

Bank Frauds Reported In India: A Case Study

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Abstract

Since the country's independence, the banking industry in India has undergone significant changes. Despite the fact that it is governed by laws like as the Banking Regulation Act, the RBI Act and the Insolvency Act, the sector nonetheless confronts several problems as a result of different frauds and unethical practises by bank clients and workers. The present study is founded on the sensible concern that, despite several rules, industry is suffering significant losses as a result of unethical behaviour by individuals when public funds are involved. Customer funds are misappropriated by taking advantage of various weaknesses and gaps in our financial system. It is an attempt to shed light on the numerous banking fraud cases and related issues that contribute to the accumulation of NPAs. According to RBI report, both the number (by 28%) and volume (by 159%) of bank frauds increased significantly in 2019-20 Banking fraud is exacerbated by bad financial governance, technical laggardism, insufficient monitoring, unethical behaviour, and political intervention. The post-liberalization period has undoubtedly fresh hues of growth to the banking sector along with the introduction of new challenges. The rise in fraud and nonperforming assets is one of them (NPAs). As a result, essential steps should be taken ahead of time to avoid future financial crises and scams.

Keywords: Banking Frauds, Banking Regulations, Non-Performing Assets (NPAs), Reserve Bank of India (RBI)

INTRODUCTION

The Banking Sector in India has been struggling with fraud for a while now. Indian banks are experiencing increasing NPAs and losses as a result of an increase in frauds. Most of the time, top-level administration is involved, which causes banking activities to stop. As seen by the most recent case of Nirav Modi, the business has been affected as a output of credit approval for new projects. Numerous senior firm executives have been charged with corruption allegations and dishonest financing activities. This calls into question the ethics and corporate governance of the sector. In actuality, the fear of increasing NPA is a worldwide issue that is slowing down business.

Every economy's level of consumption and production can be used to gauge the health of its financial system. Any country should be concerned if the banking system is plagued with crime and has a high percentage of nonperforming loans (NPAs), as this may be used to gauge people's living conditions and status. In actuality, these issues have hurt the Indian economy for a long time. The growth of the GDP and the standard of life of the populace will be impacted by the stability of the financial or banking system. If the system breaks down, however, it reveals inefficiencies in the government of the nation and causes unhappiness among a number of stakeholders.

There are three main categories of fraud: advance, deposit, and service-related fraud. One of the numerous reasons for the increase in fraud in financial services and banking is the increasing use of internet and technology. Although technology offers numerous benefits and conveniences like digital transactions, digital payment transitions, and Straightforward home services; it also increases the risks like virus spread and the onset of economic crimes through various methods like identity fraud, malware, and card skimming. Fraudsters are employing more and more varied techniques for their illegal activities, including malware, social engineering, Viruses, website duplication, and stalkers, among others.

BIGGEST BANK FRAUDS REPORTED IN INDIA: TOP FIVE CASES

The fraud case of Vijay Mallya (2016)

More than a dozen banks are owed much more Rs 10,000 crore by Vijay Mallya's insolvent Kingfisher Airlines. A petition was filed on 2nd March, 2016 by a few public-sector institutions and on same day he departed India. Kingfisher Airlines, which came into operation in 2005, was forced to halt operations in 2012 as a result of growing liabilities. The Punjab National Bank came in second with 800 crores, followed by SBI with 1600 crore rupees, IDBI with 650 crore rupees, and Bank of Baroda on 550 crore rupees as the top lenders. In June 2016, a court designated Mallya as a habitual offender there under Prevention of Money Laundering Act (PMLA). Although he is currently free on bail, he was held by Scotland Yard on April 2017 because of a warrant for extradition. He was classified as an economic fugitive under the Economic Fugitive Offenders Act in 2019. Mallya is being sought by the authorities in the United Kingdom.

Scam at Punjab National Bank (2018)

The Punjab National Bank received a scam notice in 2018 involving Rs 114 billion. The heist was at the time described as the biggest in the history of Indian banking. Jeweler Nirav Modi, Ami Modi, Nishant Modi, Mehul Choksi and several staff members of PNB, were some of the primary defaulters that were found. A junior PNB staff members illegally fabricated "letters of undertaking" in order to obtain short-term loans from foreign branches of banks in to reimburse the vendors. Hence, the payments were never recorded in the bank's primary system as a result and PNB's higher management failed to notify the fraud. A total of Rs 114 billion was stolen from 30 Indian banks' overseas branches by the Nirav Modi and Gitanjali businesses. Investigation by CBI led to the discovery of the scam. Just few days before the theft was revealed, Modi departed India. He was charged with criminal conspiracy by the Indian government, along with financial fraud, embezzlement, fraud, and contract violation in the PNB case in August 2018. In southwest London's Wandsworth Prison, Modi is now detained.

Winsome Diamond Scam (2016)

Mehta's Winsome is India's third-largest business fraudster behind Kingfisher Airlines & Nirav Modi, a fraudster at the Punjab National Bank. Diamond trader of Gujrat, Jatin Mehta is the proprietor of Winsome Diamonds & Jewellery. More than Rs. 6,500 crore is due to him by a number of institutions. His company secured certificates of promise from banks in India through fraud. It's important to note that the issues were first identified in 2014. The company has been classified as a purposeful defaulter by banks ever since 2013, when it did not pay back its debts. The total amount of debt is predicted to be close to Rs 70 billion. Mehta and his spouse Sonia were among the 21 people accused by it in 2018. Mehta was also charged with securing the debt with the aid of 15 government employees and former senior Canara Bank CEOs. The family was able to escape the circumstance undetected. The family of Jatin Mehta relocated to the Balkan nation of Montenegro in South-East Europe. The investigating officer claims that after leaving India, the Mehta family developed their company in other nations.

The fraud of ABG Shipyard (2022)

ABG Shipyard Limited has been accused of participating in one of the largest bank fraud to date in the nation by CBI. The defendants are accused of stealing Rs 228.42 billion from 27 other lenders, including SBI and several arrests have been made by CBI has made in relation to this case. The proprietors of the business are allegedly responsible for misappropriation, mischief, embezzlement, and abuse of public trust for the period 2012-17. In July 2016, the loan account was identified as a non-performing asset, and fraud was discovered in 2019. On November 8, 2019, SBI filed its initial grievance. The bank re-filed their case in August 2020.

The fraud of Kanishk Gold Bank (2017)

Kanishk Gold Pvt Ltd has been accused by the CBI with defrauding a group of 14 banks, led by SBI, of Rs 8.24 billion. The lawsuit claims that Kanishk Gold Pvt Ltd and its executives took considerable bank loans and diverted reserves for corporate uses that were harmful to the company's interests. Kanishk Gold, Bhoopesh Kumar Jain, and his wife Neeta Jain were mentioned in the SBI's case, along with other public figures. Despite the fact that the scam is thought to be worth 8.24 billion, the SBI claims that the collateral available to cover the loss is just roughly Rs 1.57 billion. In 2017–18, a number of financial institutions labelled the company's account as a scam

and NPA. In compliance with the Prevention of Money Laundering Act, the Chennai Directorate of Enforcement has confiscated Kanishk Gold Pvt Ltd company assets worth Rs 48 crore.

STATISTICS ON BANKING FRAUDS IN INDIA

According to data from the RBI, there was \$2.05 trillion in bank fraud during the previous 11 years. The RBI responded to an RTI petition by stating that somewhere between 2009-19, there were over 50,000 banking frauds detected in India. The largest number of scams (6,811), totaling \$5,033 crore, were recorded by ICICI Bank. According to data from the RBI, SBI, HDFC Bank and ICICI Bank had the most cases of the more than 50,000 scams that hurt Indian enterprises in the most recent 11 fiscal years.

Out of the 53,334 fraud cases reported during the fiscal years 2008-09 and 2018-19, the ICICI Bank disclosed the most, with 6,811 cases totalling \$50.34 billion. According to information provided by the central bank in response to an RTI application by this reporter, SBI disclosed 6,793 cases of fraud totalling Rs 237.35 billion. With 2,497 such lawsuits costing Rs. 1,200.79 crore, HDFC Banks came at second place.

Table – 1 Bank Loan Frauds Reported by Indian Banks as of 31st March, 2021.

S.No.	Name of the Bank	Number of fraud cases registered/reported	Amount involved (in crores)
1.	State Bank of India	6793	78072
2.	ICICI Bank	6811	5033.81
3.	HDFC Banks	2497	1200.79
4.	Bank of Baroda	2160	12962.96
5.	Punjab National Bank	2047	39733
6.	Axis Bank	1944	5301.69
7.	Bank of India	1872	12358.2
8.	Syndicate Bank	1783	5830.85
9.	Central Bank of India	1613	9041.98
10.	IDBI Bank Ltd	1264	5978.96
11.	Standard Chartered Bank	1263	1221.44
12.	Canara Bank	1254	5553.38
13.	Union Bank of India	1244	11830.74
14.	Kotak Mahindra	1213	430.46
15.	Indian Overseas Bank	1115	12644
16.	The Oriental Bank of Commerce	1040	5598.23
17.	United Bank of India	944	3052.34
18.	State Bank of Mysore	395	742.31
19.	State Bank of Patiala	386	1178.77
20.	Punjab and Sind Bank	276	1154.89
21.	UCO Bank	1081	7104.77
22.	Tamilnad Mercantile Bank Ltd	261	493.92
23.	Lakshmi Vilas Bank	259	862.64

Source: <https://www.inventiva.co.in/trends/top-10-biggest-bank-frauds-in-india/>

2,160 cases of fraud comprising Rs 129.63 billion were reported by the Bank of Baroda, 2,047 fraud cases totalling Rs 287.01 billion by the Punjab National Bank, and 1,944 fraud cases totalling Rs 53.02 billion by the Axis Bank. The Central Bank of India confirmed 1,613 crimes worth Rs 90.42 billion, 1,783 crimes comprising Rs 58.31 billion, and 1,872 cases of frauds comprising Rs 123.58 billion for Bank of India, Central Bank of India and Syndicate Bank respectively.

1264 cases of fraud were reported by IDBI Bank Ltd, totalling 59.79 billion, 1263 fraud cases by Standard Chartered Bank, 1 254 fraud cases by Canara Bank, totaling 55.53 billion, 1244 fraud cases by Union Bank of India, totalling 118.31 billion, and 1213 instances of fraud by Kotak Mahindra, totalling 4.31 billion. Over that

time, Oriental Bank of Commerce documented 1040 occurrences totalling \$55.98 billion, while Indian Overseas Bank reported around 1100 scams totalling \$126.45 billion.

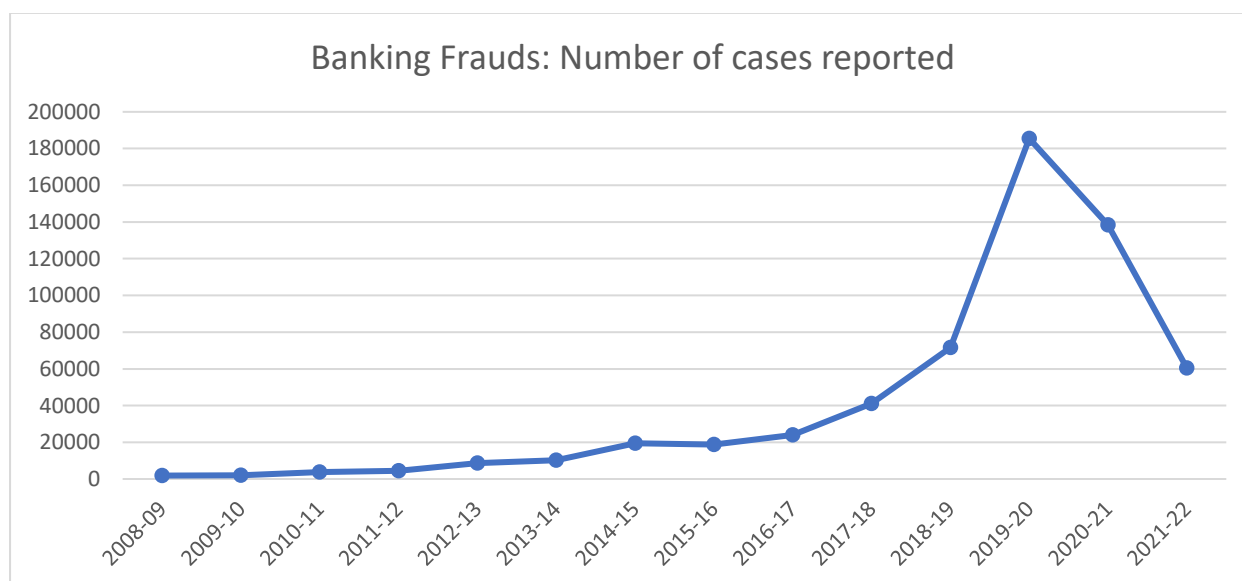
395 cases of fraud totalling 7.42 billion were reported by the State Bank of Mysore, 386 cases totalling 11.79 billion by SBOP, 276 cases totalling 11.55 billion by the Punjab and Sind Bank, 1081 cases totalling 71.05 billion by the UCO Bank, and 261 cases totalling 4.94 billion by the Tamilnad Mercantile Bank Ltd.

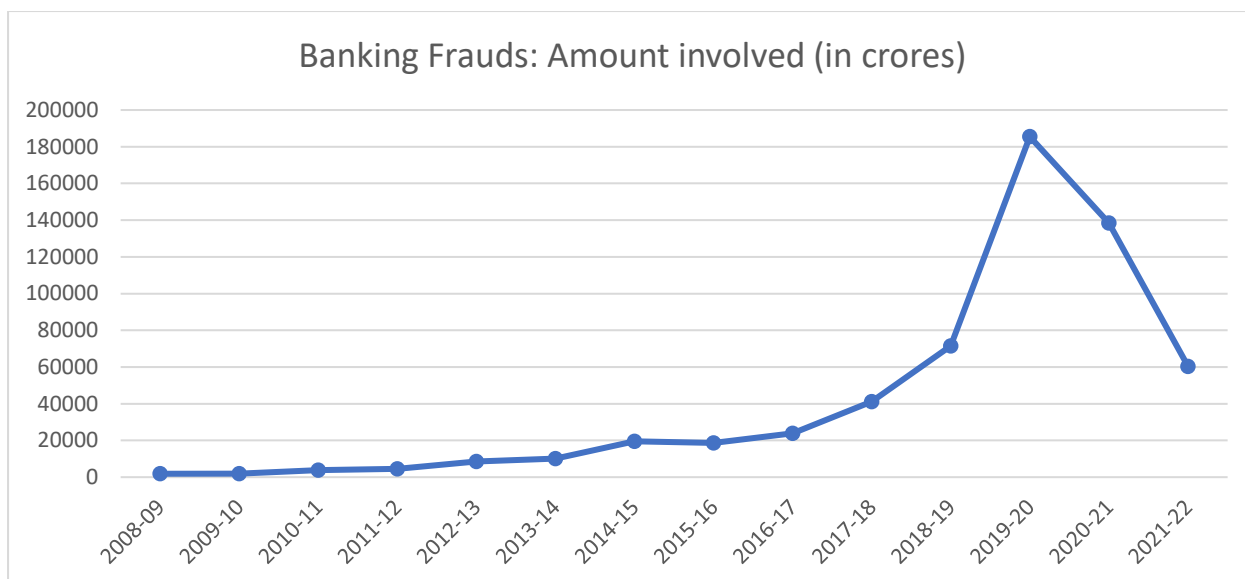
Additionally, according to RBI during the course of the last 11 financial years, a number of foreign banks with India-based operations have acknowledged fraud instances amounting to billions of rupees like The Royal Bank of Scotland Plc, American Express Banking Corporation, Citi Bank and Hong Kong and Shanghai Banking Corporation (HSBC) Ltd etc.

Table – 2 Number of fraud cases reported and amount involved from 2008 to 2022.

S.no.	Year	Number of cases reported	Amount involved (in crores)
1.	2008-09	4372	1860
2.	2009-10	4669	1999
3.	2010-11	4534	3816
4.	2011-12	4093	4501
5.	2012-13	4235	8591
6.	2013-14	4306	10171
7.	2014-15	4639	19455
8.	2015-16	4693	18699
9.	2016-17	5076	23934
10.	2017-18	5916	41167
11.	2018-19	6798	71534
12.	2019-20	8703	185468
13.	2020-21	7359	138442
14.	2021-22	9103	60414

Source: <https://www.livemint.com/industry/banking/bank-frauds-worth-rs-2-05-trillion-happened-in-last-11-years-reveals-rbi-data-1560335835680.html>





From 2017 to 2022, it can be seen that the number of banking scams has climbed dramatically. The amount of money spent on these shows an upward tendency from 2017 to 2020, then a downward trend in 2020-21 and 2021-22.

Fraud in the Banking Sector: What Causes It?

1. The direct and indirect fault of their own officials is the primary cause of fraud in the financial sector. The mistake could be due to deliberate manipulation of laws and regulations for financial gain, or it could be due to a lack of knowledge/awareness of procedure and systems.
2. Non-compliance with KYC rules is another source of fraud. Due to pressure and negligence, bank personnel may open accounts for customers without completing all KYC requirements during peak season. The fraudster takes advantage of this perk by opening an account, depositing fake checks, and withdrawing the funds.
3. Bank employees use unethical methods to meet corporate objectives. Fraudulent activities increase in the system due to a lack of effective auditing and inspection, as well as a suitable system.
4. Fraud is increased by a lack of a proper internal control system, a bad control environment, insufficient paperwork, and an inadequate accounting system.
5. One factor is the use of new technology and financial software; the lack of adequate data protection in new technology increases the likelihood of theft, cybercrime, and other online scams.
6. Electronic channels such as online banking, debit cards, credit cards, ATMs, NEFT, Internet banking, and mobile banking give criminals new options.
7. Fraudulent actions in the financial and banking systems are also caused by inexperienced staff and a lack of understanding on the part of customers.
8. Inexperienced staff and a lack of customer awareness both contribute to fraudulent activities in the financial and banking systems.

CONCLUSION

An economy's lifeblood, banks are essential to starting and sustaining economic growth, especially in developing countries like India. According to the RBI's most recent assessment, 90 financial institutions and banks as of March 31, 2021, reported 45,613 instances of loan scam totalling 4.92 trillion rupees. According to the latest annual report of RBI, both the number and volume of bank frauds increased significantly in 2019-20. "The overall incidents of fraud (involving Rs 1 lakh and above) recorded by banks/FIs grew by 28 percent by volume and 159 percent by value during 2019-20," according to the annual report. These, scams tarnish a bank's image, deplete its financial holdings, and stifle the economy's general growth.

They are typically brought on by inadequate regulatory processes, insufficient or redundant instruments and technologies to identify early warning indications of fraud, a lack of understanding among bank staff and clients,

and negligent management oversight, employee, corporate borrower, and third-party agency collaboration. Poor financial governance, technological laggardism, poor monitoring, immoral behaviour, and political meddling are important factors that contribute to banking fraud. It is undeniable that the post-liberalization era has given the Indian banking industry new colours of growth, but it has also introduced new challenges. One of them is the growth in fraud and nonperforming assets (NPAs). As a result, necessary precautions should be made ahead of time to prevent future frauds and financial crises.

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