



## A STUDY OF FRAUDS IN BANKING INDUSTRY

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**ABSTRACT** The banking sector of India has found an ample amount of growth and differences from the liberation of the economy. Despite the fact that the banking sector has a better regulatory framework and it is well supervised, this sector experienced a variety of challenges when it comes to illegal practices & Financial frauds. This study enlightens issues such as frauds in the banking industry, illegal practices by using secondary data like literature review and case studies covering all the players involved in such malpractices. There are certain issues like rising in NPAs in recent years basically in public sector banks. The study also provides some proposals to reduce the degree of future frauds in the banking sector. This study also provides the numbers and type of frauds occurring in the Indian banking sector.

**KEYWORDS :** Banking Fraud, Illegal practices, NPA

### INTRODUCTION

In Layman's language fraud can be defined as a misrepresentation of information which causes another person to endure loss basically a financial loss. If you take an example of a salesman he may lie about his name, place, birth date but he won't be called as a fraud as long as he remains truthful about his product he sells. He should have provided some misleading information about the product he sells that will cause actual monetary damage to another person.

Banking fraud most commonly involves tricky financial transactions which are mostly done by White Collar Criminals, expertize people having criminal intent, as fraud is not easily proven in courts. Because if appropriate actions, if not taken at the right time, may seriously weaken the fraud case. So it is advised that such cases should be investigated thoroughly.

Banking Fraud can be defined as the use of malpractices to gain money, assets, or any property held by any person or institution or to gain money from the depositor by a variety of fraudulent activities. Also, financial fraud is not new to the Indian banking system because they are regularly reported in recent years. These frauds are happened due to the cost of business, its frequency and complexity of the framework.

In the last 5 years' Public sector banks have lost total 22,743 crores due to a variety of banking frauds. The investigation in those cases doesn't only reveal the involvement of a person having criminal intent but also of middle-level employees and senior management of banks. This raises serious questions related to the effectiveness of the corporate framework of these banks. In recent years the rising trend of NPAs (Non-Performing Assets) mostly in public sector banks.

Due to globalization and boom in the IT Industry, the investigator doesn't have proper training and background knowledge. Special investigator having expertise knowledge related to banking frauds need to be recruited just like FBI of USA and also cells like Maharashtra Police Department which are managing cyber-crimes very efficiently.

Frauds have been categorized by Reserve Bank of India depending on its types and provisions of Indian Penal Code, and guidelines have been set according to RBI. RBI has also introduced a circular and notice the concept of Red Flags Account (RFA) on the basis of Early Warning Signals (EWS) for detection and prevention of Frauds. Also, Policy Guideline and Whistle Blower policies are also required as a preventive measure. MacGee in 2015 has suggested that there is a rise in consumer Bankruptcy because of higher aggregate borrowings which in turns results into higher defaults. A healthy relation between assets creation and GDP growth can provide early warning signs for systems to monitor the quality of the assets.

Types of Banking Frauds may include: -

1. Accounting Fraud: - To keep out of sight some financial transaction some businessmen or owner use fraud accounting statement to show sales and income which shows worthy company assets to show a state of profit but actually company is in the loss. Then these accounting statements are used by these companies to make fraudulent bank loan applications to gain money to stabilize the company. There are a variety of accounting

frauds occurred in the world including Enron and WorldCom and Ocala funding. The accounting frauds can be subdivided into Demand Draft (DD) Fraud, remotely created Cheque fraud etc.

2. Cheque Kitting: - It is also known as "Float" where the money is counted twice. When such Cheque is cleared and deposited in Mr A account the money gets credited immediately but at the same time money is not debited from Mr B account through which the Cheque is drawn. As a result, banks counted money twice because money is credited to one account but not debited from another account.
3. Forged Documents: - Forged Documents (Property documents, Letter of understanding) are used to get money illegally as a part of borrowed loans by an individual and bank will unable to recover money in future as the loan was approved on the basis of forged documents.
4. Altered Cheque: - This is the most common type of banking fraud where fraudsters change the name on the Cheque or amount of Cheque by simply putting extra 0 at the end. They also made an attempt to forge the signature of depositor on a blank Cheque and then print it on their own Cheque is drawn on the accounts owned by others and withdraws the money immediately even before the bank realize that the Cheque was a fraud.

### DATA INTERPRETATION

**TABLE – 1 Bank Group Wise No. of Cases of Fraud**



Source: PWC India

Private sector banks have been reported highest number of banking frauds.

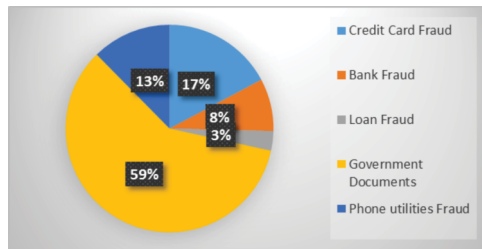
**TABLE – 2 Bank group Wise Total Amount Involved in Frauds**



Source: PWC India

But the amount involved in these fraud cases are highest in Nationalized banks.

**TABLE – 3 Types of Frauds**



**CONCLUSIONS**

- As per the data analysis, it is seen that the highest number of bank frauds are found in Public Sector Banks (PSB) and most cases of Bank Fraud which are reported are related to the provision of fake documents.
- The delays in legal procedures for reporting and various loopholes in the system have been considered some of the major reasons for frauds. So it is recommended that such cases should be reported and investigated quickly.
- It is recommended that Banks should have their own Fraud Vigilance & Surveillance Department who can conduct internal enquiry and can provide details of the same to external investigating agency for better results.
- Fraudulent activities can be identified at an early stage and can be prevented by formulating proper risk management policy by adhering to laws and regulation which can increase the efficiency and effectiveness of the existing procedure.

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