Original Research Paper | Commerce | Volume : 6 ¦ Issue : 6 ¦ Jun 2021 ¦ e-ISSN : 2456-5040

BANK FRAUDS: A STUMBLING BLOCK IN CHANGING FOOTPRINTS OF BANKING BUSINESS

Dr. Anitaba Sukhdevsinh Gohil

Assistant Professor, Department of Commerce & Management, Bhakta Kavi Narsinh Mehta University, Junagadh, Gujarat, India.

ABSTRACT

Finance is the life blood of any business organisation. Banking industry plays a vital role in the development of the economy. Banking industry faces many challenges out of which bank frauds and non-performing assets are the major problem for the banking industry in India. The present study focused on the impact of bank frauds on the Indian banking industry. The study is based on the secondary data. The period of the study is of five years that is from 2014-15 to 2018-19. The research revealed that the Frauds have a significant impact on profitability of the Indian banking sector.

KEYWORDS: Economic development, Bank fraud, Non-performing assets, profitability.

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. The number of bank frauds in India is substantial increasing with the passage of time. All the major operational areas in banking represent a good opportunity for fraudsters with growing incidence being reported under deposit, loan and inter-branch accounting transactions, including remittances.

In recent years, instances of financial fraud have regularly been reported in India. Although banking frauds in India have often been treated as cost of doing business, post liberalization the frequency, complexity and cost of banking frauds have increased manifold resulting in a very serious cause of concern for regulators, such as the Reserve Bank of India (RBI). RBI, the regulator of banks in India, defines fraud as "A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank".

The robustness of a country's banking and financial system helps determine its production and consumption of goods and services. It is a direct indicator of the well-being and living standards of its citizens. Therefore, if the banking system is plagued with high levels of NPAs then it is a cause of worry, because it reflects financial distress of borrower clients, or inefficiencies in transmission mechanisms. 'Banking fraud' is a broad term used to signify all types of frauds committed in a banking system. It may be committed with accounts, negotiable instruments, loans, securities or any other banking service. Again, it may be pulled off by customer, employee, and outsider or by the bank itself, or by two or more of parties in connivance with each other. A common term to describe all such frauds is 'Banking Fraud'. Banking frauds may be committed by way of concealment, embezzlement, breach of trust, theft, cheating, forgery, falsification of accounts, conspiracy etc.

LITERATURE REVIEW:

Bansal & Sharma (2008)1 present the main achievements and challenges faced in the Indian banks. This work addresses the major achievements of the Indian banking system in the recent years. The national monetary policies and their implementation is a complex process in a large country like India. However, effective banking system of the country plays a main role in its implementation. There forms in the financial sectors are carried through the banking system. In the past the Indian banking system has gone through a lot of challenging phases. Starting from the fund crunches to scans and frauds are always very tough for the banks to carry on healthy banking practices. New cases of frauds and scams keep emerging in different forms. Therefore, for every financial organization it is always a challenge to keep the track straight and clean.

Chiezy and Onu (2013)2 "Evaluated the impact of fraud on the performance of 24 banks in Nigeria during 2001-2011, using Pearson correlation and multiple regression analysis. They recommended that "banks in Nigeria need to strengthen their internal control systems and the regulatory bodies should improve their supervisory role."

Irfana & Raghurama (2013)3 went through the online banking awareness of the customers in India. They went through the changing scenarios in the Indian context and did a study of the uses of mobile and Internet for banking purposes. They found that the knowledge of Indian costumers in the online transactions has been changed to a large extent. However, there is still a big gap between the recommended level of skills and knowledge required and the current level of preparedness in the online customers.

Bhasin (2015)4 studied the frauds and scams in the Indian banking sector. This study is quite empirical in nature and takes the primary factors of frauds and scams into account. This work starts with the description of the Indian banking sector and then shows the main aspects that tends towards the scams and frauds. Lack of accountability among the staff mainly at the top level is one of the prime reasons behind the frauds. Ethics are often bypassed through the loopholes in the system. Majority of the frauds are done in association of the bank officials. Then cover ups are placed at the appropriate levels to avoid the detection. In this study the author goes in to the depth of the fraudulent nexus between the official and the fraudsters. The process of the scam takes different lengths of times depending on the system and the mechanism in place.

Mohapatra & Jha (2018)5 studied the recapitalization cases in the Indian banking systems. In their study they found that in the Indian context there are several loopholes exist as far as recapitalization is concerned. In this regard enough is not being done with by the banks or the policy makers. They have criticized the policy gaps are mainly due to the improper policy framing in the financial sectors.

OBJECTIVES:

1. To review and analyse the trend of frauds afflict the banking sector in India.
2. To examine the impact of bank frauds in the continuous increase of NPA in the banking sector.
3. To measure the impact of financial bank frauds on the profitability of the banking sector in India.

HYPOTHESIS:

H_0: There is no significant impact of bank frauds on Non-Performing Assets of the Indian banking sector.

H_0: There is no significant impact of bank frauds on the profitability of the Indian banking sector.

RESEARCH METHODOLOGY:

The present study is based on the secondary data. Secondary data is collected from the RBI websites, annual reports, financial stability reports of RBI government reports, journals and news-papers. The period of the study is of five years that is from 2014-15 to 2018-19.

DATA ANALYSIS:

Table 1: Fraud in Indian Banking Industry

FY	Frauds of Rs. 1lakh and above		Large value Frauds (amount involved > Rs. 50 Crore)		Outier cases (amount involved > Rs.1000 crore)	
	No. of Frauds	Amount involved (Rs. Crore)	No. of Frauds	Amount involved (Rs. Crore)	No. of Frauds	Amount involved (Rs. Crore)
2014-15	4639	19455	77	14998	1	1648
2015-16	4693	18699	82	14791	1	1265

2016-17	5076	23934	104	19110	3	3792
2017-18	5916	41167	121	34724	4	16395
2018-19	6801	71543	322	61759	4	6505
H1: 2019-20	4412	113374	398	105619	21	44951

*Note: *: Top ten frauds by value account for 69.2 percent of the total amount involved in outlier cases (amount involved > Rs. 1000 crore)*

Source: Reserve Bank of India.

Table 1 and figure 1 show describes the number of frauds and their corresponding value over the period of 2014-15 to 2019-20. It indicates that the amount involved in frauds has been increases over the years in compare to number of frauds.

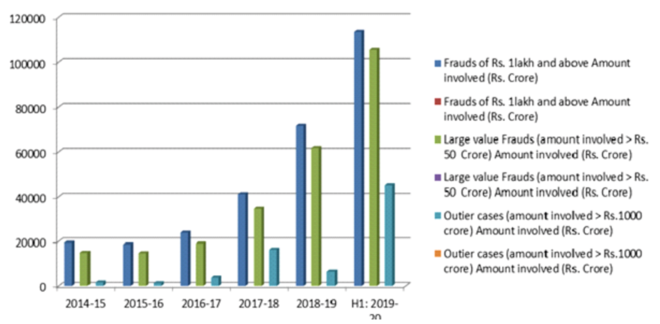

Figure 1: Number of frauds and their values

Table 2 : Credit related frauds reported during the last 5 years and H1: 2019-20 (amount involved > = Rs. 1 lakh)

FY	Credit related frauds	
	No. of frauds	Amount involved (Rs. Crore)
2014-15	2251	17122
	(48.52)	(88.01)
2015-16	2125	17368
	(45.28)	(92.88)
2016-17	2322	20561
	(45.74)	(85.91)
2017-18	2525	22558
	(42.68)	(54.80)
2018-19	3606	64548
	(53.02)	(90.22)
H1:2019-20	2438	110419
	(55.25)	(97.39)

Note: Figures in parenthesis are per cent of credit related frauds to total frauds

Source: Reserve Bank of India.

Table 2 shows the credit related frauds and mount involved in Indian banking industry during the last five years. Majority of the frauds afflict to banking sector in India from granting of credit by banks.7

Table 3: Relative share of each fraud category in the overall frauds reported (amount involved > = Rs. 1 Lakh)

Quarter	Amount involved (Rs. Crore)					Total
	Fraud category					
	Loans & Advances	Deposits	Foreign Exchange Transactions	Off- balance sheet	Others	
Jun-18	11692	51	355	370	80	12548
Sep-18	17046	47	184	515	64	17855
Dec-18	16351	24	145	1798	279	18597
Mar-19	19459	26	12	2855	19	22542
Jun-19	40373	66	0	1739	49	42228
Sep-19	70046	417	52	320	311	71146

Source: Reserve Bank of India

Table: 3 indicate the relative share of various fraud categories in the overall frauds period. The table shows that out of the total frauds during the period majority of the frauds incurred from the transactions of loans & advances and hence it is necessary to form some sound regulatory framework for loan and advances.

Table 4: Relative share of each bank group in the overall frauds reported (amount involved > = Rs. 1 lakh)

Quarter	Public sector banks		Private sector banks		Foreign Banks		Others		Total
	Amount (Rs. Crore)	Share (%)	Amount (Rs. Crore)	Share (%)	Amount (Rs. Crore)	Share (%)	Amount (Rs. Crore)	Share (%)	
Jun-18	10674	85.1	1740	13.9	46	0.4	88	0.7	12548
Sep-18	15919	89.2	1255	7.0	411	2.3	271	1.5	17855
Dec-18	16267	87.5	2037	11.0	274	1.5	19	0.1	18597
Mar-19	21649	96.0	484	2.1	224	1.0	185	0.8	22542
Jun-19	31894	75.5	8593	20.3	429	1.0	1312	3.1	42228
Sep-19	63854	89.8	6535	9.2	287	0.4	469	0.7	71146

*Note: *Others include area banks, payment banks, and small financial banks, SIDBI, EXIM bank and IFCI.*

Source: Reserve bank of India.

Table 4 indicates the relative share of various bank groups in the overall reported frauds. During the specified period majority of the bank frauds are detected from the public sector banks.

Table 4: Gross Non -Performing Assets and Gross Advances

Year	Gross NPA (RS.in Billions)	Gross Advances (Rs. In Billions)	Gross NPA to Gross Advances Ratio (%)
2014-15	3229.161	75606.658	4.27
2015-16	6116.074	81711.142	7.48
2016-17	7902.680	84767.053	9.32
2017-18	10361.872	92662.096	11.18
2018-19	938191	10287085.5	9.12

The above table 4 shows the gross NPA to Gross Advances ratio during the last five years. During the year 2014-15 the Gross NPA to Gross Advances ratios was 4.27% which increased and reached at 11.2% during the year 2017-18 but during 2018-19 it shows downward flow due to the Insolvency and bankruptcy code (IBC) framed by the RBI.

Table 5: Profitability of all schedule banks

Financial Year	Net Profit (Rs. In Billion)
2014-15	890.778
2015-16	341.482
2016-17	438.995
2017-18	-324.377
2018-19	-233.973

The above table 5 shows the profitability position of the schedule commercial banks during the year 2014-15 to 2018-19. The data interprets that the profitability of the all schedule commercial banks shown a down word trend during the sample period and hence it is necessary to improve the profitability of the all schedule commercial banks.

FINDINGS & CONCLUSION:

After liberalisation there emerged plenty of opportunity for the development of the Indian banking sector but it also brought some challenges with it. Bank frauds are one of the major challenges in Indian banking sector. Bank frauds results into non-performing assets for the banking companies and it became a major issue for Indian banking sector. This fraudulent activity ultimately results into loss and banks losses their creditability among the depositors.

The following conclusions can be drawn from the study.

1. With passage of time amount involved in the fraud increases compare to increase in number of frauds.
2. Advances given by the banking companies are the major area of financial fraud.
3. The gross NPA to Gross Advances ratio has shown a decreasing flow during the year 2018-19 which is a satisfactory situation for Indian banking industry.
4. Frauds have a significant impact on profitability of the Indian banking sector.

REFERENCES:

I. Bansal, I. and Sharma, R., (2008). Indian Banking Services: Achievements and Challenges. ICFAI Journal of Services Marketing, 6(2).

II. Chiezey, U. and Onu, A.J.C. (2013). Impact of Fraud and Fraudulent Practices on the Performance of Banks in Nigeria, British Journal of Arts and Social Sciences, 15(1), 12-25.

III. Irfana, S. and Raghurama, A., (2013). Innovation in Indian banking: Extent of precautions taken by the customerswhile e-banking. DOI: 10.9790/487X-0850109

IV. Bhasin, M.L., (2015). Menace of frauds in the Indian banking industry: an empirical study, SSRN Electronic Journal 4(12):1-13 DOI: 10.2139/ssrn.2676466

V. Mohapatra, A.K. and Jha, S., (2018). Bank Recapitalization in India: A Critique of Public Policy Concerns. FIIB Business Review,7(1), pp. 10 – 15

VI. Reserve Bank of India (2019). Financial Stability Report http://rbidocs.rbi.org.in

VII. http://www.ceicdata.com