
Fraud's Impact on the Banking Industry: An In-Depth Examination
Dr. Aashka Thakkar ^{1*}, Neeraj Kumar ², and Manikanta Venkata Narasimha Nimmagadda ³
^{1,2&3}FMS Parul University

DOI: <http://doi.org/10.52814/PJMA.2025.5102>

ARTICLE TYPE: Research paper

ARTICLE HISTORY: Submitted:, Revisions, Accepted: Jan. 2025

HOW TO CITE: Thakkar, A., Kumar, N., & Nimmagadda, M. V. N. (2025). Fraud's impact on the banking industry: An in-depth examination. *Prayukti: Journal of Management Applications*, Vol. 5, Issue 1, pp.

***Corresponding author e-mail:** krneeraj21102000@gmail.com

ABSTRACT

The banking industry has grown significantly in recent decades, and India's economy is one of the fastest-growing in the world. An essential component of every economy is the banking sector. India's banking sector has grown significantly since economic liberalization and banking sector reforms were put into place in 1991. Nevertheless, the industry still faces financial difficulties in spite of the RBI's strict supervision. The purpose of this study is to find out how often financial frauds are in the banking sector. The author examines the financial issues that the industry is currently facing, especially those brought on by fraud. The rising amounts of non-performing assets (NPAs) seen in Indian scheduled public sector banks in recent years are the specific topic of this article. NPAs and poor lending rates are now posing problems for a sizable portion of Indian banks. Scams and the willful non-repayment of loans by powerful defaulters are two of the main issues facing banks today

KEYWORDS: Non Performing Asset, Banking Fraud, Financial Scam, Schedule Public sector Bank

1. INTRODUCTION

During the last few years, the banking industry of India has been passing through banking frauds. Towards a Finer system, the banking Division needs to be Active towards reporting and reaction. Governments, regulators and the banking fraternity are all at serious concern. Banking business indeed is risky business, but these days with high frauds rate, banks cannot afford to simply sit back at an inefficiently controlled mechanism in place. Banks have been investing heavily in frameworks, systems, and controls over time for fraud risk management.

"The Reserve Bank of India (RBI) defines fraud as a purposeful act of either omission or commission by an individual that occurs during a banking transaction or within the accounting records maintained, whether manually or through computerized systems in banks. This act leads to an unjust benefit for an individual, either temporarily or otherwise, and may or may not result in a financial loss to the banking institution. PSBs in India are witnessing an

increase in nonperforming assets that are hurting the bottom line. There is considered to be a nexus between non-performing assets and banking fraud. Public sector banks have been at the receiving end of nearly all bank frauds. During the last four years of 2021–2024, Scheduled commercial Bank frauds was close to Rs 86,000 crore, with around 58,700 Cases.

The Association of Certified Fraud Examiners conducted an analysis of the majority of Scam cases for the Global Fraud Study 2024, focusing on the banking and financial services, government and public administration, and manufacturing sectors. The frequency, nature of intricacy, and cost engaged in banking frauds have increased substantially, to a point where it is making regulators like the RBI extremely concerned. PSBs in India alone lose about Rs. 21,700 crores due to financial crimes in the past four years. With every year that goes on, this sum keeps rising. Most of the time, bank employees are implicated, although occasionally, outsiders' technical initiatives have been to blame. Evolution of Fraud in banks: Fraud in the past was restricted to the circulation of counterfeit money, some of which made their way into the banking system, the printing of counterfeit security documents such as demand drafts, pay orders, and checks, and the granting of loans to known parties without verifying their financial stability and ability to repay the loan proposal or proposals' earning proposition.

As technology has advanced, cybercrime has emerged as the current threat. As time goes on, bankers now need to learn more advanced terminology. Benami accounts, in which the account holder is unaware that they have a bank account and, if they have, the Process (number & kind of the same) are completely Hidden from A/C holder, have supplanted hawala transactions of previous years.

Definition

Fraud, as defined in Section 17 of the Indian Contract Act of 1872, encompasses various actions undertaken by a contracting party, or with their consent, or by their representatives, with the intention of misleading another party or their representative, or to persuade them to engage in the contract:

- The assertion of a falsehood by an individual who does not hold it to be true;
- The deliberate withholding of information by an individual who possesses knowledge or belief regarding that information;
- A commitment made without the genuine intention of fulfilling it;
- Any other action designed to mislead;
- Any act or omission that is explicitly classified as fraudulent by legal statutes.

The Reserve Bank of India (RBI), as a statutory body, has not provided a specific definition of "fraud" in its regulations concerning frauds. Nevertheless, the RBI Working Group's Report on Information Security, Electronic Banking, Technology Risk Management, and Cyber Frauds has defined fraud in the context of electronic banking as any wrongful action or failure to act by an individual during a banking transaction that results in a temporary or otherwise gain for someone, whether or not it leads to a loss for the bank.

2. REVIEW OF LITERATURE

This indicates that the economy of India requires banks, argues Jain, Vipin et al. 2020, Banks are regarded as the cornerstones of every country's finance system. Robust finance provides a basis to advance the economics. The primary reason for an IT revolution within the Indian Banking sector is attributed to information technology. Shettar, M. R. (2019) sought to investigate India's involvement in digitalization. The research also examined the elements that affect the adoption of online banking. Additionally, the article discusses recent advancements in digital banking within India and technological innovations in Indian banks. The study employs a descriptive approach utilizing secondary data. Jagtap V.M. (2018) examined the needs and advancements in digitalization within the banking industry, focusing on various digitalization methods including Automatic Teller Machines, Real-time Gross Settlement, Electronic Funds Transfer from Point of Sale Terminals, Electronic Compensation Services, and Telebanking. The study also highlighted the growth of the Indian banking sector during 2015, 2016, and 2017, specifically in terms of the percentage increase in payments due to digitization. Sujana M.V.S. (2018) examined the increasing Digital Evolution in the banking

industry. The purpose of the survey was to assess customers' awareness of the digital transformation in banking. Additionally, the study highlights various benefits and drawbacks associated with banks' adoption of digital technologies. Nayak R. Breakdown the Viability of Modern banking in rural areas in 2018. Examined are a number of Concern & Troubles associated with the Modernization of rural banking. The primary goal of the study is to Explore the different aspects that influence the Modernization of rural banking, including communication networks, education, occupation, income, gender, and socioeconomic position. According to Albrecht (1996), indicators of weak internal controls increase the likelihood of fraud. Examples of these symptoms include a poor control environment, insufficient physical safeguards, absence of independent verification, inadequate authorizations, lack of proper documentation and record-keeping, absence of role separation, bypassing of established controls, and a deficient accounting system. Calderon and Green (1994) conducted an analysis of 114 documented corporate fraud cases published in the Internal Auditor from 1986 to November 1990. Their findings indicated that 60 percent of these fraud occurrences were attributable to deficiencies in control mechanisms, inadequate documentation, and insufficient segregation of duties. Furthermore, the study revealed that 45 percent of the reported incidents involved individuals in professional and managerial positions.

Beirstaker, Brody, and Pacini (2005) outlined various methods for preventing and detecting fraud. These strategies include implementing Scam policies, establishing fraud hotlines, conducting employee reference checks, performing fraud vulnerability assessments, reviewing vendor contracts and sanctions, utilizing analytical reviews, ensuring password protection, and using discovery sampling.

According to research by Khanna & Arora (2005), the main causes of bank frauds are the following: inadequately trained staff, overworked employees, competition, and low compliance levels-the extent to which the prudential measures and procedures set up by the RBI to Prevent frauds are followed.

In 1995, Smith provided a taxonomy of embezzlers. According to him, embezzlers are of the "opportunistic type," rapidly identifying any vulnerability in internal control and taking advantage of the chance to profit from it.

By analysing the literature and evaluating the current scenario, several key reasons for the increase in bank frauds have been identified-

- Increased Awareness and Opportunities: The better education makes more people realize the opportunity of exploiting bank frauds for personal gain.
- Impersonal Banking: The more impersonal banking is, the greater the chances of fraud, because bankers know the clients only by their signatures.
- Expansion Boom and Lax Training: Because of the explosive expansion of the banking industry in India, it brought to India skilled and experienced workforce workers; therefore, workers are conducting tasks haphazardly.
- Lack of Scrutiny and Time Pressure: Just because banking is a high-pressure industry, they don't have time to screen papers properly, and such is a reason why this fraud becomes more difficult to detect.
- Systemic Weaknesses and Moral Decline: The increase in fraud is due to the decline of moral principles, the need for fast cash, and laxer regulations. Employee ignorance and apathy also amplify non-compliance and elevated fraud risks.

3. METHODOLOGY

To meet the study's goals, the author utilizes historical data from the RBI and statista.com. This research relies solely on secondary data sourced from the RBI website, Government Reports, academic Magazine, and newspapers.

Objective

- To understand and Examine the Hidden causes behind the Increase of frauds in the Banking Industry of India.
- To suggest appropriate and suitable measures to address the Problem of fraud in the Banking Industry of India

4. DATA ANALYSIS & FINDINGS

Table 1- Banking Fraud During 2021-22 to 2023-2024 (in Crores)

Bank Group	2021-2022		2022-2023		2023-2024	
	Cases of Fraud	Fraud Amount	Cases of Fraud	Fraud Amount	Cases of Fraud	Fraud Amount
Public Sector Bank	3,044	32,288	3,392	18,750	7,472	10,507
Private Sector Bank	5,312	10,653	8,979	6,159	24,210	3,170
Foreign Banks	494	1,206	804	292	2,899	154
Financial Institutions	9	1,178	10	888	1	-
Small Finance Bank	155	30	311	31	1,019	64
Payments Bank	30	1	68	7	472	35
Local Area Banks	2	2	-	-	2	-
Total	9,046	45,358	13,564	26,127	36,075	13,930

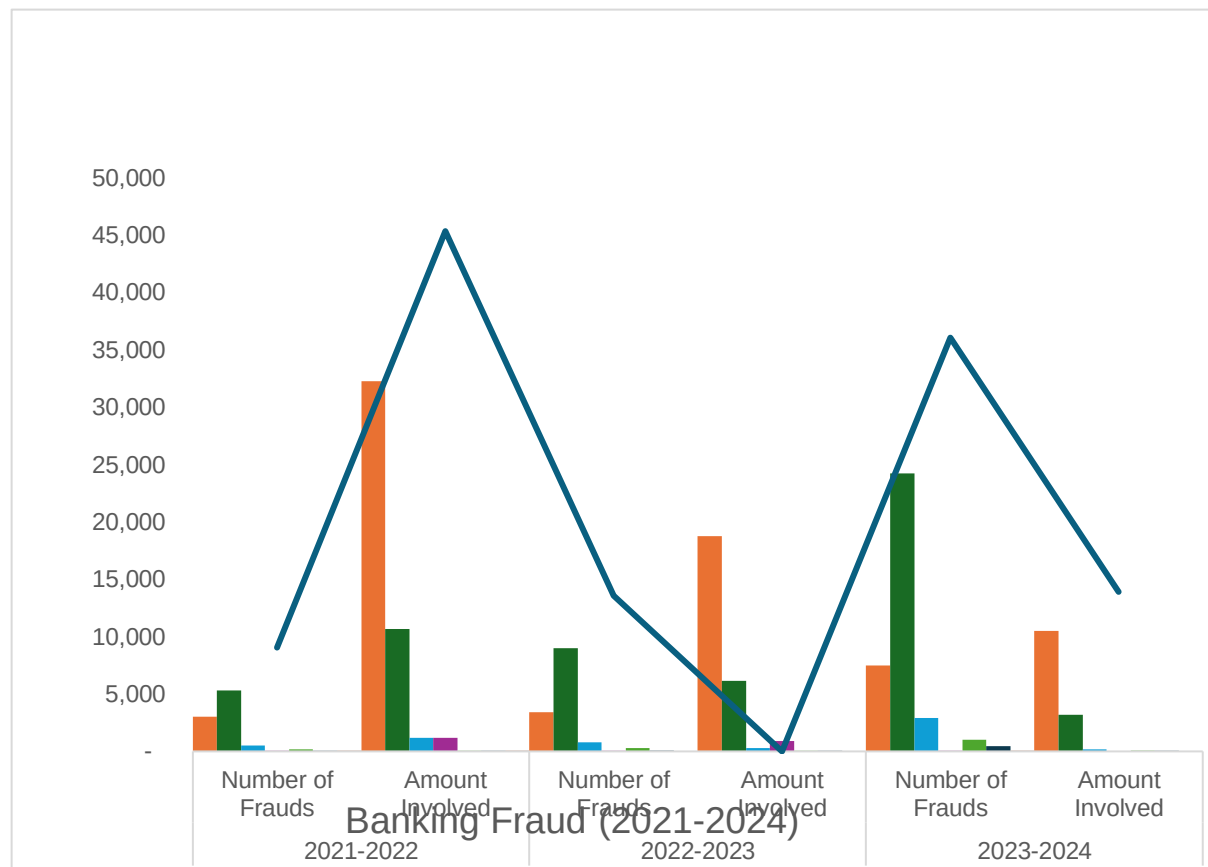


Figure 1- Banking Fraud During 2021-22 to 2023-24

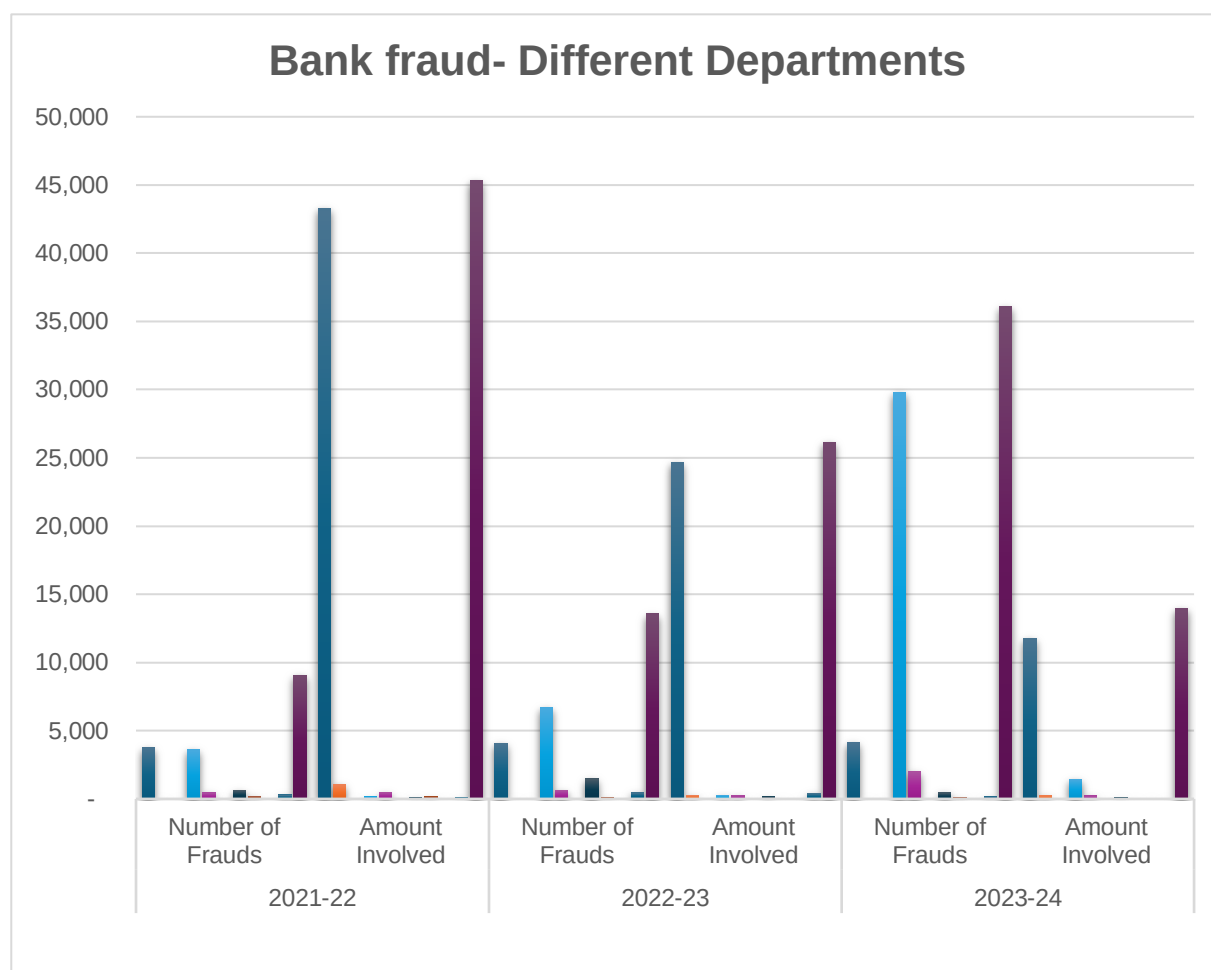
Source- www.rbi.org

According to Reserve Bank of India from 2021-22 to 2023-24, incidents of banking fraud skyrocketed by an astonishing 298.80%, though the total amount involved fell significantly by 69.29%. The sharpest rise was recorded in Private Sector Banks, where cases soared from 8,979 in 2022-23 to 24,210 in 2023-24, marking a 169.7% increase. Public Sector Banks also experienced a notable increase of 120.3%, while Foreign Banks saw the steepest rise with a dramatic 260.6%.

Even with the uptick in fraud cases, the financial loss per incident has decreased, which is probably a result of more rigorous oversight and quicker detection methods. However, delays in fraud detection are still a problem, as significant cases have relied on lengthy investigations for resolution. It's crucial to bolster regulatory frameworks and enhance fraud prevention measures to manage these risks and safeguard the financial industry.

Sector-wise, the Private Sector Banks saw the highest fraud increase, jumping from 8,979 cases in 2022-23 to 24,210 cases in 2023-24 (a 169.7% increase), while Public Sector Banks also experienced a sharp rise from 3,392 to 7,472 cases (120.3% increase). Foreign Banks saw an increase of 260.6%, while Small Finance Banks and Payments Banks also recorded notable rises. Interestingly, Financial Institutions had almost no fraud in 2023-24, and Local Area Banks remained at negligible levels.

Table 2- Bank Fraud Case- Different Department (in Crores)



Different Department	2021-22		2022-23		2023-24	
	Cases of Fraud	Fraud Amount	Cases of Fraud	Fraud Amount	Cases of Fraud	Fraud Amount
Advances	3,782	43,272	4,090	24,685	4,133	11,772
Off-balance Sheet	21	1,077	14	285	11	256
Forex Transactions	7	7	13	12	19	38
Card/Internet	3,596	155	6,699	277	29,802	1,457
Deposits	471	493	652	258	2,002	240
Inter-Branch A/C	3	2	3	-	29	10
Cash	649	93	1,485	159	484	78
Cheques/DDs, etc.	201	158	118	25	127	42
Clearing Accounts	16	1	18	3	17	2
Others	300	100	472	423	171	35
Total	9,046	45,358	13,564	26,127	36,075	13,930

Figure 2- Bank Fraud Case- Different Department During 2021-22 to 2023-2024

Source- www.rbi.org

From 2021-22 to 2023-24, there's been a noticeable rise in banking fraud cases, although the total funds involved have been on the decline. The most alarming increase was in card and internet fraud, which jumped from 3,596 cases in 2021-22 to a staggering 29,802 in 2023-24, making it the prime target for fraudsters. In contrast, fraud related to advances, once linked to the highest monetary losses, also saw a drop in the amount lost—falling from Rs 43,272 crore in 2021-22 to Rs 11,772 crore in 2023-24. Additionally, there's been a rise in deposit-related and forex transaction frauds, while instances involving cheques, drafts, and inter-branch accounts remained fairly low. The surge in digital banking fraud signals a pressing need for improved cybersecurity and more robust fraud detection systems to mitigate financial losses.

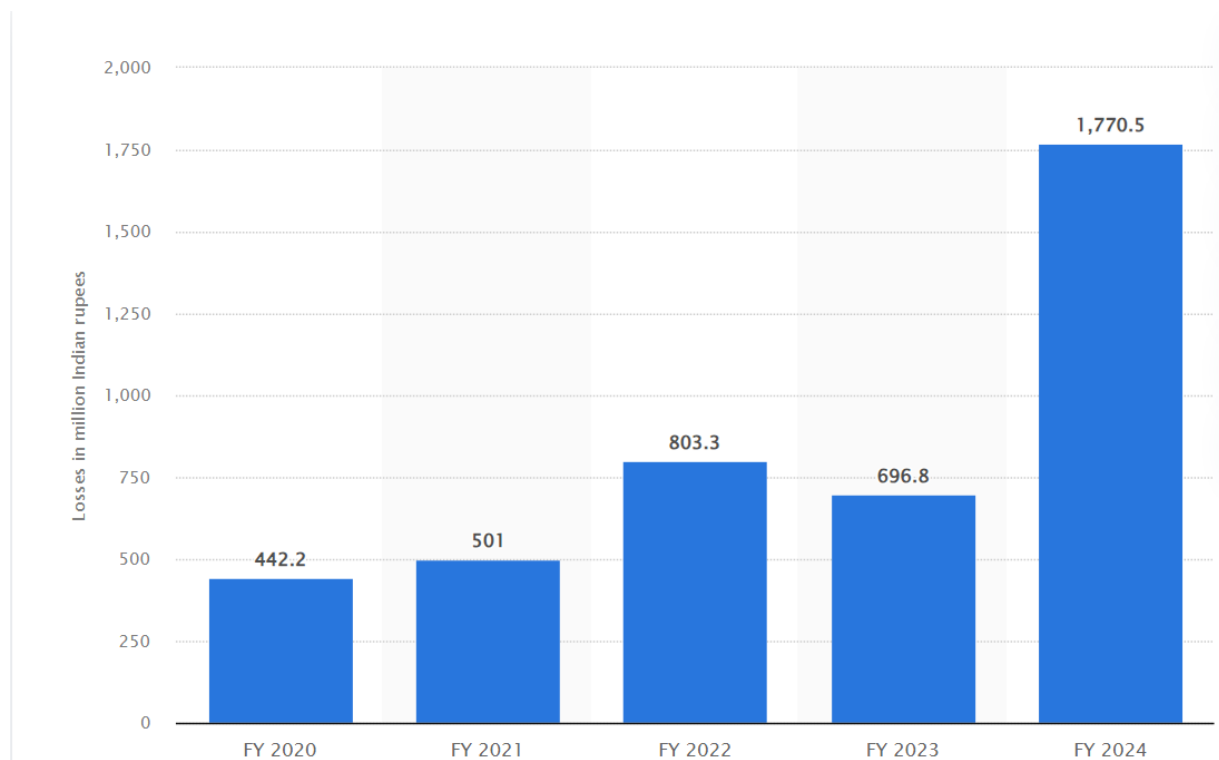


Figure- 3. Cyber Fraud
Source- www.statista.com

Overview:

Cyber Fraud Losses In 2024, India faced losses exceeding ****1.7 billion rupees**** due to fraud linked to credit cards, debit cards, and internet banking. There Were Increased Cybercrime over 740,000 cases reported just from January to April 2024.

Main Causes

- A surge in digital transactions and internet banking.
- Higher internet penetration combined with uninformed users.
- Advanced fraud methods such as phishing, SIM swapping, and card cloning.

Response

- The RBI and other organizations are implementing stricter regulations.
- There's a move towards using AI and machine learning for fraud detection.

- There's also a greater emphasis on boosting customer awareness and utilizing multi-factor authentication (MFA).

2022-2023		2023-2024	
Occurrence of Fraud	Amount Involved	Occurrence of Fraud	Amount Involved
Before 2013-14	1,444	Before 2013-14	2,133
2013-14	1,082	2013-14	1,327
2014-15	828	2014-15	1,616
2015-16	494	2015-16	951
2016-17	6,526	2016-17	858
2017-18	2,985	2017-18	781
2018-19	4,613	2018-19	1,196
2019-20	1,253	2019-20	835
2020-21	2,171	2020-21	807
2021-22	3,164	2021-22	844
2022-23	1,567	2022-23	1,073
		2023-24	1,509
Total	26,127	Total	13,930

Figure- 4. Vintage of Fraud Reported in 2022-23 and 2023-2024

Source-www.rbi.org

The data reveals a notable change in how fraud is detected over the years. During 2022-23, a staggering Rs 26,127 crore in fraud was uncovered, but this figure dropped to Rs 13,930 crore in 2023-24. A large share of the fraud cases identified in 2023-24 actually stemmed from previous years, particularly before 2013-14, indicating some delays in catching these issues.

Frauds from the years 2016-17 (Rs 6,526 crore) and 2018-19 (Rs 4,613 crore) had the biggest financial repercussions in 2022-23. In contrast, during 2023-24, the most impactful fraud cases came from 2014-15 (Rs 1,616 crore) and 2013-14 (Rs 1,327 crore). The trend of decreasing total fraud amounts in recent times points to enhanced risk management, better fraud detection methods, and more stringent regulations. However, the long delays in detection highlight the necessity for stronger real-time fraud monitoring systems.

Table- 3. Current Structure for filing Police/CBI Complaint for Fraud

- The Reserve Bank of India (RBI) established a fraud monitoring cell in June 2016.
- The RBI has mandated that the responsibility for fraud risk management, monitoring, and

Category of bank	Amount involved in the fraud	Agency to whom complaint should be lodged	Other Information
Private Sector/ Foreign Banks	Rs.1 lakh and above	State police	
	Rs.10000 and above if committed by staff	State police	
	Rs.1 crore and above	Serious fraud investigation office (Ministry of Corporate Affairs)	In addition to state police
Public Sector Banks	Below Rs. 3 crore	State police	
	Rs.3 crore and above and up to Rs.25 crore	CBI	Anti-corruption branch of CBI (where staff involvement is prima facie evident) Economic offences wing of CBI (where staff involvement is prima facie not evident)
	More than Rs.25 crore	CBI	Banking Security and Fraud Cell (BSFC) of CBI (irrespective of the involvement of a public servant)

Source: Reserve Bank of India.

investigation lies with the bank's CEO, the Audit Committee of the Board, and the Special Committee of the Board, particularly for significant fraud cases.

- The RBI requires banks to report fraud incidents and set aside provisions for them within a maximum of four quarters from the detection date. Banks must strictly follow the existing guidelines for classifying and reporting fraud cases. Typically, banks should provision for the full amount owed to them or for which they are responsible (including deposit accounts) as soon as a fraud is identified.
- The RBI has clearly outlined the reporting structure.

Type of fraud

To maintain uniformity in reporting, the RBI has classified frauds according to the Indian Penal Code into the following categories:

- Misappropriation and violation of fiduciary responsibilities
- Fraudulent payments made using forged documents, altered accounting records, or fabricated accounts
- Unauthorized provision of credit facilities
- Carelessness and errors in cash management
- Fraud and forgery
- Irregularities in foreign exchange dealings
- Other types of fraud not covered by the categories listed above

Causes of banking fraud

The following variables are identified by a study based on the instances as being responsible for frauds in public sector banks:

1. Staff members' active participation, either alone or with outside assistance.

2. Bank employees' disregard for established protocols and directives.
3. Manipulation or falsification of financial papers and instruments.
4. Coordination to defraud the banks by business, public personnel, and top bank executives.

The Central Vigilance Commission identified a number of flaws or shortcomings in the system as the reasons, such as

1. Banks' inability to evaluate the technical aspects of projects for financing
2. Due to a lack of competence and expertise.
3. The banks did not do adequate due diligence.
4. The use of shell corporations by business promoters to divert cash.
5. Fabrication of information
6. Frauds committed by companies.

Suggestions

- Independent Specialized Cadre: Assemble a committed group of banking, RBI, and CBI professionals with legal and financial knowledge to conduct prompt investigations into financial irregularities.
- Know Your Markets: Banks should evaluate the sectors to which they extend credit, taking into account global interdependencies and economic considerations.
- Internal Rating Agency: Create strong internal rating systems to assess big projects and make sure that differences between internal and external ratings are thoroughly examined.
- Use of Latest Technology: Use data analytics and sophisticated IT systems to detect fraud in real time and identify early warning signs.
- Regional Outliers Surveillance Techniques identical to that used by SEBI will extend RBI surveillance into early identification of regional transaction anomalies and possible frauds.
- Punitive Lawsuit Against Third Parties Auditors, Accountants and rating Agencies Involved in Frauds

5. CONCLUSION

Business and earnings in the Indian banking industry have increased manifold, but the increase in business and earnings has been matched by an increase in fraud cases, which damages the institutions' reputation and causes losses. There is still a lack of forensic technologies that can detect possible fraud, despite banks' growing awareness of the need to improve fraud risk management. Banks must combine their knowledge with cutting-edge technology and data analytics to create a more methodical strategy in order to solve this. Fraud problems are caused by inadequate supervision, antiquated detection techniques, lax laws, and a lack of knowledge among staff members and clients. This is made more complicated by the increase in online banking and cyber threats; hence it is very important that banks regularly update their security procedures. Implementing early fraud detection tools, training employees on whistleblower procedures, and improving cybersecurity are all examples of effective solutions. Demands for more cooperation between banks and authorities as well as tougher penalties for fraudsters are also growing. In conclusion, lowering the risk of fraud requires proactive monitoring, cutting-edge technology, and effective fraud protection techniques.

7. BIBLIOGRAPHY

- R.A. Nayak (2018) The problems and difficulties of digital banking in rural India are examined in this paper. The International Journal of Management, IT & Engineering, Volume 8, Issue 6, pages 186–191, published it. 2249-0558 is the ISSN.

- M.R. Shettar (2019) This study, which was published in the IOSR Journal of Economics and Finance, Volume 10, Issue 3, pages 1–5, examines digital banking from an Indian viewpoint. e-ISSN: 2321-5933.
- V.M. Jagtap (2018) This essay examines the impact of digitization on the Indian banking industry. The article appeared on pages 118–121 of the International Journal of Trend in Scientific Research and Development (IJTSRD). 2456-6470 is the ISSN.
- M.V.S. Sujana (2018) This study, which was published in the International Journal of Research and Analytical Reviews (IJRAR), Volume 5, Issue 3, examines digitalization in the banking industry. ISSN: 2349-5138. 333-337.
- Volume 99, Issue 8, pages 340–344, Industrial Management & Data Systems (1999): This essay addresses problems in industrial management and data systems.
- Published on page 26 of the October edition of Internal Auditor, Albrecht, W.S. (1996) discusses employee fraud.
- Green, B.P., and Calderon, T. (1994). This study discusses the effects of internal fraud as well as ways to avoid it. It appeared on page 17 of the August edition of National Public Accountant, Volume 39.
- Brody, R.G., Bierstaker, J., and Pacini, C. (2006) - This article, which was published in Managerial Auditing Journal, Volume 21, Issue 5, pages 520–535, focuses on accountants' opinions about fraud detection and prevention techniques.
- Arora, B., and Khanna, A. (2009) This study looks into the reasons for bank frauds as well as the safeguards Indian institutions have put in place. It was published in Volume 4, Issue 3 of the International Journal of Business Science and Applied Management.
- Smith, E.R. (1995): This essay, which was published on pages 17–18 of The White Paper's August/September edition, addresses constructive ways to deal with embezzlement.