

FINANCIAL FRAUDS AND SCAMS IN INDIA

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RECENT BANK SCAM IN INDIA : SPECIAL REFERENCE WITH PNB

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ABSTRACT

Financial frauds are increasing day by day. Public money is not safe even the bank. Bank is losing the trust of consumers. Government of India should make new policies to reduce the bank scam. It is very important to save the image of the Indian banks as well as the financial system across the world. So we should know the major factors which play a major role to execute this kind of financial frauds. The major concern of this paper is to reveal the reason of bank frauds and enlighten the recent bank scam that happened in India. The expert opinion and news are used for analyzing the data.

Keywords : - Banks, India, Scam, PNB, Image, consumers, trust

INTRODUCTION

Bank scam is very dangerous for any economy of any country because financial system is the backbone of country and the major portion of financial system depends on the all working bank in that particular country. India facing the problem of bank scams since last many years.

Government of India should take action to stop this scam because it will adversely affect the economical system. Lots of NPA is creating due to these kinds of financial frauds. In February 2013 the biggest financial fraud happened in Indian PSB Punjab National Bank (second largest commercial bank of India) by jewellery merchant Nirav Modi. This was very shocking news for not only for India but also for the world. This was global news which spread out all over the world. This news not only affects the FII but also the mindset of every citizen of India who is also a big investor. Every citizen of India keeps money with bank for safety and security. Every citizen earns money very hard and keeps money in the bank account with this trust that his money is safe. But this scam plays a role to change the mindset of the Indian consumer. Although PNB scam does not affect the money kept in its bank account but somehow it would bear by account holders indirectly in long run. It also affects India's credit rating across the world. It also changes the mindset of the major investors who invest in India. This scam not only affects the Indian economy but it also affects the growth rate of the country.

OBJECTIVES OF THE STUDY

1. Find out the causes of PNB scam happened in February 2018
2. To understand the Impact of PNB scam on Indian economy.

DATA COLLECTION

Secondary data has been used for this study. The data is collected from articles, news papers text books, journals, and related websites available on internet.

MEASUREMENT

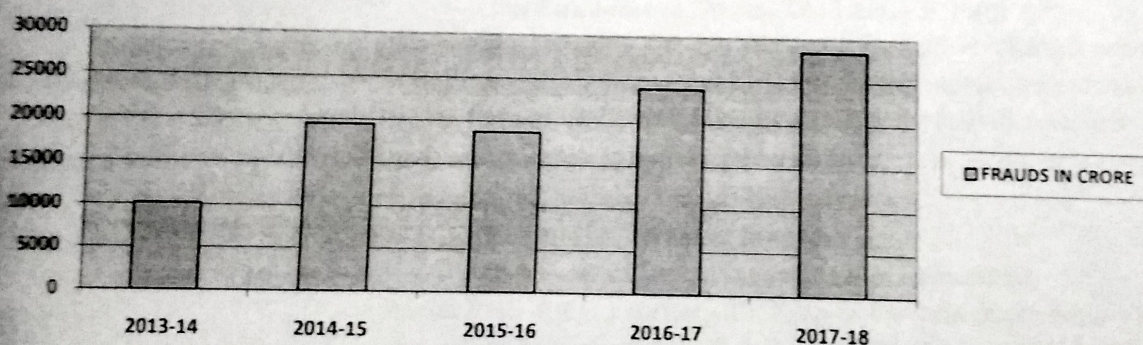
Expert opinion and situation specific scenario and article published on internet have been used for the analysis.

THEORETICAL FRAMEWORK

1. According to RBI report ₹ 1 lakh crore bank fraud happened within last 5 years.

Article published in times of India dated 2 may 2018 RBI said that ₹1 lakh crore bank frauds recorded in India during last 5 years.

- Following details of frauds provided by RBI during last 5 years.



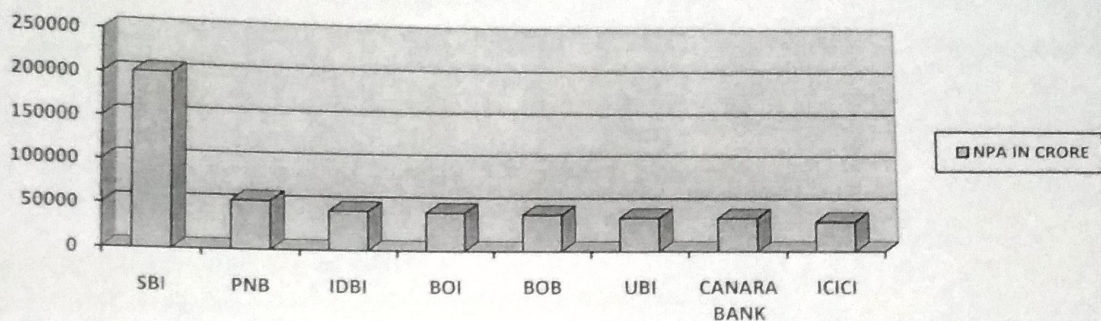
Source :- (<https://timesofindia.indiatimes.com/business/india-business/over-23000-bank-frauds-worth-rs-1-lakh-crore-reported-in-5-years-rbi/articleshow/63998429.cms>)

From the above chart it is clear that total 23866 bank frauds cases recorded of worth ₹ 100715 crore.

2. The condition of Bank's NPAs in India

The condition of NPAs of all banks in India till December 2017 was ₹ 840958 crore by providing industry loan.

- Following chart is showing the NPAs of the leading bank running in India.



Source :- (<https://timesofindia.indiatimes.com/business/india-business/over-23000-bank-frauds-worth-rs-1-lakh-crore-reported-in-5-years-rbi/articleshow/63998429.cms>)

3. Arvind Subramanian said the reason for bank scam is

- Public sector ownership serves as handicapped in bank recruitment
- Handicapped in resources procurement and governance
- Decision making is almost paralyzed due to the four C's (Court, CBI, CVC, CAG)
- Private sector bank are crater of wealth since last three years.
- Lots of progress of bank had been made in recognition of bad and stressed assets in past years.
- Recapitalization must be accompanied through ensure that NPA related issue are not repeat
- To ensure effectiveness government invested lots of money to reform.
- It should have been done proper supervise and regulated by regulator.

4. Huge amount of banking frauds in financial year 2018.

- Dr. Sukhamaya Swain, Dr. Lalata K Pani

Government should hire the third party such as chartered accountant, advocate or auditors, rat agencies to check account related frauds. and should take strict action if any mistake found.

Bank follows only traditionally focused method for security, bank should consider arranging program of cyber risk and other measures.

5. Reason for banking frauds

- Opinions of Vijay Sardana (The Economist)

About PNB fraud February 2018 Vijay Sardana (Economist) said that if it will be given all authority and power to some people then probability of happening would be high. The same case happened with PNB. Government should remove discretionary power from individual.

PNB scam is the result of failure of internal control and poor management system.

Core Banking System was not linked with Society for Worldwide Interbank Financial Telecommunication by PNB it is the violation of RBI guidelines.

- **Opinions of Mr. Raghuram Rajan (The former governor of RBI)**

Raghuram Rajan said that Indian banks are still following the oldest system which is not adequate to prevent from financial fraud.

- **Madan Lal Bhasin**

Madan Lal Bhasin Said in his article that 60% fraud cases happen due to the false documentation and inadequate control. Professional and managerial employees involve in 45% of the fraud cases.

Indian banks are not following yet the zero tolerance policies.

In the banking institutions, most of the frauds detected by the customer complaints.

Internal auditing professional should play professional role for fighting against frauds.

6. **Impact of financial frauds**

- Customers have started to like private bank rather than government bank.
- Indian trade negatively affected by the financial frauds happening in the banks.
- PNB scam happened in February 2018 impacted negatively on Indian economy.
- Diamond Business and jewelry sector affected negatively due to the PNB scam Happened in February 2018.

CONCLUSION

India's economy is being rocked by a banking scandal involving diamond merchant Nirav Modi and his accomplices in the second biggest bank in the country, the Punjab National Bank. The one of the factors of PNB bank scam is the failure of internal control and the poor management of the bank.

Due to this PNB bank fraud the banks and the jewelry sector are come under pressure. Now getting the credit from PSB has become very difficult for diamond businessman. Customers are now shifting from government bank to private bank. The trust of customer became less over Indian public sector banks.

Indian business affected negatively due to the bank fraud happened in India.

Government of India must make serious polices to control the Indian financial system. RBI should frame the policies to control the bank frauds.

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