JIBC

Journal of Internet Banking and Commerce

An open access Internet journal

(http://www.icommercecentral.com) Journal of Internet Banking and Commerce, December 2022, Vol.27, No.7

An Empirical Study on Indian Banking Scams by Top Business Holders

G.V.K.R.Sharma
Department of Finance
CRPF Public School
Hakimpet, Hyderabad
Tel: 9550876256
Email: Kameshganti23@gmail.com

Received: 17-07-2020**,** Manuscript No. JIBC-20-15660;

Editor assigned: 21-07-2020**,** Pre QC No. JIBC-20-15660 (PQ);

Reviewed: 04-08-2020**,** QC No. JIBC-20-15660;

Revision: 30-11-2022**,** QI No. JIBC-20-15660; Manuscript No JIBC-20-15660 (R); **Published:** 28-12-2022

Abstract

Indian Banking system is now in big trouble by giving large amount of loans and advances to the top business holders (borrowers) mainly due to political pressure and other internal banking management. This happens mainly in public sector units, as they provide loans and advances which is an asset to the banks is created out of deposits and interest amount. The reason behind failure of banking system is non performing asset which means decreasing an income to the banks and not yielding any interest from advances. Recently, Punjab national bank in 2018 has been dubbed as the biggest fraud in India’s banking history, estimated to be worth over Rs.13,000 crores in which several senior officials found to be involved. Despite government’s efforts the amount involved in banking frauds gone up to 73 percent. RBI has released a data showing that in FY2019 banking sector reported 6,801 frauds involving a total amount of Rs.71,542 crores. Though various legal measures were launched by RBI, they have hardly had an impact on Indian banking system.

In this context, the study paper tries to find out the causes for poor performance of banking system *i.e.,* fraud cases-Bank group wise and fraud cases-areas of operations. It also focuses on the impact on Indian banking and in what way banks have tried to recover the amount from top business frauds. It is an attempt to analyze how much amount involved in each Indian banking sector and also made an attempt to analyze how much amount involved in different areas of operations.

Keywords: Banking Groups, Areas of Operation, Bad Loans, Recovery

Introduction

Bank is a financial institution licensed to receive deposits and make loans. Banks also invest money to build up their reserves. The two main functions of a bank are accepting deposits from general public and lending to individuals, corporate and government. In India we have public sector banks, private banks, foreign banks, financial Institutions, small finance banks, payment banks and other local areas bank. These banks provide different areas of operations to the public and government such as off-sheet balance sheet, foreign exchange transactions, card and internet transactions, deposits, cheques, demand drafts, inter-branch accounts, cash transactions, clearing accounts and others. Usually, loans and advances is one of the major factors for banks to generate the income from the loans and advances (asset). This motivates a bank to lend vigorously in order to increase profitability. However, banks have to make sure that the borrowers pay interest and principal amount promptly (Debt servicing) so that the profitability is not affected and at the same time the quality of assets (loans) remain good. Suppose the borrowers do not pay back the amount on time due to various reasons then the asset fails to yield the income and in turn banking system will be badly affected.

As per the RBI report public sector banks involved 3,766 banking frauds in FY 2018-19 which is relatively higher compared to other banking institutions. RBI report shows that these public sector banks has highest number of frauds in loans and advances given to corporate and other financial Institution's (Sarel et al., 2009).

The Reserve Bank of India (RBI): 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.

Materials and Methods

Ashu Khanna and Bindu Arora-Int. Journal of business science and applied management, volume 4, issue 3, 2009 in their research they found the bank employees do not give due importance to the problem of frauds. The awareness level of bank employees regarding bank frauds is not very satisfactory, and majority of them do not dispose favorable attitude towards RBI procedures as they find difficulty in following them due to workload and pressure of competition. Moreover, employees are not well trained to prevent bank frauds. Training positively affects the compliance level of employees and improves the attitude towards RBI"s procedure (Srivastava et al., 2016).

Charan singh RBI chair professor economics and social science indian institute of management bangalore in his working paper on banking frauds he found that the frauds may be primarily due to lack of adequate supervision of top management, corporate borrowers and third party agencies; weak regulatory system; lack of appropriate tools and technologies in place to detect early warning signals of a fraud and lack of coordination among different banks across India and abroad. The delays in legal procedures for reporting and various loopholes in system have been considered some of the major reasons of frauds and NPAs. Majority of frauds in the banking sector relate to advances which is a cause of worry for banks in India. Frauds have a significant impact on non-performing assets in the Indian banking sector.

RBI reported that Rs 71,500 crore worth of bank frauds detected in FY19. Overall, 3,766 incidents of frauds were detected in FY19, a 15 percent spike from a year ago, while the losses incurred saw an 80 percent rise from the last year, even as FY18 saw the most infamous banking fraud in India’s history where Nirav Modi siphoned off nearly Rs 13,000 crores from Punjab national bank in February 2018.

As per the business standard reports finance minister nirmala sitharaman said that according to the reserve bank of India, PSBs reported 5,743 incidents of fraud involving a total amount of Rs 95,760.49 crore from April 1 to September 30 (based on the date of reporting 2019). State bank of India reported fraud of ₹25,400 crores followed by Punjab national bank of ₹10,800 crores and bank of Baroda of ₹8,300 crore.

The study seeks to know how many frauds and amount involved in Indian Banking institution's from FY 2017-18 to 2018-2019. The study seeks to know what was the impact on baking system. It aims to identify the procedural lapses and various other causes responsible for bank frauds. It shows how banks recovered the amounts so far from top business scammers. To study what measures has been taken by banking sector to prevent the scams/frauds further.

Results and Discussion

This paper is purely based on secondary data collected from RBI website. For the purpose of data collection and descriptive part referred to various journals, magazines, authenticated reports, news articles, e and International journals. The main purpose of this study paper to know what was the impact of banking frauds in India. Tools that are used in finding analysis is Trend Analysis (Soni et al., 2015).

Biggest scams in India that shook the nation in FY2020

In the first quarter of FY2020, the central bureau of investigation has registered 40 cases of bank frauds worth over Rs 14,400 crore. The biggest and most high-profile bank fraud of FY2020 is yes bank scam which involved an amount of Rs.600 crores given by DHFL. The second major scam during the country lockdown is digital education, educomp solutions private limited siphoning off bank loans worth thousands of crores 13 banks of over Rs 1950 crores. Senior national conference leader and former jandk finance minister Abdul Rahim Rather's son Hilal Ahmed rather and his partnership firm paradise avenue was accused of defrauding jandk bank of Rs 177 crore. The four officials of state bank of India, Kakori branch, Lucknow for using forged documents and giving 96 Kisan credit card loans worth Rs 6.60 crores. Biggest scammers who made Indian baking system dupe into uncoverable losses from FY 2000 to 2019.

Vijay Mallya Rs. 9000 crore

There was a time when people used to call him the ‘King of good times’, but today things are far from being good for him. We’re talking about liquor baron Vijay Mallya. In 2016, Mallya absconded the country and sought refuge in the UK after he was accused of fraud and money laundering in the country. Vijay Mallya allegedly owes various banks over Rs 9000 crores, which he'd taken as a loan to keep his now defunct Kingfisher airlines from failing. He was recently declared a fugitive economic offender under the fugitive economic offenders act (Mayur et al., 2017).

Nirav Modi PNB bank fraud rs.11,400 crores

Diamonds are a man or woman’s best friend, but diamantaires like Nirav Modi are not. One of the most controversial scams, this fraud reportedly took place through Punjab national bank’s brady house brand.

Not just Nirav Modi, his uncle Mehul Choksi and two senior PNB officials were also involved in this fraud. In 2018, PNB filed a case with CBI accusing Nirav Modi and the companies he was connected to of obtaining letters of undertaking (Lou's) from PNB without paying up the margin amount against loans. This meant that if those companies failed to pay the loan, PNB would have had to pay the amount.

Satyam scam-Rs. 14,000 crores

This 2009 corporate scam is also known as India's Enron scandal and revolves around B Ramalinga Raju and his Satyam computer services ltd. The company admitted that they misrepresented, manipulated and falsified their accounts of over Rs 14,000 crore, in front of its board, stock exchanges, investors and other stakeholders (Gupta et al., 2015).

Impact on banking system due to big scams

As per the latest annual report, the Reserve Bank of India (RBI), has indicated that the rate of growth of frauds may not be substantial but the amount involved in frauds has gone up by a whopping 73.8 per cent. RBI data shows that in FY19, banking sector reported 6,801 frauds involving a total Rs. 71,542.93 crore as against 5,916 cases involving Rs 41,167.04 crore reported in 2017-18. As compared to this, state run banks reported 3,766 cases of frauds worth Rs 64,509.43 crore as against 2,885 cases involving Rs 38,260.8 crore (Table 1).

Bank institution	2017-2018		2018-2019	
	Number of frauds	Amount involved (million)	Number of frauds	Amount involved (Million)
1	2	3	4	5
Public sector banks	2885 (-48.8)	382608.7 (-92.9)	3766 (-55.4)	645094.3 (-90.2)
Private sector Banks	1975 (-33.4)	24782.5 (-6.0)	2090 (-30.7)	55151.4 (-7.7)
Foreign banks	974 (-16.5)	2560.9 (-0.6)	762 (-11.2)	9553 (-1.3)
Financial institutions	12 (-0.2)	1647 (-0.4)	28 (-0.4)	5534.1 (-0.8)
Small finance banks	65 (-1.1)	61.9 (0.0)	115 (-1.7)	75.2 (0.0)
Payment banks	3 (-0.1)	9 (0.0)	39 (-0.6)	21.1 (0.0)
Local areas bank	2 (0.0)	0.4 (0.0)	1 (0.0)	0.2 (0.0)
Total	5916 (-100)	411670.4 (-100)	6801 (-100)	715429.3 (-100)

Table 1: Fraud cases-bank group-wise.

Analysis: From the Table 1 it clearly shows that public sector banks are in highly risk compared to other banking institutions. Public sector banking scams have been increased from Rs. 3,82,608 in FY2017-2018 to Rs.6,45,094 in FY 2018-2019. As we see the other banking institutions scams are very much low compared to PSBs. The major failure of public sector banking is due to political aspects and poor internal management (Figure 1).

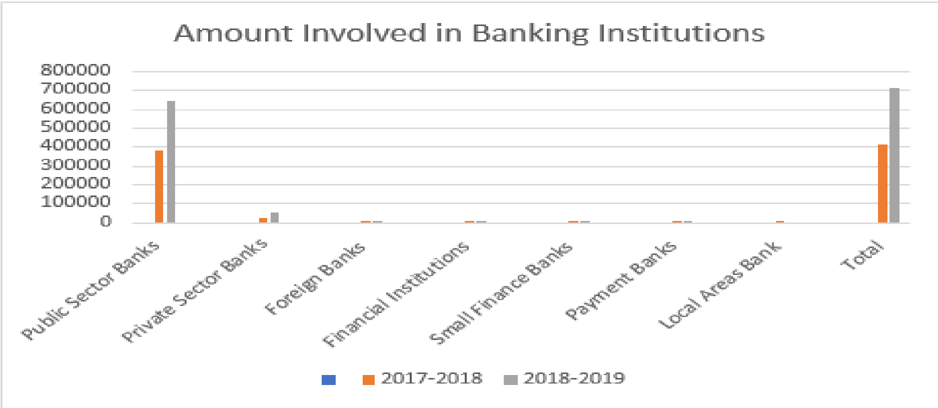

Figure 1: The RBI report states that among bank groups.

PSBs, or public sector banks which constitute the largest market share in bank lending, have accounted for the bulk of frauds reported in 2018-19. It was followed by private sector banks and foreign banks (Yameen et al., 2009). Last year, foreign banks recorded 974 cases of fraud and the amount involved was Rs 2,560.9 million. When compared to FY 2018-19 foreign banks recorded 762 cases the amount involved was Rs 9,553 million. In terms of area of operations in banking institution's, frauds related to loans and advances constituted the major share of the total amount involved in frauds in 2018-19, while the share of frauds in off-balance sheet items declined and comparatively less a year ago (Table 2 and Figure 2).

Bank institution	2017-2018		2018-2019	
	Number of frauds	Amount involved (million)	Number of frauds	Amount involved (Million)
1	2	3	4	5
Advances	2,525 (42.7)	225,583.2 (54.8)	3,606 (53.0)	645,481.7 (90.2)
Off-sheet balance sheet	20 (0.3)	162,876.7 (39.6)	33 (0.5)	55,375.4 (7.7)
Foreign exchange transactions	9 (0.2)	14,258.9 (3.5)	13 (0.2)	6,593.0 (1.0)
Card/Internet	2059 (34.8)	1095.0 (0.3)	1,866.0 (24.7)	713.1 (0.1)
Deposits	697 (11.8)	4622.7 (1.1)	596 (1.7)	1,483.1 (0.2)
Cheques/Demands/Drafts etc	207 (3.5)	341.2 (0.1)	189 (2.8)	336.6 (0.0)
Inter-branch accounts	6 (0.1)	11.9 (0.0)	3 (0.0)	1.1 (0.0)
Cash	218 (3.7)	403.4 (0.1)	274 (4.0)	555.4 (0.1)
Clearing accounts etc	37 (0.6)	56.2 (0.0)	24 (0.4)	2088.1 (0.3)
Others	138 (2.3)	2,421.5 (0.60	197 (2.9)	2,440.5 (0.3)
Total	5,916 (100.0)	411,670.4 (100.0)	6,801 (100.0)	715,429.3 (100.0)

Table 2: Fraud cases-area of operations.

Analysis: From the Figure 2 it shows that banking system failed to recover the amount involved in scams mainly from loans and advances which raised from Rs.2,25,583 in FY 2017-2018 to Rs.6,45,481 in FY 2018-2019. Public sector banks provided loans and advances to highly profile business men, where banks failed to collect the interest and principle amount which lead public sector banks into huge loses.

Other Areas of operations have less impact compared to Loans and Advances. Whereas, off-sheet balance sheet scams also had huge impact due to improper internal banking system (Singh et al., 2009).

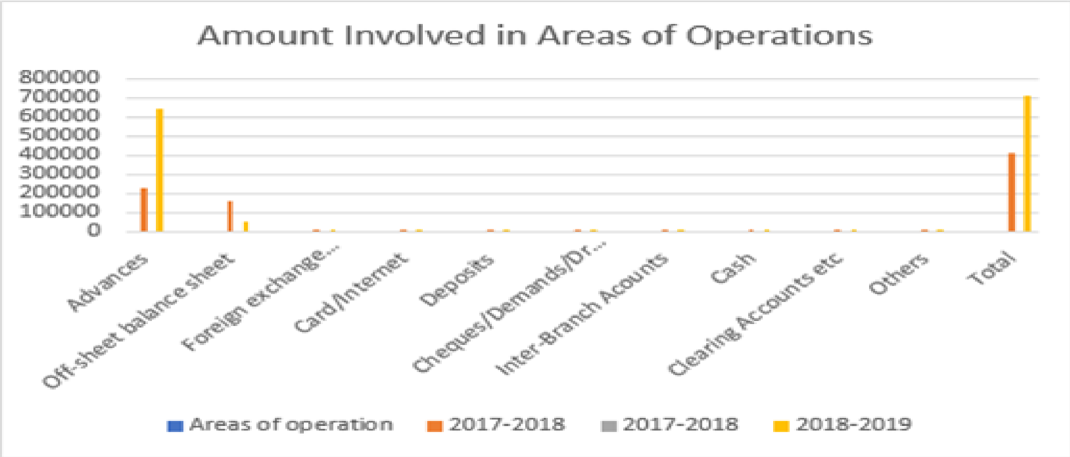

Figure 2: Amount involved areas of operations in recover the amount involved in scams.

Bank recoveries so far from advances

It has been two years since the multi-crore punjab national bank mega scam and now at present there is a little improvement from the banking sector and from the central government by collecting the amount duped in frauds by way of auctioning the assets of Modi included bags, paintings, watches worth Rs 1,28,29,007. As per the report from the IT department they had seized 173 paintings belonging to a company owned by Modi which were attached by the ED. A total of 55 paintings had been sold in the auction and an amount of Rs 55 crore was realized. ED sources cited the example of the assets of fugitive businessman Vijay Mallya whose shares worth Rs 8000-9000 crore in companies owned by him were sold off. The ED has also recovered money from the sale of shares of United Breweries (Holding) owned by Vijay Mallya (Srivastava et al., 2019).

Measures taken by RBI towards recovery of advances

RBI took several steps to check fraudulent banking practices, to fight this, the Reserve Bank of India has introduced legal entity Identifier to check and prevent banking scam. Legal Entity Identifier is a 20-digit global reference number which uniquely identifies a company and it helps to improve the quality and accuracy of financial data across the world.

Banks will be required to acquire LEI number from the borrower and report it to (Central repository of information on large credit), where the database of loan details which are above Rs.5 crores is maintained. CRILC collects the information and data on non-performing assets from Indian banks and gives timely advices. Final outcomes of LEI helped the banking sector in many ways such as effective monitor debt, it prevents issuing multiple loans for same collateral, it serves as a proof of identity for a firm, it helps to report the transactions to regulators and so on. Therefore, the reserve bank of India has mandated the implementation of legal entity identifier for all borrowers of banks in India, without a LEI code will not be granted renewal for credit facilities further date (Zattoni et al., 2009).

Major weapons to recover the loans and advances from borrowers in India

Debt recovery tribunal: This is well known as the recovery of debts due to banks and financial institutions act, 1993. Its primary objective to recovery the loans from the lenders and borrowers due to banks and financial institutions and helps to reduce the cases in civil court. The Tribunal power is to settle the cases regarding unpaid amount from non-performing assets as declared by the banks under the RBI guidelines. Recently central government has increased the limit from Rs.10 lakhs to Rs.20 lkahs to recover the debts from borrowers. As per the RBI data on March 2018 an aggregate amount of Rs.3,98,671 crores were written off by banks over the last financial years.

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SRFAESI) act 2002: This act was passed by the government in order to fight against the willful defaulter, and an effective recovery without the intervention of courts and tribunals. This act empowered vast powers to the banks to take over the possession from the defaulter such as factory, land and building etc including right to transfer by way of lease or sell the secured asset. As per the RBI annual report Rs.26,500 crores recovered through SRFAESI ACT in FY2018.

Lok adalats: It is formed under legal service authority act, 1987 which helps banking intuitions to recover the bad debts from borrowers and lenders which are more than Rs.10 lakhs. In order to save time banks can make out of court settlement to recover the debts from borrowers apart from the procedure followed from Tribunals. Debt recovery tribunals are empowered to organize the lok adalats to recover an amount Rs.10 lakhs and above. Lok adalat institutions help banks to settle disputes involving account in doubtful and loss category, with outstanding balance of Rs. 5 lakhs for compromise settlement under lok adalat. In 2010-2011 an amount of Rs.151 crores have been recovered through lok adalat (Bose et al., 2009).

Conclusion

The research concludes that public sector banks bas been most effected especially in area of loans and advances. Advances are the biggest asset to the banking institutions which helps to generate income and profitability by way of collecting interest from borrowers and lenders. As per the RBI report the data clearly shows that frauds have been increased from 2,885 in FY2017-18 to 3,766 in FY2018-19 mainly in public sector banks, whereas private sector banks and other banks are comparatively low. It is also found from this research that banks failed to recover the amount due from borrowers and lenders in which it resulted as non-performing asset. The government played an important role in collecting amount from various borrowers and lenders through implementation of various schemes such as DRTs, Lok Adalats, SARFAESI Act (2002), Insolvency and Bankruptcy Code (IBC, 2016).

Therefore, the final conclusion is that recovery of bad debts is very difficult and time taking factor despite government implementation of many schemes, but this can be achieved through proper functioning of internal staff and management, without pressure from external factors such as political power, banks need to check the profile carefully and precisely before granting huge amount of loans and advances. Lastly there should be proper understanding and strictly following RBI guidelines can overcome from the recovery of loans and advances from business holders.

References

1. Sarel D, Marmorstein H, "Addressing consumers' concerns about online security: a conceptual and empirical analysis of banks' actions". J Financial Services Marketing, Vol. 11, No. 3, pp. 99-115, 2006.
2. Srivastava U, Gopalkrishnan S, "Impact of Big Data Analytics on Banking Sector: Learning for Indian Banks". Procedia Comp Sci, Vol. 15, No. 50, pp. 643-652, 2015.
3. Soni AK, Abhay K, "Performance Evaluation of Regional Rural Banks in India". Commerce Manag, Vol. 1, No. 11, pp. 132-144, 2012.
4. Mayur M, Saravanan P, "Performance Implications of Board Size, Composition and Activity: Empirical Evidence from the Indian Banking Sector". Corporate Governance Int J Busin Society, Vol. 17, No. 3, pp. 466-489, 2017.
5. Gupta PK, Gupta S, "Corporate Frauds in India–Perceptions And Emerging Issues". J Financial Crime, 2015. [Crossref][Googlescholar][Indexed]
6. Yameen M, Farhan NH, Tabash MI, "The Impact of Corporate Governance Practices on Firm's Performance: An Empirical Evidence from Indian Tourism Sector". J Int Studies, Vol. 12, No. 1, 2012.
7. Singh DA, Gaur AS, "Business Group Affiliation, Firm Governance and Firm Performance: Evidence from China and India". Corporate Gov Int Review, Vol. 17, No. 4, pp. 411-425, 2009.
8. Srivastava V, Das N, Pattanayak JK, "Impact of Corporate Governance Attributes on Cost of Equity: Evidence from an Emerging Economy". Managerial Auditing J, 2019.
9. Zattoni A, Pedersen T, Kumar V, "The Performance of Group-Affiliated Firms during Institutional Transition: A Longitudinal Study of Indian Firms". Corporate Governance Int Review, Vol. 17, No. 4, pp. 510-523, 2009.
10. Bose I, Leung AC, "Assessing Anti-Phishing Preparedness: A Study of Online Banks in Hong Kong". Decision Support Syst, Vol. 4, No. 45, pp. 897-912, 2009.