

# Identifying the Measures for Fraud Detection Specifically Loan & Advance Related Fraud in the Banking Sector of India

Neelam Devi Bansal\*

M.A., M.ED.

**Abstract – The Indian banking industry has experienced a lot of growth as well as changes since the liberalisation of the economy in 1991. Although the banking industry is usually well regulated as well as supervised, the sector suffers from the own set of it is issues with regards to ethical methods, business governance, and financial distress. The loan, as well as advance connected frauds, indicate that there's huge increase in the previous seasons. As being a developing country, this increase in the amount, as well as amount active in the advance connected frauds, is actually one of biggest threats to the economy of India. The detection, as well as avoidance of the sorts of frauds, are actually the main concern for the banks because these frauds are actually recognized typically right after quite a while of the occurrence. This particular analysis endeavours to cover problems like mounting credit and banking fraud card debt. The analysis finally proposes several suggestions to minimize future occurrence of frauds in the Indian banking sector.**

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## I. OVERVIEW

The human History enables very well to recognize the chances of lending cash. Lending, as well as borrowing, have a history that is long connected to human behaviour. A credit risk part might be connected with lending transactions, to minimize credit danger. Credit scoring strategies might be utilized to evaluate the creditworthiness of a borrower. The info loaded in the personal finance application form is actually utilized to produce a numerical score for these scores and each applicant might be utilized to discriminate on good and bad loans. Credit scores are broadly classified into 2 groups depending on the strategy utilized to get scores, i.e. judgmental or deductive credit scoring and statistical or empirical credit scoring

India offers a fascinating case study of loan quality for reasons that have both general and immediate relevance. At the present juncture, the Indian banking industry is actually beleaguered by boosting bad loans, with gross NPLs accounting for 7.5 per cent of banks' total great loan portfolio in the fiscal 12 months ending March 2016. If the restructured loans are actually included, the overall stressed loans work out to 10.8 percent of the entire loan portfolio.<sup>3</sup> This increase in the anxiety of banks' loan publications has followed the outbreak of the global financial problems along with a period of extremely high credit development in the mid-2000s. The anxiety in loan publications is now especially striking after 2011. In

light of the latest trends in NPLs, it can be relevant to understand if and just how much the bank credit dynamic affects loan quality of Indian banks. It might additionally be worthwhile to look at a variety of macroeconomic as well as bank specific determinants of NPLs. Furthermore, typical of the emerging world, India has a pretty big public banking sector. Public banks account for approximately seventy-three per cent of the entire assets of the banking system (and approximately forty-seven per cent of the absolute.

Banking is actually the lifeblood of every nation and plays a paramount function in activating as well as sustaining the economic development. Banking accommodations include things like supplying the facility of deposits, withdrawals, transfer of cash borrowing facilities and many more monetary facilities. Banks give developments to people, firms, corporate for availing their monetary requirements for example loan for the home, loan or conveyance for working capital facilities, expansion of company etc. You will find a number of reasons for which bank offers probably the imprest facility for the betterment of the people, economy, and business through the persons with mala fide intentions divert the cash to the purposes apart from the verbally expressed and because of wrongful losses to banks& victims. Whereas on the one side we come across the huge progress in the banking industry in the prior 10years (From 2002 to 2012) i.e. that number of loan accounts are actually

enhanced from 5.64 cr. to 13.08 cr., on the additional side based on the reports of RBI the variety of advance cognate frauds are actually elevating from year to year.

## II. OBJECTIVES

1. To evaluate the significance of loan and advance functions of bank in India.
2. To classify different types of frauds and suggests some measures for preventing it.

## III. RESEARCH METHODOLOGY

In this paper exploratory approach is taken to identify the measures of Fraud related with banking sector in our country. Data related with frauds done in past years is evaluated to know the current situation.

## IV. PROPOSED FRAMEWORK FOR FRAUD PREVENTION

The bank frauds lead to a massive loss to bank. The effect of the frauds isn't just restricted to banks though the economy has bearing the losses as a result of frauds. The losses as a result of frauds aren't financial losses though the nation has to deal with the economic losses as well. These economic losses could be a lot more than the monetary loss in the terms of the

On the foundation of the above-mentioned analysis a framework is suggested by the writer which will help in reducing the loan along with advance connected frauds

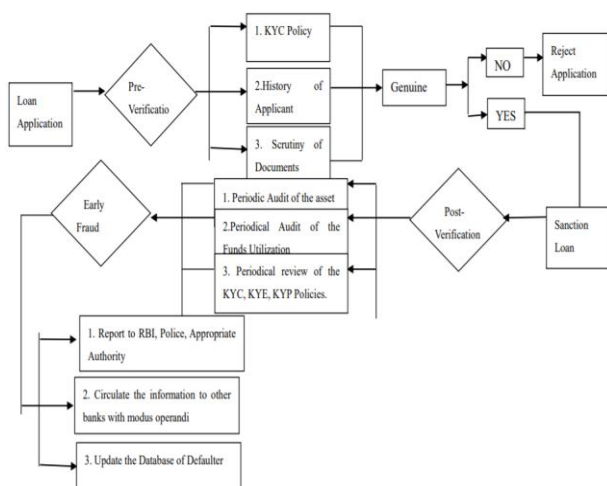


Fig 1 Author's Line Flow chart for Fraud Detection

This particular Framework is going to help the banker to lessen the statistics as well as the effect of the fraud Incidences. As plainly apparent in this particular figure that the framework is actually split into 2 phases i.e. Pre Verification & Post Verification.

## V. CLASSIFICATION OF BANK FRAUDS

The data reveals that over ninety-five % of selection of quantity as well as fraud cases needed in fraud comes from business banks. Involving the industrial banks, public sector banks account for only approximately eighteen % of a total number of fraud cases, whereas in phrases of the total amount for you, the proportion goes as high as eighty-three %. This's in contrast that is stark with private sector banks, with about fifty-five % of a selection of fraud cases, but just approximately thirteen % of the entire length needed in these kinds of cases (Figure one). The PSBs are definitely more vulnerable in case of big-ticket advance connected frauds (one crore or perhaps above) in phrases of both selection of fraud cases reported and full quantity required.

The correlation between the rising amount of NPAs of public sector banks and frauds possibly indicates absence of requisite standards of corporate governance leading to more instances of higher value bank loan default as well as potential collusion between corporate entities as well as higher echelon bank officials. Additionally, just in case of private banks, considerable number of fraud cases with the comparatively low price of fraud suggests very nature of fraud - online/cyber/technology connected frauds with a high frequency of occurrence and comparatively small associated price.

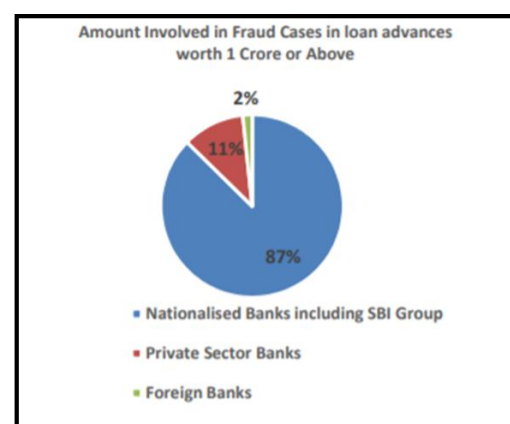


Figure 2: Group wise summary of advance related fraud cases

## **VI. SUGGESTIONS FOR DETECTION OF FRAUDS**

Thus, the following suggestions are recommended for a premature detection of frauds.

- a) Independent specialized cadre: The government might give some thought to an unbiased specialized cadre of officers on the lines of all India services, that are built with the greatest financial as well as legal know-how to identify monetary frauds and therefore are able to carry out a highly effective and time-bound searching of such scams. In the term that is short, the federal government is able to think about developing this cadre with a pool of business bankers, CBI and RBI officials through lateral recruitment.
- b) Know the markets of yours: Additionally, to find out the vendor of yours and know the client of yours, the banks must also concentrate on understanding your markets. Generally, there ought to be a separate cellular inside each bank to evaluate the company/firm to which they're lending as well as the macroeconomic surroundings of the concerned market or maybe business where items are promoted.
- c) Internal rating bureau: Banks must have a strong inner rating agency, which evaluates lots of ticket tasks just before sanctioning loans. The rating agency must absolutely assess the task on the foundation of the company model/plan of task without being affected by brand or maybe creditworthiness of the parent company, considering present macroeconomic circumstance as well as exposure of the industry to the worldwide economy.
- d) Use of newest technology: The information collection mechanism of banks is quite archaic and must have a revision. The banks must make use of the very best out there IT methods as well as data analytics to be able to ensure highly effective implementation of the white flagged account (Early warning and rfa) signals (EWS) framework indicated by the RBI, which would assist in a much better profiling of people by analysing patterns of the transactions of theirs and rendering a near real-time monitoring easy for banks.
- e) Strong punitive methods for third parties: The government must think about evaluating the job of third parties like rating agencies, auditors, advocates, and chartered accountants that figure in accounts connected to bank frauds, and set in place

strict punitive measures for potential deterrence.

- f) Strong laws to avoid fraudulent economic reporting: You will find numerous places where the present laws could be made stronger to enhance the accountability of auditors toward the careers theirs.
- g) Financial literacy: Many times, the staff doesn't understand the actual meaning of fraud and hence has to be knowledgeable with regards to this particular element. Thus, learning sessions for staff members as well as the greatest practices throughout the planet of areas of early fraud detection as well as prevention must be imparted to staff on a regular basis. Generally, there can easily be frequent e modules with e certifications & updates made readily available.

## **VII. CONCLUSION**

Credit associated frauds have the optimum effect in all of the banking frauds in India due to the high amount required as well as the cumbersome practice of fraud detection followed by CVC. The frauds might be mainly thanks to lack of sufficient supervision of best management, defective incentive mechanism in place for personnel; collusion between the staff, company borrowers as well as third party agencies; vulnerable regulatory system; absence of appropriate resources as well as technologies in place to identify premature warning signals of a fraud; lack of understanding of bank employees as well as customers; and lack of coordination among various banks across India & abroad. The delays in legitimate methods for reporting and different loopholes in the system have been regarded as several of the main reasons for NPAs and frauds.

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**Corresponding Author**

**Neelam Devi Bansal\***

M.A., M.ED.