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BANKING FRAUD: A CONCEPTUAL FRAMEWORK OF DREDGING UP VARIOUS BANKING SCAMS, CAUSES AND PREVENTIVE ROLE OF LAW ENFORCEMENT AGENCIES

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ABSTRACT

Indian banking system is witnessing various financial scandals & scam. Hardly had we just moved on ourselves from one scam very soon the new one rumble on the floor. Perpetrators are responsible for vulnerability of financial system and exponential rise of NPA, stressed asset and rigorous impact on profitability. Anomaly is prevalent in banking sector due to lack of stringent rules & its implementation. Driven from frail technology, complex legal regulations and procedures, the early detection and prevention of fraud turns crucial. This perspectives study focuses on three broad areas consist of firstly literature review, secondly comprehensive analysis of banking extortions including the types of deceits, reasons, detection measures and thirdly legislative and regulatory framework for curbing this menace.

Keywords: NPA, stressed asset, Early Warning Signals, Red flagged account, legislative enforcement agencies, regulatory agencies.

1. INTRODUCTION:

Blend of innovative technology, inception of broad range of financial services and competitive environment in present banking system give existence to widespread of branches, diversification and e-banking. Although latest horizons of contemporary banking like e-banking, m-banking ease the banking activities yet accompanied by intensified illicit activities and cyber crime. This sector is going through plethora of amendments to cope with latest technology and international norms. But alarming rise in multiple scams, misrepresentations and cybernetics leading worldwide banking swindle landscape which leads to NPAs. Thus we can say all frauds are NPA but all NPA not termed as fraud.

The definition of fraud by RBI regulating authority of banking industry is as “A deliberate act of omission or commission by any person carried out in course of a banking transaction or in the books of account maintained manually or under computer system in banks, resulting into wrongful gain to any person for temporary period or otherwise, with or without any monetary loss to the bank”.

Fraud is the state in which a person willfully or intentionally hides the important information with purpose of providing undue advantage to scamsters.

2. OBJECTIVE OF THE STUDY: This study undertakes following aims:

- To uncover the reasons of deceit and dig out the impetus that leads to fraud.
- To put a light on different types of banking fraud which are accountable for financial crisis.
- To provide the measures of anti fraud training among employees in order to act prudently at every step.
- To reveal the need of harmonies and nourish legislative regulatory framework regarding banking deception and corruption and ways to curb this menace.
- To recognize the role of legislative enforcement agencies like Central Bureau of Investigation, Central Vigilance Commission and State police in reporting of different value of banking fraud involved.
- To create awareness in the general public about tracking and tackling of spurious in the banking sector.

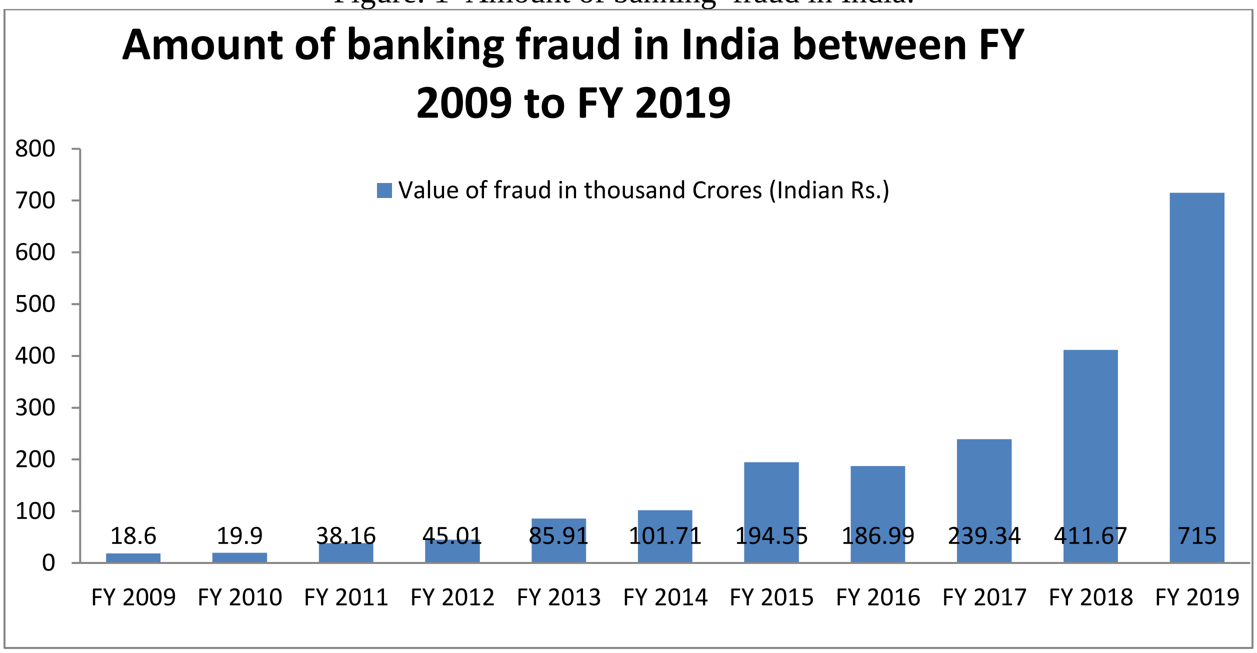
3. REVIEW OF LITERATURE:

Deevy, Lucich & Beals (2012), the researchers tried to focus on four elements firstly prevalence i.e. how big **is** the problem which involves financial fraud and non financial fraud; secondly victim i.e. profiling of types of consumer suffered due to fraud and found that 60% of victims are who are more 60 year of age and 40% are who are less educated; thirdly fraudsters i.e. profiling of perpetrators who commits crime for easy money, power and lavish lifestyle and found that they engaged in illicit non- violent activities. Anthala (2014), described in his studies the involvement of employees and top officials in committing spurious, artifice and corruption, moreover the role of CBI, CVC and judiciary i.e. Supreme Court, High Court, District Forum, State Forum and National Consumer Redressal Commission is exemplify in his study. Further Deloitte (2012), the survey conducted depicts that 63% of respondents found a 10% increase in fraud cases over the previous years and mode of reporting fraud is internal audit, customer's complaint & whistle blowing mechanism. In comparison to earlier studies Deloitte (2015), discovered that there is increase in deception cases upto 20% over previous years as per 76% respondents. It has drawn conclusion about the root cause for raising number of banking scams are paucity of forensic analytical techniques to spot out the early warning signals. In further studies has been conducted by Reurink (2016), differentiated between various forms of financial fraud which involves financial deceit, financial statement deceit and financial mischievous mis-selling. According to this study the occurrence of banking fraud is due to creation of jurisdiction secrecy in shell companies and off balance sheet transactions. There is increase in deception cases upto 20% over previous years as per 40% respondents concluded from studies by Deloitte (2018). It has drawn conclusion about the issues requires more concern which includes artificial intelligence, upgraded technology, fraud risk estimation and detection through early warning signals to reduce the cybernetics and other banking swindles.

4. STATISTICS OF BANKING FRAUDS:

Banking frauds are crucial for the financial stability of economy**.** In this research endeavors are made to figure the value and number of deception cases reported during FY 2008 to 2019. *Figure 1* shows the amount of deceit revealed during FY 2008 to 2019 in India. Number of deception cases year wise from FY 2009 to FY 2019 is shown as per *figure 2.*

Figure: 1 Amount of banking fraud in India:



Source: www.statista.com

Above figure depicts that bank fraud cases accelerated by 3744.86% in the past decade from FY 2009 to FY 2019 with amount involved spiked from 18.6 crore in FY 2009 to 715 crore in FY 2019.

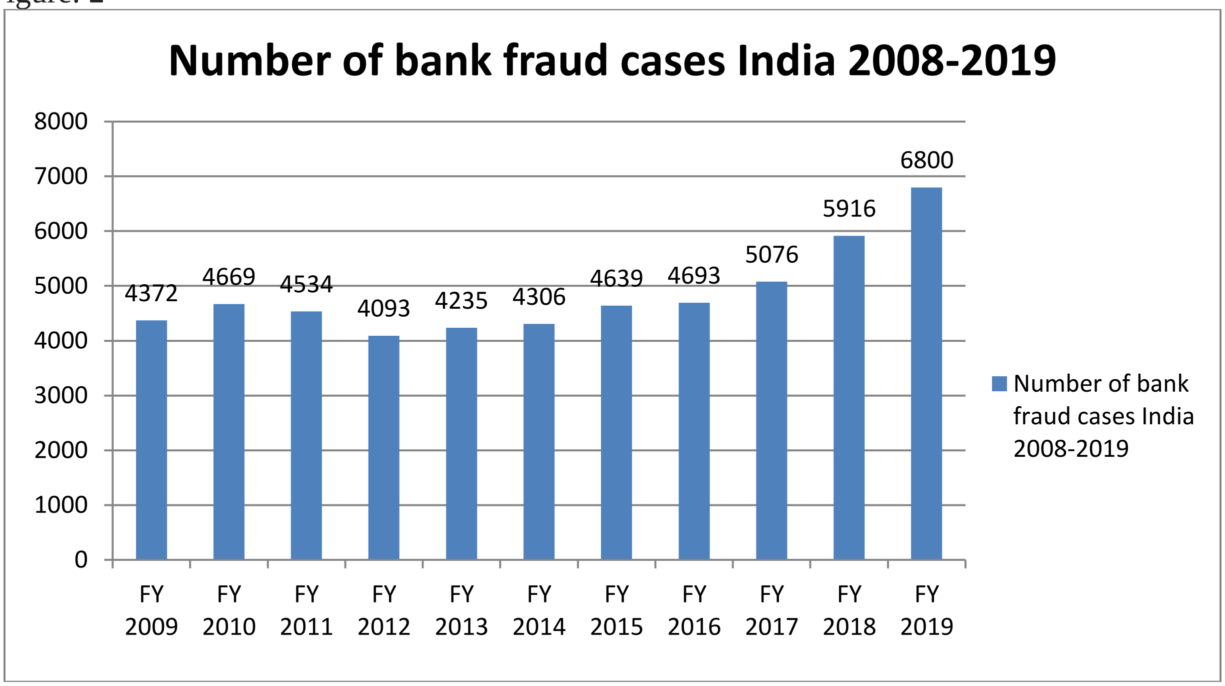
In last 11 fiscal years, Indian economy hit by over 50,000 cases of fraud.
Total no. of 4,372 cases were reported in FY 2008-09, amounting ₹1,860.09 crore. In 2009-10, a total of 4,669 cases were reported involving amount of ₹1,998.94 crore.
In FY 2010-11 & 2011-12 fraud worth ₹3,815.76 crore & ₹4,501.15 crore as against 4,534 cases and 4,093 cases respectively.
Total no. of 4,235 cases were reported in FY 2012-13 involving ₹8,590.86 crore. In 2013-14, a total of 4,306 cases were reported involving ₹10,170.81

crore and in FY 2014-15 ₹19,455.07 crore worth fraud was reported against 4,639 cases.

In 2015-16 FY, a total of 4,693 cases of fraud amounting ₹18,698.82 crore were reported by banks as against 5,076 cases amounting ₹23,933.85 crore in 2016-17 and 5,916 fraud cases were reported amounting ₹41,167.03 crore in FY 2017-18.

In which in FY 2019 PNB has reported biggest fraud of Nirav Modi amounting Rs. 71500 crores. SBI, ICICI Bank, HDFC Bank also reported highest cases in over the period of time, as per RBI data.

Figure: 2



Source: www.statista.com

During 2008-09 and 2018-19 fiscal years total of 53,334 cases of spurious has been reported, amounting ₹2.05 lakh crore, of which fraud involving ₹5,033.81 crore has been revealed by the ICICI Bank with a highest of 6,811cases.

The State Bank of India (SBI) revealed 6,793 deceit cases amounting ₹23,734.74 crore then by HDFC Banks which revealed 2,497 cases amounting ₹1,200.79 crore, as per RBI data.

The Bank of Baroda revealed 2,160 number of cases (amounting ₹12,962.96 crore), Axis Bank reported 1,944 deceit cases of Rs 5,301.69 crore and Punjab National Bank 2,047 frauds (₹28,700.74 crore).

Total of 1,872 cases amounting ₹12,358.2 crore was communicated by Bank of India, Central Bank of India had 1, 613 cases of ₹9041.98 crore and 1,783 cases by Syndicate Bank of ₹5830.85 crore and the data shows.

IDBI Bank Ltd had 1,264 cases of ₹5978.96 crore, Canara Bank reported 1,254 cases of ₹5553.38 crore, Standard Chartered Bank had 1,263 cases of ₹1221.41 crore, Kotak Mahindra 1,213 fraud cases involving ₹430.46 crore and Union Bank of India 1,244 cases of frauds of ₹11,830.74 crore.
During this period, Indian Overseas Bank had 1,115 frauds cases involving ₹12,644.7 crore, whereas Oriental Bank of Commerce reported 1040 fraud cases involving ₹5,598.23 crore.
The United Bank of India revealed 944 frauds cases involving ₹3052.34 crore, State Bank of Patiala 386 fraud cases of ₹1178.77 crore), Punjab and Sind Bank 276 cases (₹1154.89 crore), State Bank of Mysore 395 fraud cases involving ₹742.31 crore, UCO Bank 1081 frauds (₹7104.77 crore), Lakshmi Vilas Bank Ltd reported 259 frauds (₹862.64 crore) and Tamilnad Mercantile Bank had reported 261 cases involving ₹493.92 crore.

This data is significant as banks are encountered recently high value involving fraud in Nirav Modi, PNB scam worth Rs.71,500 crore in 2019. The list of fraud is very long but highlights the names of few biggest banking scam in Indian history of Kingfisher company's owner Vijaya Mallaya associated with SBI, Vikram Kothari who is founder of Rotomac company and Jatin Mehta founder of Winsome Diamonds is defaulter of Rs. 65 billion of PNB & other Indian Banks who after committing crime fled India in 2016.

5. TYPES OF BANKING FRAUD:

With the advancement of technology e-banking, m-banking emerged which provide ease in doing banking transaction, but it is associated with the inception of novel and untraceable cybercrime and banking swindles. So fraud involves vast and heterogeneous activities. A study depicts the frequency of different types of fraud encountered by banks in India during 2016-18 as per *figure 3*.

1. **Deposit linked deceit:** It include spurious associated with cheque truncation system. These are not significant in size and also reducing in number followed by online fund transfer system. Some references of cheque linked fraud:

- **Stealing cheque:** This occurred when cheques are stolen physically or from mail box when these are blank or cancelled and can be used in any manner.

- **Cheque forgery:** Forgery undertaken by making forged sign or by software used for printing fake cheques.

- **Raise the cheque:** It is done by alteration in amount specified on cheque. Usually fraudster increase the amount of cheque.

- **Stopping of cheque:** It is started from buying an expensive item by issuing cheque and afterward notify the bank to stop the payment of cheques as the goods are defective.

2. **Advance linked deceit:** It covers those graft cases which emerge with the disbursement of faulty loan. Loans are distributed with proper investigation and evaluation of collateral. But it is very crucial for financial crisis and are more increasing rapidly. Though the frequency of these forms of deception is less but the value involved is much more than other forms of fraud. It is depicted by survey conducted by Deloitte in 2018 that 15% of fraud encountered due to fraudulent documentation and 10% due to over valuation and wrong estimation of collateral.

3. **Service linked deceit:** It involve the artifice case concerned with letter of credit used in business and related transactions. It is imperative for national and international trade which involves issuance of letter of credit in lieu of supply of goods.

4. **Retail banking linked deceit:** It basically done with forged documentation, excessive valuation and loan without proper security. A survey conducted by Deloitte in 2018 on banking fraud showed the no. of incidents of fraud experienced in retail banking is 51% responses revealed that less than 100 fraud cases encountered by banks; 23% responses revealed that more than 200 fraud cases encountered by banks; 20% responses revealed that no fraud cases encountered by banks.

5. **Corporate banking linked deceit:** It is associated with improper diversification of funds and misappropriation of funds. A survey conducted by Deloitte in 2018 on banking fraud showed the no. of incidents of fraud experienced in non-retail banking is 37% responses revealed that less than 10 fraud cases encountered by banks; 21% responses revealed that between 10 to 20 fraud cases encountered by banks; 20% responses revealed that no fraud cases encountered by banks.

6. **Private Banking linked deceit:** It involves identity theft, card fraud, ATM theft and online banking fraud. These are described as follows:

- **Impersonation:** It involve identity theft involve stealing of personal information of victim and use the information to obtain credit card, issue government documents and other transaction in fraudulent way to deceive the individual. A study by Deloitte 2018 revealed that 4% identity fraud encountered in last two years by banks.

- **Phishing:** This kind of crime was firstly uncovered by America online (AOL) in 1990s. These are known by online or internet fraud. It is initiated by sending fake email which consists of forged link and users are directed to open that link by giving attractive offers as soon as links got opened by user it hacked the information of individual thus misused for other fraud.

- **Cybernetics:** It contains the cybercrime like hacking of computer or software, insertion of malware in it. It also done by asking for OTP Number & account number to stop unauthorized use by some person and grab the target's sensitive information. A study by Deloitte 2018 revealed that 10% cybercrimes encountered in last two years by banks.

- **Vishing:** In order to steal sensitive information target got a phone call from fake number. For example: Recently due to COVID-19 global pandemic government of India provide relaxation for moratorium of EMI by sending the details about this to your bank officials, but perpetrators never miss the chance and tries to dupe the public by pretending as bank officer and asking for their OTP no. and account number for stopping the EMI.

- **Search Engine phishing:** In this scammer create a fake webpage for grasping keywords and wait for the victim visit the page. As per the report of APWG, the count of unique methods of phishing websites had approached to 73.80% from Oct, 2017 to Mar 2018.

- **Smishing:** Victim is contact through message or sms and lured by attractive offers and thus successful in getting their personal information. A study by Deloitte 2018 revealed that 2% data theft encountered in last two years by banks.

- **Debit card and credit card deceit:** It involves unauthorized usage of card's information like name, date of birth and account number for embezzlement of funds. It involves skimming i.e. stealing card's information during legitimated transaction through machine also counterfeit card i.e. producing a fake card with the information of authentic card. A study by Deloitte reveals 9% of ATM and skimming fraud encountered in last two years by banks.

- **Bill discounting deceit:** This kind of spurious occurs when client makes reliable behavior with bank by frequently pay bills sanctioned by the client and collected by the bank. On the request of customer bank settles the amount with the company before clearing bills. As and when the outstanding amount between company and bank gone big, the customer flees without any information to bank.

- **Trick Deceit:** It involved tricky fund transfer from legitimate owner account to the scamsters. As fraudsters pretend as bank officials send fake e mail and take help of other form of phishing strategies.

- **Money laundering:** It is malicious practice of concealing illegal or correct source of funds. It helps to hide the money invested in foreign banks and assets held in foreign countries.

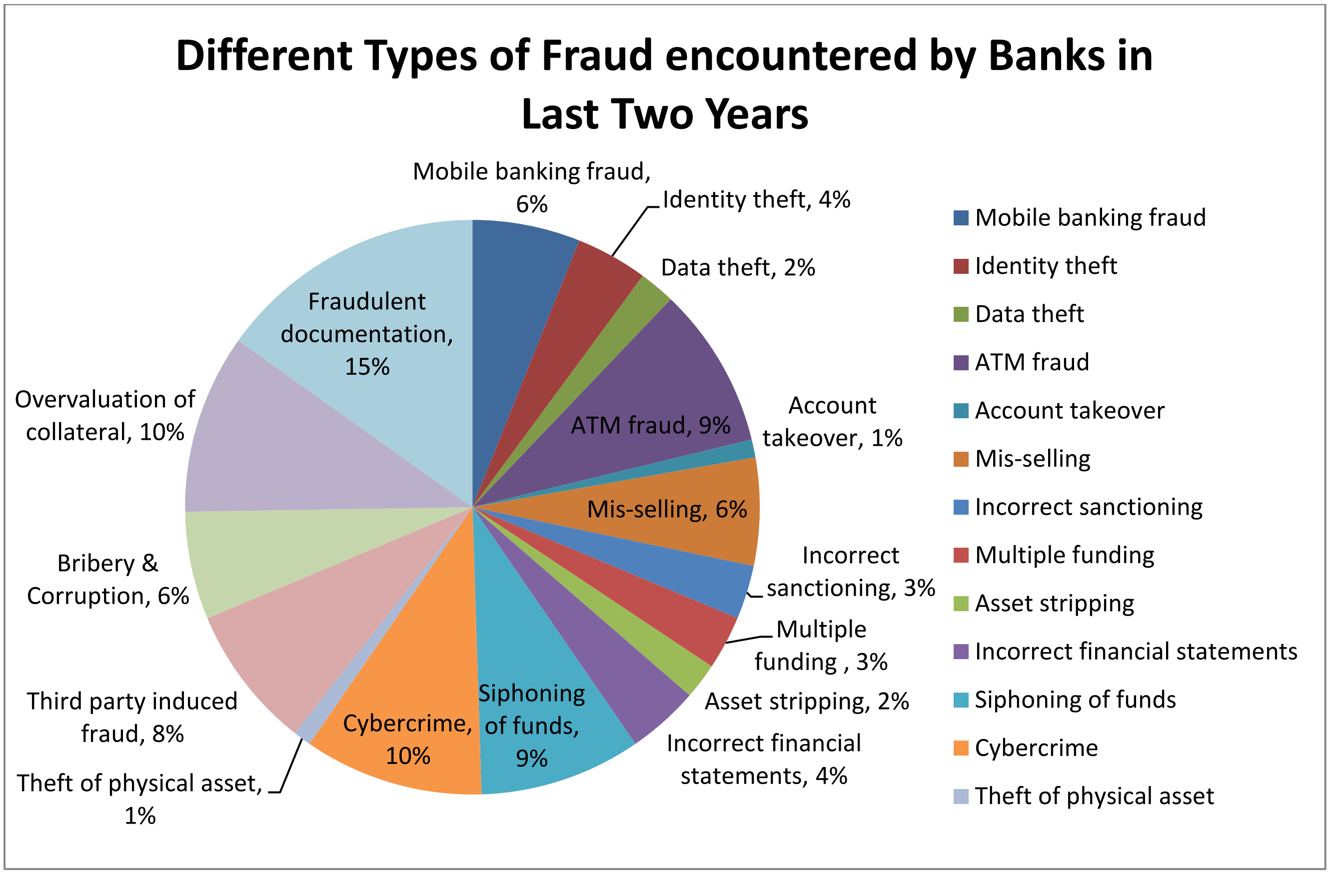


Figure: 3
Source: Deloitte, Indian Banking Fraud Survey, Edition III-2018

6. REASONS OF FRAUD:

Driven from certain causes frauds are raising at accelerating trend in banking industry. The following are some reasons come under the preview of study:

1. **Frail corporate governance:** Curtailment of precondition standards for corporate governance. Leveraged to high quantum of default in bank loan.

2. **Personal advantage:** Corrupt officials of bank placed on top echelon have association with corporate entities, take graft and put country into trouble.

3. **Lack of ethics:** Abridgement of implementation of proper code of conduct, adequate training and punitive system makes employees negligent in fulfillment of their duties.

4. **Window dressing:** Financial statements are hampered sometimes for making a good image in the eyes of shareholder. Moreover for meeting targets and for getting good incentives senior officials make changes in the figure to show efficient financial position of the institutions.
5. **Paucity of analytical tool:** Institutions are less equipped with analytical tools for forensic auditing tools for internal checks and discovery of possible areas of red flags. Detection of fraud gets burdensome due to non availability of updated technology.

6. **Faulty Loan disbursement:** Credit is given to fraudsters without proper estimation of collateral which results into NPA and stressed asset later on. Collusion between bank officials, companies and chartered accounts for the benefit of individual is the biggest cause of misleading loan disbursement.

7. DETECTION OF FRAUD:

1. **Reporting of Fraud to appropriate agencies:** Government has sanctioned "Framework for timely detection, reporting, investigation of large amount of bank frauds" of Public Sector Banks (PSBs), it includes if any accounts categorized as NPA having value of Rs. 50 crore, should be treated as fraud and report in this regard put before the committee constituted at bank's level for investigating and reviewing NPAs. A studies by Deloitte found that only 4% of fraud incidence highlighted by review through law enforcement agency. RBI has given guidelines for reporting of frauds on the basis of banking institution and value involved in fraud to CVC, SFIO and state police as per *Table-1*.

2. **Use of Artificial Intelligence technique of data analysis in fraud detection:** Data analysis techniques for prevention of fraud are first time used by insurance company, telephone companies and banks (Decker 1998). Data analysis can be done in two ways, firstly with the help of statistical techniques and secondly with the help of artificial intelligence techniques. Data analyst can halt fraud by the use of artificial intelligence (AI) which includes:

1) **Data Mining:** Spurious can be detected by finding patterns after searching through plenty of transactions which are categorized into segments and groups data with the help of data mining. It is very effective tool of banking industry which includes customer segmentation, marketing, loan approval, credit card approval, detecting fraudulent transactions. Bank may use data mining for segregating loan applications of credit card customers pertaining to high risk and high profitability.

2) **Pattern recognition:** It is involves recognition and extraction of pattern from huge data by implementing machine learning algorithm. It facilitates fraud

identification in real time, assessing the consumer behavior for managing customer relation in banking sector and enhances the credibility of payment data.

3) **Neural networks**: It facilitates identifying similar kind of suspicious patterns and uses them to detect spurious later on. Fuzzy neural net and combination of neural rules are used in mobile phone network and financial statement fraud detection
4) **Machine learning**: It helps in automatically tracking of characteristics used in fraud. The solution driven from it is categorized into unsupervised learning and supervised learning. Supervised learning in which sub sample were taken from all data and classified as fraudulent or non fraudulent. Unsupervised learning which is used in break point analysis and peer group analysis.

3. Use of Statistical data analysis techniques for fraud detection: It consists of primarily data preprocessing for determining the accuracy of data by finding validation, missing value, incorrect data, error correction. Secondly statistical parameters i.e. average, median, quartiles, probability distribution and time series analysis. Regression analysis, Gap analysis, clustering, classification, data matching and matching algorithm are also used as statistical techniques for fraud detection.

4. **Appointment and proper training to auditors:** It is the first and foremost requirement for early detection of fraud. Banking institutes should employ honest and dedicated team of statutory auditors (who audit the records of all borrowers of bank, commonly known as external auditors) and concurrent auditors (who undertakes the work of internal checks and examination of financial statement). Banks are required to get the periodical audit of title deeds and related document of credit involving Rs. 5crore and more till the loan repaid. A study found that 18% of deception cases are communicated during routine audit and account reconciliation.

5. **Whistle blowing mechanism:** Implementation of operative whistle blowing mechanism is made mandatory as per Clause 49 of Listing Agreement of SEBI's amended corporate governance rules. As per Companies Act, 2013 it is compulsory for all unlisted private companies or public companies which accept deposits from the public and borrowed amount of Rs. 50 crores from financial institutions and banks. There should be a nodal officer for reporting of suspicious transaction and activity in the organization. A survey showed 18% of deception cases are communicated under whistle blowing mechanism.

6. **Internal fraud detection cell:** Prediction of insolvency and consumer management should be done by bank's dedicated team in periodical manner in order to avoid the chances of NPAs and early detection of red flagged accounts

and early warning signals. A team led by top level fraud analyzer needs to be appointed which undertakes the examination of books and accounts, which performs each and every task independently.

7. **Forensic Audit:** It undertakes the examination of financial statements to spot anonymous transaction in position statement and income statement leads to fraud. It involves utilization of accounting, auditing and investigating skill for tracking down financial crimes which can be served as conclusive evidence in legal proceedings initiated against the fraudsters. For adequate adherence of auditing standards and enforcement of the quality audits, National Financial Reporting Authority has been establishment as an independent regulator by government.

8. **Public governance, performance and accountability act, 2013:** It was introduced in order to ensure good corporate governance practices, timely disclosure of areas of red flags. Skeptic professionals and other officials held responsible and liable for their dubious certification, valuation and intentional swindles. It contains the responsibilities, duties and answerability of board of directors and officials placed in financial and other institutions. It facilitates the vast disciplinary action against the employees during tenure of their service in case of irregularities and deviations.

9. **Misplaced information and documents:** It can be served as evidence for early fraud detection. Sometimes corrupt officials follow the practice of making credit memos with excessive amount to dupe the institute for their personal supremacy which should also be verified against authentic figures while auditing the books of accounts.

Table-1 **Current structure for filling CBI/ Police Complaints**

Category of Bank	Amount involved in the fraud	Agency to whom complaint should be lodged	Remark
Private banks/ Foreign Banks	Rs. 1 Lakh and above	State Police	
	Rs. 10,000 and above if committed by staff	State Police	
	Rs. 1 Crore and above	Serious Fraud Investigation office (SFIO), MCA	In addition to state police
Public Sector Banks	Below Rs. 3 crores	State Police	
	Rs. 3 crores and above upto 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 25 crore	CBI	Banking Security and fraud cell (BSFC) of CBI (irrespective of the involvement of public.

Source: RBI https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=9713&Mode=0I

8. MECHANISM FOR ALLEVIATION AND PREVENTION OF SWINDLE:

A. For banking Institute and its officials

1. **Physical security:** Enhancing measures of physical security like installation of cameras, login access, keyed entries for lessening the chance of ATM, card fraud and cash embezzlement cases.

2. **Separation of duties:** It is required so that accountability of dishonest person can be fixed easily who is liable for causing jeopardize and has undertaken unscrupulous act.

3. **Reconciliation:** Timely reconciliation of statements and other account balances can help in mitigating the risk of spurious and supplement anti fraud practices.

4. **Amplify ethical level and Morale of employees:** Trust building, proper incentives, regular and interactive sessions and always welcome employee-led support initiatives in order to strengthen the morale of employees and creating positivity.

5. **Audit:** Reserve Bank of India has constituted a 'Working Group for Information Systems Security for the Banking and Financial Sector' to deliberate about and decide the standards and course of action for IS Security Guidelines & IS Audit for the financial and banking Sector. Concurrent audit practices are followed by banking institutes in India.

6. **Framing Anti fraud training Program**: Ways of tracking anonymous transactions, regular communications, multiple approvals for expenditure, job rotation and documented training on, bribery, ethics and anti-corruption at each and every level of the organization needs to be implemented. Procedure of accessing fraud and report it to appropriate authority.

7. **Scrutiny of early warning signals (EWS) and red flagged accounts (RFA)**: RBI has described the list containing EWS and RFA which can play a vital role in timely fraud detection by auditors. But the incapacitated monetary benefit, low training guidelines and weak standard turn hurdle for efficient work performance.

8. **Ineffective and burdened law enforcement system:** It is highly observed that overburdened government personnel, less resources, less manpower, obsolete technology usage and multiplicity of project are the main cause of poor monitoring of by legislative agencies.

B. For customers of banks and user of e-banking

1. Don’t communicate the personal information, bank cards and identity cards.
2. Don’t apprise PIN numbers with others.
3. Do not put down your PIN numbers on any bank cards.
4. Never reveal details of bank account or security information to any unknown or dubious person or questionable website until unless its authenticity can be examined.
5. Deposit your hard earn money in approved financial institutions.
6. Don’t handover your money on the consent of higher rate of interest than existing rates. Always
7. Do not allow anyone else to use your card.
8. Have a regular check on monthly credit card statement for detecting any dubious transaction.
9. Forward promptly the complaint regarding loss or theft of card to helpline numbers to stop any unauthorized transaction.
10. Use caution while making online payment from card.
11. Act prudently regarding fake email, calls or faxes instruct you to share the personal information and put huge amount in overseas bank.
12. Don’t revert to unsolicited or to fake email persuading with monetary benefit.

9. LEGISLATIVE ENFORCEMENT AND REGULATORY FRAMEWORK FOR COMBATING FRAUD :-

1. **Reserve Bank of India:** RBI is a prime institution which regulates and supervises the financial system and describe framework for efficient functioning of financial system through banking operations. It regulates money

supply, check inflation and keep a watch on gross domestic product. Apart from this it's functioning is motivated in public interest, securing public wealth and imparting efficient banking services. It has been authorized under section 35A of Banking Regulation Act, 1935 to issue guidelines in public interest named as RBI (Fraud classification and reporting by commercial banks and FIs), directions 2016 for early fraud detection and reporting through different ways and procedures described in this regard. Bank customer's complaints are addressed with the inception of Banking Ombudsman Scheme, National Fraud Registry and other measures.

2. **The Central Vigilance Commission (CVC):** It has been authorized by RBI as 'Designated Agency' for receiving written complaints or reporting of any allegation related corruption, misconduct in office and unauthorized action. CVC has been working in proactive manner for fastening the disposal of pending cases of corruption at all state and central government departments, introduced the mobile application 'VIGEYE' for direct interaction with citizens on matters of consolidation of various CVC guidelines, circular, corruption cases and preventive measures in the Vigilance Manual 2017. CVC has established vigilance department in all Bank's Zonal office, Regional office and Head office for communication of deception cases.

3. **The Serious Fraud Investigation Office:** It is the investigative agency of the MCA (Ministry of Corporate Affairs) which has increased the rate of its investigations over the period of time. As of now it has completed investigation of 312 cases, out of which 87 were finalized during 2016 to 2017.

4. **The insolvency and bankruptcy code, 2016:** The major and long waited landmark initiated by government of India as an exclusive law which govern all insolvency and bankruptcy cases of individual, companies and partnership. The code authorizes NCLT to complete all requests made by either creditor or debtor for insolvency with the prescribed standard time period. The code involves major 3 participants i.e. firstly insolvency regulator who monitor all insolvency proceedings registered throughout the country, secondly insolvency professional who undertakes the work of liquidator and take care of asset of debtor and thirdly insolvency and bankruptcy adjudicator which consists of National Company Law Tribunal (NCLT) for resolving the cases of limited liability partnership or companies and Debt Recovery Tribunal for resolving the cases of insolvency of individual and partnership firms. Till date lot of cases has been resolved under the act, of which few high value and recent case i.e. Essar Limited of which insolvency application was submitted on June, 2017 having debt of Rs. 49,000 crores from which Rs. 42,000 crores has been recovered and resolved on Dec, 2019 and final verdict passed for takeover of company in joint venture by Nippon Steel of Japan and Arcelor Mittal India.

5. **National Financial Reporting Authority (NFRA):** It has been established by central government for the formulation of auditing and accounting standards

and policies for specified class of companies and auditors. It also keeps under surveillance the compliance of auditing and accounting standards. Not only compliance it monitors the quality of audit professional's services provided to banks and other FIs. It has been conferred with the power of investigating the operations of body corporate and audit professional bodies.

6. **Banking Ombudsman Scheme:** The Banking Ombudsman Scheme is type of grievance redressal system for customers at bank's level as well as at RBI's level, which has been initiated by the Reserve Bank of India (RBI) firstly in 1995 u/s 35 A of Banking Regulation Act, 1949. Over the period of time, it has been revised for five times, the last amendment made in July 2017. This scheme covers Scheduled Commercial Banks, Small Finance Banks (SFBs), Scheduled Primary Urban Co-operative Banks, Payment Banks (PBs) and Regional Rural Banks (RRBs). Total of 213 OBOs has been introduced by RBI for administrating all states and all union territories of India. The cost of receiving complaints and resolving it is borne by RBI.
Kinds of Complaints reported to RBI under BOS:

- Complaints regarding non observance of code of conduct in fair manner and failure in meeting promises made by banks, it constitute total of 34% complaints.
- Debit card/ ATM card complaints, it constitute total of 18.9% complaints.
- Complaints regarding pensions disbursement, loans and advances and regarding remittances, it constitute total of 6.5% complaints.
- NBFCs now has been come under the ambit of Banking Ombudsman Scheme in view of increased number of complaints.
- Postponement or failure in electronic payment / Fund Transfer and unauthorized online payment / Fund Transfer.

As of now total of 1,30,987 complaints has been received in FY 2016-17, total of 1,63,590 complaints has been received in FY 2017-18 and 195,901 complaints has been received in FY 2018-19. It shows an increase of 19.75% in 2018-19 as compared to last year.

Complaints disposed during the 2016-17 is 1,25,296; in 2017-18 is 1,68,623 and in 2018-19 is 1,90,014. The Rate of Disposal during the 2016-17 is (%) 91.78%, in 2017-18 is 96.46% and during 2018-19 is 94.03% as per *Figure-4.*

7. **Know your customer Norms:** All measures needs to be taken care by regulated entities (RE)
as per the guidelines of Prevention of Money Laundering Act, 2002 and Know Your Customer Directions, 2016 of RBI. These includes adherence of Central KYC Record Registry i.e. recording and maintaining KYC records in digital form, digital KYC (taking live picture of bank customer and valid official documents), digital signature, officially valid documents, equivalent e-documents, walk in customer and customer due diligence for authentic customer acceptance policy and efficient customer identification procedure.

8. **Legal entity identifier:** It is a 20 digital global reference number for all borrowers in India requires compulsory implementation. To recognize the money laundering acts or transaction and sensing banking frauds, RBI has initiated legal entity identifier. It facilitates the improvement in quality and accuracy of financial data. It makes tracking of transaction easy with the help of PIN.

9. **Central Fraud Registry:** As of now banking sector is facing infirmities of non availability of single or centralized database of foregoing fraud cases reported through banks. In this regard RBI has initiated the procedure of framing a Central Fraud Registry a unified searchable engine, which would assist the banking institutions in their course of action of sanctioning loans and extending credit limits. The Central Economic Intelligence Bureau (CEIB) and CBI have also given node for providing access of their database to banks.
10. **The Lokpal and Lokayukta (Amendment) Act 2016:** It covers the provisions which require the declaration of assets and liabilities of public servants, their spouse and children. These types of act make persons think before taking bribe and committing fraud.

11. **The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act 2015:** It includes the provision of disclosing all foreign assets and incomes and concealment in any of related information have a clause of punishment.

12. **The Benami Transactions (Prohibition) Amendment Act 2016:** It authorized the confiscation and attachment of benami transactions which is transferred without consideration for the benefit of another party. It is effective measure under fraud control strategies and policies and its source of detection.

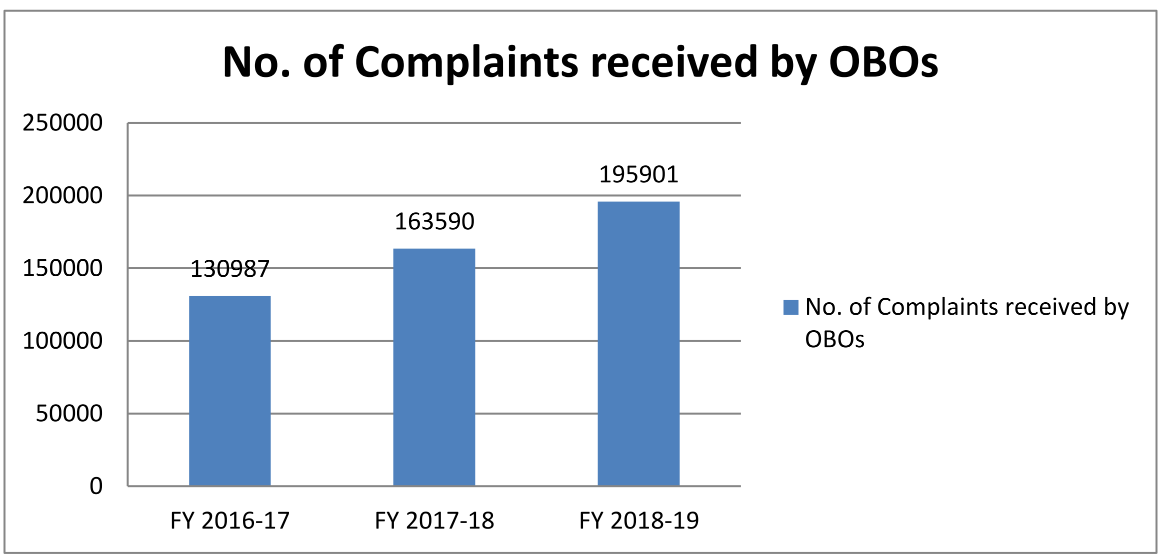


Figure:4
Source: RBI https://www.rbi.org.in/scripts/PublicationsView.aspx?id=19356

10. CONCLUSION:

From the records and figures on bank frauds it is noticed that Public Sector Banks (PSBs) have less number of frauds in comparison with Private Banks (PVBs), but the amount involved or the size of fraud is more in PSBs than PVBs. The basic reason behind is big amount of loans has been sanctioned by PSBs but weak monitoring of post loan period.

The imperative role of guard dog i.e. CVC, CBI, NICFS, NCRB and CEIB in law enforcement and its effective implementation and role of watchdog like anti corruption agencies and officials in unearthing & reporting of frauds and early warning signals to alleviate the hazardous ramifications of banking swindles. But the ground reality is overburdened legal enforcement agencies and lengthy and inconvenient procedure followed by them makes its inefficient.

Not only this some other factors liable for this menace are paucity of effective awareness among general public regarding safeguard from cybercrime and other financial crimes; infirmities in hiring of capable and efficient staff; improper incentive system; unavailability of latest technologies and tools for early detection of fraud and the root cause is collaboration among bank officials, borrower and professional bodies in bit of hiding information regarding red flagged areas. The prevalence of fraud suggests this problem is not only confined to limited area, country but is global phenomenon and have long and lasting effect on world economy.

11.RECOMMENDATION:

1. Exploration and utilization of artificial intelligence (AI): AI in banking system could proved as efficient measure for indentifying the spot of cybernetics and would help in eradicating cybercrime as with the advancement of technology the frequency of deceit is expanding and detection of fraud become complex. AI come up as fast result driven technique as compared to statistical techniques of fraud detection.
2. Know your market: Apart from know your customer, banks need to have efficient team for accessing and evaluating the internal and external environment factors of customer to whom banking institute is about to lend money and also fulfill the criteria related to monitoring of transaction after loan disbursement in bit to detect early warning signals for effective risk management.
3. Updated technology and software: Most prominent is to have access of appropriate technology and software to banks which provide help in reducing the chances of cyber crime and other types of banking fraud. Employees should be imparted training for identifying and distinguishing banking deceit like phishing, smishing and OTP fraud. It would also helpful for approaching

centralized data and better segregation of customer into fraudsters, defaulter, average borrower and good customer in the term of loan repayment.

4. Hiring of sincere professionals and officials at top echelon: It has been observed that top officials, bank employees, professionals are engaged in siphoning of funds for their personal benefit under the influence of borrower's palm greasing and graft. It is suggested to hire honest personnel and professional who perform their work with enthusiasm, devotion and zeal for eradicate anomaly and abate this menace. These should be hired at proper pay structure and nourished with timely incentive system.

5. Stringent law and punitive measures for fraudsters: Undoubtedly law and polices are framed for there but with infirm implementation. The perpetrators who commit such spurious act, swindles and corruption must be punished with life imprisonment so that next generation would get lesson and never think of jeopardizing with system.

6. Coherence between different government agencies and centralized database: Presently there is lack of centralized database about frauds happened in preceding years of banking history. In this regard RBI has initiated central fraud registry as online searchable engine. In addition to this various agencies like Central Board for direct tax (CBDT), Central Vigilance Commission (CVC), NCRB (National Crime Records Bureau should have coordination for sharing their database to combat this peril.

12. LIMITATION

1. The time period of research is constricted upto 11 years from FY 2008 to FY 2019.
2. The precision of data collection is restricted to secondary sources.

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