



International Journal of Research in Academic World

Received: 09/January/2024

IJRAW: 2024; 3(2):31-34

Accepted: 15/February/2024

A Study on Fraud Cases in Scheduled Commercial Banks in India

*¹Dr. Manojkumar T Rathod

*¹Assistant Professor, Dr. APJ Abdul Kalam Government College, Silvassa, India.

Abstract

The Indian banking sector has been facing some serious problems over the last few years, one of which is banking fraud. The number of bank frauds is on the rise. Such frauds have a very negative impact on the financial health of banks as well as on the Indian economy. The researcher has attempted to analyze the fraud cases in scheduled commercial banks in India for the years 2018-19 to 2020-21. A comparative study has been done on the number of fraud cases and amounts involved in fraud in scheduled commercial banks. Primary and secondary data have been collected from various resources. Collected data have been classified and arranged in a tabular format as well as graphical format. Various types of statistical tools are used in this study to analyze the financial data. Some research hypotheses have been also tested in this research with the help of ANOVA. The result of the study indicates that the majority of bank fraud cases involved advances.

Keywords: Bank fraud, Advances, Balance sheet, financial performance

1. Introduction

Indian banking sector reported remarkable growth since liberalization, privatization, and globalization of the economy in 1991. The number of bank branches, customers, deposits, and advances has increased remarkably in the last two decades in the Indian banking sector. Indian Banking sector is also making great strides in the terms of advanced technology. With the growth of facilities, some problems have also arisen in the banks in the last few years. Cases of financial fraud are regularly reported in the last few years. Public sector banks have lost crores of rupees due to banking frauds in the last decade. As the number of fraud cases is increasing, RBI issued guidelines for maintaining uniformity in reporting frauds in the years 2014 and 2015. Increasing cases of fraud worst effects on the financial performance of banks and also on the economy. In this paper, the researcher analyzes various types of bank frauds in scheduled commercial banks in the years 2018-19 to 2020-21.

2. Review of Literature

Madan Bhasin (2005) ^[1] tried to study on fraud in Indian banks. The study was based on a questionnaire and information was sought from managers, officials, and clerks of various banks. The paper revealed that poor employment practices, lack of effective training, and a weak internal control system are responsible for bank fraud.

P. Sai Rani, K. Martina Rani, and Ramesh Babu Nemani (2019) ^[2] studied Financial fraud in Banking Sector and observed that the number of financial frauds has increased gradually. The paper aims to study bank-wise and sector-wise bank frauds and their impact on the performance of the bank.

Dr. Mahila Vasanthi and Bhavin P (2019) ^[3] attempted to describe the various types of banking frauds in India. The paper tried to explore the various types of frauds in different sectors viz. public, private, and cooperative sectors. The researcher also tried to discuss the involvement of bank officials in financial fraud. The research found that public sector banks are more vulnerable and authorities should take a more vigilant approach in these matters.

3. Research Methodology

The research is descriptive and analytical in nature. It describes the various types of bank frauds in scheduled commercial banks in India. An attempt has been made in this research to compare and analyze the bank frauds in scheduled commercial banks in India.

3.1. Research Objectives

The objectives of this research are as mentioned below:

- To know about the various types of bank frauds in the Indian banking sector.
- To compare the number of bank frauds in scheduled commercial banks in the last three financial years.
- To compare the amounts of bank frauds in scheduled commercial banks in the last three financial years.
- To suggest some measures for reducing cases of bank fraud.

3.2. Sample

The Indian banking sector is very huge. There are so many public sector, private sector, co-operative and foreign banks working in India. The Indian banking sector is classified into

scheduled banks and unscheduled banks. The researcher has selected only scheduled commercial banks as a sample for this study.

3.3. Data Collection

The present research is based on both secondary as well as primary data. The research is carried out on the data of the last three financial years viz. 2018-19, 2019-20, and 2020-21. Necessary secondary data has been collected from various reports of the Reserve Bank of India. Moreover, annual reports and websites of various scheduled commercial banks were also referred for this research. Basic information regarding bank fraud is collected from various bank officers, managers, clerks, retired bankers, and auditors by taking the personal interview.

3.4. Hypotheses

The null hypotheses of the research are as mentioned below:

- i). **H₀**: There is no significant difference in the number of fraud cases in scheduled commercial banks for the years 2018-19 to 2020-21.

- ii). **H₀**: There is no significant difference in the amount of fraud in scheduled commercial banks for the years 2018-19 to 2020-21.

- iii). **H₀**: There is no significant difference in the percentages of bank fraud amounts in scheduled commercial banks for the years 2018-19 to 2020-21.

3.5. Limitations

The limitations of the study are mentioned below:

- i). There are so many types of banks working in India. The limitation of the study is that it is done only on the scheduled commercial bank of India.
- ii). The amounts of bank frauds can be crores or billions of rupees. The main limitation of the research is that it refers to frauds of 1 lakh and above only.
- iii). The other limitation of this research is that it is done on the financial data of just three financial years, 2018-19 to 2020-21.
- iv). Bank frauds can be reported in two different methods, e.g. based on the date of accrual and the date of reporting. The present research collects data of bank frauds based on the date of reporting.

4. Analysis and Interpretation

4.1. Frauds in Various Banking Operations

Table 1: Frauds in various banking operations based on the date of reporting (Cases in number and amount in ₹ crore)

| Area of Operation | 2018-19 | | 2019-20 | | 2020-21 | |
|--------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| | Number of fraud | Amounts involved | Number of fraud | Amounts involved | Number of fraud | Amounts involved |
| Advances | 3,603 | 64,539 | 4,608 | 1,81,942 | 3,051 | 1,37,023 |
| Off-Balance sheet | 33 | 5,538 | 34 | 2,445 | 23 | 535 |
| Forex Transactions | 13 | 695 | 8 | 54 | 4 | 129 |
| Card/Internet | 1,866 | 71 | 2,677 | 129 | 2,545 | 119 |
| Deposits | 593 | 148 | 530 | 616 | 504 | 434 |
| Inter-Branch Acc | 3 | 0 | 2 | 0 | 2 | 0 |
| Cash | 274 | 56 | 371 | 63 | 329 | 39 |
| Cheques/DD etc. | 189 | 34 | 201 | 39 | 163 | 85 |
| Clearing Accounts | 24 | 209 | 22 | 7 | 14 | 4 |
| Others | 200 | 244 | 250 | 173 | 278 | 54 |
| Total | 6,798 | 71,534 | 8703 | 1,85,468 | 7,363 | 1,38,422 |

(Source: Report on Trend and Progress of Banking in India 2020-21)

Advances

Giving advances to customers is one of the most important functions of a bank. The majority portion of a Bank's income arises from interest on advances. It is observed in many cases that bank officers and customers are jointly involved in financial fraud. Bank officers sanction loans and advances to some customers without making a proper survey or without taking any securities. ₹ 64539 crores were involved in frauds registered in the year 2018-19. The amount was increased in the year 2021 with a new height of ₹ 1,37,023 crore.

Off-Balance Sheet

Higher-level bank officers may be involved in this type of case. Scams can also be made by changing the amounts on the balance sheet of a bank. Total 33 cases of ₹ 5538 crores were reported as fraud in the balance sheet in the year 2018-19. The number of cases and amount reduced in the year 2020-21. Total 23 cases of ₹ 535 crores were reported in the year 2020-21.

Forex Transactions

Crimes have also started to occur in cases of foreign exchange. Bank officials usually convert the currency of one country into the currency of another country on the demand of customers. Now a day's people are generally sending money to other countries in the world in forex transactions. There may be a chance of bank fraud in this type of case. Frauds in forex transactions are decreasing year by year. The number of bank fraud cases in forex transactions are 13, 8, and 4 respectively in the year 2018-19, 2019-20, and 2020-21.

Card/Internet

Scams by Card/Internet are on the second rank on the bank fraud list. The majority of the public has their cards. Customers have various types of bank cards, e.g. ATM Card, Debit Card, Credit Card, etc. Some people have even more than one card. Nowadays, the crime rate is increasing in fraud by various types of bank cards. Internet banking is also becoming very popular at the current time. Some hackers making financial frauds in net banking. Total 1866 cases of fraud by card and internet were reported in the year 2018-19.

The number of cases are increased in the year 2020-21 with a new height of 2545 cases.

Deposits

Peoples open up various types of bank accounts and keep their savings in bank accounts. Normally, three types of accounts are used for deposits money in a bank, savings account, current account, and fixed deposit account. Some accounts are unused for a long period and there is a chance of using these types of bank accounts for fraud. The number of bank frauds in deposits are reducing in the last three years. total 593 cases of bank fraud are reported in the year 2018-19 and reached 530 in the year 2019-20 and 504 in the year 2020-21.

Inter-Branch Accounts

Inter-Branch transactions are a routine part of a banking business. There is always a possibility of financial fraud in Inter-Branch Accounts. Very few cases of inter branch accounts fraud are reported in the last three years.

Cash

Cash transactions are the lifeline of the banking industry. The majority of bank transactions are done through cash. Total 274 cases of fraud in cash were reported in the year 2018-19 and the number increased in the year 2020-21 by 329 cases.

Cheques/DD

Businesspersons are mostly using cheques/Demand Drafts for their business purposes. There is the possibility of scams by using cheques/DDs. The number of bank frauds by using cheques/DD remained almost stable during the study period, but the amount of the same is increasing every year. The amount of bank fraud by using cheques/DD are 34 crores, 39 crores, and 85 crores respectively in the year 2018-19, 2019-20, and 2020-21.

Clearing Accounts

The clearing is one of the most important parts of banking. Banks settle their transactions by the process of clearing. Bank frauds in clearing accounts are decreasing every year. The number of bank fraud cases in clearing accounts is 24, 22, and 14 respectively in the year 2018-19, 2019-20, and 2020-21.

Others

Some other types of methods are also used in banking frauds. The number of bank frauds in this criteria is increasing in the study period. It was ₹ 200 cases in 2018-19, ₹ 250 cases in 2019-20, and ₹ 278 cases in 2020-21.

All of the above points indicate that banking majority of incidents of bank fraud involved loans and advances. The share of other areas is very small in bank frauds.

4.2. Operation Wise Percentage of Bank Fraud

Table 2: Area wise percentage of bank fraud

| Area of operation | 2018-19 | | 2019-20 | | 2020-21 | |
|--------------------|------------------|-------|------------------|-------|------------------|-------|
| | Amounts involved | % | Amounts involved | % | Amounts involved | % |
| Advances | 64,539 | 90.22 | 1,81,942 | 98.10 | 1,37,023 | 98.98 |
| Off-Balance sheet | 5,538 | 7.74 | 2,445 | 1.32 | 535 | 0.40 |
| Forex Transactions | 695 | 0.97 | 54 | 0.03 | 129 | 0.09 |
| Card/Internet | 71 | 0.10 | 129 | 0.07 | 119 | 0.08 |
| Deposits | 148 | 0.21 | 616 | 0.33 | 434 | 0.31 |
| Inter-Branch Acc. | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash | 56 | 0.07 | 63 | 0.03 | 39 | 0.03 |
| Cheques/DD etc. | 34 | 0.05 | 39 | 0.02 | 85 | 0.06 |
| Clearing Accounts | 209 | 0.29 | 7 | 0.00 | 4 | 0.00 |
| Others | 244 | 0.34 | 173 | 0.09 | 54 | 0.04 |
| Total | 71,534 | 100 | 1,85,468 | 100 | 1,38,422 | 100 |

(Source: Report on Trend and Progress of Banking in India 2020-21)

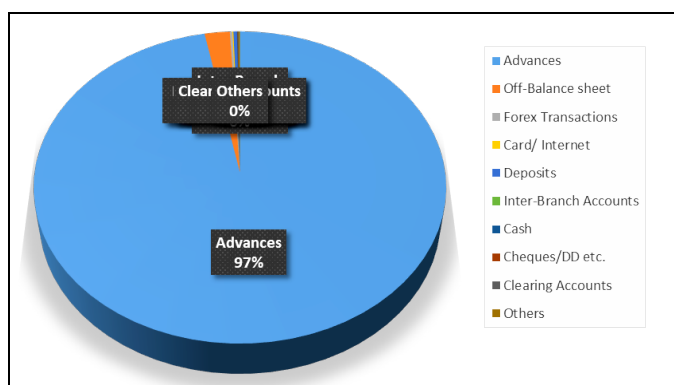


Chart 1: Amount of bank fraud (last three years' average)

From the above chart no 1, we can observe that 97% of cases of bank fraud are from advances. Only 3% of bank frauds are from other areas like forex transactions, cards, internet, deposits, etc. Advances are the most usable weapons for occurring scams in banks.

4.3. Testing of Hypotheses

The research hypotheses are tested at a significant level of 0.05 in this study. ANOVA is used for testing the hypotheses.

- i). **H₀:** There is no significant difference in the number of fraud cases in scheduled commercial banks for the years 2018-19 to 2020-21.

Table 3: Summary

| Groups | Count | Sum | Average | Variance |
|-----------------------|-------|-------|----------|----------|
| Advances | 3 | 11262 | 3754 | 623163 |
| Off-Balance sheet | 3 | 90 | 30 | 37 |
| Forex Transactions | 3 | 25 | 8.333333 | 20.33333 |
| Card/Internet | 3 | 7088 | 2362.667 | 189364.3 |
| Deposits | 3 | 1627 | 542.3333 | 2094.333 |
| Inter-Branch Accounts | 3 | 7 | 2.333333 | 0.333333 |
| Cash | 3 | 974 | 324.6667 | 2366.333 |
| Cheques/DD etc. | 3 | 553 | 184.3333 | 377.3333 |
| Clearing Accounts | 3 | 60 | 20 | 28 |
| Others | 3 | 728 | 242.6667 | 1561.333 |

Table 4: Result of ANOVA:

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---------------------|----------|----|----------|-------|----------|--------|
| Between Groups | 43759207 | 9 | 4862134 | 59.36 | 1.82E-12 | 2.39 |
| Within Groups | 1638025 | 20 | 81901.23 | | | |
| Total | 45397231 | 29 | | | | |

From the result of ANOVA, we can see that the value of p is less than 0.05. (p < 0.05). Therefore, we can't accept the null hypotheses. The null hypothesis is rejected. There is a significant difference in the number of fraud cases in public sector banks for the years 2018-19 to 2020-21.

ii). **H₀:** There is no significant difference in the amount of fraud in scheduled commercial banks for the years 2018-19 to 2020-21.

Table 5: Summary

| Groups | Count | Sum | Average | Variance |
|-----------------------|-------|--------|----------|------------|
| Advances | 3 | 383504 | 127834.7 | 3509185204 |
| Off-Balance sheet | 3 | 8518 | 2839.333 | 6374126 |
| Forex Transactions | 3 | 878 | 292.6667 | 122810.3 |
| Card/Internet | 3 | 319 | 106.3333 | 961.3333 |
| Deposits | 3 | 1198 | 399.3333 | 55657.33 |
| Inter-Branch Accounts | 3 | 0 | 0 | 0 |
| Cash | 3 | 158 | 52.66667 | 152.3333 |
| Cheques/DD etc. | 3 | 158 | 52.66667 | 790.3333 |
| Clearing Accounts | 3 | 220 | 73.33333 | 13806.33 |
| Others | 3 | 471 | 157 | 9217 |

Table 6: Result of ANOVA:

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---------------------|-------------|----|------------|-------|----------|--------|
| Between Groups | 43838162793 | 9 | 4870906977 | 13.85 | 8.71E-07 | 2.39 |
| Within Groups | 7031525451 | 20 | 351576272 | | | |
| Total | 50869688245 | 29 | | | | |

From the result of ANOVA, we can see that the value of p is less than 0.05. (p < 0.05). Therefore, we can't accept the null hypotheses. The null hypothesis is rejected. There is a significant difference in the amount of bank fraud in public sector banks for the years 2018-19 to 2020-21.

iii). **H₀:** There is no significant difference in the percentages of bank fraud amounts in scheduled commercial banks for the years 2018-19 to 2020-21.

Table 7: Summary:

| Groups | Count | Sum | Average | Variance |
|-----------------------|-------|-------|----------|----------|
| Advances | 3 | 287.3 | 95.76667 | 23.26773 |
| Off-Balance sheet | 3 | 9.46 | 3.153333 | 15.98973 |
| Forex Transactions | 3 | 1.09 | 0.363333 | 0.276933 |
| Card/Internet | 3 | 0.25 | 0.083333 | 0.000233 |
| Deposits | 3 | 0.85 | 0.283333 | 0.004133 |
| Inter-Branch Accounts | 3 | 0 | 0 | 0 |
| Cash | 3 | 0.13 | 0.043333 | 0.000533 |
| Cheques/DD etc. | 3 | 0.13 | 0.043333 | 0.000433 |
| Clearing Accounts | 3 | 0.29 | 0.096667 | 0.028033 |
| Others | 3 | 0.47 | 0.156667 | 0.025833 |

Table 8: Result of ANOVA:

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---------------------|----------|----|----------|--------|----------|--------|
| Between Groups | 24544.96 | 9 | 2727.218 | 688.80 | 6.41E-23 | 2.39 |
| Within Groups | 79.1872 | 20 | 3.95936 | | | |
| Total | 24624.15 | 29 | | | | |

From the result of ANOVA, we can see that the value of p is less than 0.05. (p < 0.05). Therefore, we can't accept the null hypotheses. The null hypothesis is rejected. There is a significant difference in the percentages of bank fraud amounts in public sector banks for the years 2018-19 to 2020-21.

5. Findings and Conclusion

The main finding of the study is that there is a significant difference between the different methods used to conduct scams in scheduled commercial banks. Advances and Cards/Internet is most commonly used in bank frauds. More than 90% of bank fraud involves advances. Higher authorities of banks need to keep continuous observation of the transactions of loans and advances. Cases of online fraud are also seeming to be on the rise in recent times.

India is a developing country. The financial viability of banks is essential for the economic development of the country. Public confidence in banks must be maintained. The various scams created in the banks weaken the banks financially and reduce the confidence of the people in the banking system. Such things are not good for our nation. The steady rise in scams is a matter of great concern for the Indian banking sector and the Government of India. Appropriate steps need to be taken to prevent such scams and the culprits involved in fraud cases need to be severely punished.

References

1. Bhasin M. An Empirical Study of Frauds in the Banks, *European Journal of Business and Social Sciences*. 2005; 4(7):1-12.
2. Rani S, Rani M, Nemani R. A Study on Financial Frauds in Banking Sector, *Journal of Xi'an University of Architecture & Technology*. 2019; 11(12):432-442.
3. Vasanthi M, Bhavin P. Banking Frauds in India; A Case Analysis, *Journal of Emerging Technologies and Innovative Research*. 2019; 6(1):29-35.
4. RBI Report on Trend and Progress of Banking in India 2020-21. <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ORTP2020CF9C9E7D1DE44B1686906D7E3EF36F13.PDF>
5. Pulella Murali Mohan. An analytical study on bank frauds and scams in India, Sardar Vallabhbhai Patel National Police Academy Hyderabad, 2002.
6. Charan Singh. Frauds in the Indian Banking Industry, IIM Bangalore working paper 505, 2016.