ISSN: 2288-2766 © 2016 EABEA. http://eajbe.jams.or.kr
doi: http://dx.doi.org/10.20498/eajbe.2016.4.4.8

Fraud Scenario Prevalent in the Banking Sector: Experience of a Developing Country

Madan Lal Bhasin

Professor, School of Accountancy, College of Business, Universiti Utara Malaysia (UUM), Kedah, Malaysia
E-mail: madan.bhasin@rediffmail.com

Received: November 5, 2016. Revised: November 30, 2016. Accepted: December 10, 2016.

Abstract

Banks are the engines that drive the operations in financial sector, money markets and growth of economy. With growing banking industry in India, frauds in Banks are increasing and fraudsters are becoming more sophisticated and ingenious. Shockingly, banking industry in India dubs rising fraud as "an inevitable cost of doing business." As part of study, a questionnaire-based survey was conducted in 2012-13 among 345 Bank employees "to know their perception towards bank frauds and evaluate factors that influence the degree of their compliance level." The study reveals, "there are poor employment practices and lack of effective employee training; usually over-burdened staff, weak internal control systems, and low compliance levels on the part of Bank Managers, Offices and Clerks. Although banks cannot be 100% secure against unknown threats, a certain level of preparedness can go a long way in countering fraud risk. Internal audit professionals should play an integral role in organization's fraud-fighting efforts. Some 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.

Keywords: Bank Frauds, Public-Sector Banks, India, Banking Industry, Developing Economy, RBI, Internal Controls, Risk Management, Use of Technology.

1. Introduction

A well-organized and efficient banking system is an essential pre-requisite for the economic growth of every country. In modern era, banking industry plays an important role in the functioning of organized money markets, and also acts as a conduit for mobilizing funds and channelizing them for productive purposes. It has been observed during the last 50 years that even the sophisticated markets and long-functioning banking systems have had significant bank failures and bank crisis on account of increasing magnitude of frauds and scams. Recently, Bhasin (2016) stated, "Banks need to get their customers actively involved in their fraud prevention efforts as customers may be willing to switch to competing banks if they feel left in the dark about those efforts. Since banking industry is a highly-regulated industry, there are also a number of external compliance requirements that banks must adhere to in the combat movement against fraudulent and criminal activity."

The Indian banking industry is unique and has no parallels in the banking history of any other country in the world. Banking industry, which was operating in a highly comfortable and protected environment till 1990s, has been pushed into the choppy waters of intense competition. After independence, the banks have passed through three stages. They have moved from the character-based lending to ideology-based lending to today competitiveness-based lending in the context of India's economic liberalization policies and the process of linking with the global economy (Singh, 2005). The banking sector of India accommodates 1,175,149 employees, with total of 1, 09, 811 branches in India (and 171 branches abroad), and manages an aggregate deposit of Rs. 67,504.54 billion (US$1.31 trillion) and bank credit of Rs. 52,604.59 billion (US$870 billion). The net profit of the banks operating in India was

Rs. 1,027.51 billion (US$17 billion) against a turnover of Rs. 9,148.59 billion (US$150 billion) for the financial year 2012-13. The public-sector banks (PSB) accounted for 74.6% of bank deposits, while private-sector banks had only 18%, with the rest of the funds lying with regional rural banks and foreign banks. The PSBs have a 75?% market share, but the number of banking frauds by private banks is five times that of PSBs (DNA, 2012). As Bhasin (2016c) observed, "The phenomenal spread of branches, growth and diversification in business, large-scale computerization and networking, have collectively increased manifold the operational risks faced by the banks. The pressure to grow rapidly in a highly competitive environment has also given a new dimension to managing 'operations' risk—the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events." Reserve Bank of India (RBI) is the regulatory body, keeping an eye, over banking industry.

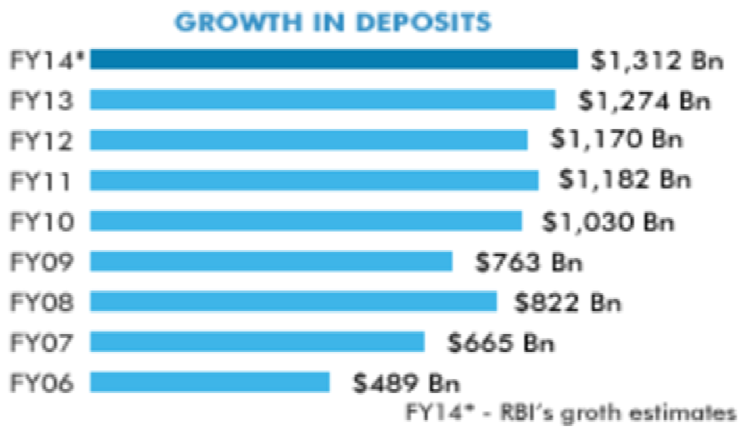

Figure1: Growth in Deposits

The banking sector, being the barometer of the economy, is the reflective of the macro-economic variables. There has been a noticeable upsurge in transaction through ATMs and internet/mobile banking. Consequently, the different banks have invested considerably to increase their banking network and their customer reach. The Indian banking industry is currently worth Rs. 81 trillion (US$1.31 trillion), as shown in Figure-1, and banks are now utilizing the latest technologies like internet and mobile device to carry out transactions and communicate with the masses (Pan, 2015). "The Indian banking sector is expected to become the fifth largest in the world by 2020 and third largest by the year 2025," according to KPMG-CII report on the banking sector. While the banking industry in India has witnessed a steady growth in its total business and profits, the amount involved in bank frauds has also been on the rise. This unhealthy development in the banking sector produces not only losses to the banks but also affects their credibility adversely (Kaveri, 2014).

It is inevitable that such a huge Indian banking industry is also prone to many frauds. The KPMG "India Fraud Survey 2012" states "Despite having a strong regulator, the financial services sector has emerged as the most susceptible sector to fraud. The misuse of technology in the banking sector includes use of banking access for over-payments to vendors or self-bank account, sharing of potential confidential information and misuse of the company's technology resources for unauthorized activities, which includes conflicting business relationship (Gates & Jacob, 2009). Also, providing services on mobile and social media platforms with limited knowledge of the security requirements, poses lot of threats to customers as well as the financial institutions. "Given the weaknesses in Indian law enforcement system regarding the investigation and prosecution of fraudsters and ever increasing social pressure to get rich quickly, fraud remains a constant danger to businesses. The confidence of international investors and domestic entrepreneurs has been low in the last two years, thanks to the various scams that have come to light during this period," said Bhasin (2013).

2. Theoretical Framework

2.1. What is Fraud?

The Institute of Internal Auditors (2009) defines fraud as: "Any illegal act characterized by deceit, concealment, or violation of trust. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage." Fraud impacts organizations in several areas including financial, operational, and psychological.

One of the most challenging aspects in the Indian banking sector is to make banking transactions free from the electronic crime (Pasricha & Mehrotra, 2014). As Bhasin (2013a) remarked, "All the major operational areas in banking industry offers a good opportunity for fraudsters, with growing fraud and financial malpractices being reported under deposit, loan, and inter-branch accounting transactions (including remittances). Frauds generally take place in a financial system when safeguards and procedural controls are inadequate, or when they are not scrupulously adhered to, thus, leaving the system vulnerable to the perpetrators. Most of the time, it is difficult to detect frauds well-in-time, and even more difficult to book the offenders because of intricate and lengthy legal requirements and processes. In the fear of damaging the banks reputation, these kinds of incidence are often not brought to light."

2.2. RBI Guidelines for Fraud Cases

The RBI requires banks to pursue fraud cases vigorously with the CBI or police authorities, and in court. In the case of PSBs, all fraud cases below Rs. one crore should be reported to the local police, except when the CVO and CMD consider it serious, and when the cases cannot be classified in monetary terms. In those cases, the frauds are referred to the CBI. Cases above Rs. one crore must be referred to a different wing of the CBI depending on the category it falls into. In the case of private-sector banks, frauds of Rs. one lakh and above committed by an outsider, in connivance with a bank official should be referred to the local police. DNA (2012) found that "in many of the cases the banks do not follow the RBI guidelines." The central bank has taken several steps to sensitize banks and curb frauds in the banking industry. So, after RBI learns of the fraud, they examine the case and advise the concerned bank to report the case to the CBI/police, or Serious Fraud Investigation Office. Also, it takes measures to recover the amount involved in the fraud. The RBI has also issued several notifications sensitizing banks about common fraud prone areas and issued caution notices against repeat offenders. The evolving fraud landscape around banking and the increase in fraud-related losses requires automated detection systems and robust fraud defense processes (Ernest and Young, 2010).

3. Magnitude of Fraud in the Indian Banking Industry

According to the Ernest and Young (2012) "Different types of frauds have caused Rs. 6,600 crore loss to the Indian economy in 2011-12, and banks were the most common victims in swindling cases; insider enabled fraud accounted for 61% of the reported fraud cases." However, cyber fraud in the banking sector has emerged as a big problem and a cause of worry for this sector (Soni & Soni, 2013). Similarly, another survey conducted by Deloitte Survey (2012) shows that "banks have witnessed a rise in the number of fraud incidents in the last one year, and the trend is likely to continue in the near future." Deloitte Fraud Survey (2015) added "number of frauds in banking sector have increased by more than 10% over the last two years and rise in the level of sophistication with which the frauds were executed." The continued prevalence of this malpractice on a large scale can have disastrous long-term consequences not only for the businesses involved but also for the investors, financial institutions, government, and the economy in general.

Frauds in the Indian banking industry have seen a steady rise. "The country's public-sector banks (PSBs) have reported frauds amounting to nearly Rs. 9,000 crore to the RBI in the last three years! The number of fraud cases reported by the nationalized banks during the last eight years showed overall a very sharp increasing trend from 1858 cases in 2000-01 to 2658 cases in 2005-06, which declined to 1385 cases in 2007-08," says Bhasin (2012a) (See Table 1). However, the amount involved in fraud cases also increased very sharply from the lowest level of Rs. 374.97 crore during 2002-03 to the highest level of Rs. 1134.39 crore during 2005-06, but the same has declined to Rs.396.86 crore during 2007-08. The year 2005-06 witnessed the highest ever wiping of Rs. 1134.39 crore from the banking industry in India due to bank frauds, which was about 2.5 times the amount lost in the previous year. It may be noted here that while the number of fraud cases has shown a decreasing trend from 24,791 cases in 2009-10 to 13,293 cases in 2012-13 (i.e. a decline of 46.37%), the amount involved has increased substantially from Rs. 2037.81 to 8646 crore (i.e. an increase of 324.27%). As on March 31, 2013, commercial banks reported total fraud of Rs. 169,190 crore from 29,910 cases. In 2012-13, Rs. 13,293 crore of fraud was detected in all PSU banks in the country (Pai & Venkatesh, 2014). The public sector banks alone cumulatively lost a massive sum of Rs. 22,743 crores due to cheating and forgery in three years ending March 2013. Further, a bank group-wise analysis of fraud reveals that while the private and foreign bank groups accounted for a majority of frauds by number (82.5%), the public sector banks accounted for nearly 83% of total amount involved in all reported frauds. According to Ghosh

(2015) “Between April to December 2014, PSBs incurred losses to the tune of Rs. 11,022 crore, due to 2100 cases of fraud, which were higher than Rs. one lakh. Out of the total frauds, Punjab National Bank (PNB) reported maximum amount: Rs. 2306 crore with 123 cases of fraud. On the other hand, State Bank of India (SBI) reported maximum number of fraud cases at 474 but the amount of fraud is low at Rs. 1327 crore. In fact, total frauds discovered between this 9 month period has already surpassed the total frauds reported during 2013-14 fiscal year, when 2593 cases of fraud resulted in loss of Rs. 7542 crore. Thus between the April to Dec.2014, 46% more amount was lost due to frauds compared to last full year.”

The PSBs have a 75% market share, but the number of frauds by private banks is five times that of PSBs (DNA, 2012). Private-sector banks in India (including foreign banks) have reported about 15,000 cases during 2010-11 and PSBs (comprising 19 nationalized banks, including the State Bank of India and its six associates) recorded 3,700 cases. While the PSBs lost approximately Rs. 2,500 crore, their better equipped counterparts in the private sector lost Rs. 1,100 crore. The country’s largest PSU, State Bank of India tops the charts with frauds to the tune of Rs. 1,221 crore. With the advent of mobile and internet banking, the number of banking frauds in the country is on the rise as banks are losing money to the tune of approximately Rs. 2,500 crore every year. While the figure for 2010-11 was Rs. 3,500 crore, for the current financial year (till September) it is about Rs. 1,800 crore. Further, state-wise list of information on banking frauds shows Maharashtra (Mumbai) reporting the highest number of cases to the RBI. In the last financial year, banks in the Maharashtra reported 1,179 cases with Rs. 1,141 crore being lost to such frauds. Maharashtra is followed by Uttar Pradesh with 385 cases during the same period (Shukla, 2012).

Table 1: Number of Frauds and Amount Involved in the Indian Banks

Year ending 31st March	Amount Involved (Rs. in Crore)	Number of Fraud Cases Reported to RBI
2000-01	538.56	1,858
2001-02	470.37	1,353
2002-03	374.97	1,643
2003-04	823.61	2,193
2004-05	451.04	2,520
2005-06	1134.39	2,658
2006-07	844.76	2,568
2007-08	396.86	1,385
2008-09	1911.68	23,941
2009-10	2037.81	24,791
2010-11	3832.08	19,827
2011-12	4491.54	14,735
2012-13	8646.00	13,293
2013-14	169190.00	29,910

Source: Compiled by the author from various published bank reports

4. Literature Review

Jeffords *et al.* (1992) examined 910 cases submitted to the "Internal Auditor" during the nine-year period from 1981-1989 to assess the specific risk factors cited in the Treadway Commission Report. Approximately 63% of the 910 cases are classified under the internal control risks. Similarly, Calderon and Green (1994) made an analysis of 114 actual cases of corporate fraud published in the "Internal Auditor" from 1986 to 1990. The study found that professional and managerial employees were involved in 45% of the cases. Willson (2006) examined the causes that led to the breakdown of 'Barring' Bank, in his case study. The collapse resulted due to the failures in management, financial and operational controls of Baring Banks. However, Bhasin (2007) examined the reasons for check frauds, the magnitude of frauds in Indian banks, and the manner in which the expertise of internal auditors can be integrated in order to detect and prevent frauds in banks. In addition to considering the common types of fraud signals, auditors can take several 'proactive' steps to combat frauds. One important challenge for banks, therefore, is the examination of new technology applications for control and security issues.

As per the survey conducted by Ganesh and Raghurama (2008) about 80 executive from Corporation Bank and Karnataka Bank Ltd of India, were requested to rate their subordinates in terms of development of their skills before and after they underwent certain commonly delivered training programs. Responses revealed that for the 17 skills identified, there was improvement in the skills statistically. The paired t-test was applied individually for the seventeen skills, and all these skills have shown statistical significance. Moreover, a study to investigate the reasons for bank frauds and implementation of preventive security controls in Indian banking industry was performed by Khanna and Arora in 2009. The study seeks to evaluate the various causes that are responsible for bank frauds. The result indicate that ""lack of training, overburdened staff, competition, low compliance level are the main reasons for bank frauds." In another research study performed by Bhasin (2013), "the main objectives were to: (a) identify the prominent companies involved in fraudulent financial reporting practices, and the nature of accounting irregularities they committed; (b) highlighted the Satyam Computer Limited's accounting scandal by portraying the sequence of events, the aftermath of events, the key parties involved, and major follow-up actions undertaken in India; and (c) what lesions can be learned from Satyam scam?"

Chiezey and Onu (2013) evaluated the impact of fraud and fraudulent practices on the performance of 24 banks in Nigeria during 2001-2011. The relationship between fraud cases and other variables were estimated using Pearson product moment correlation and multiple regression analysis was used. The paper recommended that banks in Nigeria need to strengthen their internal control systems and the regulatory bodies should improve their supervisory role. Similarly, Bhasin (2015a) performed another research study by applying a questionnaire-based survey among 345 bank employees to know their perception towards bank frauds and evaluate the factors that influence the degree of their compliance level. The study reveals that "there are poor employment practices and lack of effective employee training; usually over-burdened staff, weak internal control systems, and low compliance levels on the part of Bank Managers, Offices and Clerks." Recently, Bhasin (2016b) conducted a study using a questionnaire-based survey methodology, wherein14 specific research questions were asked. In all, 120 questionnaires were distributed to the preparers' and users' of the company FS and 85 responses from the participants were collected and analyzed using the percentage and frequencies of respondents. The study revealed that the practice of creative accounting (CA) is always a deliberate attempt to gain undue advantage for accountants, managers and companies.

The foregoing discussion suggests that the literature on the bank frauds in Indian-context is very limited and inconclusive. Thus, our study builds on the previous literature of bank frauds in the Indian banking sector. The scope of the study has been confined to 21 banks in the National Capital Region (NCR) of India during 2012-13.

5. Research Method

The present study is both descriptive and analytical in nature. As part of the study, in 2012-13 a questionnaire-based survey was conducted among 345 bank employees of the National Capital Region (NCR) area. It comprised of several questions that attempted to know their opinions while working in a bank regarding training received, attitude towards the procedures prescribed by RBI, awareness level towards frauds and their compliance level under the six heads. All the respondents were selected through the random sampling method. The sampled employees comprising of Managers, Officers and Clerks of the branches were given the questionnaire by personally visiting them in bank. Out of all the employees, 296 employees responded, with an overall response rate of 85%. In all, there were 57 managers, 130 officers and 109 clerks as respondents.

6. Research Method

The RBI has developed many important guidelines for prevention of bank frauds, which can help banks to prevent frauds. The compliance level of these security controls were measured under the following six heads—internal checks, deposit accounts, administration of check books and passbooks, loans and advances, drafts, internal accounts and inter branch accounts. The results of this study indicate that the security control measures are not fully complied with.

Table 2: Average Compliance Scores of Various Heads of Bank Managers

	Internal checks	**Loans & advances**	**Deposit account**	**Admin. in check, pass book**	**Draft section**	**Internal & inter-branch account**
Compliance score	95%	91%	82%	65%	84%	83%

Table 2 depicts the average compliance score of Bank Managers under the various heads. The results show that Bank Managers compliance level is the lowest (65%) in administration of check/pass book. In sharp contrast, the highest (95%) compliance is noticed in internal checks. The Managers gave second highest (91%) importance to loans and advances, and gave almost equal importance to the draft section (84%), internal and inter-branch account (83%), and deposit account (82%), respectively. But surprisingly, still there is lack of 100% compliance related to security controls under any of the above listed six bank heads. Thus, it is amply clear that till now, banks in India are not able to follow “zero-tolerance” policy.

Table 3: Average Compliance Scores of Various Heads of Bank Officers

	Loans and advances	**Deposit account**	**Admin. in check, pass book**	**Draft section**	**Internal & inter-branch account**
Compliance score	65%	75%	60%	81%	86%

Table 3 provides a snapshot of average compliance scores of Bank Officers under the various heads. The compliance level of Officers is the “highest” in internal & inter-branch account (86%), followed by draft section (81%) and deposit account (75%). Surprisingly, Bank Officers gave the lowest scores to the following two areas viz., loans and advances (65%), and administration in check and pass book (60%) sections. Keeping in view the Bank Managers and Officers scores, we can draw a broad conclusion: nobody likes to perform the work especially in the administration of check and pass book section. As Bhasin (2010) concluded, “There appears to be considerable differences in compliance level of employees of various banks, most probably, on account of differences in the organizational culture, training provided, past experiences and their mental attitudes to strictly follow the RBI procedures.” As part of research, 8 hypotheses were made and later tested.

We feel that if the detailed procedures and/or instructions as prescribed by the RBI, if fully complied with (both in letter and spirit) it can greatly reduce the incidences of frauds. But the present study revealed “very low percentage of respondents display highly-favorable attitude towards the procedures laid-down by RBI.” As Table 4 shows, a “very high proportion of respondent (98+113=211/296) believe that they do not have sufficient staff to carry out the work meticulously, they are usually overburdened with work and hence, not able to follow the procedures strictly. Since this attitude is based on the perception of bank employees towards adequacy of staff, it can be inferred that “if there is an adequate number of bank staff hopefully the compliance level will be more.”

Table 4: Frequency Distribution of the Responses of Bank Employees on the basis of their Attitude towards RBI Procedures

Attitude towards RBI procedures	**Favorable**	**Moderate**	**Unfavorable**	**Total**
Total number of employees	**85**	**98**	**113**	**296**

From Table 5 we can conclude that "the compliance level of the managers (48%) is higher than that of officers (22%). This may be due to the fact that managers are more rigorously trained and their attitude towards RBI's procedures is more favorable than that of officers and clerks. Hence, Mangers awareness level is high as they have increased level of responsibility.

Table 5: Distribution of Managers and Officers according to their Compliance Level

Position	High	Medium	Low
Manager	48	42	10
Officer	22	53	25

It is amply clear from Table 6 the awareness level is very low, both on the part of Clerks and Officers in Banks. For example, only 9.17% of clerks and 13.07% of officers belong to "high" category of awareness level. However, Managers show a little better awareness level. For example, around 15.78% of Managers belong to high category of awareness level. A careful study of the data contained in the table reveals shockingly that about 52% of Clerks, 49% of Officers, and 47% of Managers belong to "low" category of awareness level. It is very disappointing to know that the awareness level of Bank employees about various types of frauds and losses suffered by the banks are very low.

Table 6: Frequency Distribution of the Responses on the basis of Awareness Levels

Awareness Category	High		Medium		Low		Total
Position	**Frequency**	**%**	**Frequency**	**%**	**Frequency**	**%**	
Managers	9	15.78	21	36.84	27	47.36	57
Officers	17	13.07	49	37.69	64	49.30	130
Clerks	10	9.17	42	38.53	57	52.29	109

Table 7 depicts the relative importance (on 10 point score) assigned by the Bank Managers, Officers and Clerks to the reasons responsible for the commitment of bank frauds. Managers gave more weight-age to lack of training (7), and followed by overburdened staff (5). In sharp contrast to this, both Officers (6) and Clerks (7) felt that overburdened staff is the main reason responsible for bank frauds, which is followed by lack of training for Officers (5) and Clerks (6), respectively.

Table 7: Score given by Bank Employees to the Various Reasons for Perpetration of Fraud

Position	Lack of training	Corrupt officer in-charge	Overburdened staff	Competition
Managers	7	3	5	4
Officers	5	5	6	5
Clerks	6	4	7	4

During the study, we have used Mann Whitney test and Chi square test were used to test 8 hypotheses. The result of our hypothesis testing, as shown in Table 8 reveal that there was significant difference in the awareness levels among the three categories of employees at different hierarchal levels. It can be attributed to the fact that Managers get more opportunity to read news/circulars circulated from the head-office and RBI, since circulars they first of all, go directly to them. Thereafter, they are circulated among the rest of officers and clerks. In fact, this may be due to the reason that organizational culture, training received chain of command, and communication processes vary significantly from PSBs and Private/foreign banks.

Any corrupt and dishonest employee in a bank can easily commit frauds with impunity. Recently, Sen (2015) pointed out that "Many frauds are perpetrated by long-term employees that no one ever thought could be involved in fraud. The methods used are only limited by a dishonest employee's creativity. However, most organizations tend to ignore, or merely warn respective employees upon discovery of small value frauds, such as, faking personal bills, or fudging of expense reports." Bhasin (2015) concluded, "The total number of bank employees in India against whom the action has been taken for their involvement in cases of bank fraud during 2002, 2003 and 2004 were 5459, 5237 and 4311, respectively. In 2004, 127 employees were convicted and 1590 were awarded with major/minor punishment for their fraud offences, which sharply declined by 50% to just 66 employees convicted and 732 awarded penalties. As against this, the number of employees against whom prosecution or departmental proceedings are pending is 1429 in 2004, which marginally declined to 1235 employees. This clearly shows the pathetic, cumbersome and time consuming process of law. Unfortunately, most of the employees committing frauds get scot free, with the award of minor penalties, and the cases pending in courts keep on dragging for many years."

Table 8: Hypotheses Testing

Null-Hypotheses	Test Statistics	Calculated Value	Accept/Reject
There will be no significant difference in the compliance level of employees of various banks.	Chi square test	39.791 (16 dof)	Rejected
There will be no significant relationship between training status of employees and their level of compliance.	Chi square test	64.205 (16 dof)	Rejected
There will be no significant relationship between attitude towards RBI procedure of the employees and their compliance level.	Chi square test	32.215 (16 DOF)	Rejected
There will be no significant difference in compliance level between two categories of employees at two different hierarchal levels.	Chi square test	15.685 (4 DOF)	Rejected
There will be no significant difference in the attitude towards RBI procedure of employees of various banks.	Chi square test	10.505 (4 DOF)	Rejected
There will be no significant relationship between training status of employees and their awareness level toward type of bank frauds.	Chi square test	13.864 (4 DOF)	Rejected
There will be no significant difference in the awareness level of various banks.	Mann Whitney Test	Z=4.125	Rejected
There will be no significant difference in awareness level among three categories of employees at three different hierarchal levels.	Chi square test	10.520 (4 dof)	Rejected

*Critical value of chi-square at 5% level of significance at 4 degree of freedom is 9.49.
*Critical value of chi-square at 5% level of significance at 16 degree of freedom is 26.3.
*Critical value of chi-square at 5% level of significance is 1.96.

The RBI on May 8, 2015 pointed out that "detection of fraud at present takes an unusually long-time. Banks tend to report an account as fraud only when they exhaust the chances of further recovery. Delays in reporting of frauds also further delay the alerting of other banks about the modus operandi through caution advices that may result in similar frauds being perpetrated elsewhere." As pointed out by Inamdar (2013) "The time taken for cases to be ascertained as fraud was very high. It took over 10 years for 45% of the cases and between 5 to 10 years for 67% of the cases, creating a great disconnect between the punishment meted out and the offence. But if the delays in bringing fraudsters to book aggravated transgressions, the fact that PSB employees enjoyed a great degree of impunity could have further emboldened those committing the fraud. We observe that in PSBs, most of the officials found liable were let off with minor penalties: caution, warning, censure, stoppage of increments for limited period etc. which sends out a wrong message—a message about passive tolerance rather than active intolerance towards misconduct." It is widely accepted that action delayed ultimately leads to denial of justice.

An analysis of big cases looked into by the CBI reveals that bankers sometimes exceed their discretionary powers, and give loans to unscrupulous borrowers on fake/forged documents. More than 7,000 employees of different PSBs are under the scanner for their involvement in these cases (Pai and Venkatesh, 2014). As B. Venkat Ramana, general manager, corporate communication, UCO Bank said, “The most prevalent nature of cheating and forgery cases relates to forged/fake documents/diversion of funds by borrowers. When fraud is proved with employees’ involvement, there is a disciplinary action/criminal case against the employee.” According to the General Manager (Risk Management), Bank of Baroda, “the bank immediately carries out an internal investigation if a case of fraud is detected. The incidence is reported to the RBI and a complaint lodged with the local police/state CID/EOW/CBI depending upon the amount involved. In case involvement of the employee is proved, bank takes disciplinary action, which includes even termination/dismissal of the employee.”

Based on findings of this study, the following broad generalizations can be made. “There is lack of trained and experienced bank staff, and tremendous increase in banking business. By-and-large, new recruits do not have adequate training and/or prior experience before they are put into a responsible position,” stated Bhasin (2015a). Ganesh and Raghurama (2008) believe that training improves the capabilities of employees by enhancing their skills, knowledge and commitment towards their work. Moreover, bank staff feels “they are overburdened with work.” The life has become fast and the bank staff does not have enough time to scrutinize documents thoroughly. Dilution of system and non-adherence to procedures is also a significant reason for bank frauds (Wells, 2005). This shows that a full-proof system has not been developed and implemented to familiarize the bank employees of various types of frauds that take place in banks every year. “Most banks try to put in place robust systems and controls to prevent fraud and forgery—regrettably crooks and criminals use more and more sophisticated methods, especially where online fraud is concerned, to defraud banks,” said Meera Sanyal, former CEO and Chairperson of Royal Bank of Scotland in India (Pai, 2015).

It is widely accepted that the primary responsibility for preventing frauds lies with every individual bank. Soni and Soni (2013) pointed out that “Banks themselves have been found to be involved in fraudulent practices in a big way causing their customers enormous losses. Major cause for perpetration of fraud is laxity in observance in laid down system and procedures by supervising staff.” It is the common policy of the RBI to offer advisories, from time to time, to all banks operating in India regarding the key fraud areas, and what safety precautions to take in order to prevent repetition of such frauds in the near future. According to Dubey (2013), “With the growing usage of the electronic forms of transactions, banks have started to employ more secured platforms of communications. However, the authenticity and integrity of such a platform is ensured through usage of specific software, which ensures the validity of the bank’s electronic documents.” As per RBI policy and guidelines, “banks should conduct the annual review of big fraud cases; apprise the board of directors regarding their findings, and laydown fraud reporting mechanisms for and all follow-up actions taken.”

Noting the increased incidence of loan frauds, the RBI has issued on May 7, 2015 “a framework for banks to help them in the prevention, early detection and reporting of such frauds.” As part of the framework, RBI has introduced a concept called “Red Flagged Account (RFA)”: accounts where the suspicion of fraudulent activity is thrown up by the presence of one or more early warning signals. This list includes unpaid loans to multiple banks, bouncing of checks, raids by tax or excise duty officials, and frequent changes in the scope of project to be undertaken, high value e-payments to unrelated parties etc. The RBI also asked banks to sensitize their employees to the risk of fraud and detect early warning signals, which should be promptly reported to the Fraud Monitoring Group or any other group constituted by the bank. The government is also looking at the issue of more timely and coordinated action by law enforcement officials.

7. Research Method

It is widely accepted that the banking sector, being the barometer of the economy, is the reflective of the macro-economic variables. There has been a noticeable upsurge in transaction through ATMs and internet/mobile banking and banks have invested considerably to increase their banking network and their customer reach. The Indian banking industry is currently worth Rs. 81 trillion (US$1.31 trillion) and banks are now utilizing the latest technologies like internet and mobile device to carry out transactions and communicate with the masses (Baruah, 2015). “The Indian banking sector is expected to become the fifth largest in the world by 2020 and third largest by the year 2025,” according to KPMG-CII report on the banking sector. “While the banking industry in India has witnessed a steady growth in its total business and profits, the amount involved in bank frauds has also been on the rise. This unhealthy development in the banking sector produces not only losses to the banks but also affects their credibility adversely,” says Bhasin (2016a).

Recently in April 2015, RBI chief Mr. Rajan has written to the PMO seeking “concerted action in the country’s 10 biggest bank frauds allegedly involving prominent real-estate, media and diamond firms that are being probed by the CBI” (Baruah, 2015). Accordingly, the government of India has expressed serious concern over the sharp rise in cases of fraud and corruption in the nationalized banks in India. Moreover, fraud and fraudulent activities inflict severe financial difficulties on banks and their customers; they also reduce the amount of money available for the development of the economy (Chiezey and Onu, 2013). Shockingly, the banking industry in India dubs rising fraud as “an inevitable cost of business.” According to Deloitte Fraud Survey (2015) “The common causes of frauds observed in banking sector include diversion and siphoning of funds, whereas fraudulent documentation and absence/over-valuation of collateral were cited as the main reasons for fraud in retail banking.” Thus, in nutshell, inadequate measures to prevent banking fraud is the primary reason for widespread frauds (Bhasin, 2012).

So, what should banks do to safeguard the interests of its customers? Banks should ensure that the reporting system is suitably streamlined so that frauds are reported without any delay and fix staff accountability. Moreover, in relation to banking industry, there is an urgent need for greater sharing of information between financial institutions on trends and practices of fraudster and fraud topologies, especially those frauds that are committed in computerized environment (Chakrabarty, 2013). The only promising step is to create awareness among people about their rights and duties and further making the application of the laws more stringent to check crime (Siddique and Rehman, 2011). Recently, Bhasin (2016d) stated, “Banks must provide sufficient focus on the ‘Fraud Prevention and Management Function’ to enable effective investigation of fraud cases. The fraud risk management, fraud monitoring and fraud investigation function must be owned by the bank’s CEO, its Audit Committee of the Board and the Special Committee of the Board, at least in respect of large value frauds. Banks can also frame internal policy for fraud risk management and fraud investigation function, based on the governance standards relating to the ownership of the function and accountability for malfunctioning of the fraud risk management process in their banks.”

Banks can secure and preserve the safety, integrity and authenticity of the transactions by employing multipoint scrutiny: cryptographic check hurdles (Siddharth, 2013). “In addition, banks should rotate the services of the persons working on sensitive seats, keep strict vigil of the working, update the technologies employed periodically, and engage more than one person in large-value transactions,” said Bhasin (2016e). Of course, internal auditors can continue to win the battle against frauds and scams through the continued application of fundamentals, such as education, technological proficiency, and support of good management practices. According to Freddie Mac (2015) “Fraud Mitigation Best Practices” include: (a) Fraud Risk Management Policies and Procedures; (b) Regulatory Compliance; (c) Ethical Conduct; (d) New Employee Awareness; and (e) Training. As part of its strategy to contain bad debts, the Finance Ministry of India has directed all PSBs “to accord top priority to cases of fraud and willful default, and take legal action against those responsible. Causes of frauds include providing wrong information, submission of fictitious documents and so on.

Recently, Bhasin (2016a) reported, “The wave of financial scandals at the turn of the 21st century elevated the awareness of fraud and the auditor’s responsibilities for detecting it. In the modern era, the forensic accountants are in great demand and forensic accounting is listed among the top-20 careers of the future.” The goal, within the banking industry and government, is to create a kind of seamless electronic auditing environment where transactions-related minutiae is routinely scrutinized and the ‘exception’ process is more easily managed. Both rules and artificial intelligence-based exception-flagging technologies can be effective. “Recent accounting scandals and the resultant outcry for transparency and honesty in reporting, therefore, have given rise to two disparate yet logical outcomes. First, forensic accounting skills have become very crucial in untangling the complicated accounting maneuvers’ that have obfuscated financial statements. Second, public demand for change and subsequent regulatory action has transformed corporate governance (CG) scenario,” stated Bhasin (2016f). Therefore, many senior-level company officers and directors are under the ethical and legal scrutiny. In fact, both these trends have the common goal of addressing the investors’ concerns about the transparent financial reporting system. The failure of the corporate communication structure has also made the financial community realize that there is a great need for skilled professionals that can identify, expose, and prevent structural weaknesses in three key areas: poor CG, flawed internal controls, and fraudulent financial statements. Therefore, forensic accounting skills are becoming increasingly relied upon within a corporate reporting system that emphasizes its accountability and responsibility to stakeholders.

According to Ernest and Young (2012), “While it is not possible for banks to operate in a ‘zero’ fraud environment, ‘proactive’ steps, such as conducting risk assessments of procedures and policies can help them to hedge their risk of contingent losses due to fraud.” Expressing concern over zooming up of the corporate fraud in the last 15 years, Mr. Ranjit Sinha (CBI Director), said on May 14, 2014 at an ASSOCHAM event, “These frauds are occurring due to the collective failures of the regulatory oversight, statutory auditors, and independent directors. He wanted all top regulators like SEBI, CBI and SFIO to interact more often and share their key inputs to detect and prevent these frauds. There is also a need for institutional mechanism for information sharing and use of common database by all the regulatory as well as investigating agencies in the country to achieve better results." The only promising step is to create awareness among people about their rights and duties, and further make the application of the laws more stringent to check crime. As Kumar and Sriganga (2014) stated, "By leveraging the power of data analysis technology, banks can detect fraud sooner and reduce the negative impact of significant losses owing to fraud. Moreover, use of new technologies (such as, data visualization, fuzzy logic, social network analysis, data mining, encryption, dynamic account modeling, etc.) can prove handy to mitigate the fraud risk in banks." Although banks cannot be 100% secure against unknown threats, a certain level of preparedness can go a long way in countering fraud risk. In March 2015, the RBI has almost finalized the structure of "Central Fraud Registry," which will soon come up with guidelines to enable quick sharing of information about unscrupulous borrowers and help banks fight back bad loans. Thus, banks can take advantage of the registry at the time of sanctioning loan by checking the credentials of a borrower from the registry. No compromise settlement involving a fraudulent borrower is allowed unless the conditions stipulate that the criminal complaint will be continued. Moreover, the CBI and the Central Economic Intelligence Bureau (CEIB) will also share their databases with banks. The regulator also stressed on prevention of fraud through "improved market intelligence." At least, it can minimize the damages and protect their reputations.

References

Baruah, S. K. (2015). RBI chief wants PMO to act against bank frauds worth Rs. 17,500 crore. *Hindustan Times*. Retrieved May 22, 2016, from www.hindustantimes.com

Bhasin, M. L. (2007). The bank internal auditor as fraud buster. *ICFAI Journal of Audit Practice,* 4(1), 49-56.

Bhasin, M. L. (2010). Corporate governance in the Asian countries. *African Journal of Business Management*, 4(10): 1964-1971.

Bhasin, M. L. (2012). Audit committee mechanism to improve corporate governance: Evidence from a developing country. *Modern Economy*, 3(7), 856-872.

Bhasin, M. L. (2012a). Corporate accounting frauds: A case study of Satyam computers limited. *International Journal of Contemporary Business Studies,* October, 3(10), 16-42.

Bhasin, M. L. (2013). Corporate accounting scandal at Satyam: A case study of India's Enron. *European Journal of Business and Social Sciences*, 1(12),: 25-47.

Bhasin, M. L. (2013a). An empirical investigation of the relevant skills of forensic accountants: Experience of a developing economy. *European Journal of Accounting, Auditing and Finance Research*, 1(2), 11-52.

Bhasin, M. L. (2015). Menace of frauds in the Indian banking industry: An empirical study. *Australian Journal of Business and Management Research*, 4(2), April: 21-33.

Bhasin, M. L. (2015a). Creative accounting practices in the Indian corporate sector: An empirical study, *International Journal of Management Science and Business Research*, 4(10): 35-52.

Bhasin, M. L. (2016). Fraudulent Accounting Practices at Satyam: How Senior Management Abused Creative Accounting Methodology?, *International Journal of Management Sciences and Business Research*, 5(6), 1-24.

Bhasin, M. L. (2016a). Contribution of forensic accounting to corporate governance: An exploratory study of an Asian country. *International Business Management,* 10(4), 479-492.

Bhasin, M. L., (2016b). Survey of creative accounting practices: An empirical study. *Wulfenia Journal,* 23(1), 143-162.

Bhasin, M. L. (2016c). Role of Technology in Combatting Bank Frauds: Perspectives and Prospects. *International Review of Social Sciences*, 4(1), 21-37.

Bhasin, M.L. (2016d). The Fight Against Bank Frauds: Current Scenario and Future Challenges. *Ciencia e Tecnica Vitivinicola Journal*, 31(2), 56-85.

Bhasin, M. L. (2016e). Fraudulent Financial Reporting Practices: Case Study of Satyam Computer Limited. *The Journal of Economics, Marketing and Management*, 4(3), Sept.12-24.

Bhasin, M. L. (2016f), Forensic Accounting in Asia: Perspectives and Prospects. *International Journal of Management and Social Sciences Research,* 5(6), 25-38.

Calderon, T. and B. P. Green (1994). Internal fraud leaves its mark: Here's how to spot, trace and prevent it. *National Public Accountant*, 39(2), 17-20.

Chakrabarty, K. C. (2013). Inaugural address. National Conference on Financial Fraud, Organized by ASSOCHAM, New Delhi, July 26.

Chiezey, U., and A. J. C. Onu (2013). Impact of fraud and fraudulent practices on the performance of banks in Nigeria. *British Journal of Arts and Social Sciences*, 15(1), 12-25.

Deloitte Fraud Survey (2015). The Deloitte India Banking Fraud Survey Report Edition II. Press Trust of India Report Dated April 23, 2015.

Deloitte Survey (2012). Indian banking fraud survey-2012. *Business Standard*, February 8, 1-2. Retrieved May 22, 2016, from www.business-standard.com.

DNA (2012). Mumbai is number one for banking fraud in country. Mumbai is number one for banking fraud in country. January 8: 1-3. Retrieved May 22, 2016, from http://www.dnaindia.com/mumbai.

DNA (2012). Private banks see more fraud cases than public ones. Private banks see more fraud cases than public ones. January 9: 1-5. Retrieved May 22, 2016, from http://www.dnaindia.com/mumbai.

Dubey, N. (2013). *Banking frauds: Prevent or lament*. Retrieved May 22, 2016, from www.mondaq.com

Ernest and Young (2010). *Proactive fraud monitoring for banks in India*. Retrieved May 22, 2016, from www.ey.com/india

Ernest and Young (2012). India fraud indicator 2012, a study by E&Y's fraud investigation and dispute services. Retrieved May 22, 2016, from www.ey.com/india

Freddie Mac, (2015). Fraud mitigation best practices. Retrieved May 22, 2016, from www.freddiemac.com.

Ganesh, A., and Raghurama, A. (2008). Status of training evaluation in commercial bank- a case study. *Journal of Social Sciences and Management Sciences*, 37(2), 137-158.

Ghosh, M., (2015). *Rs. 11,022 crore of fraud discovered in public sector banks between April-December 2014, March 23*. Retrieved May 22, 2016, from www.trak.in.

Inamdar, N. (2013). Fraud at public sector banks: A rampant occurrence. *Business Standard*. Retrieved May 22, 2016, from www.business-standard.com.

Institute of Internal Auditors (2009). *International professional practices framework*. USA: The Institute of Internal Auditors.

Jeffords, R., Marchant, M. L,.and Bridendall, P. H. (1992). How useful are the tread way risk factors. *Internal Auditor*, 49(3), 60-61.

Kaveri, V. S. (2014). Bank frauds in India: Emerging challenges. *Journal of Commerce and Management Thought*, 5(1), 14-26.

Khanna, A., and Arora, B. (2009). A study to investigate the reasons for bank frauds in Indian banking industry. *Int. Journal of Business Science and Applied Management*, 4(3), 1-21.

Kumar, V., and Sriganga, B. K. (2014). A review on data mining techniques to detect insider fraud in banks. *International Journal of Advanced Research in Computer Science and Software Engineering*, 4(12), 370-380.

KPMG-CII Report (2013). Indian banking set to become fifth largest by 2020: KPMG-CII Report. Business Standard News, September 13, 2013.

KPMG (2012). *India fraud survey*. Retrieved May 22, 2016, from www.kpmg.com: 1-92.

Pai, S. (2015). *Banks no safe havens for your money; depositors lost Rs. 27,000 crore in last five years*. New Delhi, India : DNA.

Pai, S., and Venkatesh, M. (2014). *Frauds ripped public sector banks of Rs. 23,000 crore. Hindustan Times.* Retrieved May 22, 2016, from www.hindustantimes.com.

Pan, S. (2015). An overview of Indian banking industry. *International Journal of Management and Social Science Research*, 4(5), 67-71.

Pasricha, P., and Mehrotra, S. (2014). Electronic crime in Indian banking. *Sai Om Journal of Commerce and Management*, 1(11), 7-14.

Press Trust of India (2014). *Deal firmly with fraud, willful default: Financial services secretary to banks*. Retrieved May 22, 2016, from www.profit.ndtv.com.

RBI (2015). *RBI issues framework for banks to deal with frauds, May 8.* Retrieved May 22, 2016, from http://www.livemint.com.

RBI (2015). RBI to soon issue norms for central fraud registry: Deputy governor. *Press Trust of India*, Retrieved May 22, 2016, from www.profit.ndtv.com: 1-2.

Sen, A. (2015). *KPMG's latest fraud survey kicks up some dangerous statistics*. Retrieved May 22, 2016, from www.allianceonemumbai.com.

Shukla, S. (2012). PSU banks report frauds worth almost Rs. 8850 crore in last years! India business, Bloomberg UTV, May 18.

Siddharth, T. (2013). Cyber frauds raise their ugly head yet again, zee research group. Retrieved May 22, 2016, from http://zeenews.india.com.

Siddique, M. I., and Rehman, S. (2011). Impact of electronic crime in Indian banking sector: An overview. *International Journal of Business and Information Technology*, 1(2), 159-164.

Singh, M. K. (2005). Bank frauds—what every banker needs to know. *IBA Bulletin*, 3-7. Retrieved May 22, 2016, from http://www.iba.org.in.

Soni, R. R., and Soni, N. (2013). An investigative study of banking cyber frauds with special reference to private and public sector banks. *Research Journal of Management Sciences*, 2(7), 22-27.

Wells, J. T. (2005). New approaches to fraud deterrence, *the chartered accountant* (pp.1453-1455). New Delhi, India : The Institute of Chartered Accountants of India.

Willson, R. (2006). Understanding the offender/environment dynamics for computer crimes. *Information Technology and People*, 19(2), 170-186.