A STUDY ON FINANCIAL SCAMS AFFECTING THE INDIAN BANKING INDUSTRY FROM (2018 – 2021)

PROJECT REPORT

Submitted by

SWESHA NAIR P

RRN: 200292601175

Under the guidance of

Dr. S. PANBOLI

Professor

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B.S. Abdur Rahman
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www.crescent.education

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BONAFIDE CERTIFICATE

Certified that this project reports **A Study on Financial Scams Affecting the Indian Banking Industry from (2018-2021)** is the Bonafide work of Swesha Nair P **(200292601175),** who carried out the project work under my supervision. To the best of my knowledge, the work reported herein does not form part of any other project report or dissertation based on which a degree or award was conferred on an earlier occasion on this or any other candidate.

Dr. S. Panboli	Dr. K. Srinivasan
RESEARCH SUPERVISOR	DEAN
Professor	
Crescent School of Business	Crescent School of Business
B.S. Abdur Rahman Crescent	B.S. Abdur Rahman Crescent
Institute of Science & Technology,	Institute of Science &Technology,
GST Road, Vandalur,	GST Road, Vandalur,
Chennai 600 048.	Chennai 600 048.
Tamil Nadu, INDIA.	Tamil Nadu, INDIA.

VIVA-VOCE EXAMINATION

The Viva-voce examination of the project work titled "**A Study on Financial Scams Affecting the Indian Banking Industry from (2018-2021) "** submitted by Swesha Nair P **(200292601175)** is held on August 05, 2022.

INTERNAL EXAMINER **EXTERNAL EXAMINER**

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I want to express my profound gratitude to **Dr. K Srinivasan** Crescent University for their contributions to completing my project titled **A Study on How Financial Scams Affecting the Indian Banking Industry from (2018-2021)**.

I want to express my special thanks to the mentor **Dr. S. Panboli** for the time and efforts she provided throughout the year. Your valuable advice and suggestions benefited me during the project's completion. In this aspect, I am eternally grateful to you.

I would like to acknowledge that this project was completed entirely by me and not by someone else.

ABSTRACT

Banks are the engines that drive the operations in the financial sector and the growth of an economy. With India's financial industry expanding, bank frauds are also rising, and fraudsters are becoming more skilled and creative. While Banks cannot operate in a zero-fraud environment, proactive steps such as conducting risk assessments of procedures and policies can help them hedge their risk of contingent losses due to fraud.

The Indian banking Industry has attained significant growth after the Demonetization and fiscal decisions introduced by the Government. Challenges and disadvantages are always a part of the sector's performance. This research focuses on studying the major Banking Fraud in Indian Banking Industry and recommendations to prevent these incidents, based on secondary data research and literary feedback.

Due to constraints, we have relied only on secondary data, for conducting the study. There have been various studies conducted where we have analyzed 7+ plus literature and identified the gap. Which is that there have been studies but it does not define whether it is public sector Bank or Private sector bank affected the most due to financial frauds, So we have used two types of statistical method to analyze the data collected from Reserve Bank of India’s website, Correlation and Regression analysis has been used to find the relationship between the two variables. And we have identified that public sector Banks are affected more than Private sector Banks due to the financial frauds in India. And few ways to avoid it is to, implement technology into every banking service.

The credibility of third parties such as auditing firms and credit rating agencies is also questioned in the study and is believed to be a significant contributor amongst other causes, such as oversight by banks and inadequate diligence. Some of other promising steps are: educate customers about fraud prevention, make application of laws more stringent, leverage the power of data analysis technologies, follow fraud mitigation best practices, and employ multipoint scrutiny. Using proactive forensic data analysis and data mining tools can assist governments, regulatory agencies, and banks in countering the increasingly complex nature of scams. Technology can play a crucial role in the fight against new-age fraud.

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INTRODUCTION

In recent years, India has received numerous reports of financial fraud. Although banking frauds have historically been seen as a necessary evil in India, they have substantially increased in frequency, complexity, and cost since the country's economic liberalization, raising serious concerns among regulators like the Reserve Bank of India (R.B.I.). Fraud is defined by India's banking regulator, the Reserve Bank of India (R.B.I.), as "a deliberate act of omission or commission by any person, carried out in the course of a banking transaction or the books of accounts maintained manually or under computer system in banks, resulting in a wrongful gain to any person for a temporary period of time or otherwise, with or without any financial loss to the bank."

Over the past three years, numerous banking scams in India have cost the public sector banks (PSBs) a total of Rs. 22,743 crores. Due to numerous R.B.I. efforts, there are fewer occurrences of banking fraud, although the amount of money lost has grown in recent years. An initial inquiry revealed that senior management was also implicated, as was the case with the Syndicate Bank and Indian Bank cases. This raises severe concerns about the effectiveness of corporate governance at the highest levels of these banks. Additionally, a rise in non-performing assets (N.P.A.s), notably for PSBs, has hurt those companies' profitability. Risky NPAs have been attributed to a number of things, including domestic and global slowdowns, however there is some evidence to support this.

The production and consumption of products and services are impacted by the health of a nation's banking and financial sector. It serves as a clear barometer of the welfare and standard of living of its populace. Therefore, if the banking sector experiences large levels of N.P.A.s, it is concerning since it may indicate that borrowers are in financial hardship or that transmission channels are inefficient. The writers' interest in frauds in the Indian financial system stems from the fact that these problems have a considerable negative impact on the country's economy.

A bank's objective is to generate a profit for its owners, just like any other business. Shareholders of banks make up the majority of their owners. The way banks do this is by charging interest rates that are greater for loans and other forms of debt than they are for savings accounts.

Types of Banks

Although several international consumer banking providers have retail and commercial banking departments, retail banks only serve retail consumers. These financial organizations, usually referred to as private or accessible banks, provide a general public services population. In addition to banking accounts, loans and loan products, auto financing, as well as other financial goods, commercial banks also offer quick loans like overdrafts.

Many bigger retail banks provide their clients credit card services as well as possible foreign exchange services. Larger retail banks frequently provide high-net-worth clients with specialized services like wealth management and private banking. T.D. Bank and Citibank are examples of retail banks, for instance.

• Banks with corporate or commercial accounts offer their customers, who range from small company owners to major enterprises, with specialized services. These banks offer credit, cash management, and business services.

• Investment banks help corporate clients with complicated financial transactions and services, such as M&A support and underwriting. As a result, in the majority of these transactions most commonly acknowledged as financial intermediaries. Large corporations, financial institutions, pension funds, governments, and hedge funds are typical clients. There are two, Morgan Stanley and Goldman Sachs. investment banks with operations in the United States.

• Unlike commercial banks, central banks are not do not conduct business with the general public directly, in contrast to the institutions indicated above. Instead, they are in charge of managing a nation's money supply, regulating inflation, and ensuring currency stability. They also manage the capital and reserve standards for bank members.

Private Banks:

Banks in the private sector are frequently renowned for their fierce competition and technological supremacy. Careers in private sector banking are therefore more competitive, and individuals must accomplish tight goals and outperform expectations in order to develop in their positions. While compensation may be better and the risk-reward ratio is likewise higher, job security may not be as high as it is for publicly traded banks

Public Sector Banks:

The better organizational structure and increased client penetration of public sector banks are well known. In comparison to privately held banks, the workplace is also less competitive, and employees are frequently not expected to concentrate on achieving goals and outperforming their co-workers.

The need of giving their staff the appropriate training to keep up with knowledge and skills and become better performers in the long run is often more stressed. Compared to private sector banks, job security is significantly stronger; for some, this may be the main attraction for building a long-term career.

Regional Rural Banks (RRBs)

Scheduled commercial banks in India called Regional Rural Banks (RRBs) are controlled by the government and do regional business in different Indian states. The Ministry of Finance of the Government of India owns these banks. They were founded to give rural communities access to fundamental both banking and financial services. RRBs, however, have branches in metropolitan areas.

The operational region is constrained to the extent defined by the Government of India, which may include one or more State districts. RRBs carry out a number of tasks, such as offering banking services to rural and semi-urban areas, managing government projects like MGNREGA salary payments and pension distribution, and offering para-banking services like lockers, debit and credit cards, mobile banking, and internet banking.

List of Regional Rural Banks (RRBs)

- Rajasthan Marudhara Gramin Bank
- Baroda Rajasthan Kshetriya Gramin Bank
- Tamil Nadu Grama Bank

- Telangana Grameena Bank
- Prathama UP Gramin Bank
- Uttarakhand Gramin Bank
- Bangiya Gramin Vikash Bank
- Paschim Banga Garmin Bank

Need of the study

In any country's economy, financial fraud or scams have never been unusual, hence the study of financial fraud in the banking industry was essential. Because of the financial connections between its various components, or "network externalities," bank failures have major societal repercussions on the economy of any nation. Fraud is still occurring despite the findings and legislation that have been implemented to reduce it. Investigations on the number of frauds committed by banks and industries, as well as their effects on bank performance, were deemed necessary.

Problem Statement

The surge in fraud has led to a fall in the banking industry's performance in India, which has resulted in weak growth for the nation's financial economy.

Objective of Study

The goal of this study is to comprehend and examine the root reasons of escalating fraud patterns in the Indian banking industry, as well as how these trends impact the industry's financial performance. Additionally, reasonable and adequate solutions to the problem should be suggested.

Scope of Study

The study examines bank frauds on a year-by-year and bank-by-bank basis. The study spans the years 2018 to 2021, which is primarily when bank fraud occurred

Limitations of the study

The study covers the Indian banking sector from 2018 to 2021. This course investigates banking scams and frauds and how they affect the Indian banking industry. Because financial reports for each bank are unavailable, the study is entirely dependent on secondary data.

LITERATURE REVIEW

There are numerous books and papers on financial fraud, and many academics have looked into the problem of copying in the banking industry. There has been a review of the relevant literature. Frauds in the Indian banking industry have increased over the past several years, according to Swain and Frauds in Indian Banking: Aspects, Reasons, Trend Analysis, and Suggestive Measures is a study by Pani (2016). Bank workers' lack of understanding, lack of sincerity, non-compliance with R.B.I. KYC criteria, and rising pressure on staff to comply with those guidelines are some of the most frequent reasons for bank fraud.

In A Study on the Causes and Prevention of Fraud in the Banking Industry, Vigneswaran and Yokesh (2018) note that while the banking sector is normally adequately regulated and overseen, it faces its own unique set of issues and challenges with regard to ethical practices. In their study A Study to Investigate the Reasons for Bank Frauds and the Implementation of Preventive Security Controls in the Indian Banking Industry, Khanna and Arora (2009) find that workers' level of awareness is insufficient to avoid a variety of frauds. Issues include a lack of training, a staff that is overworked, competitiveness, and low employee compliance. In their essay Frauds in Banking: Corporate Governance Issues, Singh and Nayak (2015) assert that since India's economy was liberalized in 1991, the Indian banking sector has expanded significantly. Financial fraud has increased dramatically as a result of the rise in international financial transactions. To make sure that effective There is financial regulation and a balance of powers, banks and other financial institutions should be properly watched.

Bhasin (2015) finds that banks are the key drivers of financial sector activities, money markets, and economic growth in his article, An Empirical Study of Frauds in Banks. Every day there are more frauds, and the fraudsters are growing more creative and skilled. Consumers may desire to switch to competing banks if they are uncertain about fraud prevention techniques, so banks must actively educate their customers about these procedures.

Neha and Dhiraj Sharma (2018) find that the bank fills the gap between the availability of funds and their proper use in society in their study on Rising Toll of Banking Frauds: A Threat to the

Indian Economy. In all facets of the banking business, fraudsters are common and use a variety of methods to perpetrate their crimes. The threat of fraud must be avoided, a strong system must be put in place to protect banks, and those mechanisms must be continually monitored and evaluated for effectiveness.

Yego and John (2016) find in their paper on The Impact of Fraud in the Banking Industry: A Case of Standard Chartered Bank that fraud has grown to be one of the most severe issues facing the world, and it is not likely to get any better any time soon. Due to fraud, it has an effect on both the firm's solvency and profitability. However, ongoing monitoring and verification can help to some extent decrease fraud.

Cheng and Ling Ma (2009) find that bank insiders (workers and officials) and criminal businesses are the main causes of bank fraud and corruptions in their study on White Collar Crime and the Criminal Justice System: Government Response to Bank Fraud and Corruption in China. The importance of preventative measures outweighs that of any punishment. Business ethics must be rebuilt in order to guarantee that businesses and individuals voluntarily comply with the law.

According to a poll by Ernest & Young in 2012, financial fraud in the banking sector has surged by 84 percent, Kundu and Rao (2014) report in Reasons of Banking Fraud: A Case of Indian Public Sector. Customers anticipate banks to act as fair, effective, accountable, and transparent go-betweens. Protecting the public's money and trust is one of the most challenging tasks facing modern bankers. However, as technology develops over time, it can significantly help in the fight against fraud.

In his paper Exploring Relationships Among Ethical Climate Types and Organizational Commitment: A Case of Indian Banking Sector, Japneet Kaur (2016) examines the connection between ethical climate and organizational commitment. The banking industry in India is faced with many difficulties, such as an increase in bank fraud and a high personnel turnover rate. It has been shown that the three elements of commitment can be accurately predicted by instrumental climate (normative, affective, and continuance).

In their paper Organizational Procedures and Structures for Indian Banks Center for Analysis of Risks and Threats, Renuka and Jyothi (2014) report that the financial services industry is experiencing a rapid rise in financial frauds as a result of the increased use of information technology for various financial affairs and the rising acceptance of alternative banking channels. Since the threat is the same across all economic sectors, cooperative information sharing will be helpful so that the sector can foresee, protect against, and handle crises while spending the least amount of money on security.

The Extent of Disclosure Code of Corporate Governance in India: A Comparative Study of Public and Private Sector Banks, by Asthana and Dutt (2013), asserts that the banking industry's contribution to any economy is crucial and indispensable. In its yearly reports, private and public sector banks' adherence to corporate governance standards will be examined.

Banerjee, Cole, and Duflo (2003) find that when the banking industry expands, there is a notable decrease in poverty and a diversification away from agriculture in their study on bank financing in India. However, the majority of banks have an excessive number of employees and many of their assets are underperforming or non-performing, which drives up operating costs. The study on international money laundering in the banking sector by J.D. Agarwal and Aman Agarwal (2003) estimates that one trillion dollars are laundered annually globally. The nation is significantly impacted by money laundering. At addition to destabilising a nation, it raises the risk of terrorist attacks, putting its sovereignty and integrity in danger.

Neha and Dhiraj Sharma (2017) explore how well the internal control system is used as well as how employees view bank frauds in their study, An Empirical Study on Banking Frauds in India- with a Special Reference to the Role of Employee Awareness in Banking Frauds. By using multipoint investigation techniques, such as cryptographic check barriers, banks may secure and protect the trust of their clients. In their study, Mittal, Singh, and Dash (2013) examine how the remodeling has impacted the banking industry and the variables that have led to changes. Some Problems with Bank Computerization Banks are compelled to offer their services online as both client demand and industry competitiveness increase. One of the newest sorts of fraud in the financial sector nowadays is technological fraud.

In their paper on Computerization in Banks - Some Issues, Mittal, Singh, and Dash (2013) explore how the remodeling has impacted the banking industry and the variables that have brought about changes. Banks are compelled to offer their services online as both client demand and industry competitiveness increase.

Pasricha and Mehrotra (2014) conclude that there is an increase in both regular crimes like ATM fraud and electronic crimes in their paper, "Electronic Crime in Indian Banking. “Fraud in the Indian banking system involving credit cards and the money laundering industry. The company should ensure that clients are satisfied with its services because this fosters trust and loyalty.

Njanike, Dube, and Mashayanye (2009) find that forensic auditors look at issues that hinder operations in underdeveloped nations in their investigation on the efficiency of forensic auditing in identifying, looking into, and stopping bank fraud. Forensic auditors must create a governing body to protect their interests and to regulate them, just like any other profession.

THEORETICAL FRAMEWORK

In short, fraud is the misrepresentation of information that results in financial loss for another individual. Consider a salesperson as an example. He might make up his name, hometown, and date of birth, but as long as he is truthful about the goods he is selling, he won't be branded a fraud. He ought to have disclosed certain inaccurate information regarding the item he offers, which may actually do another individual financial harm. Because fraud is difficult to prove in court, it typically includes complex financial transactions carried out by White Collar Criminals, skilled individuals with criminal intent. Because taking the proper actions at the right time will greatly improve the fraud case.

As a result, such incidents should be thoroughly explored, it is advised. To get money, assets, or property held by any person or organization, or to obtain money from the depositor through a range of fraudulent acts, is to commit banking fraud, which is described as the use of deception. The Indian banking system is not new to financial fraud, having been reported in recent years. These frauds occurred as a result of the high cost of doing business, its frequency, and the framework's complexity. Public sector banks have lost 22,743 crores in the last five years due to various banking frauds.

The investigation in those cases reveals the involvement of not only a person with Moreover, high management and middle-level bank employees may have had criminal intent. This raises fundamental questions about how well these institutions' corporate structures work. The number of NPAs (Non-Performing Assets), mainly in public sector banks, has increased in recent years. The investigator lacks proper training and background knowledge in the industry as a result of globalization and the boom in I.T. Special investigators with expertise and knowledge in banking fraud must be recruited, similar to the F.B.I. of the United States and cells such as the Maharashtra Police Department, which manage cybercrime very efficiently.

Banking fraud includes the following types:

FRAUD BY INSIDERS

Rogue traders

A rogue trader is a highly placed insider who is ostensibly authorized to invest sizable sums of money on behalf of the bank, but who secretly makes increasingly risky and aggressive investments with the money of the bank. When one asset fails, the rogue trader continues market speculation in the hopes of making a quick profit that would cover or hide the loss. Sadly, the expenses to the bank might amount to hundreds of millions of rupees when one investment loss follows another. In rare situations, a bank has even gone out of business as a result of market investment losses.

Fraudulent loans

A practicing banker would be more than eager to advise taking out a loan if they were aware that the money would need to be paid back with interest, as this is one technique to get cash out of a bank. On the other hand, a fraudulent loan is one when the "borrower" is a business controlled by an untrustworthy bank officer or an accomplice; the "borrower" subsequently files for bankruptcy or vanishes, and the funds are lost. Even if the borrower doesn't exist, the loan may just be a pretext to hide a sizable amount of money that was stolen from the bank.

Forged or fraudulent documents

Every cent must be accounted for since banks count their money meticulously; forgeries are sometimes used to cover up other thefts. As a result, a robber who wishes to hide the little fact that the bank's money has been taken and is currently missing may find value in a paper stating that a certain amount of money has been borrowed as a loan, withdrawn by a single depositor, transferred or invested, or transferred or invested.

Uninsured deposits

Each year, there are a number of instances where a bank operates without a license or insurance. The names can appear extremely official or very similar to those of actual institutions at times. For instance, the allegedly clear namesake, the actual Chase Manhattan bank in New York, was not licensed or associated with the "Chase Trust Bank" of Washington, DC, which first debuted in 2002. Dealing with unidentified or uninsured entities carries a very high risk of fraud.

Theft of identity

It has been reported that dishonest bank employees have revealed depositors' personal information for use in fraud and identity theft. After gathering the data, the attackers utilize the victim's personal information to obtain credit cards and identification documents in their name.

Demand draft fraud

One or even more dishonest bank employees known as Bunko Bankers typically perpetrate D.D. fraud. They select a few D.D. leaves or volumes from their stock and write on them as they would a typical D.D. They are knowledgeable about the coding and punching of a demand draft since they are insiders. These demand draughts, which are payable in outlying towns and cities, will be issued without deducting funds from an account. After that, the payable branch will cash it. Simply another D.D. for the paying branch, nothing more. Only after the head office completes the six-month branch-by-branch reconciliation will this kind of fraud be found. The money is no longer recoverable at that point.

FRAUD BY OTHERS

Forgery and altered cheques

The amount or name on the face of a check has been changed by thieves to deposit counterfeit checks made out to someone else.

Stolen cheques

The missing checks—which are frequently altered or tampered with—are placed so that thieves can extract the money. Additionally helpful to counterfeiters who sign as depositors are stolen blank checkbooks.

Accounting fraud

False bookkeeping is used to hide major financial problems by overstating sales and income, exaggerating the worth of the company's assets, or declaring a profit while the company is truly operating at a loss.

Bill discounting fraud

A fraudster employs a corporation at its disposal to appear as a legitimate, profitable customer in order to acquire the trust of a bank. To provide the impression that they want consumers, the company frequently and routinely employs the bank to collect money from one or more of its clients. Due to the consumers' involvement in the fraud, which includes paying any invoices the bank raises, these payments are always made. Once the bank is satisfied with the firm after a certain period of time, The business requests the bank pay the company's o/s balance before charging the consumer. Once more, for the phony corporation, its dishonest clients, and the unwary bank, business goes on as usual. The company won't take payment from the bank until the balance is sufficiently high, at which point both the business and its clients will have disappeared and no one will be left to cover the bank's expenses.

Cheque kiting

Cheque kiting is a technique wherein when a check is put into a bank account, the funds are instantly accessible even though they aren't removed from the account from which the check is drawn until the check has cleared.

Fraud Detection Procedure

The authors looked at who is involved in a public sector bank's fraud detection and reporting process in order to determine the procedure for fraud detection in those institutions. Below is a step-by-step illustration of how to do it. (Figure).

a) First, internal reports of fraud are made to a bank's senior management. They could also be reported to the bank's vigilance division.

b) If the fraud is reported to the bank's vigilance department, it conducts an investigation, reports the findings to top management, and notifies the central commission which they are assigned to register with on a monthly basis.

c) Senior management of the bank ultimately decides whether to disclose Despite the fact that CVC can directly report fraud to investigate organizations the C.B.I., it is still an option to handle fraud internally or to a third party. Depending on the size of the bank, the amount of money involved in the fraudulent activity, and the number of people involved, senior management may elect to handle the fraud internally or file an F.I.R. and report it to the C.B.I. or local police. (Ziegenfuss, D.E. (1996))[27]

d) Additionally, a committee of the R.B.I. separately overseas bank fraud and notifies the R.B.I.'s central board of its findings once every three months. The important vigilance commission or the minister of finance may thereafter receive a report from the board (MoF).

e) During an audit, auditors could come across situations when transactions in documents or accounts suggest that there may have been fraudulent activities in the accounts.

f) Under the bank's whistleblower policy, employees can also inform the proper authority (Table 1) of fraudulent behavior in an account, along with the justifications for their assertions, and the bank may launch an investigation through the fraud monitoring group (F.M.G.).

Figure 5: Flow Chart depicting procedures post Fraud Detection and Reporting in PSBs

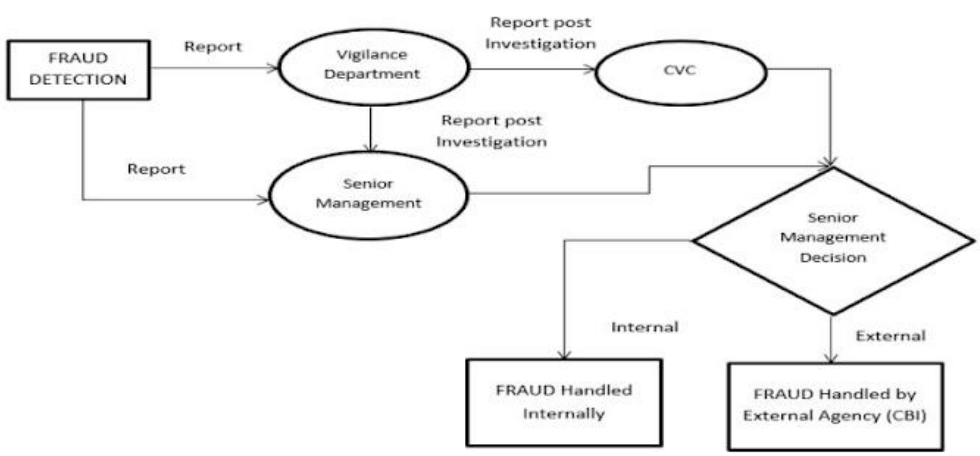


Table 1: Current Structure for filing Police/CBI complaints[6]

Category of bank	Amount involved in the fraud	Agency to whom complaint should be lodged	Other Information
Private Sector/ Foreign Banks	Rs.1 lakh and above	State police	
	Rs.10000 and above if committed by staff	State police	
	Rs.1 crore and above	Serious fraud investigation office (Ministry of Corporate Affairs)	In addition to state police
Public Sector Banks	Below Rs. 3 crore	State police	
	Rs.3 crore and above and up to Rs.25 crore	CBI	Anti-corruption branch of CBI (where staff involvement is prima facie evident) Economic offences wing of CBI (where staff involvement is prima facie not evident)
	More than Rs.25 crore	CBI	Banking Security and Fraud Cell (BSFC) of CBI (irrespective of the involvement of a public servant)

Source: Reserve Bank of India.

Source: Reserve Bank of India

Major frauds in India

2018-19

P.N.B.

The giant scam in the Indian banking sector is the P.N.B. Scam. Nirav Modi, an Indian businessman, specializing in selling expensive diamond jewelry, his uncle Mehul Chowksi, other family members, and a few bank workers were the principal defendants in the Punjab National Bank Scam. The Brady House branch of P.N.B., Mumbai, issued false letters of undertaking (LoUs) worth close to 11,000 crores in cooperation with Nirav Modi, his family, and a few P.N.B. workers. The LoUs mentioned above were reportedly granted for international payments by companies associated with Mehul Chowksi and Nirav Modi. Some P.N.B. workers used the global financial messaging system SWIFT to issue LoUs to Indian banks' overseas branches by bypassing the bank's core system. In this case, the defendants were charged with criminal breach of trust and criminal conspiracy, fraud, embezzlement, Tax evasion, and contract violation. The C.B.I. began looking into the situation when P.N.B. complained about the accused for commission of Fraud in January 2018. Before the scandal was made public, Mehul Chowksi and Nirav Modi left India. A

U.K. court approved Nirav Modi's extradition request on February 25, 2021, and the Indian Government is currently attempting to return him to India from prison in the U.K.

R.P. Infosystems Bank Scam

Loans were obtained by R.P. Infosystems based on forged and misleading stock and debtors' declarations. Additionally, it claimed that from 2012, Letters of Credit given by several member banks had begun to devolve since the funds were not kept up to date. The consortium includes the following financial institutions: Oriental Bank of Commerce, Union Bank of India, State Bank of Patiala, Allahabad Bank, Federal Bank, State Bank of India, State Bank of Bikaner and Jaipur, and Central Bank of India.

Rotomac Pen Scam

Vikram Kothari, the promoter of Rotomac pens, is accused of defrauding seven banks out of a total of Rs. 369.5 billion. Kotari stole loans of Rs 2,919 from seven institutions, totaling Rs 3,695 in outstanding money, including his interest. C.B.I. Rotomac Global Pvt Ltd. 's managing director, Vikram Kothari, has been detained.

The coalition of 14 public and private sectors, led by the country's largest private sector bank, S.B.I., is involved in this scam. The principal loan amount is around Rs. 824 crores; when combined with the interest due, this represents a loss to the banks of more than Rs. 1,000 crores.

In this scheme, Kanishka Gold Pvt. is the primary defendant. This corporation failed to repay an 824-crore rupee debt, which was changed into "N.P.A." Kanishka Gold, a business with headquarters in Chennai, has been named in a case filed by the C.B.I., and E.D. has begun an investigation into the fraud. Bhupendra Kumar Jain, the director of this business, and his wife, Neeta Jain, have left the nation.

Simbhaoli Sugar Mills Bank Scam

The C.B.I. has reported another bank fraud of over Rs 200 crore against Simbhaoli Sugars Ltd, one of the biggest sugar mills in India. Simbhaoli Sugar Mills Limited Chairman Gurmeet Singh Mann, Deputy Managing Director Gurpal Singh, and CEO GSC Rao are among the ten people scheduled to attend.

Based on estimates, over Rs. 23,000 crores worth of bank scams in the nation over the past three years, severely harming the nation's financial sector. This is why the nation's banks' combined N.P.A. surpassed the milestone of 10 lac cr in June 2018.

IDBI Bank Fraud

The founder of C.B.I.Aircell, Chinnakannan Sivasankaran, his son, and the companies they own—Axcel Sunshine Limited in the British Virgin Islands and Win Wind Oy in Finland, which employ 15 IDBI Bank employees—are all accused. To the bank, r. I've asked for 600. Sivasankaran left the nation. after he was charged with bank fraud, according to sources. Between 2010 and 2014, IDBI Bank employed 15 senior officers when the loan was granted. Former CEO of IDBI Bank Kishor Kharat and C.E.O. Arrested C.B.I. We talked about the controversial financing that was made to the business of former Aircel promoter C Sivasankaran.

2019- 20

P.M.C. Bank scam

Promoters of DHFL successfully managed P.M.C. bank (a cooperative bank) and carried out similar frauds there as well. A larger portion of the bank's deposits came from middle-class clients who had invested their hard-earned money there to pay for a variety of obligations like healthcare, children's college tuition, retirement, and emergency necessities. More than 60% of its customers had modest deposits in the bank, each of which was under $10,000.

According to the findings of the investigation, HDIL's loan book, which as of March 31, 2019, totaled Rs 8,383 crore, had been absorbed by the real estate sector to the tune of more than 70%.

Many investors have committed suicide while fighting to get their money back. The evaluation of the promoters' acquired medicinal properties by the authorities proceeds slowly. The bank has requested expressions of interest in equity investments and engagement in the bank's rehabilitation, according to the most recent published sources. (PwC and Assocham (2014))10

DHFL scam and UPPCL employee provident fund

The first-ever fraud at a housing financing firm was committed by DHFL, primarily due to organizers' direct taking part in money laundering and cash siphoning.

How the SCAM was taken place:

• Loans are granted to those who are related to the promoters or were unknown to them and had duplicate addresses in inconvenient places.

• Recurrence of defaulted loans

Approximately At one bank, phony accounts totaling 6L were opened using the names of loan borrowers who had already redeemed their debts. To channel money to promoter companies, these accounts were used to issue loans. These loans—using borrowed money for personal purchases like buying boats and private properties—were ultimately ruled to be non-recoverable. Massive sums that were not actually recoverable were therefore listed as such on the balance sheet.

Cox & Kings scam – Yes Bank

A private bank quickly became a formidable rival to other private banks unexpectedly and abruptly collapsed due to the scam. The bank's unique business strategy emphasized technology, an extensive branch network, retail lending, etc.

Rana Kapoor, the bank's founder, had established relationships with the nation's prominent business people and had quickly established a commanding reputation in the field. He held most of the power to make crucial decisions, especially those involving sizable debts. His goal was to grow YES Bank into the most prominent private bank in the nation. This desire may have contributed to the bank's swift decline in fortunes, which was more precipitous than its ascent to a prestigious position.

Significant discrepancies between required and real allocation for different years were discovered during a special examination conducted by R.B.I.

To quickly regain public trust in the banking system, the finance ministry took action, and S.B.I bought the bulk of the bank. The bank is still being worked on to ensure that major stock injection from institutional investors and other measures return it to its previous state of health.

IL&FS scam

The ILFS scandal was the biggest corporate fraud in India and set off an economic crisis because the company was a crucial engine for the construction of the nation's infrastructure. The scam nevertheless happened despite being the largest shareholders and having representatives on the board, including well-known stockholders like L.I.C. and S.B.I. ILFS has the highest exposure to debt, at about Rs. 91000 Lakhs

Scams were primarily committed using:

- Diversion of borrowed funds to related entities of some of the members of the top management team
- Imprudent lending to parties who were not credited worth for ulterior motives
- Evergreening of loans by routing money from one group company to another through an unrelated party

Overcharging of project costs by vendors, recording of bogus expenses, etc., with the difference transferred to associated businesses of some of the senior management team members

Overstate earnings through loan under provisioning, accounting for fictitious costs, improperly recognizing project revenue, etc. The corporation has 346 groups, subsidiaries, and entity, that were used to channel the aforementioned processes.

- Failing to disclose some of these businesses' relationships with one another

- The failure to disclose some subsidiaries, affiliates, and joint ventures

Due to the company's excellent credit rating, the majority of Significant amounts were invested in its debt issuance by mutual funds, insurance companies, and P.F. gratuity funds. The fact that ranking was not lowered despite obvious indications of financial strain inside the business was a matter of incompetence on the part of reputable credit rating companies. The rating was suddenly lowered from the highest to the lowest level when the company failed to make good on its repayment obligations.

Surprisingly, the same top management team ran this public interest organization for years while treating ILFS like their own property. No one dared to question their decisions since their board and subordinates were so intimidated by their intimidating demeanor. Years of fraud went undetected because the damage had already been done.

Videocon

1875 crores (governed by businessman Venugopal Dhoot). At that time, Ms. Chanda Kochhar served as the bank's M.D. and C.E.O. Only 8 of the 258 proposals that the Videocon Group submitted were approved. Four of these initiatives have Chanda Kochhar as a member of the committee that approved and recommended their approval. From 2009 to 2011, the bank made loans to the Videocon group and its affiliated businesses, most of which were made in flagrant breach of banking laws and ICICI bank policy. NuPower Renewables took a loan of Rs. 6400 lakh a few months after the loan was granted by Dhoot's Supreme Energy. Deepak Kocchar, Chanda Kocchar's husband, owns a 50% share in NuPower Renewables. There were claims that the loan provided was a component of a trade-off arrangement. Chanda Kochhar was forced to resign when the Enforcement Directorate looked into this multi-million-dollar swindle.

RESEARCH METHODOLOGY

The study only used secondary sources for its foundation. For this study, The R.B.I. website, annual reports, governmental reports, scholarly publications, previously archived R.B.I. speeches, and newspapers were used to gather the data. R.B.I. Financial Stability Reports were also studied throughout to comprehend both the historic and contemporary state of the Indian banking industry as well as the different issues that affect it.

Research is used to test hypotheses or contribute to generalizable knowledge. We may need to develop new algorithms and methods, or we may need to test existing methods against others by proving the facts. Research is conducted by applying what is known (if any) and expanding on it. Additional knowledge can be gained by proving existing theories and attempting to better explain observations. Systematic, organized, and objective research is required. The investigation is divided into three stages:

1. Ask a question.

2. Gather information to answer the question.

3. Give your response to the question.

According to — Albert Einstein, Research is defined as,

"If we knew what we were doing, it would not be called research, would it?"

Objectives

1. Review and analyze the fraud trend plaguing India's banking sector.

2. To look at how increased bank fraud is affecting the banking industry in India's profitability.

3. To look at how fraud may be contributing to N.P. As' continuous rise in the Indian banking industry.

Hypotheses

1. The effect of scams on the Indian banking industry's expanding non-performing assets.

Ho: frauds do not have a big impact on non-performing assets.

H1: Frauds have a big impact on non-performing assets.

2. scams' effects on the Indian banking industry's profitability.

H0: Frauds have no discernible effect on profitability.

H1: Frauds significantly affect profitability.

Research Design & Sources of Data

Research is mainly focused on Secondary data as the study was constrained to fewer limitations.

Analysis - Secondary Research

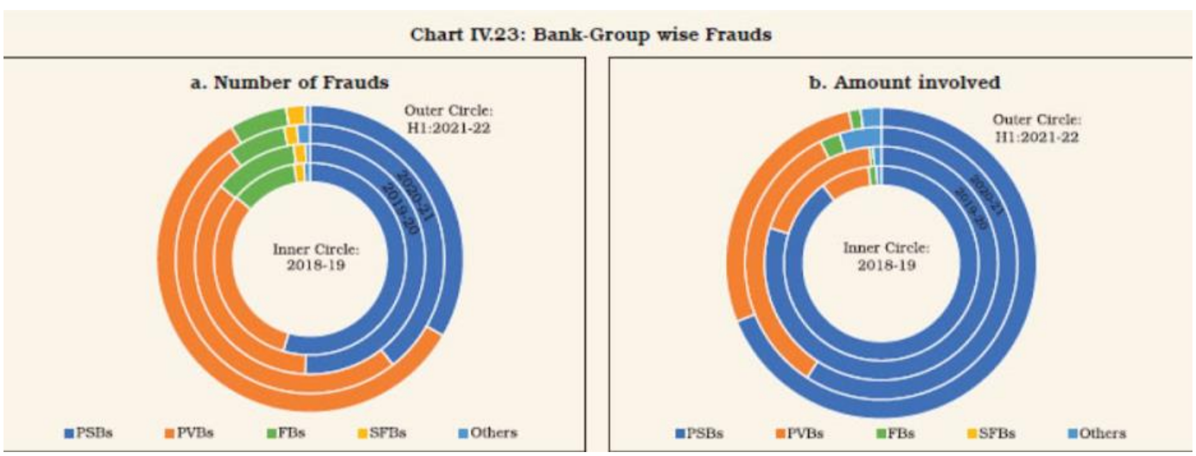
According to the R.B.I., Three categories can be used to classify bank frauds: scams involving deposits, frauds involving advances, and imposters involving services. Due to a new payment system, commercial banks' deployment of a check truncation system (C.T.S.), electronic fund transfers, etc., deposit-related frauds that were once substantial in quantity but not in magnitude have decreased significantly recently.

The amount of fraud advances remains a serious concern (Over the last four years, over 67% of the sum total engaged in scams), directly jeopardizing the soundness of banks' finances. With the financial system using technology more frequently, cyber frauds are becoming more common and complex in using cutting-edge techniques. In addition, frauds involving documentary credit (letters of credit) have come to light, causing grave concern because of their impact on trade and related operations. According to the data, commercial banks are the source for 95% of the scam incidents and money committed crime.

Table VI.2: Fraud Cases - Bank Group-wise						
						(Amount in ₹ crore)
Bank Group/Institution	2018-19		2019-20		2020-21	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Public Sector Banks	3,704	64,207	4,410	1,48,224	2,903	81,901
	(54.5)	(89.8)	(50.7)	(79.9)	(39.4)	(59.2)
Private Sector Banks	2,149	5,809	3,065	34,211	3,710	46,335
	(31.6)	(8.1)	(35.2)	(18.4)	(50.4)	(33.5)
Foreign Banks	762	955	1026	972	521	3,315
	(11.2)	(1.3)	(11.8)	(0.5)	(7.1)	(2.4)
Financial Institutions	28	553	15	2,048	25	6,839
	(0.4)	(0.8)	(0.2)	(1.1)	(0.3)	(4.9)
Small Finance Banks	115	8	147	11	114	30
	(1.7)	(0.0)	(1.7)	(0.0)	(1.6)	(0.0)
Payments Banks	39	2	38	2	88	2
	(0.6)	(0.0)	(0.4)	(0.0)	(1.2)	(0.0)
Local Area Banks	1	0.02	2	0.43	2	0
	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total	6,798	71,534	8,703	1,85,468	7,363	138,422
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: R.B.I. Annual Reports

The number of frauds and the sum involved remain higher in government-run banks as opposed to private ones in 2019–20 & 2020–21, respectively.



Source: R.B.I. Annual Reports

There is probably a connection between the rising number of N.P.A.s for public sector banks and frauds, which indicates that there aren't enough corporate governance requirements. This leads to more high-value bank loan defaults and the possibility of collaboration between corporate entities' top bank officials. Additionally, the development in fraud cases at very low fraud costs in the case of private banks illustrates the inherent characteristics of scams, which are scams connected to technology that happen frequently and have low additional expenses.

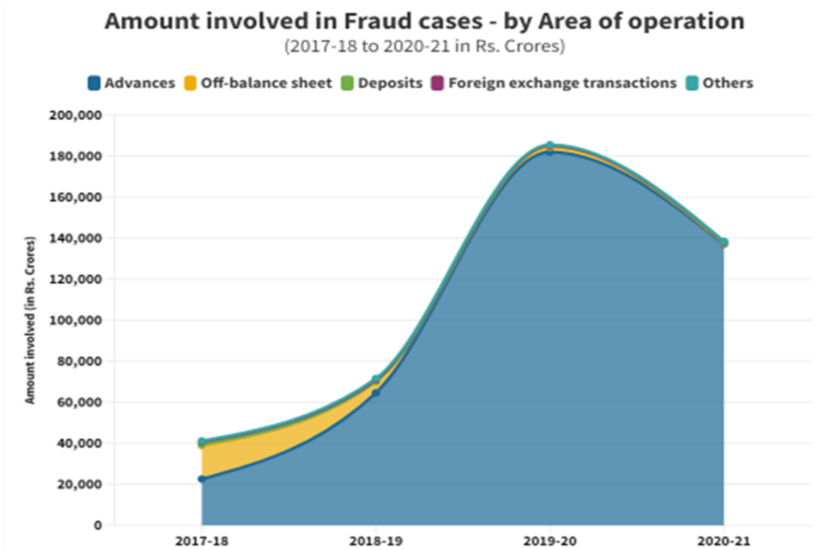
Growing NPAs and increased advance-related fraud in public sector banks may be related the percentage of loans given by PSBs and PVBs (70% & 30 percent, respectively), in particular the fact that public sector banks experienced more advance-related fraud on loans over Rs. 1 crore (87 percent of all loans with a value of one crore or more or more were implicated) than private banks (11% amount). The fact that PSBs reported more fraud cases than P.V.Bs (65% of the total) may also be due to PSBs' rigorous CVC controls (19 percent of total). Recent R.B.I. initiatives to stop this conduct suggest that the P.V.B.s may also be at fault for underreporting or evergreening loans. Large N.P.A.s of PSBs could be linked to increased lending to and exposure to projects in the performance and associated cash flows of the mining, infrastructure, and power sectors closely mirror the boom-and-bust economic cycle. Additionally, following the 2008 financial crisis, India experienced several governance and external problems, including weak demand, policy paralysis, excessive delays by strict environmental laws and regulations, and the Supreme Court's decision on coal mines. These issues crippled these industries, resulting in lower cash flows. The changes significantly impacted these companies' ability to repay their debts, which increased N.P.A.s.

The relationship between rising N.P.A.s in the financial system and the rise in fraud is a topic of continuous discussion. In 2013, a former C.B.I. director brought up the fact that while significant Cases of ticketing scam affecting sums greater than Rs. 50 crores had surged.

Table VI.3: Fraud Cases – Area of Operations

(Amount in ₹ crore)

Area of Operation	2018-19		2019-20		2020-21	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Advances	3,603	64,539	4,608	1,81,942	3,501	1,37,023
	(53.0)	(90.2)	(52.9)	(98.1)	(47.5)	(99.0)
Off-balance Sheet	33	5538	34	2445	23	535
	(0.5)	(7.7)	(0.4)	(1.3)	(0.3)	(0.4)
Foreign Exchange Transactions	13	695	8	54	4	129
	(0.2)	(1.0)	(0.1)	(0.0)	(0.1)	(0.1)
Card/Internet	1,866	71	2,677	129	2,545	119
	(27.5)	(0.1)	(30.8)	(0.1)	(34.6)	(0.1)
Deposits	593	148	530	616	504	434
	(8.7)	(0.2)	(6.1)	(0.3)	(6.8)	(0.3)
Inter-Branch Accounts	3	0	2	0	2	0
	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Cash	274	56	371	63	329	39
	(4.0)	(0.1)	(4.3)	(0.0)	(4.5)	(0.0)
Cheques/Demand Drafts, etc.	189	34	201	39	163	85
	(2.8)	(0.1)	(2.3)	(0.0)	(2.2)	(0.1)
Clearing Accounts, etc.	24	209	22	7	14	4
	(0.4)	(0.3)	(0.2)	(0.0)	(0.2)	(0.0)
Others	200	244	250	173	278	54
	(2.9)	(0.3)	(2.9)	(0.1)	(3.8)	(0.0)
Total	6,798	71,534	8,703	1,85,468	7,363	1,38,422
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

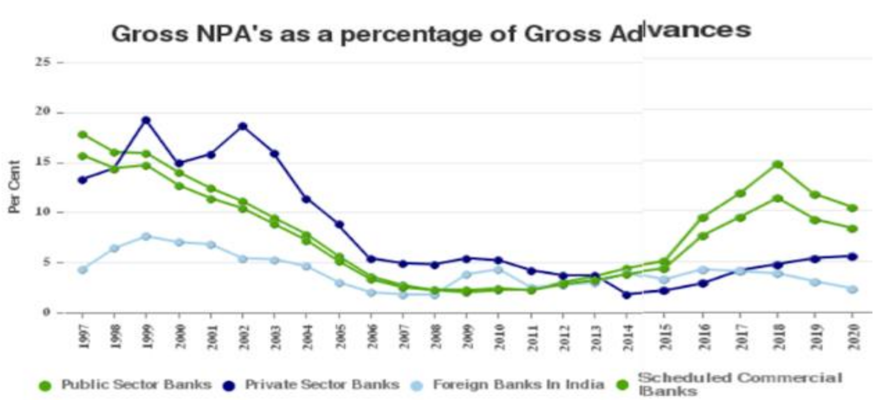


Source: R.B.I. Annual Reports

According to the annual reports, fraud cases have been accumulated in the area of advances that is it, nearly accounts for 50% of the estimated number of scams, as well as the commercial invoice is more than 80% by the year 2018-19, in the year 98% of the amount involved in scams accounted only in the area of Advances, but the number of copies where only 50% in advances.

Analysis of data using Statistical Test

Based on the RBIs annual reports for financial years 2018-19,2019-20 & 2020-21. Comparison of data between the gross advances and the Gross N.P.A. is calculated using the statistical analysis, Regression & Correlation Analysis.



Source: R.B.I. Annual Reports

Gross Advances & Gross NPAs

	Public Sector Banks		
Year	Gross NPA	Gross Advances	Gross NPAs to Gross Advances Ratio (%)
2018-19	895601.30	6141698.16	14.58
2019-20	739541.00	6382460.85	11.59
2020-21	616615.55	6770362.52	9.11

Correlation

The effects of scams on the Indian banking industry's Non-performing Assets.

- H0: Scams don't significantly affect the public bank's Non-performing Assets.
- H1: Scams significantly affect the public bank's Non-performing Assets.

	Gross NPA	*Gross Advances*
Gross NPA	1	
Gross Advances	0.979510601	1

Because the correlation value is positive,.9795 > 0, it is much closer to +1. As a result, the two variables have a significant positive relationship.

Regression Analysis

The effects of scams on the Indian banking industry's Non-performing Assets.

- H0: Scams don't significantly affect the public bank's Non-performing Assets.
- H1: Scams significantly affect the public bank's Non-performing Assets.

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0.979510601							
R Square	0.959441018							
Adjusted R Square	0.918882036							
Standard Error	39822.56034							
Observations	3							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	1	37513673550	37513673550	23.65545124	0.129093408			
Residual	1	1585836312	1585836312					
Total	2	39099509862						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	3527576.561	571426.8122	6.173277987	0.102237008	-3733089.507	10788242.63	-3733089.507	10788242.63
Gross Advances	-0.431779136	0.088776094	-4.863687001	0.129093408	-1.559786366	0.696228094	-1.559786366	0.696228094

The amount involved in Public Sector bank frauds is considered an independent variable for regression analysis, and Gross N.P.A.s of PSBs is a dependent variable. R2 is 0.9594, implying that frauds account for 95.94 percent of variations in Non-Performing Assets. Fakes are found to have a 5 percent level of significance substantial effect on Non-Performing Assets.

Private Sector Bank

Year	Gross N.P.A.	Gross Advances	Gross N.P.A.s to Gross Advances Ratio (%)
2018-19	**125862.89**	**2725890.72**	**4.62**
2019-20	**180872.43**	**3442346.66**	**5.25**
2020-21	**202266.15**	**4097039.53**	**4.94**

Correlation

The effects of scams on the Indian banking industry's Non-performing Assets .

- H0: Scams don't significantly affect the private bank's Non-performing Assets.
- H1: Scams significantly affect the private bank's Non-performing Assets.

	Gross NPA	Gross Advances
Gross NPA	1	
Gross Advances	0.97529149 2	1

Because the correlation value is positive,.9752 > 0, it is much closer to +1. As a result, the two variables have a significant positive relationship.

Regression Analysis

The effects of scams on the Indian banking industry's Non-performing Assets.

- H0: Scams don't significantly affect the private bank's Non-performing Assets.
- H1: Scams significantly affect the private bank's Non-performing Assets.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.975291492
R Square	0.951193495
Adjusted R Square	0.90238699
Standard Error	12314.42487
Observations	3

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2955421498	2955421498	19.48907207	0.14181321
Residual	1	151645059.8	151645059.8		
Total	2	3107066558			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-22130.24572	44023.6317	-0.502690143	0.703464161	-581503.5234	537243.0319	-581503.5234	537243.0319
Gross Advances	0.056052283	0.012696901	4.414642915	0.14181321	-0.105277137	0.217381703	-0.105277137	0.217381703

For linear regression, the quantity of fraud is viewed as an independent variable, and Total N.P.A.s is a dependent variable. R Square is 0.9752, implying that frauds account for 95.94% of variations in Non-Performing Assets. Scams have been found to have a 5 percent level of relevance effect on Non-Performing Assets.

Gross Profit & Gross Advances

Public Sector Bank		
Year	Gross Profit	Gross Advances
2018-19	-66608.01	2725890.72
2019-20	-26015.00	3442346.66
2020-21	31817.84	4097039.53

Correlation

The effects of scams on the Indian banking industry's profitability.

- H0: Scams don't significantly affect the public bank's profitability.
- H1: Scams significantly affect the public bank's the profitability.

	Gross Profit	*Gross Advances*
Gross Profit	1	
Gross Advances	0.991973637	1

Since the correlational value is positive (.9919 > 0), it is significantly closer to +1. Therefore, there is a strong positive correlation between the two variables.

Regression Analysis

The effects of scams on the Indian banking industry's profitability.

- H0: Scams don't significantly affect the public bank's profitability.
- H1: Scams significantly affect the public bank's profitability.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.991973637
R Square	0.984011697
Adjusted R Square	0.968023394
Standard Error	8845.139851
Observations	3

ANOVA

	df	SS	MS	F	Significance F
Regression	1	4815122006	4815122006	61.54572442	0.08071336
Residual	1	78236498.98	78236498.98		
Total	2	4893358505			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-265082.6188	31621.06094	-8.383103252	0.075583668	-666866.2932	136701.0555	-666866.2932	136701.0555
Gross Advances	0.07154631	0.009119863	7.845108312	0.08071336	-0.044332531	0.187425151	-0.044332531	0.187425151

Net Profit is the independent variable in regression analysis, and Gross N.P.A.s is the dependent variable. R Square is 0.9840, implying that Profitability by Gross NPAs varies by 98.40 percent. Frauds are found to have a 5 percent level of significance substantial effect on Non-Performing Assets.

Private Sector Bank

Year	Gross Profit	Gross Advances
2018-19	**27621.01**	**2725890.72**
2019-20	**19111.37**	**3442346.66**
2020-21	**69476.78**	**4097039.53**

Correlation

The effects of scams on the Indian banking industry's profitability.

- H0: Scams don't significantly affect the private bank's profitability.
- H1: Scams significantly affect the private bank's profitability.

	Gross Profit	*Gross Advances*
Gross Profit	1	
Gross Advances	0.75961011	1

As the value of correlation is positive, i.e., .7596 > 0, it is much nearer to +1. As a result, the two variables have a significant positive relationship.

Regression Analysis

The effects of scams on the Indian banking industry's profitability.

- H0: Scams don't significantly affect the private bank's profitability.
- H1: Scams significantly affect the private bank's profitability.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.75961011
R Square	0.577007519
Adjusted R Square	0.154015037
Standard Error	24796.95795
Observations	3

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	838775304.6	838775304.6	1.364108214	0.450779577
Residual	1	614889123.8	614889123.8		
Total	2	1453664428			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-63441.24048	88648.24434	-0.715651403	0.604561585	-1189823.983	1062941.502	-1189823.983	1062941.502
Gross Advances	0.029861142	0.025567131	1.167950433	0.450779577	-0.295000059	0.354722342	-0.295000059	0.354722342

For regression analysis, Net Profit is considered the independent variable, and Gross N.P.A.s is regarded as the dependent variable. R Square is 0.5770, implying 57.00% variations in Profitability by the Gross NPAs. Frauds are found to have a 5 percent level of significance substantial effect on Non-Performing Assets.

RECOMMENDATIONS

PSBs far better than P.V.B.s in the overall volume of financial crime. In contrast to the private sector, the overall amount engaged in PSBs is far higher. This is due to the large loans that PSBs provide to their clients. Due to the high stakes and lengthy CVC fraud detection process, lending frauds in India have the biggest effect of all financial fraud. The scams may be caused primarily by a lack of adequate high level of supervision, defective payment mechanisms for workers conspiracy among employees, firm debtors, and outside organizations, and a lack of effective tools and technologies in the domain to identify early warning signs of a fraud, a poor regulatory system & coordination between various banks in India and abroad, and a lack of understanding among bank staff and clients. Delays in legal reporting procedures and multiple loopholes in the system have been identified as significant causes of fraud and N.P.As.

Therefore, the following recommendations are made to aid in the advanced indicator of fraud.

a) Specialized unbiased army: In the short term, the government may consider forming this cadre through lateral recruitment from a pool of commercial bankers, R.B.I., and C.B.I. officials.

b) Be Aware of Your Market**:** Banks should focus on understanding your demands in addition to knowing your vendor and customer. Each bank requires a specialized unit to assess the business or corporation receiving the loan and the macroeconomic climate of the relevant sector of the economy or market where goods are sold. Because several Indian manufacturers were dependent on importing machinery from China, the companies were unable to start projects, which affected banks that had lent money for the projects. (Soni, R.R and Soni, N. (2013))[26]

c) Internal Rating Organization: Before sanctioning loans, financial institutions must to have a reliable integrated organization which assesses expensive projects. The credit agency assesses the project entirely based on its business strategy or plan, without consideration for trade mark or credibility of the holding company, but also considering the industry's vulnerability to the globalized trade as well as the socioeconomic larger society.

d) Utilization of cutting-edge technologies: The technique of analysis in banks has to be changed because it is quite out-of-date. So, I.T. data analytics and systems to achieve effective implementation of the R.B.I.'s red-flagged account (R.F.A.) and early warning signals (E.W.S.) framework, this would enable banks to monitor consumer activity in close to real-time by analyzing the patterns of their transactions.

e) Regionally tracking unusual motion: R.B.I. should consider broadening its monitors outlier regional transactional activity along the circuit breaker's lines at SEBI. It may help identify the earliest indications of financial fraud.

f) Assets based on local information: financial institutions must have an intelligence gathering agency that can track borrowers' activities and assist the real-time compliance and early fraud detection by the bank. Banks with highly skilled/trained employees should set up a fraud monitoring agency. Additionally, a specialized investigative agency is required, with knowledge from organizations like the C.B.I., R.B.I., SEBI, and commercial banks.

i) Every corporate branch of a PSB should have a dedicated department providing legal support that gives investigators a single point of contact and makes it simple to retrieve pertinent records.

j) Many employees do not understand the definition of fraud and must be educated on this topic. As a result, It is important to regularly offer learning opportunities for staff members and best practices from around the world in early fraud detection and prevention. There is a possibility for routine e-modules with upgrades and re-certifications.

k) The highest standards of corporate governance must be upheld by banks. The organization's top management must establish rules and regulations for moral behavior and accepted practices, as well as lead by example by showing no tolerance for negligence or fraud. A focus should be focused on suitable recruiting practices at a highest level of management, preferably for 3 years of service and an accountability provision given the tasks and responsibilities of top management. Incentives must also be adjusted in order to strike a positive relations in between short and longer objectives.

l) To exchange critical information regarding the personal wealth of promoters, banks and organizations like the Central Board of Direct Taxes (CBDT) must work in secret coordination.

The CVC and the R.B.I. should work together to jointly examine the promoters for fraudulent acts in the event of any information that might raise a red flag.

Another issue that surfaced was India's dearth of skilled auditors. (Gandhi, R. (2014))[3]. Such as:

a) In general, hiring in the auditing industry is fiercely price-driven. As a result of the employee's low salary, auditors only put forth a certain amount of effort. Additionally, many young auditors lack the necessary skills. Due to this and the uniform training standards applied to them, they are at a disadvantage when it comes to the value of observation and experience. Additionally, the auditors work with clerks and article students who are susceptible to manipulation.

b) Due to their heavy workloads, law enforcement organizations in India are forced to pick between a variety of duties. This is a result of the limited financial and human resources at their disposal. Auditor reliance on law enforcement is greatest under such circumstances.

Prevention Techniques

1. **Wire Fraud**

While the criminals' method used during the 80's is much more difficult to do today (fake actual currency), they still face the effects of that crime. They trick banks into thinking huge volumes of money are accounted for when they are completely fake. Fraudsters now commit this crime electronically via wire fraud.

Remedy - Artificial Intelligence

Due to several dealings taking place at the same time, banks are unable to examine each deal and ensure money transfer is legitimate. It also causes massive obstacles diminishing the quality of modern existence. Client expectations for online banking are swift and high. Instead, they utilize computerized algorithms that are designed to detect fraudulent behavior. These artificial intelligences Investigate data flowing from a scenario, flagging illegal activities, including alerting humans to investigate further.

2. **Data Theft**

When you have the internet as a barrier between you and your objective, it is much simpler to pose as someone else. In order to do this, scammers employ a variety of techniques to obtain data that allows them to uniquely identify their victims. Data includes things like social security numbers, driver's license numbers, and birth dates.

Phishing is the most common method used by fraudsters, in that the perpetrator disguises as a respectable company (either a financial institution or a storefront) in order the criminal poses as a reputable organization providing the data. Such data frequently include passcodes, they may also contain potentially risky facts. It could either be the name of their mother or of their first pet.

Remedy - Biometric Data

A secure password is preferable to a weaker one than using none. Secure codes avoid scams exceptionally well, still it won’t be able to be avoided if a Fraudster persuades any individual from sharing it. When passwords are compromised, multi-factor authentication adds an extra layer of security and reduces fraud.

The most effective ways to protect users from phishing are knowledge and preparation, but biometric data can also be useful. Biometrics are characteristics of a user that are difficult to replicate, such as individual voice cadence. Another skin of security against any fraud impersonating a legitimate user, assisting in the prevention of banking fraud.

3. **Account Takeover**

Password stealing is comparable to accounts control, even though the consequences are far worse. In the best-case scenario, the password of the account holder is changed. Because of this, the full enterprise will be facing severe challenges. It has become prevalent after COVID.

Remedy - Group Information

Value of a system created to spot fraud rises in direct proportion to the caliber and scale of information it encounters. Information from multiple sources broadens many types of intelligence, increasing analysis and safety. Because it has been derived via several sources in the same market or organization, this information is referred to as consortium data.

When banks collaborate and share data on fraud perpetrated against them, a database of known threats is created. This gives automated systems more examples to compare potential fraud against. It looks for specific behavioral cues when it suspects an account has been compromised. It then notifies the account managers to investigate further and, if necessary, take action.

4. **Money-transfer fraud**

People have been trying to disguise their illegally obtained wealth for as long as they have been stealing or collecting it. "Dirty" money is obtained through a variety of fraudulent and criminal activities. Whatever the illegal activity, it usually entails obtaining currency - stealing money - from a variety of sources.

Laundering "cleans" money by passing it through legitimate channels, regardless of its origin. Fraudsters target banks to clean dirty money because one of the things banks excel at is moving money from one account to another. It is illegal not only to obtain dirty funds, but also to launder it. Banks that fail to take anti-money laundering measures put themselves at vulnerability and it could result in legal repercussions.

Remedy - High Tech Standardization

They might appear simplistic where every aspect of the enterprise runs on the same system, the security of a company's data improves dramatically. This is especially true for financial institutions, where many legacy systems leave large gaps for fraudsters to exploit.

Legacy systems consist of more than just old software (though this is frequently the case); These usually consist of hard copies and actual account balances.

5. **Accounting Fraud**

Accounting fraud has the greatest impact on business lending. Accounting fraud occurs when businesses falsify information for them in trying to look larger. Banks make loans to these companies based on forged bank statements. As a result, the phantom companies never repay their loans and have no plans to do so, taking the balance out of the bank. The perpetrators of the 1873 Bank of England did just this with a fictitious train heavy industry business.

Remedy - Machine Learning

The banking industry has been transformed by the automation of data collection and analysis. Companies are increasingly discovering that simple rule-based artificial intelligence (A.I.) is ineffective in preventing banking fraud. Machine learning, or cybersecurity that adapts to new threats, is now available as part of the Fraud.net product suite.

It detects anomalies using machine learning, allowing it to identify traps before they spring. Machine learning algorithms can identify minor deception and usage behavioral trends evaluation to identify risky behavior by taking login location into account. This is particularly useful in preventing banking fraud. Financial establishments don’t require to be constantly updated or upgrading their data encryption. Rather, that might use machine learning-powered self-regulating and self-improving system tools to prevent banking fraud.

When used in conjunction utilizing event inspection, this will stop criminals from working together by other crooks and their cybersecurity dangers. By analyzing connection among insufficient offenders using information to defraud people, law enforcement agencies are able to distinguish among an individual phishing activity as well as a coordinated assault

CONCLUSION

It is clear that the post-liberalization age has given the Indian banking industry new hues of growth, but it has also presented some severe issues, one of which is the surge in frauds and financial crimes. As mentioned, an unfortunate trend in increasing fraud in the banking industry causes losses for the participating banks and adverse effects on their credibility. Frauds and fraudulent actions put banks and their clients in severe financial trouble and significantly reduce the amount of money available for fostering economic growth. Although operating in a fraud-free environment may not be feasible for banks, aggressive steps like threat assessment by policies & processes will help banks reduce their risk of potential losses due to fraud. Banks may use data analysis tools to identify fakes early on and cut their losses, which will have a big impact.

Banking fraud has increased in recent years. Banking frauds have historically been accepted in India as necessary expense operations. However, since deregulation, they have become more common, sophisticated, and expensive, giving regulators serious cause for concern because of their adverse effects on bank profitability and, ultimately, India's economy. Awaiting legal reporting methods and a number other systemic issues have been identified as significant reasons for fraud. The increase in the number of frauds over the years has been minimal at best, but the value of scams has increased dramatically, showing that larger-scale thefts have indeed been attempted recently. The Profitability where the Indian banking industry has been significantly impacted by the growth of loans, which has been accompanied by a similar rise in scams and non-performing assets. The only option to preserve the reputation of Indian banks and revitalize the nation's financial system is for regulators to take strict action while developing new fraud detection and reduction techniques.

From the study, the following findings may be made:

As compared to the quantity of scams, the amount engaged in fraud has dramatically increased. The majority of financial frauds involve advances, which worries Indian banks.

The ratio between gross Non-Performing Assets against the gross advances has been increasing through the times. The capital adequacy of enterprise advancements, then advancements in the hospitality industry, is an issue that worries India's financial economy. In the Indian banking sector, fraud has a positive relationship with non- assets in the Indian banking industry.

APPENDIX

PLAGIARISM REPORT

Financial Frauds

ORIGINALITY REPORT

9%	9%	4%	%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	www.xajzkjdx.cn Internet Source	2%
2	www.chicago-accident-law.com Internet Source	1%
3	biosystems.okstate.edu Internet Source	1%
4	abesit.in Internet Source	1%
5	ijemr.in Internet Source	1%
6	en.wikipedia.org Internet Source	<1%
7	www.lawstreetindia.com Internet Source	<1%
8	ksandk.com Internet Source	<1%
9	insis.vse.cz Internet Source	<1%

10	Souvik Kumar Ghosh, Anupam De. "Identification of the internal reasons of public sector bank fraud in India by using confirmatory factor analysis", International Journal of Economics and Business Research, 2020 Publication	<1 %
11	Www.econstor.eu Internet Source	<1 %
12	bankingcashloans.com Internet Source	<1 %
13	www.inventiva.co.in Internet Source	<1 %
14	curve.coventry.ac.uk Internet Source	<1 %
15	www.bankrecruitment.co.in Internet Source	<1 %
16	allbankjobs.in Internet Source	<1 %
17	lawjournals.stmjournals.in Internet Source	<1 %
18	www.emeraldinsight.com Internet Source	<1 %
19	eprints.soas.ac.uk Internet Source	<1 %

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