A COMPREHENSIVE STUDY ON SOCIO – ECONOMIC IMPLICATIONS WITH RESPECT TO BANKING SCAMS AND FRAUDS IN INDIA

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Abstract

As the banks diversified their operational activities by introducing new schemes and services that would create the opportunities for financial inclusion, on one side the banking system is flourishing but on the other side it is plagued by operational issues namely frauds and scams. In recent years the frauds in the financial sector has been registered on a regular basis. The study witnessed the reasons for scams & frauds in banking, and its impact on stakeholders and also the study reveals the adequacy of Indian law on banking frauds. It is recommended to formulate and implement suitable measures beforehand to control such frauds and overcome the crisis in banking industry in future course of time.

Keywords: Operational activities, scams, frauds, reasons, impact.

INTRODUCTION:

Banking fraud is an attempt to steal money or assets from a financial institution. The RBI defines fraud as "any person's deliberate act of omission or commission in the course of a banking transaction or the books of accounts maintained manually or under computer system in banks, resulting in wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank."

A significant share of white collar crimes being probed by authorities is bank fraud. Unlike typical crimes, the sum misappropriated in these frauds is in the thousands and crores of rupees. In many nations, bank fraud is a federal offense, defined as attempting to obtain property or money from any federally insured financial institution. It is sometimes referred to as a white collar crime. Some well-known bank fraud cases include ABG Shipyard Fraud, PNB-Nirav Modi

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Scam, Vijay Mallya Scam, etc. A high-value fraud might jeopardize a bank's stability or destroy its balance sheet. This may necessitate the merger of insolvent institutions with stronger banks.

Review of Literature

Swain, D. S., & Pani, D. L. (2016) did a trend study on frauds in the Indian banking business and discovered that inefficiency and inexperience of personnel lead to many banks compromising KYC rules and innovation in the banking arena.

Bhasin, M. L. (2016) performed a questionnaire-based survey in the 2012-13 period and discovered that banks are not ready to implement a zero tolerance policy for fraud. In the administration of passbooks, checks, inter-bank and internal account management, and deposit accounts, bank authorities are less constrained by national bank laws. The investigation also revealed that rookie bank staff is less aware and prepared in terms of fraud and central bank requirements than middle and senior management.

Singh, T., & Nayak, S. (2015) conducted an interview-based study on Banking Frauds and discovered a variety of reasons for unethical actions in the financial business. The financial industries are enormous in scale, complicated in design, and have a global reach. Because industrial norms fluctuate from country to country, there is a lack of a shared ethical culture, and most corporate interactions are depersonalized in nature, which encourages unethical behavior. According to the report, the industry should transmit the ethical code to its roots, and there should be a policy of blacklisting those who engage in malpractices.

P. K. Gupta & S. Gupta (2015) It was discovered that India's regulatory structure is inadequate in combating corporate fraud, and cooperation among multiple regulatory institutions is also inadequate. The researcher suggests posting a fraud prevention policy and establishing a corporate offensive wing.

Anthala, H. R. (2014) examined a few examples and discovered that public bank staff and outsiders play an important part in banking scams. There is a proper legal channel to address it, but it is poorly implemented. Most of the time, Public Interest Litigation (PIL) is effective in exposing several scams.

Kundu & Rao (2014) most bank scams or frauds are not publicized due to the concern of tarnishing the bank's reputation. They also highlighted the causes of the rise in bank frauds, which include employee ignorance, situational pressure, and attitude, as well as procedural delays in detection and reporting.

Objectives of the Study

1. To determine the reason for frauds and scams in Banking
2. To explore the impact of scams and frauds on stakeholders
3. To know about the adequacy of Indian Law on banking frauds

Reasons for the frauds and scams in Indian banking sector

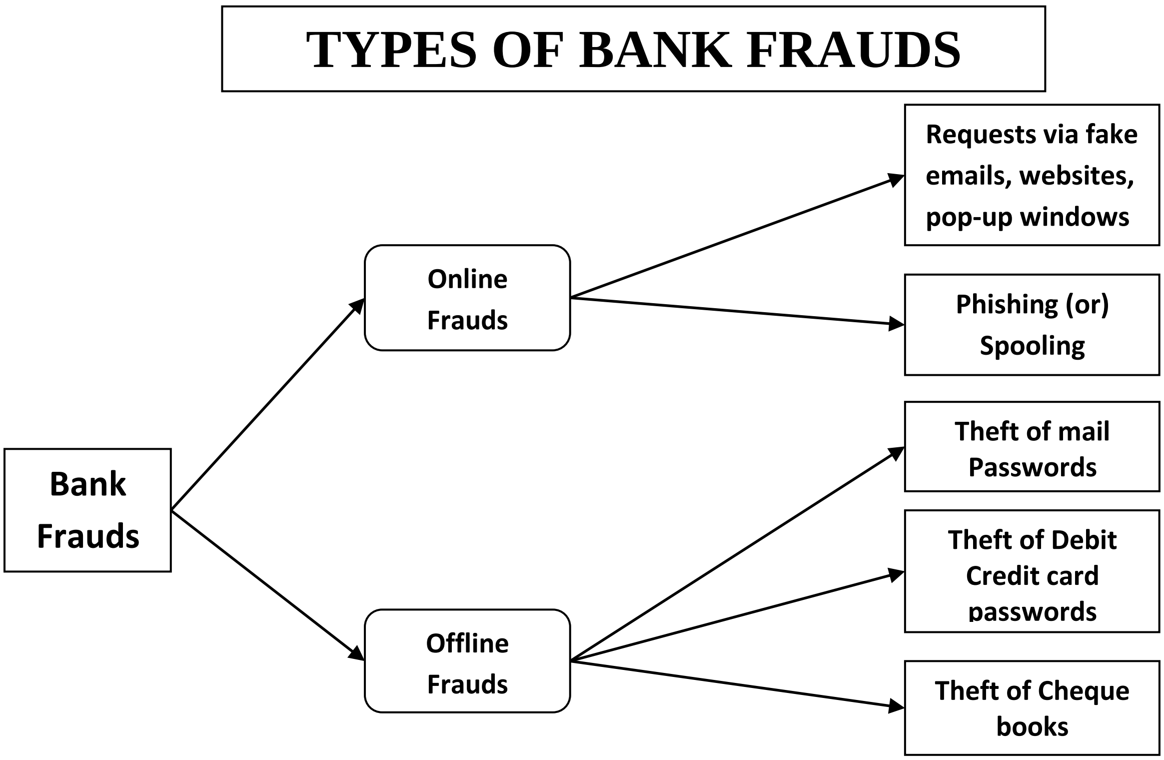
1. **Improper banking governance**: The majority of scams demonstrate that banks failed to exercise due diligence both before and after loan disbursement. One of the reasons is a lack of checks and balances in the banking sector.
2. **Inefficiency in monitoring the activities**: The lack of technology and fraud monitoring agencies to detect frauds complicates the problem. There is no effective mechanism in place to monitor credit flow. Flawed risk-mitigation design that places an inordinate emphasis on credit or market concerns while ignoring operational risks, resulting in additional breaches.
3. **Technological backwardness**: Excessive reliance on human supervision, both external and internal, makes manually controlling and supervising the sheer amount of transactions impractical.
4. **Immoral behavior**: The deterioration of the moral fiber of Indian businesspeople, bankers, and other white-collar professionals, nepotism in bank internal committees, and unwarranted political involvement all contribute to a surge in fraud.
5. **Political interference**: The political pulls and pressures on investigating agencies, as well as the lengthy legal processes, serve as less of a deterrent.

Bank Frauds in the Recent Decade

Bank frauds has been increased in the recent decade According to the Reserve Bank of India's (RBI) Financial Stability Report, the Indian banking industry recorded 2,331 fraud incidents totaling Rs. 87 crores. Bank fraud involving cards, the internet, and currency has increased in the last six months. The Central Vigilance Commission (CVC) examined the top 100 banking frauds in various sectors and proposed some measures to assist prevent such unethical behavior in the future such as:

- Banks should have performed due diligence on the buyers and signed a tripartite agreement with the buyers and exporters to send proceeds to the companies' Indian bank accounts. All overseas buyers should have had a Confidential Report (CR) obtained and analyzed.

- Lending facilities for the Gem and Jewellery Sector rose dramatically in a short period of time as banks sought to expand their lending dispensation. Such credit risks should have been subject to segment-specific limitations.



- Fraudsters made many attempts to forge documents and obtain bank financing. It was critical to raise knowledge of loopholes, the implications of ignoring procedural features, and check points for determining the authenticity of various vital papers. These things should serve as a lesson for the future.
- Instead of placing whole responsibility on subordinate employees, it should be guaranteed that sufficient accountability is established in the chain of command, including sanctioning power, in the event of such frauds.
- An investigation should be conducted to determine the trail of diversion in order to determine where the money has gone and whether any money has been remitted/parked aboard.
- Banks should ensure a periodic evaluation of all empanelled professionals in order to weed out undesired third-party service providers.
- In such cases of fraud, the affected banks should conduct forensic audits and make concerted attempts to recover the money lost.

- Jewellery industry units may also be required to submit to their lending banks a monthly declaration detailing all transactions/financial agreements/contracts taken into by their subsidiaries with their business associates.

Tips for the stakeholders to protect themselves from banking frauds

- Shoulder surfing is the practice of spying on someone when they are using an ATM or entering personal information into a phone in order to steal their data. Be cautious of shoulder surfing.
- Take advantage of the ability to set and change your transaction limits on your cards and account. Don’t Share any of your personal details about your finances on social media.
- When utilizing a personal laptop for business, create a separate user account and Keep your PINs private
- Don't give someone your account information or fill it out on a website until their identification can be verified. Put your money in a reputable financial institution. Don't hand your money to someone who offers to deposit it in a bank on your behalf in exchange for a better interest rate. Report any unusual activity in your bank account or while using your credit card.
- Examine your monthly credit card statements thoroughly. Take caution when making online payments. Only on secure payment websites should you enter your Card Verification Value (CVV).
- Do not reveal your OTP to anyone. Check that the OTP produced is for the transaction that you initiated.

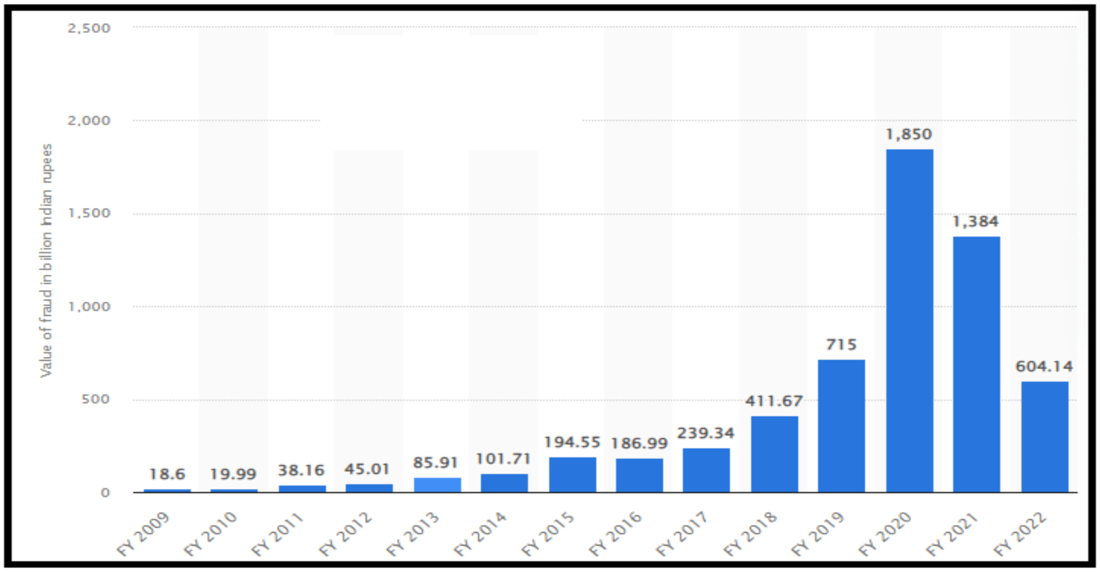
Impact of bank frauds on stakeholders

- This unfavorable trend of increasing fraudulent operations hitting the financial sector undermines their reputation.
- Fraud increases non-performing assets, causing banks and the economy to lose money. The Gross NPAs to Gross Advances Ratio has been increasing over the years.
- Frauds and fraudulent actions produce serious financial difficulties for banks and their clients, as well as a considerable reduction in the amount of money available for economic development.

- Fraud has a huge impact on the Indian banking sector's profitability. Bank profitability is steadily declining, which should serve as a wake-up call because it poses a threat to the economy.

Value Of Bank Frauds Across India from financial year 2009 – 2022

(Rs. in Indian billion)



Top five scams in banking sector in India

1. Kingfisher Airlines / Vijay Mallya Scam:

Vijay Mallya founded Kingfisher Airlines in 2005. Soon after, the incorporation the airline overtook Jet Airways as the 2^{nd} largest. He wanted to grow his business and bought 'Air Deccan'. Mallya resorted to borrowing by overvaluing his brand. The company was finally forced to close due to accumulating debts. In December 2012, the government also revoked Kingfisher Airlines' license. Mallya obtained massive loans from multiple PSU banks. The SBI provided Kingfisher Airlines with a loan of Rs. 1600 crore. He had borrowed money from 17 different banks. He missed payments on loans of Rs. 9000 crores from more than a dozen Indian banks in 2013.Vijay Mallya left the nation on March 2, 2016, and he returned in January 2019 and was declared as a fugitive offender under the Fugitive Economic Offenders Act in January 2019. Since then, attempts have been made to extradite him from the UK to India. The Debt Recovery Tribunal held Kingfisher Airlines, UB Group, and Mallya responsible for Rs. 6,963 crores plus 11.5%

interest in January 2017. Mallya was accused for violating Sec 120B read with Sec 420 I.P.C. and Sec 13(2) read with Sec 13(1)(d) of the Prevention of Corruption Act, 1988.

2. PNB Scam:

The PNB Scam has been labeled the largest fraud in the Indian banking industry. Nirav Modi (Indian businessman in the luxury diamond jewelry sector), his uncle Mehul Chowksi and other relatives, and several PNB staff were the major accused in the Scam. PNB's Brady House office in Mumbai produced fraudulent letters of undertaking (LoUs) worth about Rs. 11,000 crores in collusion with Nirav Modi, his relatives, and some PNB staff. The aforementioned LoUs appear to have been issued for offshore payments by entities associated with Nirav Modi and Mehul Chowksi. Some of the PNB employees used the international financial communication system SWIFT to issue LoUs to overseas branches of Indian banks, bypassing the bank's core system. Criminal conspiracy, criminal breach of trust, cheating, corruption, money laundering, fraud, embezzlement, and breach of contract were among the charges leveled against the defendants in the case.PNB filed a complaint against the accused for commission for fraud in January 2018, and the CBI launched an inquiry into the incident. Nirav Modi and Mehul Chowksi both departed India before the scandal became public.

3. ICICI Bank and Video con Group:

The ICICI Bank made loans to the Videocon group totaling Rs. 1875 crores. Ms. Chanda Kochhar was the bank's CEO and MD at the time. The Videocon group submitted 258 ideas to the bank, with only eight of them being accepted. She was a member of the sanctioning and recommending committee for four of these projects. From 2009 to 2011, the bank made loans to the Videocon group and its connected entities, with the majority of these loans made in flagrant breach of banking regulations and ICICI bank policy. Within months of the loan being approved, Dhoot's Supreme Energy awarded a loan of Rs. 64 crores in which Deepak Kocchar (Chanda Kocchar's husband) owns 50%. There were allegations that the loan was given in exchange for something. The Enforcement Directorate probed the multi-billion-dollar scheme, and Chanda Kochhar was forced to resign as CEO.

4. ABG Shipyard Fraud:

ABG Shipyard is possibly the most well-known bank fraud case. In early February, ABG Shipyard's top executives were charged with inflicting unjust losses totaling Rs.22,842 crores to an ICICI-led consortium of banks that included SBI. The theft was discovered when an audit report was submitted in January 2019. According to the investigation, top ABG officials engaged in illicit acts such as fund diversion, criminal misuse of funds, and criminal breach of trust.

5. Canara Bank and State Bank of India Fraud:

Canara Bank and SBI had filed complaints with the CBI alleging fraud of Rs.7,926.01 crore and Rs.313.79 crore, respectively. The first case was launched against a private firm situated in Hyderabad and certain unknown public personnel. There were charges that the firm obtained multiple credit facilities from Canara Bank and committed various financial crimes such as falsifying accounts, tampering with balance sheets, misuse of cash, diversion of loan amount, and so on. The account became non-performing and was ruled a scam. On the basis of SBI's allegation, a second lawsuit was launched against a private corporation situated in Chennai. The accused company allegedly obtained a credit limit of Rs. 310 crores from the bank and diverted the funds.

Legal provisions under numerous laws & the penalties specified for such frauds - Indian penal code 1860

Section 405	“Whoever, being in any manner entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or of any legal contract, express or implied, which he has made touching the discharge of such trust, or willfully suffers any other person so to do, commits “criminal breach of trust”.
Section 406:	Punishment for criminal breach of trust is imprisonment of either for a period of up to three years, or a fine, or both.
Section 409	“Criminal breach of trust committed by banker, merchant, factor, broker, attorney or agent shall be punished with imprisonment for life or with imprisonment of either may extend to 10 years, and shall also be liable to fine”.
Section 415	Cheating: “Whoever, by deceiving any person, fraudulently or dishonestly induces the person so deceived to deliver any property to any person, or omit if he were not so deceived, and which act or omission causes or is likely to cause damage or harm to that

	person in body, mind, reputation or property, is said to "cheat"."
Section 416	"A person is said to "cheat by personating" if he cheats by pretending to be some other person, or by knowingly substituting one person for or another, or representing that he or any other person is a person other than he or such other person really is."
Section 417	"punishment for the commission of offence of Cheating under Section 415 to be imprisonment of either description for a term which may extend to one year, or with fine, or with both."
Section 418	"Whoever cheats with the knowledge that he is likely thereby to cause wrongful loss to a person whose interest in the transaction to which the cheating relates, he was bound, either by law, or by a legal contract, to protect, shall be punished with imprisonment of either may extend to three years, or with fine, or with both."
Section 420:	Cheating and dishonestly: Imprisonment of either for a term that may extend to 7 years, as well as a fine.
Section 467: Forgery of valuable security, will, etc	Forgery of valuable security: Imprisonment for life or imprisonment of either for a term of up to 10 years, with a fine.
Section 468: Forgery for purpose of cheating	Imprisonment of either type for a term that may extend to seven years, as well as a fine.
Section 471	Punishable in the same way as if the individual had forged the paper or electronic record.

Conclusions

These frauds are the work of seasoned criminals, panicked customers, or someone connected with the financial system, or their coordination. Most of the time, their work can be easily recognized with strict attention and analysis of several papers. The preventive measures outlined in this module will undoubtedly aid in tackling the problem of bank fraud if properly implemented. Information about possible channels can keep the banker alert and so aid in the fight against fraud. These frauds are becoming more common and can be considered one of the main reasons for the country's economy being harmed. With such high-profile frauds occurring all over the country, it has become necessary to put a stop to these activities and, if possible, to create more stringent legislation to address these issues. The most basic preventive action is to follow the regulations and to remain vigilant at all times.

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