

# IMPACT OF FRAUDS ON THE BANKING SECTOR: A SPECIAL REFERENCE TO INDIA

**Dr. N. M. Makandar**

Associate Professor of Commerce & Principal,  
Anjuman Arts, Science & Commerce College & PG Studies,  
Dharwad (Karnataka)

## ABSTRACT

*Banks act as engines that steer the processes of money markets, the financial sector and economic growth. The Indian banking sector has expanded at a fast pace, especially as we stand today on the brink of the fourth industrial revolution. However, this has not come without its due share of complications. Along with the swiftly growing banking industry, frauds in Indian banks have seen a rising trend and there is an urgent need to revamp the banking sector in India, given the scams involving crores of rupees being unearthed in the recent past. The present study makes an attempt to review and analyze the trend of frauds plaguing the banking sector and its role in the continuous rise of Non-Performing Assets in the India. Further the study endeavors to throw light on the impact of rising bank frauds on profitability of the banking sector in India. The study concludes that the number of frauds plaguing the Indian banking sector is on a constant rise in recent years leading to a rise in NPAs and severely impacting profitability of the banking sector in India. Stringent action by authorities along with finding new means of fraud prevention and reduction is the only way forward for safeguarding the credibility of Indian banks and giving a face - lift to the banking sector of the country. Financial institutions are playing vital role for the development of Indian economy, particularly banks. Banks are those financial institutions those are registered under banking regulation Act 1949 to render various financial services to its customers such as receiving of savings and paying it on customers demand. In this ways banks acted as an intermediary in channelization of saving of the nation for the industrial purposes. Frauds means dishonest act or behaviour through which one person gains an advantage over another which results in the loss of the victim directly or indirectly. Now a day's frauds relating to banks are playing game in the dream of the public. Rs. 9000 Crores fraud and money laundering case by Vijay Malya, business tycoon of India and the Diamond star Nirav Modi's Punjab National Bank scam of Rs. 13,000 Crores encourages us to understand the concept of banking frauds and its impact on Indian economy. Banks are performing its activities with public savings. Offences relating to banking activities are not confined to banks but have a harmful impact on their customers and society at large. The data used for the study purpose are collected from secondary sources such as from published journals, bulletins and working papers on banking frauds by different authors. In conclude some recommendations have been made to minimize the banking frauds in future course of action in commercial banks providing services in India.*

**Key Words:** Non-Performing Assets, Profitability, Banking, Frauds, Assets and Indian Economy.

## INTRODUCTION

According to RBI, Fraud is defined as, "A deliberate act of omission or commission by any person, carried out in the course of banking transactions or in the books of accounts maintained

manually or computerized system in banks, resulting in to wrongful gain to any person for a temporary period otherwise, with or without any monetary loss to the bank.

According to the Association of Certified Fraud Examiners (ACFE) fraud is “a deception or misrepresentation that an individual or entity makes knowing that misrepresentation could result in some unauthorized benefit to the individual or to the entity or some other party”.

According to Section 17 of Indian Contract Act, fraud means any of the following acts committed by a party to a contract or with his connivance or by his agent with intent to deceive or induce a person to enter into a contract. To suggest a fact is true when it is not so, active concealment of a fact, promise with the intension of non performance, any other fraudulent act and being silence is also treated as a fraud.

## LITERATURE REVIEW

**Rodney D’Silva, (2019)** Conducted research on Impact of Frauds on the Indian Banking Sector. This paper with the help of secondary data. This study was to objectives: To review and analyse the trend of frauds plaguing the banking sector in India. and to examine the impact of frauds in the continuous rise of NPAs in the Indian banking sector. The study concluded that to elucidate the impact of rising bank frauds on profitability of the banking sector in India.

**Mamta Shah, (2019)**, conducted research on A Case Study on Increasing of Banking Frauds in India. Their objective was the objectives: To determine reason of various types of frauds in Banking. And to find out various measures to stop these frauds, so that to protect different stakeholders for that. He concluded 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.

**Neha Sharma and Dr. Dhiraj Sharma, (2017)**, conducted research on an Empirical Study on Banking Frauds in India- with a special reference to role of Employee Awareness in Banking frauds. This paper with the help of primary data. The objectives were that The study looks to assess the degree of execution of internal control system, it intends to distinguish the procedural frauds and different causes of bank frauds, and the study looks to know the approach of bank employees towards.

**Lokare (2014)** stated that the share of retail loan segment in total NPAs continues to stay high, of which credit card loans (2.2 percent) have the third-highest contribution after personal and housing loans.

**Deloitte (2015)** argued that the number and sophistication of frauds in banking sector have increased over the last two years. Around 93 percent of respondents suggested an increase in fraud incidents and more than half said that they had witnessed it in their own organizations.

**Pasricha and Mehrotra (2014)** observed that “one of the most challenging aspects in the Indian banking sector is to make banking transactions free from electronic crime.” All the major

operational areas in banking offer a good opportunity for fraudsters, especially in deposit, loan and inter branch transactions.

**Bhasin (2011)** concluded that frauds generally take place in banks when safeguards and procedural controls are inadequate, or when they are not carefully followed, thus providing ample Opportunities to the fraudsters. Frauds are increasing and fraudsters are becoming more sophisticated and ingenious.

**Ganesh and Raghurama (2008)** stated that about 80 executives from Corporation Bank and Karnataka Bank of India. Respondents were requested to rate their subordinates in terms of development of their skills before and after they underwent certain commonly delivered training programs.

## OBJECTIVES OF THE STUDY

- ✓ To Understand the Concept of Banking frauds
- ✓ To Study the Depth of Frauds in Banking Industry in India
- ✓ To understand the impact of banking frauds towards Economy
- ✓ To give suggestive measure to minimize the banking frauds
- ✓ To analyse the trend of frauds plaguing the Indian Banking Sector

## LIMITATION OF THE STUDY

- ✓ The study is based on secondary sources of data only.
- ✓ The data used for the purpose of study reflected to particular period.
- ✓ The situation and Circumstances vary from case to case relating to frauds.

## SAMPLING PLAN AND RESEARCH METHODOLOGY

In support to the objective of the research, the study has been based on secondary data. The sources of the secondary data are various published research journal in reputed institutes & Universities, fact sheets published by various financial institutions. The study is also based on personal interaction with some bankers and customers of various banks with unstructured questionnaire.

## BANKING FRAUDS IN INDIA

According to RBI, from 23000 cases reported by various banks involving a fraud of 1Lakh Crore in last five years. As sources published in Times of India on 03/05/2018, a reply from RBI under RTI, it is found that from 2013 to March 1, 2018, as many as 23,866 cases of fraud, of Rs 1 lakh or above in each case, were reported. A total of Rs 1,00,718 crore was involved in all the cases put together. Giving the break-up, the RBI said 4,693 such cases (involving Rs 18,698 crore) and 4,639 cases (involving Rs 19,455 crore) were reported in 2015-16 and 2014-15 respectively. In 2013-14, banks reported 4,306 cases of fraud, involving Rs 10,170 crore, the central bank said. Among the prominent ones is the over Rs 13,000-crore fraud in the Punjab National Bank (PNB)

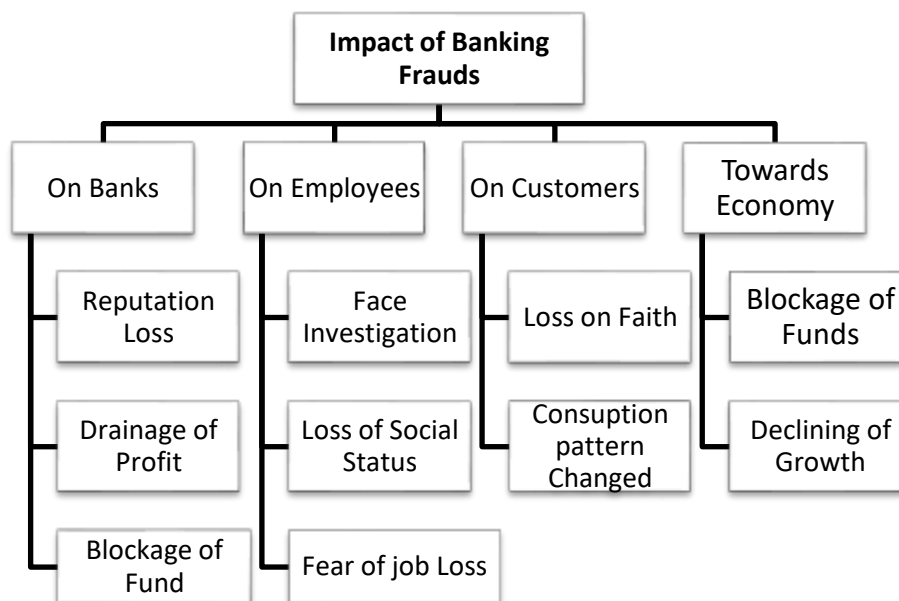
allegedly committed by diamantaire Nirav Modi and his uncle Mehul Choksi, the promoter of Gitanjali Gems. The CBI had recently also booked top officials of two public sector banks, a former CMD of the IDBI Bank, former Aircel promoter C Sivasankaran, his son and companies controlled by him in connection with a Rs 600-crore loan fraud in the IDBI.

According to government data, the gross non-performing assets (NPAs) of all banks in the country, amounting to Rs 8,40,958 crore in December 2017, were led by industry loans followed by those in the services and agriculture sectors. The highest amount of gross NPAs was for the country's largest lender, the State Bank of India, at Rs 2,01,560 crore. Among the others, the NPA for PNB stood at Rs 55,200 crore and for IDBI Bank, Rs 44,542 crore. Bank of India had NPAs worth Rs 43,474 crore; Bank of Baroda, Rs 41,649 crore; Union Bank of India, Rs 38,047 crore; Canara Bank, Rs 37,794 crore and ICICI Bank, Rs 33,849 crore, according to data presented by Minister of State for Finance Shiv Pratap Shukla in the Lok Sabha on 9<sup>th</sup> March 2018. (Source: *Times of India* on 03/05/2018)

## IMPACT OF FRAUDS

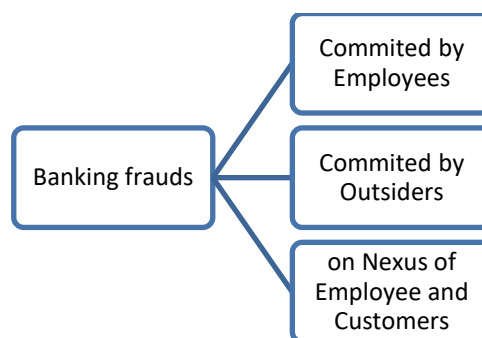
Due to banking frauds, the impact is resulted with a high volume stunt. As the banks play with the public money so the fraud directly influence the mind setup of the customers, their saving is not directly impacted on banking fraud which is guaranteed by the central bank of India, but as psychology it impacted a lot towards the customers. Similarly banking frauds also affected to bank on the way of losing customer faith and reputation of bank where as some of the employees of the bank directly involved in the fraud process so all the employees may face interrogation by in investigating agency which looses the self esteem of the employee.

As stated by Sanjeeva Murthy Executive Vice President - Compliance Kotak Bank “The fraudster is always ahead of the controls or risk mitigants which will be put in place by the Banks. However, Banks have to be agile and think ahead of the fraudsters and put in place control measures quickly. The cat and mouse game has been going on in the past and will continue to be in future, but Banks have to devise ways to be ahead.”



### TYPES OF BANKING FRAUDS

Banking frauds may commit due to the ill intension of management or the non managerial personnel or employee of the bank of with the involvement of both. Managerial fraud more impact rather than the employees. Management associates in banking frauds involves using fabricated financial statements to create an illusion that an entity is healthier and more prosperous than it actually is and sometimes it also occurs in misappropriation of assets which greatly affects the repo of the banks. Whereas the employee fraud can be controlled with the implementation of proper internal check system.



### FACTORS CONTRIBUTING THE BANKING FRAUDS:

As stated by Bhatia R. (2014) in the article stated that the Indian Banking Survey 2012, conducted by Deloitte Touche Tohmatsu I Pvt Ltd has come out with some very interesting findings. The survey involved mailing questionnaires to Public sector, Private sector and foreign banks. Their response is listed below:

<u>Contributing Factor</u>	<u>Banks Response</u>
Lack of oversight by senior executives or management	73%
On deviation from existing process Business pressures to meet targets	50%
Tough business scenario	47%
Lack of tools to identify high-risk patterns and transactions	37%
Collusion between employees and external parties	33%
Change in business strategy without changing execution plan	27%
Lack of fraud risk framework within the organization	23%

## CONCLUSION

Though the Banking fraud history in India was very old but still the policy makers are in far away to eradicate proper correction to resolve the frauds associated with banks. The central Bank of India giving proper care relating to banking fraud management but the nexuses of employee and customer has increased a lot in last five years. Which indirectly degrades the growth rate of the country as the blockage of saving occurred by these fraudsters. Besides that there are some other factors which greatly enhance the banking fraud activities in India. These are Poor or inadequate internal controls, with education, more and more persons are becoming aware of the possibilities of gains through bank frauds, inexperienced staff, punishment point of view bank fraud is safe as there is no risk of life, time consuming and inadequate legal framework in India and rapid computerization and Internet banking. Hence Bankers should give proper care regarding Internal control System so that frauds can be minimized, similarly customers should give proper information and beware regarding the application of banking policies and practices. So that banking frauds in India can be minimized to a great extent.

## REFERENCES

- ✓ Deloitte- Indian Banking fraud Survey, (2015), Edition II, April 2015.
- ✓ Banks, D. G. (2004). The Fight against Fraud, *Internal Auditor*, April, 34-47.
- ✓ Bhasin, M. (2015). An Empirical Study of Frauds in the Banks, Nov. 2015, *EJBSS*, pp. 1-12.
- ✓ Baruah, S.K. (2015). RBI Chief Wants PMO to Act against Bank Frauds Worth Rs. 17,500 crores, *The Hindustan Times*, April 24, available at [www.hindustantimes.com](http://www.hindustantimes.com).
- ✓ Calderon, T. and Green, B.P. (1994). Internal fraud leaves its mark: here's how to spot, trace and prevent it. *National Public Accountant*, Vol. 39, August, p. 17
- ✓ Harris and William, (2004), The Two Faces of the Transgender Fraudster Who Made Thousands of Pounds in Scams Posing as Both Sexes.
- ✓ Singh C. & et all, (2016), Frauds in Indian Banking Industry, *Working paper 505*, IIM B, March 2016.

- ✓ Bhasin, M. L. (2012). Audit Committee Scenario and Trends in a Developing Country, *School of Doctoral Studies European Union Journal*, 4, 53-70.
- ✓ Bhasin, M. L. (2013). Corporate Governance and Forensic Accountant: An Exploratory Study; *Journal of Accounting, Business and Management*, October, 20(2), 55-75.
- ✓ Bhasin, M. L. (2015). Menace of Frauds in the Indian Banking Industry: An Empirical Study; *Australian Journal of Business and Management Research*, 4(2), April, 21
- ✓ ACFE, Report to the Nation on Occupational Fraud and Abuse; The Association of Certified Fraud Examiners, 2010. [www.acfe.com](http://www.acfe.com)
- ✓ Albrecht, W.S. (1996). Employee fraud; *Internal Auditor*, October, p. 26.
- ✓ Bologna, J. (1993) *Handbook on Corporate Fraud*, Butterworth-Heinemann, Stoneham, MA, pp. 54-62.
- ✓ Barnes, R.W., (1995). The value of quality education to banks and bankers. *The Journal of Indian Institute of Bankers*, 66(3) pp 55-59.