedies that taken in order to control frauds in banking sectors.
4. To study about the internal management system to reduce the nap's
5. For understanding the nature of frauds in loans and advances, so according to take proper action.

Research methodology

The present study is descriptive in nature. All the data used in this paper is secondary, which is compiled from websites, journals and review of literature. Also, above data covers the area of private as well as public sector bank within the year 2012 to 2021 fraud cases.

Type of bank frauds

1. **Card Skimming:** It is a method used by fraudsters to record information of people's payment cards like debit and credit cards to Conduct fraudulent transactions. Fraudster do this type of fraud by capturing your payment, card information and this will be stored and transferred to an appointed computer that can be used later for fraudulent activities.
2. **Phishing Online OTP Fraud:** It is very common now a days, because it is an online scam that use to steal private user data which includes login details like OTPs, Passwords, and credit card numbers. Moreover, Phishing can be done by giving bank details to fake e-mails, text, phone calls. Phishing fraud is very common with old age people or less educated people and also who doesn't know all the online terms of banking activities.
3. **Money laundering fraud:** It is illegal in India and many countries, but this type of fraud is spreading widely. Fraudsters try to make funds look as though they have come from legal sources. Basically, money laundering is an activity of converting black money into white money. There are many examples of money laundering.
4. **Loan Frauds:** Loan Frauds create more NPAs of banks because most of the time borrower shows false information or documents for borrowing loan. Individual also uses someone's identity to get a loan in name of that person is another type of bank loan fraud.
5. **Hacking:** Computer fraud can be happened by spreading malware or by hacking bank computers or systems. Hacking and tempering with a computer to gain access to bank data for illegal transferring money, deposits, removing any transaction entries.
6. **Cheque Fraud:** Some time cheque fraud also taken place as cheque altered or any changes made by fraudsters like the payee's name, amount of cheque. Cheque fraud also happen in form of counterfeit or forged cheque.
7. **Identity Fraud:** Identity fraud or identity theft is a type of fraud where someone uses your personal information like Aadhar, bank account number, PAN number without your permission and the individual whose identity has been implicit may suffer various difficulties specially when they are held answerable for any consequences.
There are also other types of bank frauds like account data fraud, counterfeit securities, money transfer fraud, letter of credit etc.

Banking fraud prevention and control

With the rise of number of frauds in banking sectors, there is also a rise in the ways to combat the same. This results prevention in frauds and minimizing potential fraud. There are some ways of technology which can help to prevent fraud such as-

- **Behavioural Analytics** helps to monitor navigation techniques and other aspects of a user's online behaviour. With the help of this technology, it becomes very miserable to know about any kind of fraud of any illegal activity.
- **Knowledge-based Authentication** implies a series of questions with answers to each typed and saved by the user. And in any case of typed answer is incorrect it stops to perform or access payment.
- **Password tokens** are the OTPs (Time only passwords), which give the user a one-time password on their device which expires as soon as the allowed time-limit of using it is crossed.
- **Automated Analysis tools** are fraud analysis tools, which identify fraud attempts on time. It is a tool in which internet service providers available to provide real time transaction details, third party details, and abidance solution.
- **The internal audit function** is required to keep a regular check. A regular internal audit help to keep safe all the related data and also stay one step before fraudster to battle fraud.
- **Avoid using public computer for online banking:** it makes very easy to the fraudsters to hack personal data when anyone use public computer instead of private computers. Fraudster can find ways to record details of depositors and then can remove all money from account.
- **Fraud monitoring agencies** helps to event big banking frauds and take proper action and investigate all related aspect. There should be proper co ordination between banks and agencies like CBDT.

Conclusion

This is the time of digitisation and India performs major role in banking and e payments especially after demonetisation in November 2016. So, more and more people started opting for bank accounts. This faith in banks accounts triggered further faith in e-payment. Ultimately this results 'banking the unbanked' and most people started moving to digital methods of money transactions. But it is also true that frauds are increasing in form of digitalisation. There are many false websites and links available which makes banking fraud too easy. Recently, it was reported that cumulatively, banks in India suffered fraud worth Rs. 4.92 trillion as of march 31,2021 or nearly 4.5% of total bank credit. According to RBI annual report, In pandemic year, bank frauds down 25% by value. Now There has been growing awareness among banks to enhance their fraud risk management but, banks need to have more systematic and structured fraud risk management framework.

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