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## **Frauds in Banking Sector- A Study on Preventive Measures**

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### **ABSTRACT**

The Banking industry in India has shown an enormous amount of development since the Liberalization policy of the economy in 1991. As per the RBI, this sector has sufficient capital and is also properly regulated. But like every other sector, it also faces some major challenges when it comes to financial distress, ethical practices and corporate governance. Now-a-days, every industry, including banking, the usage of technology has expanded. And with greater use comes the possibility of enhanced misuse. The number of cases of banking fraud is increasing every day. The purpose of this research project is to look at the banking sector's frauds. The researcher aimed to comprehend banking scams, their types, causes and the challenges that come with investigating such frauds. In addition, the current law aimed at preventing and punishing similar banking frauds is examined in this research project. This research project also provides insight on preventative actions that might be used to avoid bank frauds.

### **INTRODUCTION**

Banks are regarded as critical components of the Indian economy. Following the nationalization of banks in 1969 and the liberalization of the economy in 1991, this sector has seen enormous growth in past times. Given the nature of our daily activities involving money, and despite the fact that we have such a well-framed and monitored system, it is highly tempting for people who are either associated with or outside the network to identify faults in the system and profit financially via deception.<sup>1</sup>

The banking industry has seen significant changes as a result of technological advancements. E-banking refers to the provision of banking services via electronic means. Private sector banks were not fully digitized at the outset, whereas emerging private sector banks and foreign banks were fully computerized from the start. Despite the numerous benefits of e-banking, technical advancements in the banking sector have resulted in a variety of obstacles.<sup>2</sup>

Unauthorized access to data, data theft by hackers, and virus-caused data destruction or loss is among the several security challenges encountered. In the banking industry, there is

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<sup>1</sup> Bank Fraud- Types and Prevention, E-PG PATHSSHALA (Last visited: Sep 28, 2021), [http://epgp.inflibnet.ac.in/epgpdata/uploads/epgp\\_content/S001608/P001741/M022095/ET/1504180707BankfraudFormat.pdf](http://epgp.inflibnet.ac.in/epgpdata/uploads/epgp_content/S001608/P001741/M022095/ET/1504180707BankfraudFormat.pdf).

<sup>2</sup> Monisha & Kanika Bhudhiraja, *Electronic Banking in India: Innovations, Challenges and Opportunities*, 5 IJERT 1, 2, (2017).

technological innovation as well as obstacles. The most typical issue is one of security and also one of legality.

Banks are the systems that propel the financial sector, money markets, and economic development. With India's rapidly growing banking system, bank fraud is also on the rise, and criminals have begun to employ innovative techniques. Frauds could seriously impact a variety of constituents, such as shareholders, donors, borrowers, workers, and the managed services institution itself, because economically prudent firms operate in a multitude of activities. Various financial crimes have cost India's public sector banks (PSBs) billions of rupees during previous three years.<sup>3</sup>

Due to an increment in the amount of e-banking fraudulent activity, RBI, the depository financial institution of India, acting as a regulator and supervisor, has provided directives to protect against frauds, and as circumstances change, the depository financial institution of India is updating the guidelines by issuing new ones, as well as advising banks on how to prevent e-banking frauds.

As a result, a review of the laws and regulations governing e-banking frauds is necessary in order to find a solution to the demographic crisis that is sweeping broad swaths of India and extending across the border. Laws cannot be implemented unless there is widespread agreement. The failure to enforce regulations and keep an eye on e-banking frauds demonstrates this. If banks and customers do not take preventative measures, India would suffer significant financial losses and the Indian economy will suffer as a result. Fieldwork can help legislators adopt problem-oriented ideas and solve speculative gaps.<sup>4</sup>

The Reserve Bank of India (RBI) released its annual report for 2020-21 on May 27, 2021, revealing that 22,864 banking frauds totaling over INR 3.95 trillion (USD 53 billion) had been registered in the previous three years. Poor corporate governance is the common basis for such events, whether it's the 2020 ICICI Bank-Videocon loan scandal, the 2019 Punjab and Maharashtra Co-operative Bank crisis, or the 2018 Nirav Modi and Gitanjali Gems-Punjab National Bank scam. Reports have demonstrated that not only mid-level staff, but even senior bank executives, were involved. Similar incidences of inconsistency in the financial system have returned in a number of cases since 2018, demonstrating the ineptitude of contemporary industry control structures at the top ranks of Indian banks.<sup>5</sup>

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<sup>3</sup> Charan Singh, Deepanshu Pattanayak, et.al., *Frauds in the Indian Banking Industry*, IIM BANGALORE (Last visited: Sept. 29, 2021), [https://www.iimb.ac.in/sites/default/files/2018-07/WP\\_No.\\_505.pdf](https://www.iimb.ac.in/sites/default/files/2018-07/WP_No._505.pdf).

<sup>4</sup> Dr C.P. Gupta & Abhilasha Gupta, *Banking Frauds in India: Trends and Legal Challenges*, 3 IJEMASSS 276, 276-277, (2021).

<sup>5</sup> Souvik Ganguly, Saumya Sharma et.al., *RBI pushes for massive governance reforms of banks in the aftermath of recurring bank fraud*, MONDAQ (Last visited: Sept 29, 2021), <https://www.mondaq.com/india/corporate->

### **Research question**

The researcher has undertaken this research with the sole research question of analyzing the problem of fraud in the banking sector in India, its types and how can it be prevented?

### **Research Methodology**

This research is an effort to figure out how to avoid being a victim of bank fraud. The information was gathered solely from secondary sources. Secondary data was gathered from books, journals, articles, newspapers, magazines, and other sources. Acts and laws relating to bank fraud and forgery, as well as RBI circulars and notifications are considered.

### **Research Objectives**

Following are the research objectives:

- Studying the sorts of bank frauds
- Identifying the grounds and causes of bank frauds
- Suggestions for preventing bank frauds
- Understanding the psyche of fraudsters
- Examining the adequacy of law to deal with frauds

### **LITERATURE REVIEW**

Ramana, S.V. and Krishna, S.G., 2017, showed a thorough analysis of banking fraud. The authors described & identified approaches for detecting and preventing fraud in minor banking products. They also stated that the Indian banking sector was under stress as a result of an increase in fraud incidents in recent years.

Kundu, S. and Rao, N., 2014, Fraud instances have been addressed. For prevention and application, a map of the typological trend methodology was used. Unawareness, situational pressures, and permissive methods all contribute to bank fraud. Due to puzzling legal requirements and procedures, it was complex to detect the scams promptly and extremely tough to prosecute the perpetrators. In order to avoid jeopardising the banks' reputation, fraud incidents are routinely kept hidden.

Pani, L.K., Swain, S., and Swain, S., 2014, investigated the different facets of scam in the Indian banking industry, evaluated the statistical data related with fraud using secondary information from reliable sources, and investigated the same. Each type of fraud, including KYC-related as

well as other technology innovations, plus numerous constituents of fraud in the Indian banking system, were thoroughly examined.

Jeyanthi, P. M. (2018) The Internet of People, Things, and Services (IoPTS) is defined as a visual representation in which people, things, and services are seamlessly integrated into the internet as active participants who exchange data about themselves and their perceived nearby environments over a network-based infrastructure.

### **FRAUDS IN BANKING SECTOR**

Banking fraud accounts for a sizable portion of the white-collar crimes investigated by the authorities. Unlike typical thefts and robberies, the money stolen in these offenses is in the millions and billions of rupees. In many countries, bank fraud can be characterized as attempting to acquire property or money from a government guaranteed financial institution. It's sometimes referred to as a white-collar crime.

In India, there are a large number of bank scams. With the passing of time, it is becoming more prominent. Fraudsters are targeting all of banking's primary operational sectors, with an increase in the number of cases recorded under deposit, loan, and inter-branch accounting activities, along with transfers. In today's world, bank fraud is big business. With greater educational qualifications, banking has become more formal, and the banking sector has grown, white collar crime has become more prevalent.<sup>6</sup>

### **MEANING OF FRAUD**

According to IPC, the meaning of the word fraud is “Any behaviour by which one person intends to obtain a dishonest advantage over another”. This is a broad definition of fraud. In simple terms, “fraud is an act or omission done with the intention to benefit one person at the expense of another, whether through the suppression of facts or otherwise”.<sup>7</sup>

Fraud, under Section 17 of the Indian Contract Act, 1872, includes “any of the following acts committed by a party to a contract, or with his connivance, or by his agents, with intent to deceive another party thereto or his agent, or to induce him to enter into the contract: the suggestion as a fact, of that which is not true, by one who does not believe it to be true; the active concealment of a fact by one having knowledge or belief of the fact; a promise made without any intention of performing it; any other act fitted to deceive; any such act or omission as the law specially declares to be fraudulent.”

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<sup>6</sup> Shounak Mitra, *Bank Frauds in India*, LEGAL SERVICES INDIA (Last visited: Sept 26, 2021), <https://www.legalserviceindia.com/article/1261-Bank-Frauds.html>

<sup>7</sup> *Managing the Business Risk of Fraud: A Practical Guide*, THE INSTITUTE OF INTERNAL AUDITORS (Last visited: Sept 29, 2021), <https://na.theiia.org/standards-guidance/Public%20Documents/fraud%20paper>

The term fraud was not defined in the RBI's rules on frauds. However, a concept of fraud in the area of e finance was presented in the Study of the RBI Advisory Group on Data Security, Digital Banking, Technological Risk Assessment, and Digital Frauds, that states clearly:- “A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank”.<sup>8</sup>

### **TYPES OF BANK FRAUDS**

Banks are increasingly vulnerable to fraud. For consumer groups, science and technology advancements and variations in consumer expectations have caused the emergence of new banking possibilities. Nevertheless, such channels of services have increased the quantum of frauds. Identity fraud, hacking, credit card theft, and other related offences are examples.

***Identity frauds***- It is the intentional use of some other individual 's identification for monetary advantage or to acquire money as well as other services in another individual 's account, often to the displeasure or detriment of the other individual. When somebody fraudulently exploits another individual's identifying details, including their names, social security card, or card details, to commit cybercrimes, this is known as identity theft.<sup>9</sup>

***Phishing***-It involves the usage of an individual's private details, such as a passcode, confidential key, username, and credit card details, for a multitude of objectives by imitating a reliable entity via internet communications.

***Card Fraud***- Criminals grab our bank cards or cheque-books and misuse them to obtain entry to our bank deposits, which is known as bank fraud. Lawbreakers can take funds from our savings accounts or start credit lines in our profiles if they grab our payment cards or cheque-books, or if they gain our personal details.<sup>10</sup>

***Clerical and accounting frauds***-Bank officials perpetrate clerical frauds, which are usually the result of omissions and misstatements of facts or data. Accounting frauds are any frauds involving the falsification of a company's financial statements in order to obtain benefits such as a loan or a higher credit limit, or to raise the company's net worth.<sup>11</sup>

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<sup>8</sup> Sristi Nimodia, *Bank Frauds and Role of RBI*, TAX GURU (Last visited: Sept 30, 2021), <https://taxguru.in/rbi/bank-frauds-role-rbi.html#:~:text=Fraud%20can%20be%20defined%20as,a%20temporary%20period%20with%20or>.

<sup>9</sup> Identity Theft, DOJ (Last visited: Sept 29, 2021), <https://www.justice.gov/criminal-fraud/identity-theft/identity-theft-and-identity-fraud> .

<sup>10</sup> P. Mary Jeyanthi, A. Manusuruli et.al., *Significance of Frauds Analytics in Indian Banking Sectors*, 7 JOCR 209, 211, (2020).

<sup>11</sup> *Ibid*.

**Cheque frauds-** Cheque fraud is defined as the unauthorized use of a cheque provided by a banking institution or other document that mimics one. Cheque kitting and careless cheque writing are two types of cheque fraud.<sup>12</sup>

**Loans and advances frauds-** The borrower of a false debt is a person, an entity, or a non-existent entity who has been duped by a dishonest bank employee; the "borrower" subsequently declares bankruptcy or the loan becomes a tool for organized theft. Fraud loans can be obtained through fraudulent loan applications, which conceal the borrower's trustworthiness.<sup>13</sup> Due to this, there has been a risk for increasing NPA and bad debts in India. Lack of sufficient mechanism of monitoring loans and improper due diligence results into this.

**Forged Document fraud:** Frauds involving falsified papers occur when a person or a company utilizes false documents to obtain services from banking firms.<sup>14</sup>

**Bill discounting fraud-** Bill discounting fraud occurs when a fraud bank client pretends as a legitimate customer with the help of a third party and retains a loyal customer role. So, when the remaining balance between the organization and the customer is sufficiently big, the customer vanishes.<sup>15</sup>

**Money laundering-** Money laundering is a scheme in which the true origin or source of funds is concealed in order to obtain an illegal gain.<sup>16</sup>

**Tax Scams:** This type of fraud is most common around tax season, when citizens are waiting for their tax refund or reduction. Fraudsters send citizens fraudulent discount SMS and texts claiming to be from the IRS. These mails are primarily meant to collect their own information, such as I-T Department online login credentials, bank account information, and so on. You will be asked to provide confidential financial information in order for the returned amount to be credited to your account.<sup>17</sup>

**Online Shopping Frauds-** It's one of the biggest cyber-scams in contemporary memory. Con artists use this strategy to scam unwary consumers of their money by creating fake ecommerce

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<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> Isha, *Offences relating to documents: All you need to know about it*, IPLEADER (Last visited: Sept 25, 2021), <https://blog.ipleaders.in/offences-relating-to-documents-all-you-need-to-know-about-it/>.

<sup>15</sup> *Bill Discounting Fraud Law and Legal Definition*, US LEGAL (Last visited: Oct 1, 2021), <https://definitions.uslegal.com/b/bill-discounting-fraud/>.

<sup>16</sup> Dr. D. Mahila Vasanthi Thangam & Bhavin PP, *Banking Frauds in India; A case analysis*, 6 JETIR 29, 30-31, (2019).

<sup>17</sup> *Internet Banking and Legal Remedies*, LEXLIFE INDIA (Last visited: Sept 21, 2021), <https://lexlife.in/2021/07/01/internet-banking-and-legal-remedies/>.

site.<sup>18</sup> They display enticing things at a reasonable price on the website. Regardless, either the phoney item is delivered or the item isn't delivered at all once the purchase is completed with online payment. There will be no return or refund options on these sites, and there will be no way to contact customer support.

**Lottery Fraud:** Lottery fraud is one of India's top three web frauds. The majority of us have had such texts shared to us. Lottery deception occurs when scammers call you or send you messages claiming you have hit the lottery worth crores of rupees. To avail the lottery money, you will be asked to send online money for tax purposes. Now, when you're there to pay in cash, you must go to a fraudulent site. When you try to make a payment through those sites, all of your card information will be stolen.<sup>19</sup>

### **STATISTICS IN INDIA**

In the year 2020-2021, the frauds in Banking and other financial institutions were reported worth Rs. 1.38 trillion. It had decreased to 25% in contrast to the last year where the money was Rs. 1.85 trillion, in accordance to the report by RBI. The total number of cases of fraud in 2020-2021 were reported at 7,363. RBI covers only those cases as frauds where the amount is Rs. 1 lakh and more.

The RBI data suggests that the share of public sector banks in frauds, both in terms of number and value, has fallen, while that of private sector banks increased in the corresponding period.

Furthermore, most frauds are occurring in the loan portfolio of financial institutions, the report says. The loan portfolio involved 47.5 per cent of the frauds in terms of number and 99 per cent in terms of the amount involved, in the year 2020-2021.

Also, the RBI report said there was an increase of 31.3 per cent in counterfeit notes detected in the denomination of Rs 500 (Mahatma Gandhi (new) series) in 2020-21 compared to the previous year. However, there was a decline in counterfeit notes detected in other denominations.<sup>20</sup>

### **CAUSES OF BANKING FRAUDS**

“Lack of adequate top management supervision, faulty incentive mechanisms for employees, a weak regulatory system, a lack of appropriate tools and technologies to detect early warning signs of fraud, a lack of coordination among different banks across India, collusion between

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<sup>18</sup> *Fake Shopping Website Frauds*, CYBER CELL DELHI (Last visited: Sept 25, 2021), <http://www.cybercelldelhi.in/Fakeshoppingsite.html#>.

<sup>19</sup> *Id.* at 17.

<sup>20</sup> Subrata Panda, *In Pandemic year, bank frauds down 25% by value: RBI annual report*, Business standard

employees and external parties, a lack of adequate training, and an excessive burden on bank staff could all be factors”.<sup>21</sup>

Based on the cases, the following variables are accountable for the commission of frauds at public sector banks:

1. Participation of employees, either on their own or with the assistance of others.
2. Incompetence of bank employees to follow established procedures and rules.
3. Manipulation or forgery of banking instruments and papers.
4. Collusion between business, senior bank executives, and government officials in order to defraud banks.
5. Banks' inability to assess the technical aspects of a project for financing due to a lack of expertise and aptitude.
6. Banks' failure to conduct sufficient due diligence.
7. Funds are diverted by company promoters through the use of shell firms.
8. Frauds perpetrated by businesses.

### **LAWS TO PREVENT THE FRAUDS IN BANKING SECTOR IN INDIA**

The legislative structure, which also offers criminal measures for these deceptive conduct, is one of the most important weapons in fighting these banking scams. This is nothing more than the legislature's attempts to stop the horrific financial frauds. They can attempt to enact new regulations or change current law. Though legal principles have changed as a result of the expansion of the IT sector, e-banking rules require a higher level of attention. There are several laws in India that deal with the financial system some of which are discussed hereunder:

#### **Indian Penal Code, 1860**

Perpetrators who conduct frauds in financial services can face penalties under Indian criminal law, which contains appropriate penalties under the Indian Penal Code, 1860. Some of the main crucial ones of the IPC are addressed in this respect.<sup>22</sup>

- Section 403- “Dishonest misappropriation of property”
- Section 405- “Criminal breach of trust”
- Section 415- “Cheating”
- Section 463- “Forgery”
- Section 489-A- “Counterfeiting of currency notes”

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<sup>21</sup> Mrs Sunindita Pan, *Analysis of Frauds in Indian Banking Sector*, 4 IJTSRD 70, 72-73, (2020).

<sup>22</sup> Subash Agarwal, *Banking Frauds, IPC & Fraud Prevention*, PARAS KOCHAR ADVOCATE (Sept 30, 2021), <http://www.incometaxparaskochar.com/Image/BANKING%20FRAUDS.pdf>



### **Information Technology Act, 2000**

The Indian legislature introduced the Information Technology Act of 2000 to permit for the prosecution and punishments of digital scams. Section 43 of the Act provides for substantial liability up to rupees ten lakhs levied on the perpetrator to give to the individuals impacted in the case of unauthorised acts initiated in regard of some other individual's data system, including exposure, installs, or trying to take multiple reports or information saved, entry of computer virus, harm to the computer or its system, and so forth. Furthermore, the aforementioned Act makes interfering with computer generated files and hacking computer systems punishable by up to three years in prison.

### **Insolvency and Bankruptcy Code (IBC), 2016**

The purpose of this Code is to create a standardized framework for dealing with bankruptcy and insolvency issues. The creditor-in-saddle strategy is used by IBC, in which specialists with interim solutions take over control of corporate debtor matters from the beginning. The accounts of people with NPAs and wilful defaulters are excluded from the settlement process during this procedure.<sup>23</sup>

### **Banking Regulation Act, 1949**

This Act has been amended to give the Reserve Bank of India (RBI) the authority to deliver bank instructions and to initiate the Insolvency and Bankruptcy Code's (IBC) bankruptcy resolution plan.<sup>24</sup>

### **Fugitive Economic Offenders Act, 2018**

This Act became effective on April 21, 2018. The Act was passed to keep economic criminals from fleeing the nation. Any specialized court has the jurisdiction within this Act to take all property and possessions of violators punished with such a delinquency of about Rs. 100 crores or who tried to prevent the penalties by trying to stay outside the purview of Indian courts.<sup>25</sup> This Act attaches and confiscates the property of fugitive economic offenders. The Act also allows the perpetrator to be disqualified from contesting any civil suit.

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<sup>23</sup> Vanya Verma, *Acquainting with the recent banking frauds and laws encompassing them*, IPLEADER (Last visited: Sept 30, 2021),

[https://blog.ipleaders.in/acquainting-recent-banking-frauds-laws-encompassing/#Laws\\_made\\_by\\_the\\_government\\_to\\_prevent\\_the\\_bank\\_scams\\_in\\_India](https://blog.ipleaders.in/acquainting-recent-banking-frauds-laws-encompassing/#Laws_made_by_the_government_to_prevent_the_bank_scams_in_India)

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

### **Legal Entity Identifier (LEI)**

The RBI<sup>26</sup> recently created the Legal Entity Identifier (LEI) with the goal of preventing and detecting banking fraud. The establishment of LEI was motivated by the fact that money laundering occurs through a large network of firms located in several countries, making it difficult to maintain track of the company's transactions.

### **YH Malegam committee**

The RBI formed the YH Malegam Committee to look into the reasons causing the surge in fraud cases. This committee was formed to investigate bad debts, audit effectiveness, the rise in fraud cases, and the classification of bad loans. This committee was chaired by Y.H. Malegam, a previous leader of the RBI's Central Board of Directors.<sup>27</sup>

### **National Financial Reporting Authority (NFRA)**

NFRA<sup>28</sup> was established in 2013 under Section 132 of the Companies Act. The national government's goal in establishing this was twofold: first, to form an autonomous and distinct regulatory power that could aid in executing and formulating accountancy and audit regulations, and second, to boost public and investor confidence in the institution's business operations.

### **Important cases**

#### **Kingfisher's Vijaya Mallya**

The Kingfisher tycoon Vijay Mallya is accused in India of fraud and money laundering to the tune of 90 billion rupees. He fled to the UK and there are efforts underway to get him extradited. The collapse of Kingfisher Airlines, which stopped flying in 2012 and had amassed US\$1 billion in debt, left him in trouble. State Bank of India has called for him to be jailed as the country's largest lender tries to recover money it is owed.

#### **Rotomac founder Vikram Kothari**

Vikram Kothari, the founder and chairman of Rotomac Pens, based in Uttar Pradesh in north India, has been accused of a 36 billion rupees loan default, on loans taken from a consortium of seven Indian banks. The scandal emerged following the break out of news of the \$1.8 billion

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<sup>26</sup> Introduction to Legal Entity Identifier, RBI (Last visited: Oct.01, 2021), <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12010&Mode=0>

<sup>27</sup> *Malegam Report*, RESERVE BANK OF INDIA (last visited: Sept 29, 2021), <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/YHMR190111.pdf>.

<sup>28</sup> National Financial Reporting Authority, <https://nfra.gov.in/about-us> (last visited Oct 01, 2021).

fraud linked to the jeweller Nirav Modi and after state-run lender Bank of Baroda filed a complaint with the authorities.

### **Jatin Mehta of Winsome Diamonds**

A Gujarat-based diamond merchant Jatin Mehta is considered to be one of India's biggest defaulters. He owns a company called Winsome Diamonds and is accused of owing more than 65 billion rupees to a consortium of Indian banks, including Punjab National Bank, which took the biggest hit. He fled India in 2016 and now resides in St Kitts and Nevis in the Caribbean. This case had similarities to the Nirav Modi scandal. Letters of credit were issued on the behalf of Indian lenders to raise money from international bullion banks, but these loans were never paid, leaving the Indian banks exposed.<sup>29</sup>

## **PREVENTIVE MEASURES**

### **Prevention At the Level of Banking Institutions**

According to RBI guidelines, each and every bank in India, as well as foreign banks with branches in India, must have a separate department dedicated to managing banking frauds and finding ways to regulate them, as well as cases that come into the bank must be resolved by them or they must guide purchasers on how to resolve their cases and the fraudster. Each bank is required by RBI regulations to maintain a review council.<sup>30</sup>

The fraud review council's job is to examine if the schemes put in place to reduce the number of banking frauds are effective, and whether the rules, conventions, and regulations enacted to combat banking frauds are correctly implemented. Before implementing the same, banks must have a security policy that has been authorized by the board of directors. Banks should establish a separate department to oversee the safety of the knowledge base via which e-banking transactions are conducted, as well as the data stored in the system.<sup>31</sup>

All banks<sup>32</sup> should immediately implement the central bank's malfeasance procedures, with no delays or vulnerabilities. Public sector banks should exercise greater caution when dealing with these scams, but there should be a quick warning and follow-up procedure in place.

The public bank should start training seminars for bank staff as well as awareness campaigns initiatives concerning bank fraud and its possible repercussions. The banking industry should implement a continual training programme for its employees to help them combat the current

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<sup>29</sup> Rebecca bundhun, *The History of bank fraud in Inida*

<sup>30</sup> *Master Directions on Frauds*, RESERVE BANK OF INDIA (last visited: Oct 01, 2021), [https://www.rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=10477](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10477).

<sup>31</sup> *Id.* at 4.

<sup>32</sup> *Id.* at 30.

fraudulent tactics. Legislators should make the first move to create a more complete regulatory system that will instill the next level of fraudulent practices.<sup>33</sup>

Internal rating agencies that examine each venture before approving a loan should be established. When deciding punitive sanctions for additional penalty, the Government of India must consult service providers including auditor, chartered accountants, and standard setters. Internally and externally inspections at the departmental levels must be finished on routine, with the observation indicated with the governmental auditor and evaluated by the RBI.

### **PREVENTION AT PERSONAL LEVEL**

**Know who is asking-** Banks rarely request private information on the call, via email, or through text messaging. As a result, avoid disclosing PINs, credentials, or financial data about your company without first verifying it.

**Keep it secret and safe-** To minimise the dangers of password exchange at work, establish a strong password<sup>34</sup> policy. In addition, never keep files that contain financial data in an insecure location. Also, when you're not using your computer, make absolutely sure it's secured.

**Manage user authentication-** Restrict email addresses and IP addresses so that only authorized transactions can take place. Make purchases exclusively from authorized and reliable websites, and verify the financial information of the organization on a routine basis.

**Cyber awareness training-** Using tools like ThreatCop, teach staff about cyber security awareness. It assists in imitating cyber-attacks in order to determine the number of susceptible personnel in your firm and provide appropriate training.<sup>35</sup>

### **SOME GENERAL PREVENTIVE MEASURES**

The following are some tips for dealing with bank fraud and forgery:

- All employees must be subjected to pre-employment vetting by the bank.
- At the departmental levels, efficient and effective implementation for fraud and forgeries is required.
- The staff must be subject to strict administrative/accounting and personnel supervision.

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<sup>33</sup> *Digital Banking Fraud: Best Practice for Technology- Based Prevention*, NET GUARDIANS (last visited: Sept 30, 2021), <https://netguardians.ch/digital-banking-fraud/>.

<sup>34</sup> Madan L. Bhasin, *The role of technology in combating Bank Frauds: Perspectives and Prospects*, 5 ECOFORUM 200, 209-210, (2016).

<sup>35</sup> Richard Singha, *The rising online Banking frauds in India*, SECURITY BOULEVARD (last visited: Sept 29, 2021), <https://securityboulevard.com/2021/01/the-rising-online-banking-frauds-in-india/>

- A fraud and forgery policy, as well as fraud training and a resolving strategy, must be developed and implemented.
- A solid whistleblower strategy must be executed: a backup plan and insurance coverage for fraud must be in place.
- Institutional safeguards and IT risk prevention must be followed up on properly.
- Internal and outsider inspectors carry out the inspection of the banks in a reasonable and impartial way.
- A pre- and post-loan visit by a bank employee to the borrower's location is required to assess the proper usage of funds.
- Whenever any customer's account can be opened, KYC regulations must be implemented in accordance with RBI rules. All documentation provided by consumers should be evaluated against the authentic and retained in possession according to the rules. The account forms, signatures, and other accompanying papers must be scanned accurately in the digital format of banking.<sup>36</sup>
- An Aadhar card and a PAN card are needed as verification of residence while opening a bank account.
- The Reserve Bank of India has asked banks to send a record of bank deposits of Rs. 50000/- and over to the Revenue Department for the purpose of issuing demand draft and other money transfers. Defendants are free from paying commission fees when obtaining demand draft from institutions.

### **CONCLUSION AND SUGGESTIONS**

To an extent, many companies have been targets of bank fraud. It's going to be a herculean task to get rid of it. The main fact to realize is that combating techniques against fraud may be profitable and revolutionary, it may help a company acquire a competitive advantage in its industry or business area. Organizations that are well stable, and effective are those where the management attempts to anticipate challenges and avoid negative repercussions before they emerge. It is important to recognize that the characteristics of any organization need a continuous assessment of risks and solutions in the face of changing circumstances.

As a consequence, banks can determine how current and potential upcoming new regulations will impact their investment plans, and if their risk analysis methods are flexible enough to adapt effectively to the ongoing legislative transition method. Finally, improved electronic protective measures should be integrated with effective services awareness training programmes that educate clients how to resist scam and understand their own responsibility. Just by collaborating

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<sup>36</sup> Know Your Customer, RESERVE BANK OF INDIA (last visited: Sept 26, 2021), <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11566&Mode=0>.

with their client's financial institutions one can become consistently efficient in their fraud preventive interventions.

Incorporating developing technologies into a bank's systems is among the most essential precautions it can adopt to avoid fraud. Many banking institutions have failed to benefit from the nation's digital age. Obtaining and presenting fake documents is easier than it was even five years ago, and the number of such submissions has only grown. The use of integrated technology to verify documents digitally is an important step in preventing fraud. AI and Machine Learning technologies have been a watershed moment for organizations all over the world, and the financial system will only gain from incorporating these technologies into their networks.

When issuing loans to individuals or businesses, due diligence involves a variety of factors that is to be evaluated. The first preventative precaution that financial institutions can do is to check the individuals' public records to ensure their trustworthiness. There are various government-verified sources for evaluating credit scores, personnel information, and other factors that might help assess their financial condition and hence their trustworthiness.

The next precautionary measure that banks might take in this circumstance is to search the entities for any unfavorable news that has been released against the applicant in a certain time period. For banks evaluating the legitimacy of applications, news agencies are a useful source of knowledge.

Finally, banking institutions should take advantage of advances in AI and machine learning technologies to anticipate trends and know from mistakes. Incorporating digitalization into banking processes without providing useful understanding and analysis generated over a period is a waste of that resource. Financial institutions must preferably establish or integrate advanced algorithms that help forecast future cases of fraud so that abnormalities may be caught early and questionable applications can be weeded out. Regular monitoring on notifications, changes, and lists issued by supervisory authorities like SFIO and SEBI can also assist institutions in putting procedures in position to prevent illicit practices.<sup>37</sup>

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