

An Empirical Study on Banking Frauds in India- with a special reference to role of Employee Awareness in Banking frauds

Neha Sharma¹

Dr. Dhiraj Sharma²

Abstract:

The present study depicts the part of frauds from the perspective of managing the banking industry. The study tries to figure out the different reasons responsible for the happening of frauds in the Indian Banking Sector. The study highlights the different causes responsible for fraud event in banks and these reasons are work pressure on staff, insufficient trainings, industry competitiveness, family pressure and low degree of compliance followed as issued by RBI time to time. It displayed the reality of aversion measures recommended by Reserve Bank of India and those adopted by banks which are followed by employees and up to what degree. It intends to give a profound comprehension on the familiarity with bank employees towards these misrepresentation aversion procedures and in addition their awareness towards different sorts of frauds. A system needs to be strong to control internally in a way that best employment practices are used to prevent banking frauds and then lessen the losses. The study shows that the different internal control measures adopted by Indian banks are not sufficient and also not meeting the requirements of RBI. The study also indicates the advantages of employee on job training in the prevention of banking frauds. The Indian banks should take a very serious note of the rising trend of bank frauds and also there is a need to make it sure that there is no laxity on the part of bank employees in internal control measures.

Key Words: Banking Frauds, RBI preventive measures, Employees' awareness, Causes of Frauds.

1. Research Scholar, Punjabi university, Patiala
2. Assistant Professor, Punjabi University, Patiala

Introduction:

An all around composed and productive managing an account framework is a crucial pre-essential for general financial development of each nation. Saving money industry assumes a vital part in the working of composed currency markets, furthermore goes about as a course to mobilize supports and channelizing them for profitable purposes. However, it has been seen

amid the most recent 50 years that even the complex markets and long-working keeping money frameworks have had huge bank disappointments and bank emergency because of expanding size of frauds. As indicated by the Association of Certified Fraud Examiners' (ACFE, 2012) 'Report to the Nations,' "the expense of Fraud to the US associations is broad—5 percent of yearly incomes, regardless of expanded accentuation on hostile to misrepresentation controls and late enactment to battle misrepresentation." Indeed, bank disappointments are an immediate risk to the economy of any nation, and consequently, pressing administrative changes are required to be intended to diminish the likelihood of future bank disappointments and reduce the expense of bank disappointments. Misrepresentation identification in managing an account industry is a basic movement that can traverse a progression of Fraud plans and fake action from bank representatives and clients alike. Banks, in this manner, need to get their clients effectively included in their misrepresentation avoidance endeavors as clients might will to change to contending banks on the off chance that they feel left oblivious about those endeavors. In this manner, saving money industry's danger moderation and misrepresentation anticipation endeavors must backing a monetary foundation's key objectives of expanding consumer loyalty and contributing extra income—all while securing clients and the association's notoriety. Since managing an account industry is an exceedingly controlled industry, there are additionally various outside consistence necessities that banks must stick to in the battle development against deceitful and criminal action.

Fraud is an overall wonder that influences economy as a whole and all segments of the economy. Fraud envelops an extensive variety of unlawful practices and illicit acts including purposeful misleading or deception. The Institute of Internal Auditors' "Global Professional Practices Framework (IPPF)" (2009) characterizes Fraud as: "Any unlawful demonstration portrayed by double dealing, camouflage, or infringement of trust. These demonstrations are not needy upon the danger of savagery or physical power. Cheats are executed by gatherings and associations to acquire cash, property, or administrations; to stay away from installment or loss of administrations; or to secure individual or business advantage." Fraud impacts associations in a few ranges including budgetary, operational, and mental. While the money related misfortune inferable from misrepresentation is critical, the full effect of Fraud on an association can stun. Indeed, the misfortunes to notoriety, goodwill, and client relations can obliterate (ACL). As misrepresentation can be executed by any worker inside an association or by those all things considered, hence, it is imperative to have a successful Fraud administration program set up to protect your association's advantages and notoriety

Literature Review:

The term fraud has been clarified by Association of Certified Examiners in the USA as the "utilization of one's occupation for individual advancement through purposeful abuse or misapplication of utilizing association's assets and resources". Khanna and Arora (2009) talked about in their study the issue of frauds in managing an account businesses. They assessed the reasons in charge of fraud and managing an account division. They concentrated likewise and talked about different fraud aversion strategies taken by bank staff. The study depended on the essential information gathered from the bank workers from the banks arranged in India. All out 36 banks were secured including 253 respondents who were bank representatives. The study uncovered the impression of bank workers for preventive measures taken for managing an account misrepresentation furthermore the significance of representatives preparing program in bank fraud aversion was highlighted. The study showed the outcomes that there is absence of employee trainings, work pressure on staff, rivalry in the business sector and low adherence level for the RBI arrangements issued for counteractive action of fraud, as the primary driver for keeping money cheats and the creator recommended that there ought to be a strict measures to be taken for taking after the consistence and they ought to guarantee the bank ought to take after against fraud component. However Chiezey and Onu (2013) audited the nearness of fake practices in Nigerian banks. The study depended on the auxiliary information gathered from the 14 Commercial Banks of Nigeria and Nigerian Deposit Insurance Corporation. It assessed the impact of fraud and false practices happened inside a time of 10 years in Nigerian managing an account area. The examination assessed diverse sorts of cheats and reasons in charge of that in Nigerian saving money industry inside the time of study.

Young, (2002) says that, plentiful confirmation exists that individual respectability of those running the banks today has never been at a more elevated amount. At no other time have we seen consideration regarding the genuine strides; methodology and control of money related exchanges. Representatives' and also firms in all enterprises participate in deceitful practices everywhere throughout the world. Despite the fact that the presence of frauds in our banks is not a phenomenal or unforeseen conduct, its commonness is what is stressing a direct result of all the different issues going up against the most untraceable. Workers assume an extremely noteworthy part in the event of misrepresentation whether it is by representatives or with the contribution of outsider. Cressey (1973) emphatically underlined one of the component of misrepresentation event in banks is trust in workers. The examination was led in light of the essential information gathered on the premise of logical enlistment. As indicated by the creator a representative who is confronting any budgetary issue at his own end can be a potential purpose behind increment in cheats. On the off chance that there is some data, which is of classified nature and by spillage of that data a worker can get some monetary advantage then he can abuse the trust. So it was

inferred that ravenousness of representative can be significant explanation behind happening of cheats. However Bologna (1994) examined the different outer elements required for event of fraud. They were absence of gratefulness to workers, uncalled for inside controls, non illumination of obligations and duties and additionally the reporting zone, the execution of the representatives underneath desire level, absence of surveys on time, review and absence of legitimate follow-up for consistence for approaches, objective achievement and government directions. The study concentrated on the significant reasons mindful particularly to the theft exercises happening at branch level keeping money. Further the study recommended the different counteractive action methods that can be utilized for the aversion of these sorts of fraud. Though Kiragu et al (2015) talked about the word related misrepresentation at business banks arranged in Kenya. The study demonstrated that the same had been expanded on a more extensive scale. The specialist evaluated the relationship of the span of business manages an account with the cheats submitted by workers in these business banks in Kenya. The study picked all the 43 business banks working in Kenya. An example of 258 respondents was gathered by utilizing stratified examining method as a part of the diverse bank offices of various business banks. The examination was finished by utilizing diverse factual apparatuses like relapse, ANOVA and so on. It was found in the study that a negative and critical relationship exists between the extent of bank and the in occupation fraud submitted by bank representatives. The study inferred that the in occupation misrepresentation conferred by bank representatives were more in littler banks than in the medium and substantial business banks in Kenya.

Chartered Institute of Management Accountants [CIMA] (2009) explained that fraud cannot be studied, examined or attributed to one factor only. On the contrary, a multifaceted and multifactor approach to the study of fraud must be undertaken. Looking at a fraudsters perspectives, it is necessary to take account of motivation of potential offenders, condition under which people can rationalize their prospective crimes away, opportunities to commit crimes, perceived suitability of targets for fraud, technical ability of the fraudster, the possibility and likelihood of fraud discovery and carrying out, expectations and consequences (job loss, family situations and proceeds of crime confiscation and actual consequences of discovery). Each bank has its own particular frameworks and strategies which ought to be made by taking after the conventions issued by national bank of a nation, yet when these frameworks have a few holes then it allows to fraudsters to take profit of the circumstance. In the same connection Wolfe and Hermerson (2004) propounded the hypothesis of extortion precious stone. The hypothesis examined that the identities, demeanor, capacities and capacities can assume a critical part in assurance whether extortion will happen or not. There could be numerous escape clauses in the framework yet just the fraudsters who have the ability to distinguish the provisos can get pulled in towards that chance to do the misrepresentation. The study exhibited another model for the misrepresentation event and recommended the separate measures that can help in avoidance of

cheats. Container et al. (2011) concentrated on the unpredictable structure of money related markets, which can make open doors for fraudsters. The study gave a reasonable system to investigation of cheats in budgetary segment. It underlined the utilization of misrepresentation triangle because of which the quantities of fraud have been expanded. One of the significant explanations behind event of fraud is the mind boggling and creative face of monetary markets. Further the scientists attempted to bring a model that how an individual, firm or an association insights spurs the event of fraud in the association. The study prescribed that the individual attributes and qualities ought to be investigated to think about the misrepresentation and fraudsters.

One of the significant concerns nowadays to bank segment is fraud identified with innovative imperfection backs. Siddique and Rehman (2013) displayed a calculated study which discusses different sorts of saving money fraud, for example, IRS evasion, digital fraud and different cards related fraud. The study assessed the effect of digital cheats on the present Indian saving money situation and different reasons in charge of electronic wrongdoing, for example, complex structure of the framework, carelessness at human part, loss of no-nonsense proof and information instability. They advance proposed the preventive measures to control the digital wrongdoings as appropriation of redesigned innovation and arrangement of dependable staff and other electronic gadgets. Similarly Bamrara et al (2013) investigated different sorts of digital assaults and the preventive techniques for confronting these issues in India. The study depended on the essential information. The study took an example of 100 digital wrongdoing casualties and 50 bank workers. It looked into the methodologies, which were embraced by digital fraudsters to focus on a specific bank and demonstrated that the general population and private part banks are decidedly related in different sorts of digital fraud. By utilizing the measurable apparatuses like Chi-Square and Karl Pearson's Coefficient of connection the study delineated the connections between the taken variables. It was found in the study that there was no noteworthy contrast between the systems received in the instances of electronic cheats happening out in the open and private area banks. Further the study found that the gatecrasher recognition and digital assaults were emphatically associated. However Soni and Soni (2013) exhibited a relative investigation of open segment and private area banks in India for evaluating different digital fraud. The study depended on the auxiliary information taken by distributed wellsprings of store bank of India. It concentrated on two sorts of examinations i.e. examination of same segment banks and correlation of various area banks. The information was investigated for 27 open area banks (counting SBI and its partners, Cooperative banks), 14 private segment banks and 6 remote division banks. The examination uncovered the private and outside part banks have greater offer in fraud worried with e-managing an account, charge and Mastercards and other web keeping money exchanges and the explanation behind happening of cheats was the presentation of innovation in saving money area.

Objectives of the Study:

The study looks to assess the degree of execution of internal control system. It intends to distinguish the procedural frauds and different causes of bank frauds. The study looks to know the approach of bank employees towards bank frauds and their consistence towards execution of preventive measures. It also assesses the variables that impact the level of compliance.

Research Methodology:

The study was conducted by interviewing 180 bank representatives (bank employees) specifically from the area under study, which involved Patiala & Mohali District in Punjab. A close ended questionnaire was used to know the sentiment of bank representatives. The questionnaire contained inquiries that indicated to find their training status, attitude towards systems endorsed by RBI and the employee awareness level towards frauds. The questions were designed in such a way so that they can comply with the RBI's rules and directions for avoidance of bank frauds. This survey was set up for three distinctive power level, as the power and obligation is diverse for administrators, officers and Clerks.

The universe of the present study was the Indian commercial banks specifically the Public Sector (including SBI and associate banks) and Private Sector Banks. The study used a multistage random cluster sampling technique for selecting the sample. From the total universe of Public Sector and Private Sector Banks (refer Table 1), approximately 25% of the total banks were taken as a sample. Thus, for a population of total 47 Public Sector and Private Sector Banks, a sample of 12 banks (refer Table 2) was studied. Every bank had a few branches in the region under study. Second step included the determination of branches. The branches were additionally chosen arbitrarily and the choice of branches in various ranges was done proportionately. Each representative of the chose branch was given the questionnaire by specifically going to them in bank. Out of the considerable number of workers who were given the questionnaire just 180 representatives reacted; they included 33 administrators, 79 officers and 68 clerks.

Table 1: Sample Design and Target Population

Bank Sector	Total No. (Population)	Percentage drawn from total population	Sample size	Total No. of Bank Employees (15 from each bank)
Public Sector Banks	21	25%	5	75
SBI & Associates	6	25%	2	30

Private Sector Banks	20	25%	5	75
Total	47	25%	12	180

Table 2: Sample of Banks under Study

S. No.	Sector	Bank
1.	Public Sector Banks	1) Bank of Baroda
		2) Punjab National Bank
		3) Bank Of India
		4) Canara Bank
		5) Union Bank Of India
2.	SBI & Associates	1) State Bank of India
		2) State Bank of Patiala
3.	Private Sector Banks	1) ICICI Bank
		2) HDFC Bank
		3) Axis Bank
		4) Yes Bank
		5) Kotak Mahindra Bank

Research Findings:

The results of the study shows that the compliance level is not up to the mark and the security measures as endorsed by RBI are lacking behind by the various level of employees. Also it was found that if these safety measures are 100 percent adhered by banks then the changes of fraud occurrence will come down. In present study the compliance level was checked on the various

basis such as internal audits, deposit accounts, loan accounts, internet banking (including NEFT and RTGS sections). The compliance level on these parameters was found to be as follows:

Table 4: Compliance Level under various heads

	Internal Audits	Deposit Accounts	Loan Accounts	Internet Banking
Compliance Level	96%	84%	93%	82%

Table 4 portrays the normal compliance level of Bank employees under the different heads. The outcomes demonstrate that Bank employees' compliance level is the least (82%) in internet banking section however the similar trend was shown in the deposit account compliance (84%). On the other side it can be seen that the compliance level for internal audits (96%) and loan accounts (93%) were comparatively higher. In any case, shockingly, still there is absence of 100% compliance identified with security controls under any of the above recorded heads. Hence, it is adequately clear that till now, banks in India are not ready to take after "zero-resistance" strategy.

The compliance level as prescribed by RBI, if followed by every banker then the possibility of bank frauds will get reduced undoubtedly. However the present study shows that the major portion of bank employees are either moderately supports the RBI processes or are not in favor of supporting these processes as they feel that the work pressure is more and also the availability of sufficient number of employees is very less, which actually restricts the bankers from following the procedures as laid by RBI, and only 33% employees are in favor of following proper procedures prescribed by RBI.

Table 5: Approach of Bank Employees towards RBI prescribed Processes

Approach for RBI processes	Favorable	Moderate	Unfavorable	Total
Total Bank Employees Under Study	59	78	43	180

From Table 6, we can infer that the compliance level of the administrators (72%) is higher than that of officers (33%) and clerks (21%). This might be because of the way that administrators are all the more thoroughly prepared and their state of mind towards RBI's techniques is more straight forward than that of officers and clerks. Subsequently, Administrator's awareness level is high as they have expanded level of duty.

Table 6: Compliance adherence at different ranks

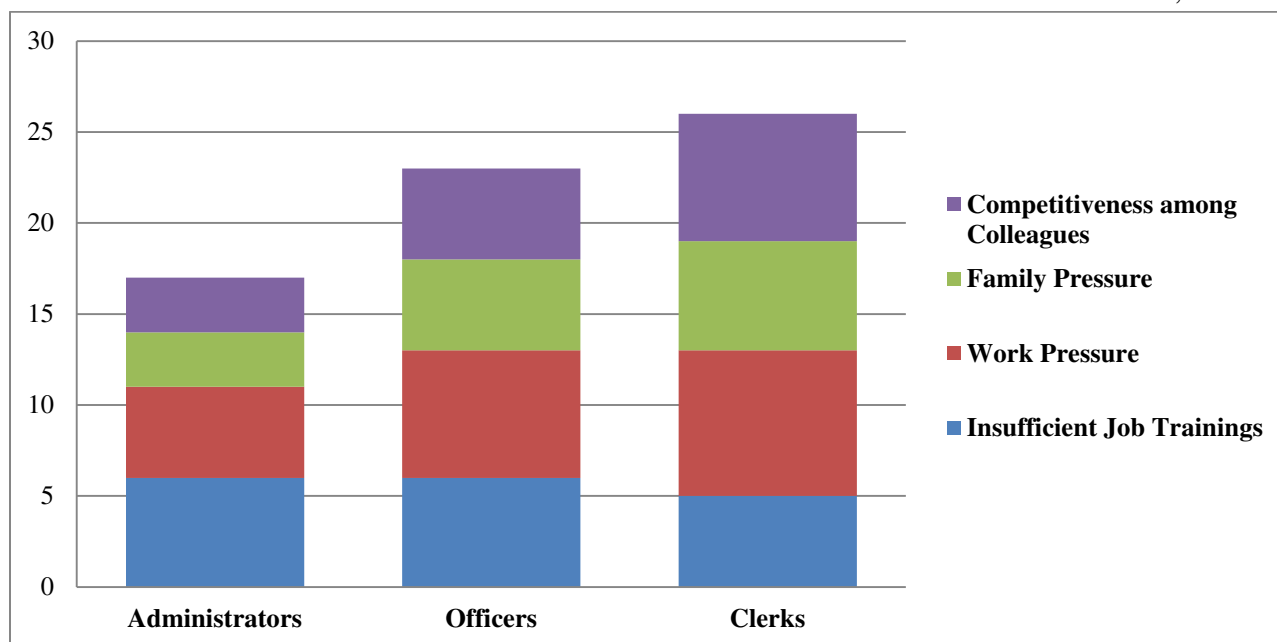
Rank	High	Medium	Low	Total
Administrators	18	4	3	25
Officers	24	25	23	72
Clerks	17	49	17	83

Another important fact is revealed through table 7, where the main circumstances are highlighted which are responsible for happening of frauds in banks. It portrays the relative significance (on 10 point score) appointed by the Bank Administrators, Officers and Clerks to the various reasons responsible for the occurrence of bank frauds. Administrators gave more weight-age to insufficient job trainings, and there after work pressure on staff. In sharp difference to this, both Officers and Clerks felt that work pressure on staff is the fundamental cause of bank frauds, which is trailed by reasons like insufficient job trainings, competitiveness among colleagues and family pressure. These reasons are also shown here in the Chart 1 which reveals the graphical presentation of these factors.

Table 7: Scores marked by bank employees to various reasons responsible for bank frauds

Position	Insufficient Job Trainings	Work Pressure	Family Pressure	Competitiveness among Colleagues
Administrators	6	5	3	3
Officers	6	7	5	5
Clerks	5	8	6	7

Chart 1: Reasons of bank frauds



Weakening of framework and non-adherence to methodology is additionally a noteworthy explanation behind bank frauds. Tuned in to the monetary progression and changes in the money related segments, new private sector banks have entered the banking industry and made the competition level tougher. In the attire of existing quality client administration to meet competition, time regarded framework and strategies have been weakened. The bank employees have given high score to the competitiveness that forces the officer in control to bargain with the system. Once in a while numerous choices are made at the bank level. It gives the idea that misinterpretation has created in the brains of numerous officers that over the span of improvement of business and in giving great client administrations techniques can be weakened. The corrupt components both inside and outside watch such weakening occurring in the branches and astutely execute frauds.

Conclusion:

The bank employees don't give due significance to the issue of frauds. The awareness level of bank staff with respect to bank frauds is not extremely acceptable, and dominant part of them don't arrange good mentality towards RBI strategies as they discover trouble in tailing them because of work pressure and competition in the industry. However banks can secure and protect the wellbeing, trustworthiness and validness of the exchanges by utilizing multipoint investigation: cryptographic check obstacles.

Another important aspect is keeping in mind the end goal to tackle the issue of frauds it gets to be basic to properly train employees in counteractive action of bank frauds. It is likewise vital to give sufficient staff so that rules and directions set around the RBI can be taken after entirely. The correspondence procedure between the supervisor and staff ought to be enhanced so that appropriate data about frauds is spread. The state of mind towards RBI systems ought to be enhanced through legitimate correspondence. The bank worker ought to be instructed with reference to why a specific strategy is taken after and what can be the suggestion on the off chance that it is not held fast too entirely. An approach of obligatory leave in a month ought to be acquainted so as with divulge the deceitful deeds performed by degenerate officer in control.

References:

- Association of Certified Fraud Examiners (ACFE, 2012), “Report to the Nation on Occupational Fraud and Abuse,” The Wells Report, 2012.
- Institute of Internal Auditors (2009). International Professional Practices Framework, published by the IIA.
- Khanna A. and Arora B. (2009), A study to investigate the reasons for bank frauds and the implementation of preventive security controls in Indian banking industry. International Journal of Business Science and Applied Management, Vol. 4, Issue. 3. pp 1- 21.
- Chiezey Uchenna & Onu Agbo J. C. (2013), Impact of Fraud and Fraudulent Practices on the Performance of Banks in Nigeria. British Journal of Arts and Social Sciences. Vol.15 No.1. p. 12-28.
- Young M . R. (2002) Accounting Irregularities and financial fraud. Pp 1-9 Publishers: Aspen law and Business, Aspen Publishers Inc. NY
- Cressey D. (1973), Others Peoples Money: A study in the Social Psychology of Embezzlement. Montclair, N. J. Patterson Smith.
- Bologna, J.G., (1994), How to detect and prevent embezzlement? The White Paper, August/ September, p 4.
- Kiragu, N. D., Gikiri. W. L & Iminza, N.W (2015), Bank size and occupational fraud risk: empirical evidence from commercial banks in Kenya. European Journal of Business Management, Vol. 2, Issue 1, p- 189-404.
- Chartered Institute of Management Accountants (CIMA) (2009). Fraud Risk Management: A guide to good Practice. CIMA.
- Siddique M. Imran & Rehman Sana (2011), Impact of Electronic crime in Indian Banking Sector – An Overview. Int. J Busi. Inf. Tech. Vol. 1, No.2, p-159-164.
- Bamrara Arun, Singh Gajendra & Bhatt Mamta (2013), Cyber attacks and defense strategies in India- An Emperical assessment of Banking Sector. International Journal of

Cyber Criminology, Volume 7 issue. 1, p- 49- 61.

- Soni R.R. and Soni Neena (2013), An Investigative Study of Banking Cyber Frauds with Special Reference to Private and Public Sector Banks. Research Journal of Management Sciences. Vol. 2 Issue 7, p- 22-27.