

Banking: How Much Can We Bank?

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Abstract

Indian banking system, if seen in its original unorganized form, is very old. It had been quite effective and efficient at that time, yet very exploitative in nature. To overcome its shortcomings, organized banking structure was planned and executed. A new Banking regulation act was prepared and launched. Nationalization of banks at various stages, was an appropriate step in this direction. Things started working normally but soon it failed. Frauds in banking system started emerging. Fraud, although not a new concept is some dishonest act or cheating by which one person gains or intends to gain advantage over another person. The bigger problem is that our banking system, to a larger extent had failed to check and control these frauds. Present study throws light on various bank frauds occurred in recent past.

Keywords: banking, effective. efficient. exploitative, fraud, nationalization

Banking: How much can we bank?

During pre-independence period, banking system in India was very exploitative and shrewd in nature. Rich men of the society used to be banker of that time. Poor and helpless people didn't have much options in their crisis period other than to go to Sahukaars or Jammidaars for timely help. These so called Sahukaars were the people who never used to let go any chance of confiscating other people's mortgaged land or pledged jewellery. These people used to govern law as per their convenience. Law had become their slave and legal policies were interpreted according to their affinity with British officers. Gradually rise of organized banking was there. Cooperative banks started by Swadeshi movement and volunteers brought some good rays of hope. Private banks were also emerging and making their place, yet were not much popular due to lack of credibility and reliability on their part.

It was post independence period that the banking became popular. Nationalization of banks in 1969 and further in 1980 made banking talk of the town. Doubts, suspicion and non reliability, all were just disappeared. A common man was very much contented with the banking system. Deposits, loans, lockers, transfer services, debit and credit cards, net banking all were there to satisfy daily requirements of business class, entrepreneurs, industrialists, households, students, employees, elderly people, housewives and unemployed people. Banking had become life blood of our economy as well as circulating air of its people.

Need of Study

As things grow, there arise certain weaknesses, misunderstandings & greediness of system. These bad elements have encouraged huge frauds in this efficient system. Many times it was in the form of loan repayment default. For a common man bank follows the practice of having collateral securities besides the prime one, before sanctioning the loan. But when bank's accounts are audited it is normally observed that huge amount of NPA (Non performing Assets) exists in balance sheet of banks, and this makes the situation alarming. Without deliberate ignorance on the part of bank it is not possible. Leaving some

genuine cases behind, one can easily find that may be due to some top level pressure or ministerial influence, basic mandatory inquiries and formalities before sanctioning the loans are neglected and borrowers take undue advantage of this favor. Trend here is to take loan for a huge amount and run away from the country. Our legal system is not that efficient that immovable properties (if any) of borrowers can be adjusted against amount of loans instantly.

Bank Frauds

Fraud, generally speaking, is an act committed with an intention to deceive in order to gain undue advantage of someone. Bank fraud is a fraud committed on banks mainly by fraudulent representations using false documents. Bank fraud concerns all citizens. It is a very sensitive issue as it affects the public faith on which the whole Banking system is pre-dominantly based.

Bank fraud includes all sorts of misappropriations, embezzlement, manipulations of negotiable instruments like cheque, bank drafts, bills or statements of accounts, securities etc. With the boom in banking business, bank frauds are also on the rise. Bank fraud is covered under Indian Penal Code. Cheques are a major area where frauds are committed by putting counterfeit signature on the cheque. Given below is the list of major bank frauds occurred in past few years.

1. Rs. 139 crore | 2014 | Kolkata-based industrialist Bipin Vohra and others were booked by the CBI for allegedly cheating Central Bank of India by obtaining the loan with forged documents.
2. Rs. 150 crore | 2011 | Executives of Bank of Maharashtra, Oriental Bank of Commerce and IDBI created about 10,000 fictitious accounts and transferred loans to these accounts, a CBI investigation had found.
3. Rs 212 crore | 2015 | The CBI booked former deputy general manager of Central Bank of India and three directors of Jain Infraprojects Ltd — MK Jain, Rekha Jain and Sunil Kumar Dangi — for allegedly defrauding the bank.
4. Rs. 290 crore | 2017 | CBI arrested the promoters of Abhijeet Group — Manoj Jayaswal and Abhishek Jayaswal — and TL Pai, a former DGM of Canara Bank, for allegedly defrauding Canara and Vijaya Banks.
5. Rs 437 crore | 2014 | Officials of Ahmedabad-based Electrotherm India allegedly cheated Central Bank of India in connivance with bank employees. CBI booked the company directors in the case.
6. Rs 836 crore | 2017 | CBI arrested Padmakar Deshpande, a Bank of Maharashtra officer from Pune, along with the director of Siddhi Vinayak Logistics Limited, a private logistics company from Surat, in connection with an alleged Rs 836-crore fraud case.
7. Rs 1,000 crore | 2016 | The CBI booked four people including Chief Manager of Syndicate Bank in an alleged scam in which the accused used fake cheques, letters of credit and LIC policies to withdraw money.
8. Rs 6,000 crore | 2015 | This was a money laundering/fund siphoning scam. Scamsters exploited loopholes in remittance rules to bring back illegal money parked abroad disguised as export revenues. They also transferred money abroad claiming that to be advance payment to overseas vendors. Employees of various banks including Oriental Bank of Commerce and Bank of Baroda were allegedly party to the scam.
9. Rs 8,000 crore | 2014 | Dubbed the bribe-for-loan scam, CBI found a well-oiled nexus between top bank officials and companies. Bank chiefs were bribed by companies wanting loans. Ex-chairman and MD of Syndicate Bank, SK Jain was among those arrested.

10. Rs 9,000 crore | 2017 | In one of the most publicized alleged frauds in India's banking history, liquor baron Vijay Mallya was accused of defrauding a consortium of lenders. He is currently in the UK and Indian authorities are trying to extradite him to India.
11. Rs 12,000 crore | 2018 | Kolkata-based gold trader Nilesh Parekh was arrested by the Directorate of Revenue Intelligence sleuths for allegedly siphoning off 1,700 kg of imported duty-free gold and defrauding 25 banks. He was earlier arrested by CBI for allegedly siphoning off bank loans worth Rs 2,672 crore through hawala channels to dummy companies in Singapore, Dubai and Hong Kong.
12. Rs 14,000 crore | 2018 | Diamond trader Nirav Modi and his uncle Mehul Choksi were accused of defrauding Punjab National Bank in one of the biggest financial frauds in India. Both accused fled India before they could be arrested."

Impact on Society

Lapses in system make the job of offenders easy, to dupe banks. Fraud causes loss to the victim directly or indirectly. Fraud has not been described or discussed clearly in The Indian Penal Code but sections dealing with cheating, concealment, forgery counterfeiting and breach of trust has been discussed which leads to the act of fraud.

In Contractual term as described in the Indian Contract Act, Sec 17 suggests that "a fraud means and includes any of the acts by a party to a contract or with his connivance or by his agents with the intention to deceive another party or his agent or to induce him to enter in to a contract."

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. Bank fraud is a federal crime in many countries, defined as planning to obtain property or money from any federally insured financial institution.

The number of bank frauds in India is substantial. It is 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. Bank fraud is a big business in today's world. With more educational qualifications, banking is becoming impersonal and increase in banking sector has given rise to this white collar crime. In a survey made till 1997 bank frauds in nationalized banks was of Rs.497.60 crore.

Fraud by Insiders

This banking fraud can be classified as:

Fraud by insiders

Fraud by others

Fraud by insiders, is as the term indicates, when the bank personnel are directly involved in making frauds. They show the path of fraud to corrupt people and help them making fraud because of fulfilling of some meager cheap objectives. These frauds are normally foolproof and hard to detect, as the fraudster is aware of the formalities and complexities of whole process. Moreover being present in bank, he is always updated about the whole scenario.

Frauds by others or outsiders are comparatively easy to detect and less fool proof. Fraudsters themselves are normally not bankers so are not well versed with banks policies and procedure. These people normally seek help of banking professionals for this activity but if not possible, are always ready to go further.

Rogue traders

Suggestions

Fraud is a real operational risk for banks. As the latest Financial Stability Report of the Reserve Bank of India (RBI) shows, the Indian banking system reported about 6,500 instances of fraud involving over ₹ 30,000 crore in the last fiscal year.

Most frauds show that banks did not do proper due diligence, both before and after disbursing loans. This shows the poor level of checks and balances in the banking system. Therefore, in order to check frauds, banks will need to improve their due diligence capabilities. This will lead to better credit appraisal and also help control non-performing assets. Banks can also setup fraud monitoring agencies. Law enforcement agencies should treat this with care so that they don't end up creating an environment of fear, affecting the flow of credit to productive sectors.

Aside from improving capabilities in the banking system, accountability of third-party service providers such as auditors and lawyers should also be fixed. "Both the government and the regulator have to do well to work with banks to improve the overall structure.

Conclusion

Fraud is deceiving, cheating, concealment & misappropriation of facts, which can not be justified in any circumstance. Hard earned money of common man is kept in banks with a belief that they will be getting it when needed, But rapid increase in bank frauds breaks the belief of investors and also makes the bank financially very weak. This is high time that government should take stringent measures and judiciary should intervene into the matter. Defaulters must be punished strictly and money to be recovered quickly to bring the trust of masses in common banking system.

Wire fraud

Wire transfer networks such as the international, interbank fund transfer system are tempting as targets as a transfer, once made, is difficult or impossible to reverse. As these networks are used by banks to settle accounts with each other, rapid or overnight wire transfer of large amounts of money are commonplace; while banks have put checks and balances in place, there is the risk that insiders may attempt to use fraudulent or forged documents which claim to request a bank depositor's money be wired to another bank, often an offshore account in some distant foreign country.

Forged or fraudulent documents

Bank rules

After receiving xerox papers (which were actually forged by the offenders) of the property, the bank passed the same on to the legal section. After scrutiny, the legal consultant told the bank that the xerox documents were 'perfect' and to release loan after execution of sale deed.

The bank rules state that loan applications can be examined "even with xerox copies of documents. The alleged greediness of employees to give their salary slips and other documents on payment of some money made the job of the cheats easier.

This is not an isolated case. With a similar modus operandi, a gang cheated three banks to the tune of Rs. 1 crore in Sarooranagar police station area. The police opine that unless bankers evolve a foolproof system, the offenders continue to take advantage of the lapses.

Though computer based banking crimes are yet limited but it is increasing with a huge pace. Their investigation is highly intricate and daunting. Prevention is the best alternative. It is comparatively easier, though even with the best laws, efficient investigation team the successful conclusion of most cyber crimes will remain a remote possibility. Therefore emphasis is more on prevention. In bank administration, one feels that not much attention is paid to preventive measures. Bank managements must direct their orientation towards preventive rather than detective or punitive measures. Preventive vigilance must be the prime agenda to bring down the occurrence of fraud in banks.

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