






Analysis and Preventive Measures of Banking Frauds with Reference to Indian Banking Sector

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Abstract. Economic development of the nation is largely dependent on banking sector performance. It accelerates industrial progress through smooth flow of financial resources, offer huge employment opportunity and extend financial support to the needy. Financially sound banking system is a boon to the nation's progress. For the recent years the sector has been facing numerous issues of raising bad loans, increasing number of frauds and lack of banking for the undeserved and rural population. This study aims to understand number of frauds; area of operation, amount involved and various causes that are responsible for frauds. The methodology opted for the study is secondary data gathered from various reliable sources. The study revealed that group wise and operation wise number of bank frauds differed significantly. This paper idea will help policy makers to reduce the degree of future frauds.

Keywords: Key words: Banking sector, Bank Frauds, Bad Loans, Financial Resources.

1 Introduction

A competent banking system is requisite for progress of the nation. The banking sector role has evolved extensively over time [13]. Since banks came into existence there had been always attempts to get money from them in whatever manner that was possible [15]. The easiest mode is to commit a fraud because it is a low risk and high return activity. Bank frauds have been proving very costly in India [15]. In the year 2023, there had been nearly 8,703 frauds reported to Reserve Bank of India, which had made the nation lose nearly 39,852 crores in both public and private sector banks (RBI, 2023)

A bank fraud is a willful delinquency in the banking transaction either by the institution/ employee/ customer or by all. It could happen through a manual accounting practice or computerized/ automated system. The breach could benefit either of the parties or both. In this process the banks might or might not incur loss [2].

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2 Literature Review

Bank Frauds have become an issue of serious and important concern for global economy disturbing the financial stability of the internal and external stakeholders and posing challenge to nation's economic viability (Deepa Mangala, Lalita Soni, 2023). Study revealed that simultaneous increase in frauds along with increase in amount involved in frauds. RBI is proactive in controlling occurrence of frauds (Baxi Minouti Kaivalya et al, 2021). Piecemeal legislations are incapable of holding the security against the continuous attack of Banking Frauds. Banks have necessitated re-evaluating the legal system and processes in order to remain active in the neo-scientific environment (Richa Rajpal, Twinkle Rajpal. 2022)

Bank employees lacked focus on the KYC norms and technological innovations in banking due to less competence and inexperience (Swain, D.S., Pani, D.L. 2016). Zero Tolerance in banking frauds need to go a long way to become reality as the junior level employees at the execution level are unaware of banking guidelines pertaining to frauds (Bhasin, M.L 2016). Target pressure, employee orientation, lack of knowledge and procedural complications are being the reasons (Kundu, S., Rao, N 2014) Lack of co-ordination among regulatory bodies is also a reason for increasing cases of fraud and poor management (Gupta, P. K., Gupta, S. 2015).

3 Methodology

The methodology opted for the study is secondary data collected from various reliable sources such as literature reviews, research articles, annual reports of regulatory agencies and reports submitted by different authors and officials

3.1 Research Objective

The purpose of this paper is to analyze sector wise and operation wise frauds in Indian banking sector and various causes that are responsible for frauds and provide sustainable remedies for countering bank frauds in the Indian banking system.

3.2 Research hypothesis

H_{01} = Number of bank frauds do not differs significantly between the years

H_{02} = Number of bank frauds do not differs significantly between the bank group

H_{03} = Operation wise number of bank frauds do not differs significantly between the years

H_{04} = Operation wise bank frauds do not differs significantly between the bank group

4 Analysis and Discussions

Table 1. - Group wise analysis of Bank Frauds

Bank Group/ Institution	2019-20		2020-21		2021-22		2022-23	
	No. of Frauds	Amt. Involved	No. of frauds	Amt. In-volved	No. of frauds	Amt. in-volved	No. of frauds	Amt in-volved
Public sector	4,4 10	1,48, 224	2,8 88	77,8 79	3,0 75	40,0 15	3,4 05	21,1 25
Private sector	3,0 65	34,21 1	3,7 05	45,5 15	5,3 32	17,3 87	8,9 32	8,72 7
Foreign	1,0 26	972	51 9	3,11 0	49 4	1,20 6	804	292
Financial Institutions	15	2,048	22	5,85 3	9	1,17 8	9	70
Small finance	14 7	11 4	11	30	15 5	30	312	31
Payment Banks	38	2	88	2	30	1	68	7
Local area banks	2	--	2	--	2	2	--	--
Total	87 03	1854 68	73 38	1323 89	90 97	598 19	135 30	302 52

Source: RBI Annual Reports-2021-22 & 2022-23

Table 2. - Operation wise analysis of Bank Fraud

2019-20	2020-21	2021-22	2022-23
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Area of Operation	No. of frauds	Amt. involved	No. of frauds	Amt. involved	No. of frauds	Amt. involved	No. of frauds	Amt. involved
Advances	4,608	1,81,942	3,476	1,30,990	3,833	57,733	4,109	28,792
Off-Balance sheet	34	2,445	23	535	21	1077	14	296
Forex Transactions	8	54	4	129	7	7	13	12
Card/Internet	2,677	129	2,545	119	3,596	155	6,659	276
Deposits	530	616	504	434	471	493	652	258
Inter-branch accounts	2	--	2	--	3	2	3	--
Cash	371	63	329	39	649	93	1470	158
Cheques/DDDs, etc.	201	39	163	85	201	158	118	25
Clearing Accounts	22	7	14	4	16	1	18	3
Others	250	173	278	54	300	100	474	432
Total	8,703	1,85,468	7,338	1,32,389	9,097	59,819	13,530	30,252

Source: RBI Annual Report- 2021-22 & 2022-23

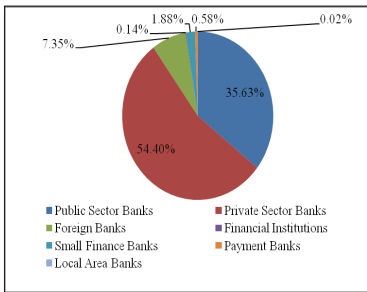


Fig. 1. Fig 1.Group wise analysis of bank frauds

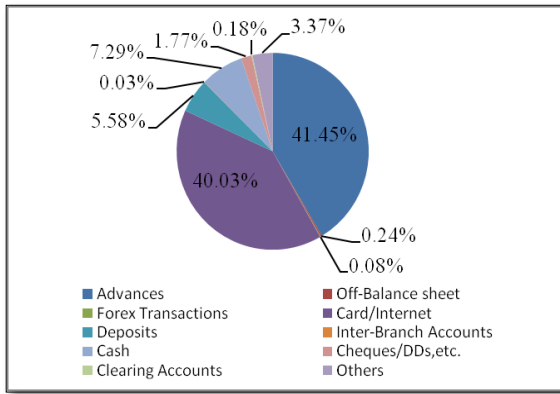


Fig. 2. Operation wise analysis of bank frauds

Figure 1 depicts the cumulative percentage of group wise bank frauds from 2019-20 to 2022-23. Private sector banks have reported highest percentage of bank frauds with 54.40% followed by public sector banks with 35.63%. Other group wise frauds include Foreign Banks (7.35%), Small Finance Banks (1.88%), Payment Banks (0.58%), Financial Institutions (0.14%) and Local Area Banks (0.02%) respectively.

Figure 2 exhibits the cumulative percentage of bank frauds operation wise from 2019-20 to 2022-23. 41.45% of frauds have been reported in terms of advances followed by card/ internet frauds with 40.03%. Other operational frauds include cash (7.29%), deposits (5.58%), others (3.37%), cheque/ DDs (1.77%), off-balance sheet (0.24%), clearing accounts (0.18%), forex transactions (0.08%) and inter-branch accounts (0.03%).

Table 3. ANOVA for Number of Bank frauds

source of variation	Sum of squares	Degree of freedom	Mean square	F-ratio	P value	Critical value	Test results
Between Years	3085886.571	3	1028629	0.96251	0.431823	3.159908	N
Between Bank group	1068315.695	6	17805262	16.66077	1.84E-06	2.661305	S

Er-	1923648	1	10686
ror	5.93	8	94
To-	1291539	2	
tal	42	7	

Table 4. ANOVA for Number of Bank frauds based on area of operation

Source of variation	Sum of squares	Degree of freedom	Mean square	F-ratio	P value	Critical value	Test results
Between Years	2160121	3	720040.2	1.860071	0.16021	2.960351	NS
Between are of operation	90406093	9	10045121	25.94944	4.75E-11	2.250131	S
Error	10451796	27	387103.6				
Total	103018010.4	39					

Table 5. Summary of Hypotheses Testing

Hy-pothesis	Null Hypotheses (H ₀)	Result
H ₀ ₁	Number of bank frauds do not differ significantly between the years	Rejected
H ₀ ₂	Number of bank frauds do not differs significantly between the bank group	Accepted
H ₀ ₃	Operation wise number of bank frauds do not differs significantly between the years	Rejected
H ₀ ₄	Operation wise bank frauds do not differ significantly between the bank group	Accepted

5 Discussion

Banking sector frauds are multifold in nature. The structure of banking sector in India is very complex. The Reserve Bank of India (RBI) is the apex regulatory body. There are different categories of banks, such as nationalized banks, private banks, foreign banks and non-banking financial institutions. There are different norms and policies that are to be adhered by the banks depending on their nature of ownership. At

entry level, all these norms are followed by the respective banks, they get diluted over a period of time due to institutional inadequacies, weak leadership, pressure of higher targets, competition with other banks, wide spread of branches with little monitoring, altering bank policies to lure more customers, hunger for profits etc. are creating scope for frauds at institutional level. Even though, regular audits are being conducted many of the frauds are being undetected. In some of the frauds auditors are also involved. Hence, the cases are kept undisclosed till the time they are unearthed.

System level loopholes of documentation, processing and clearance in banking transactions are given scope for fraud amongst the bank employees and customers. Lack of sophisticated technological advancement in fraud detection and prevention has been a major concern for banks. An account takeover fraud through customer's account infringement has become the most common practice. Lack of awareness about digital banking among old aged, rural customers and inattentive attitude among educated customers added more severity to these cases. The banks are taking efforts to strengthen their banking software and educate customers about preventive methods from phishing and data breach, but, new ways are being identified by the hackers. Wire transfer beaches have risen significantly in the recent past deceiving both the bankers and their clients. In some cases, fraudsters opening bank account with an intention to commit fraud. In these cases name, address and proof of identity are misrepresented by the customers and banks verification system is far behind the reach. Coordination and collaboration among regulatory authorities at various levels can easily prevent and detect frauds. Wide coverage, functionality and nepotism made the work impracticable.

In light of the above milieu, the banks are advised to conduct regular training programs to the employees at different cadres exclusively on fraud prevention and detection. Banks/ they must update their technology in way to avoid any intentional breach/ fraud. Agencies involved in Forensic accounting and audit can extend their hand in nullifying the frauds. Awareness among customers on digital financial platforms, tools and services can reduce bank frauds to a great extent.

Students from various universities and colleges are the greatest strength in India. They could be trained and utilized for creating awareness among uneducated, old aged and rural citizens. They can also be involved in development of advanced software/ app for prevention of cybercrimes.

One more cause for raise in bank fraud is delay in legal procedures and conferment of judgment to the convicted. Stringent laws and severe punishment can drastically reduce the fraud cases. Special/ Fast Track courts can be established to announce the verdict at the least possible time and with justice. Special investigation agencies or task force can be appointed to monitor and report frauds at branch level. Policy changes, more transparent governance from the Reserve Bank of India can reduce the cases. It is the responsibility of the RBI to have surveillance and prevent frauds, technological advancement in this direction need to go a long way in India. RBI could not detect cases of fraud till the time they have been self-reported by the banks. Implementation of Artificial Intelligence can reduce bank frauds.

5 Conclusion

Bank frauds have significant impact of Indian financial system and its stability. Inadequate functioning in prevention and detection of frauds increased bad loans amongst the banks and adversely affected the economic progress. The major concern for banks is detection of frauds as they are being done in different forms and by different people either directly or indirectly. Scientific checks and measures with the help of forensic science and Artificial Intelligence can easily detect the frauds and prevent major losses to the banks, customers, other stakeholders and economy. Specially trained employees can be hired and placed at different cadres of the banking system to bring robust mechanism in governance. The interface between various banks can bring more transparency in banking operations and facilitated in easy detection of frauds. The policy making and regulatory bodies should reframe the policies to increase accountability among employees and customers. A supportive legal framework in favor of aggrieved reduces the bank frauds and strengthens the economic development.

6 Scope for further research

The present study resolves around the area of causes that are responsible for banking Frauds with reference to Indian Banking Sector based on area of operations and amount involved. Further research can be done on comparative analysis on bank frauds. Research can also light on the areas like impact of frauds on operational efficiency of banks and lending capacity as well as the sustainability of economy.

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