



# Impact of Frauds on the Indian Banking Sector

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## Abstract:

*Banks act as engines that steer the processes of money markets, the financial sector and economic growth. The Indian banking sector has expanded at a fast pace, especially as we stand today on the brink of the fourth industrial revolution. However, this has not come without its due share of complications. Along with the swiftly growing banking industry, frauds in Indian banks have seen a rising trend and there is an urgent need to revamp the banking sector in India, given the scams involving crores of rupees being unearthed in the recent past. The present study makes an attempt to review and analyze the trend of frauds plaguing the banking sector and its role in the continuous rise of Non- Performing Assets in the India. Further the study endeavors to throw light on the impact of rising bank frauds on profitability of the banking sector in India. The study concludes that the number of frauds plaguing the Indian banking sector is on a constant rise in recent years leading to a rise in NPAs and severely impacting profitability of the banking sector in India. Stringent action by authorities along with finding new means of fraud prevention and reduction is the only way forward for safeguarding the credibility of Indian banks and giving a face-lift to the banking sector of the country.*

**Keywords:** *Frauds, Non-Performing Assets, Profitability, Banking Sector.*

## I. Introduction

Main measure problem is the NPV and people who are not repay the loan. To improve the problem of the economy the NPAs should be scheduled. The NPA level of the banking system is still at a high compare to the international standards. The Indian banking system should take care of their credit worthiness of the customers as the prevention is the better than care. The robustness of a country's banking and financial system helps determine its production and consumption of goods and services. It is a direct indicator of the well-being and living standards of its citizens. Therefore, if the banking system is plagued with high levels of NPAs then it is a cause of worry, because it reflects financial distress of borrower clients, or inefficiencies in transmission mechanisms. Indian economy suffers to a great extent from these problems, and this served as the prime motivation for the authors to carry out this detailed study of frauds in the Indian banking system and examining frauds from different angles.

## II. Literature Review

**Rodney D'Silva, (2019)** conducted research on Impact of Frauds on the Indian Banking Sector. This paper with the help of secondary data. This study was to objectives: To review and analyse the trend of frauds plaguing the banking sector in India. and to examine the impact of frauds in the continuous rise of NPAs in the Indian banking sector. The study concluded that to elucidate the impact of rising bank frauds on profitability of the banking sector in India. **Mamta Shah, (2019)**, conducted research on A Case Study on Increasing of Banking Frauds in India. Their objective was the objectives: To determine reason of various types of frauds in Banking. And to find out various

measures to stop these frauds, so that to protect different stakeholders for that. He concluded that there are many reasons of fraud primarily related to poor regulatory system, carelessness of employees, lack of proper supervision by top management, improper use of technology, lack of awareness of customer and employees and poor coordination. **Neha Sharma and Dr. Dhiraj Sharma, (2017)**, conducted research on an Empirical Study on Banking Frauds in India- with a special reference to role of Employee Awareness in Banking frauds. This paper with the help of primary data. The objectives were that 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, and the study looks to know the approach of bank employees towards.

### III. Objectives

- To analyse the trend of frauds plaguing the Indian Banking Sector.
- To examine the impact of frauds in the continuous rise of NPAs in the Indian banking sector.
- To study the impact of Frauds on Profitability of the Indian Banking Sector.

### IV. Hypothesis

- H1: Frauds do not have a significant impact on Non-Performing Assets in the Indian banking sector.
- H2: there is no significant impact of frauds and profitability of Indian banking sector.

### V. Research Methodology

This study is Qualitative study and based on the cases of the frauds committed in the Indian banking sector. For the purpose of project data is very much required which works as a food for process which will ultimately give output in the form of information. I used data in this study that time period is 2014-2019 and amount of fraud, Gross NPA and Net Profit that time period is 2004-2019. Sources of data is table relates trend and progress, RBI publications and speech and RBI bulletin.

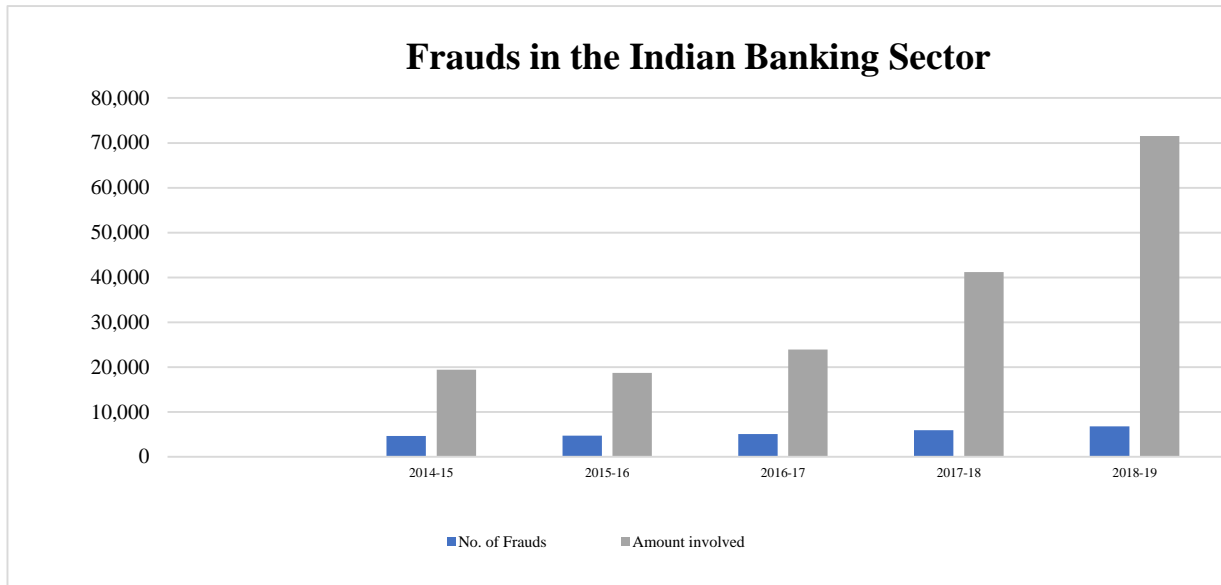
### VI. Result Analysis and Interpretation

Table 1. Frauds in the Indian Banking Sector (Amount rs. Crore)

Year	No. Of Frauds	Amount Involved	Large Value Frauds (A > Rs. Crore)		Outlier Cases (A > Rs. 100 Crore)	
			No. Of Frauds	Amount Involved	No. Of Frauds	Amount Involved
2014-2015	4,639	19,455	77	14,998	1	1,648
2015-2016	4,693	18,699	82	14,791	1	1,265
2016-2017	5,076	23,934	104	19,110	3	3,792
2017-2018	5,916	41,167	121	34,724	4	16,395
2018-2019	6,801	71,543	322	61,756	4	6,505

(self-computed)

**Fig.1**\_Result of Frauds in the Indian Banking Sector



Above fig No.1 shows that the number of fraud cases increases year on year. In the year of 2015 around 4,640 cases are reported amount involved Rs. 19,455 crore and in year 2016-2017 cases reached at 5,076 and amount involved Rs. 23,934. In year 2019 cases reached at around 6,800 amounts involved rs71,543crore. The highest cases as well as amount involved in the year of 2019 of frauds are reported and the lowest cases amount involved in year 2014 of fraud are reported.

**Table 2.** Advanced related frauds

Year	Advance	
	No. of Frauds	Amount involved(crore)
2015	2,251	17,122
2016	2,125	17,368
2017	2,322	20,561
2018	2,525	22,558
2019	3,606	64,548

**Fig. No.2** Amount involved on fraud related to advance

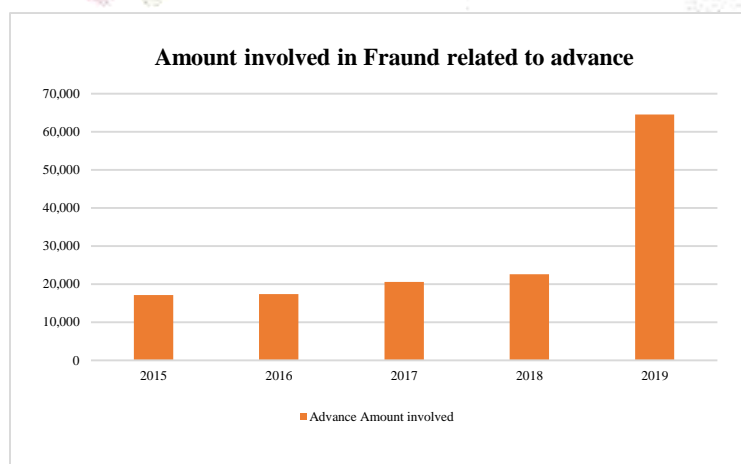
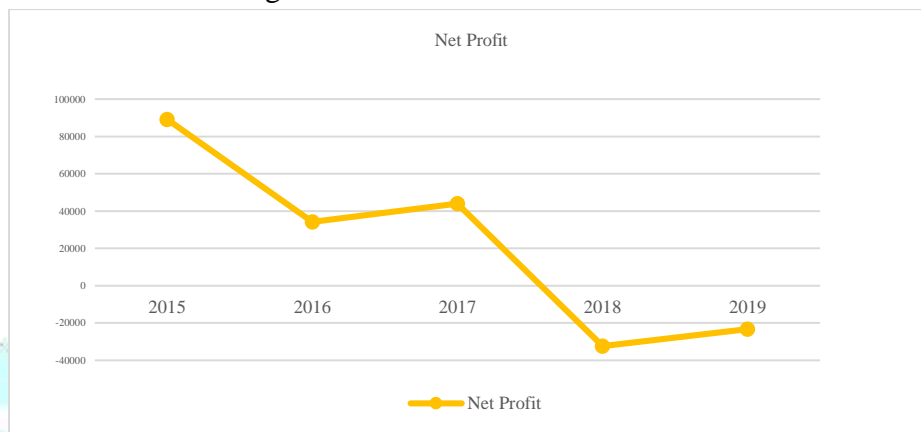


Figure 2 shows the fraud related to the advances granted by banks. It can be seen that the no of fraud case as well as the amount involved in increases drastically in the year of 2019

**Table. 3 Net Profit of Schedule commercial banks**

Profitability of all Scheduled Banks		
Year	Percent	Net Profit
2015	1.84	89077.79
2016	1.45	34148.17
2017	1.13	43899.5
2018	-0.15	-32437.7
2019	-0.09	-23397.4

**Fig.3. Net Profit of Scheduled banks**



(self-computed)

Fig 3. indicate the trend of profitability in the banking sector in India. It can be seen that Net Profit of bank is on a steady decline which needs to be an eyes opener as it poses a threat to the economy. In table it can be seen that the per cent of net profit decline from last 5years (year on year).

**Table 4 Impact of fraud on rising Non-Performing Assets in the Indian banking sector**

Regression Statistics	
<b>R Square</b>	0.1478
<b>P- value</b>	0.000116

Fig.4 regression with Amount of Fraud and Net Profit

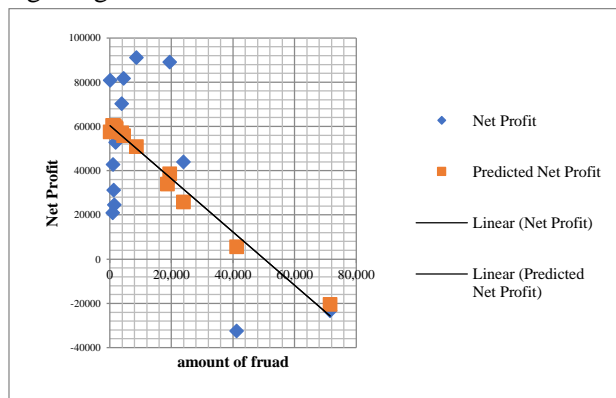
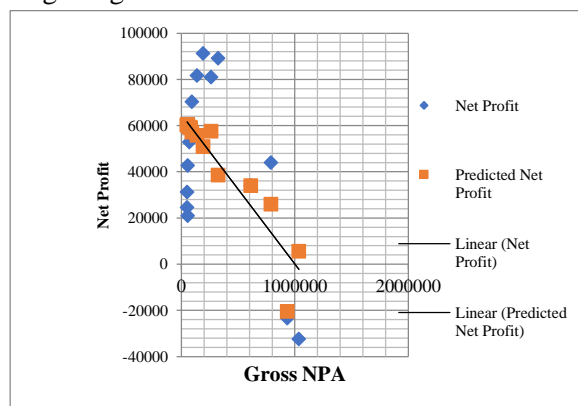


Fig.5 regression with Gross NPA and Net Profit



For the purpose of regression analysis, amount involved in fraud and Gross NPA is considered as independent variable and net profit is considered as dependent variable. R Square is 0.4178 which implies that 41.78% variations in net profit are explained by Amount Involved in Fraud and Gross NPA. It is found that frauds have significant impact on profitability at 5 percent level of significance. Coefficient value is negative indicating that increase in frauds will lead to a corresponding decrease in profitability. The result also shows that the faulted cases (amount involved in Fraud) are negatively affect to the banks NPAs. Banks NPA increases because of frauds and that directly impact on the profitability of banks. So, hypothesis namely “Fraud do not have a significant impact on Non-Performing Assets in the Indian banking sector” and also namely “there is no significant impact of NPA on Profitability of Indian banking sector” is rejected.

## VII. Conclusion:

Continue rising the NPV because of lack of credit rating and not repayment the loan. the majority of frauds in the banking sector relate to advances which is a cause of worry for banks in India. Frauds have a significant impact on Non-Performing Assets in the Indian banking sector. In this study negative relationship between NPA and Profitability if Indian banks. And Frauds have a significant impact on profitability of the Indian banking sector.

The amount involved in frauds has risen drastically in comparison to the increase in number of frauds. Majority of frauds in the banking sector relate to advances which is a cause of worry for banks in India. The Gross NPAs to Gross Advances Ratio has shown a rising trend over the years. Asset quality of industry related advances followed by advances related to the service sector are a matter of concern for the banking sector in India. Frauds have a significant impact on Non-Performing Assets in the Indian banking sector. Profitability of banks is on a steady decline which needs to be an eye opener as it poses a threat to the economy. Frauds have a significant impact on profitability of the Indian banking sector.



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