

THE INCREASING INCIDENCE OF BANKING SCAMS

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Abstract: Banks are the engines that drive the operations in the financial sector and growth of an economy. With the growing banking industry in India, frauds in banks are also increasing and fraudsters are becoming more sophisticated and ingenious. This paper focuses on finding out the reasons for major banking scams that have hit the country in the recent years and the impact of these scams. It was discovered from the indepth study that Nirav Modi scam was the biggest scam in the banking sector of India because of which PNB was severely hit (fraud amount of Rs 11400 crore).The paper also throws light on the suggestions in order to combat the incidence of more such banking scams in the near future.

Keywords: *Banking, Scams, Authenticity, Online, Frauds*

INTRODUCTION

Fraud is any dishonest act and behaviour by which one person gains or intends to gain advantage over another person. Fraud causes loss to the victim directly or indirectly. As per the Indian Contract Act, Sec 17 suggests that a fraud means and includes any of the acts by a party to a contract or by his agents with the intention to deceive another party or his agent or to induce him to enter in to a contract.

Bank fraud is the use of potentially illegal means to obtain money, assets, or other property owned or held by a financial institution, or to obtain money from depositors by fraudulently posing as a bank or other financial institution.

As per the latest Reserve Bank of India (RBI) data, an unprecedented 6,801 frauds, totalling Rs 71,500 crore, were detected in FY19. That amounts to a 15% rise in volume and 80% climb in value from last year. This rise eclipses the FY18 banking fraud at Punjab National Bank(PNB), the most infamous in India’s history when it was revealed that over the course of 7-8 years, fugitive diamond merchants Nirav Modi and Mehul Choksi allegedly siphoned off nearly Rs 13,000 crore from the lender.

Bank Frauds are on the increase and effective defence against this scourge is knowledge about them. If the information is available, it is easier to fight back : detect the crime, collect evidence against the perpetrator and provide against recurrence.

Banking Frauds constitute a considerable percentage of white-collar offences being probed by the police. Unlike ordinary thefts and robberies, the amount misappropriated in these crimes runs into lakhs and crores of rupees.

OBJECTIVES OF THE STUDY

1. To find out the reasons underlying major banking scams
2. To judge the impact of the banking scams on the banks as well as general public.
3. To suggest measures to combat the incidence of such banking frauds in the near future.

REVIEW OF LITERATURE

Upadhyay(2019) presented theoretical descriptions of the following scams -Nirav Modi bank scam, bank scam by Vijay Mallya, Allahabad Bank scam, Rotomac Pen scam, RP Info Systems bank scam, Simbhaoli Sugar Mills bank scam.The paper included an overview of the above mentioned scams and the introductory content on frauds. Moid(2016) studied the significance of forensic accounting and the techniques used in it for detecting and preventing frauds . The study is based on secondary data and the theoretical descriptions of few scams of corporate sector have been discussed. It has been observed that

the financial scams in India are unbridled due to lack of stringent surveillance authority. Khattar(2018) discussed the banking fraud that is plaguing the banking sector and attempts to give out solutions for the same. The focus is on the problem of NPAs and it was concluded that to achieve the goal of a faster yet inclusive growth, in the banking sector, the government and the banking sector should undertake a comprehensive relook into the existing policies and structures. Narayanan & Supreem(2004) highlighted the major share scams perpetuated between 1991 and 2001 and the financial measures adopted to deal with them. The theoretical framework relating to corporate governance was also described. The use of secondary data was made to finally conclude that the underlying reason behind difficulty in exercising corporate governance and scams is the poor legal systems, corruption and bankruptcy.

Soni & Neena(2013) reviewed and analyzed the cyber fraud in Indian context. Secondary data has been taken published by Reserve Bank of India. Tables and graphs have been used for comparative analysis-intra sector (banks within same sector) comparison and inter banking (between sectors) comparison. It was concluded that a bigger share of private and foreign banks in frauds related to online banking, ATM, cards and other digital banking transactions. Siddiqui(2014) suggests the use of biometric techniques-use of fingerprints, iris scan, voice recognition ,palm scanning along with the PIN authentication and verifications, to control the incidence of ATM scams. Once issues and objections like invasion of privacy, undue physical harassment etc. are sorted out, biometrics security products will have more acceptance from people and will work out as the most effective security system ever. Mohanty analyzed the current financial difficulties in the banking sector due to the scams and frauds in India by analyzing notable cases and suggested that the main solution for these problems is to avoid it at the first place. It can be done through the internal scrutiny of the financial systems, avoiding nepotism and conflict of interest, use of advanced technological Tools like applications based on Artificial Intelligence (AI). Verma & Ravi(2018) presented the major frauds in the Indian banking sector for a period of 2014-15 to 2016-17 and studied the number of frauds, staff involvement and cheque/debit card/credit card related fraud cases in banks for the same period. Secondary data was used in the study. Tables and graphs were employed for the purpose of analysis. It was found out that most of the fraud cases during this period were reported in the State Bank of India.

CONCEPTUAL FRAMEWORK

Major reasons underlying the banking scams

1. The lack of adherence to compliance is perhaps the single biggest reason for bank frauds.
2. The problem of underreporting on the part of banks, stems due to a reluctance to engage with the prescribed system of due diligence.
3. Their reluctance stems from reputational risks, interference of probe agencies, and the instinct of self-preservation or even political interventions.
4. Sometimes, it may also be the failure on the part of the third-party ecosystem, such as credit rating agencies or auditors to highlight risks.
5. Banks are hesitant to report frauds. The banking industry is not speedy in reporting and initiating an action.

MAJOR RECENT BANKING SCAMS

1. Nirav Modi Scam

Year	February,2018
Fraud amount	Rs11400 crore
Bank involved	Punjab National Bank
Main accused	Nirav Modi-Billionaire jeweller and his uncle –Mehul Chokshi(owner of Gitanjali Gems)
Nature of scam	<ol style="list-style-type: none"> 1. Fake bank guarantees were issued in excess of Rs 13800 cr. Aiding the companies of two jewellery groups led by Nirav Modi and his uncle. 2. They had withdrawn funds from the foreign banks on the guarantee of PNB.
Consequences	<ol style="list-style-type: none"> 1. PNB suffered the highest ever net loss by any Indian lender—Rs13,417 crore in March quarter. 2. Kolkata based Allahabad Bank claims fraud case of Rs 2363 cr. stating that there was misuse of SWIFT codes

Table 1.

2.Allahabad Bank Scam

Year	2018
Fraud amount	Rs 2363 crore
Bank involved	Allahabad Bank
Nature of scam	<ol style="list-style-type: none"> 1. Kolkata based Allahabad Bank claims fraud case of Rs 2363 cr. 2. The scam in Allahabad Bank involved the misuse of SWIFT technique by internal employees of the Allahabad Bank.

Table 2.

3.Bank Scam by Vijay Mallya

Year	2016
Fraud amount	Rs 9432 crore
Main accused	Vijay Mallya
Nature of scam	<ol style="list-style-type: none"> 1. Vijay Mallya borrowed money from many banks to allegedly fund Kingfisher Airlines, but siphoned off the money to buy properties and teams across the world. 2. When the banks were after him, he became a Rajya Sabha member, sponsored by the congress. 3. He pledged the Kingfisher brand and borrowed further money. When KFA was a huge loss making company, IDBI lent it Rs. 900 crores under pressure from the Congress Government. 4. To avoid any hassle of inquiry, he ran away from India, using the diplomatic passport.

Table 3.

Lending institution	Amount lent(Rs crore)
SBI	1600
PNB	800
IDBI	650
Bank of Baroda	550

Table 4.

The table above depicts the major lender banks in the Vijay Mallya case. Inclusive of the following banks, a total number of 17 banks were involved which had suffered losses due to this case.

The graph below is the diagrammatic representation of the tabular data which depicts the major lending institutions alongwith the amount lent (Rs crore)

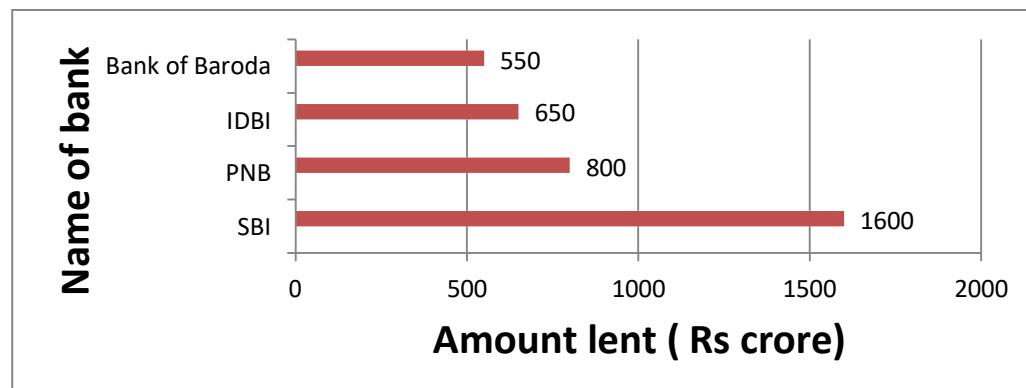


Figure 1.

4. Punjab and Maharashtra Cooperative Bank Scam

Year	September,2019
Fraud amount	Rs 4355 crore
Main accused	HDIL Promoters- Rakesh Wadhawan and his son Sarang Wadhawan PMC Bank Chairman- Joy Thomas Former Chairman-Waryam Singh Inspection still going on.
Nature of scam	<ol style="list-style-type: none"> 1. The higher management of the PMC bank has given huge loan to the Housing Development and Infrastructure Ltd (HDIL) and its group entities. 2. The PMC bank allegedly favoured to the promoters of Housing Development and Infrastructure Ltd (HDIL) and allowed them to operate password protected ‘masked accounts’. 3. It is found that around 21,049 bank accounts were opened by bogus names to conceal 44 loan accounts. The bank's software was also tampered to conceal these loan accounts.
Impact	<ol style="list-style-type: none"> 1. The customers of the PMC bank rushed to the PMC bank to withdraw their hard earned money but they were refused to give their deposited money and withdrawal limit is set by the bank. 2. Total NPA of the bank has grown to 73%.

Table 5.

DATA ANALYSIS

Data collection-The data has been collected from the secondary sources including websites, books, journals, etc.

Data presentation and analysis

Following is the table showing the major banking scams that have recently hit the country along with the fraud amount (Rs crore).

Year	Name of banking scam	Fraud amount(Rs. crore)
2018	Nirav Modi Scam	11400
2016	Bank Scam by Vijay Mallya	9432
2018	Allahabad Bank Scam	2363
Sept, 2019	Punjab and Maharashtra Cooperative(PMC) Bank	4355

Table 6.

The pie chart below indicates the Fraud amount (Rs. Crore) involved in the major banking scams of India.

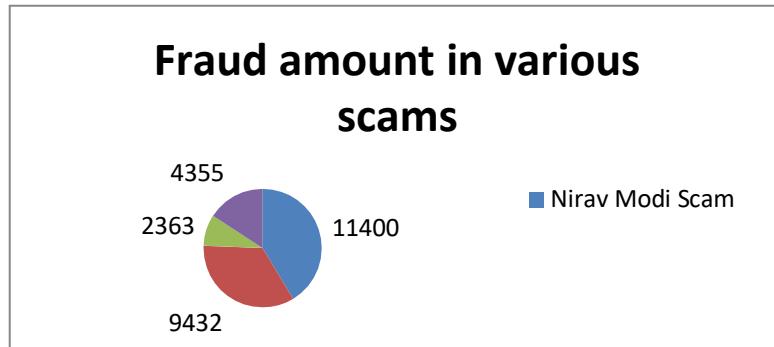
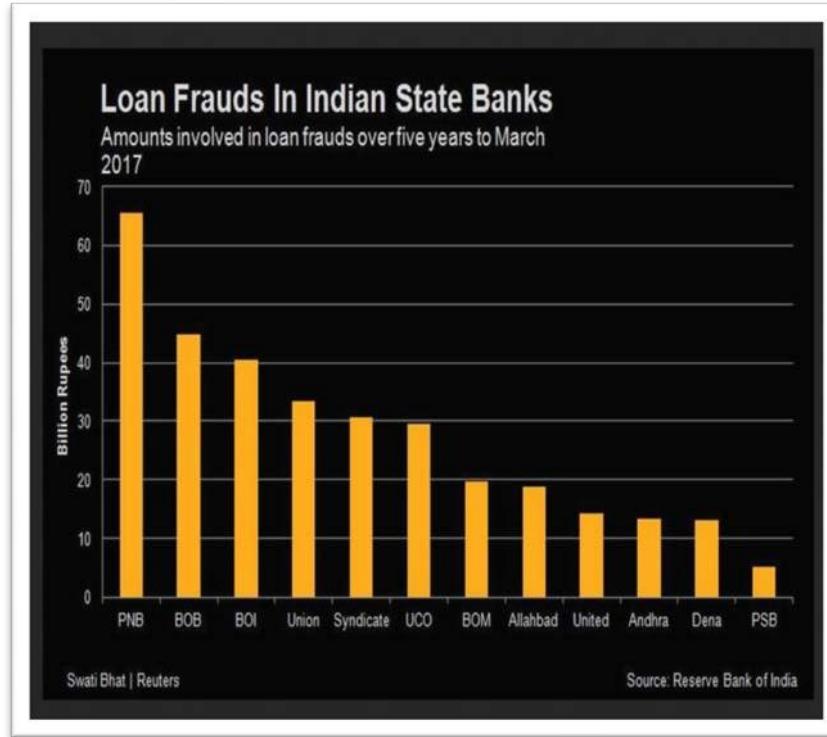


Figure 2.

From the above table and diagrammatic representation, it is inferred that Nirav Modi Scam was the biggest scam of the banking sector in India involving fraud amount of Rs 11400 crore. It has shaken the roots of the banking sector in the country.



The above diagrammatic representation depicts the amount of loan frauds in Indian State Banks. Among the various banks, PNB is the worst hit. Later, the bank had to face severe hardships due to the scam done by Nirav Modi.

Impact on PNB of Nirav Modi’s case:

Phase	Impact on PNB
March quarter earnings	PNB suffered the highest ever net loss by any Indian lender—Rs 13,417 crore.
October-December 2018 period	There was a surprise profit of Rs 247 crore
Bank’s market value on Feb. 13, 2019	Rs 26,424 crore which was 27% lower than on Feb. 14 last year.

FINDINGS

1. It has been observed that Nirav Modi Scam is the biggest scam in the banking sector of the country. It has shaken the roots of the Indian banking sector.
2. PNB was very badly hit by the Nirav Modi Scam-(fraud amount of Rs 11400 crore).
3. It led to highest ever net loss by any Indian lender—Rs13,417 crore in March quarter earnings of the year in which scam was held.
4. The most recent scam of PMC Bank where the investors were prohibited from withdrawing their own money is a disgrace on the banking sector.
5. The major reason underlying the incidence of such scams is the under-reporting of frauds by the bank or the hesitant nature of the banks in reporting frauds. This reduces any possibility of timely actions.

6. Thus, the emphasis should be laid on timely reporting of frauds so that timely action can be immediately taken so that small amounts do not pile up to create huge fraud amounts in multiple crores. It is clear from the study that all big banking scams are possible only over a period of time be it Vijay Mallya scam or Nirav Modi Scam.
7. There is a dire need of forensic accounting to combat the incidence of such frauds and to catch hold of the dishonest bank officials.

CONCLUSION

People are losing faith in the banking industry. There were times when keeping money in banks was considered safe than keeping the money at home. But due to the rising incidence of such scams, people are not finding it safe to deposit their hard-earned money in a suspicious zone. The increasing banking scams in India are a cause of worry as it is harming the reputation of the country at an international level. So, as understood from the indepth study of such scams, that lack of timely actions is a major reason leading to such scams. The banks are hesitant in reporting about any such fraudulent activity as they think that it would harm their reputation. However, it is always advisable to nip the problem in the bud and the banks must follow this sincerely. As soon as, the bank officials smell something fishy, instant actions should be taken to combat them. The scams of such massive amount are possible only when the main accused join hands either with the dishonest top bank officials or the auditors. One reason sometimes, may also be some kind of political intervention.

So, it is advisable to follow forensic accounting so that the banks can easily detect the financial discrepancies and financial fraud. Forensic accounting is the combination of the accounting, auditing and investigation skills. It includes, in its sphere the legal framework also. The study can be further enhanced by considering the impact of scams individually on the public sector and private banks.

SUGGESTIONS TO COMBAT SUCH BANKING SCAMS

The incidence of such banking scams can be reduced only when there is timely reporting of any fraudulent activity. The banks must comply with the rules and there should be a proper check on the auditors' activities as in most of the cases, they are the ones who conceal the information for their own good or even manipulate the facts, for supporting the top officials of the company in indulging in any scam. As per the RBI report- "The central bank has already fined banks a record 76 times, totalling Rs 123 crore, for non-reporting of fraud. RBI deputy governor MK Jain urged all present and non-present senior bankers to start developing a 'compliance culture' within their respective banks"

This calls for a proper system of forensic accounting which is helpful in Fraud Examination. Fraud Examination is divided into three basic aspects -Fraud Detection, Fraud Investigation and Fraud Prevention . The detection process is carried out by the auditor (or the employees performing the similar supervision functions). Fraud Investigation is the work of the law enforcement officials like police department in India and the prevention is the work of the management.

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