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## Rising Bank Frauds: Where They Emanate From

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### Abstract :

*The rising bank fraud has one of its manifestations in the policy of the neo-liberal policy adherent government which has been making policy shift from mass banking to class banking. Its beginning started just after receiving from the World Bank a Confidential Report on financial sector of India in June, 1990. Since then the government of India has extended gradually its efforts to promote corporate interest. How the attacks on priority sector have been launched to accuse priority sector responsible for NPAs of public sector banks have given impetus to corporate capital for willful denial to pay their loan, is the theme of this paper. It explains the forms of frauds by big capital and unwillingness of government to put restriction on them.*

**Key Words :** Evergreening, Financial Oligarchy, Priority Sector, Lead Bank Scheme, *Diktat*.

### Introduction :

Since nationalization of major Commercial Banks in the year, 1969 and 1980 the nationalized banks made a positive break-through and created an impressive record in their lending policy for diversified activities in economic sector. Not only has there been markable upward shift in banks advance portfolio but what was more important, the nationalized banks extended considerably high amount of credit to tiny and small sectors, demarcated us priority sector. The Lead Banks scheme was to assure development of specified areas and institutional guarantee was provided to banks for inhibition of credit to small borrowers and small scale units, engaged in production activities for local usage. After nationalization of banks the credit policy, the nationalized banks adhered to, was that of "Mass Banking". In the period from 1969 to 1990 major frauds in banking sector were rarely heard of. But with the beginning of 1990, the year when India endorsed the Neo-liberal growth policy as its main development strategy, the entire banking scenario indulged in severe bank scams and frauds which created severe problems for banks in the reduction of their lending capacity caused by huge non-performing assets and reduction in their lending capacity and their profitability. The emergence of

fraud-caused NPAs and the imposition of restriction upon them pose question : where do such frauds caused NPAs. emanate from and what remedial steps require to check then are ?

### Review of Literature :

All available literatures, today, accuse priority sector lending by banks as sole culprit for bank NPAs. Without making any reference of data as how much responsible the corporate Sector is for non-payment of loans credited to the sector by public sector banks :

K. Veera Kumar, in his article : "Non-performing assets in Priority Sector : A Threat to Indian Scheduled Commercial Banks", has compared NPAs as a "Canker Worm" and says that : "They have been eating the banking industries from within since nationalization of banks in 1969"<sup>1</sup>. His comment is : one of the major reasons for NPAs in the banking sector is the "Direct Lending System" by RBI under 'Social Banking Motto' of the government under which the scheduled commercial Banks are required to lend 40 percent of banks total lending to priority sector<sup>2</sup>. The commentator, by a single stroke of his pen has accused nationalization for priority sector lending and NPAs of bank as its concomitances.

Dr. A. Shyamala, in his article (2012) has not referred any data to specific sector rather he has given account of ratio of gross NPA to gross Advance, ratio of net-NPA to net advance and ratio of gross NPA to net advance<sup>3</sup>.

Dr. Mohan Kumar and Govind Singh (2012) have accused small borrowers for NPAs on the plea that willful default induced by officially announced loan waiver scheme vitiates the payment culture. People feel that loans, given to them, will be waived off with the passes of time by one political party or the other<sup>4</sup>. In all literatures the government version on NPAs has been endorsed without applying any reasoning derived from other sides.

### Objective of the Study :

The objectives of this research paper are to :

1. Search out causes which have been responsible for adding to NPAs and the fraud on part of them.
2. The NPAs, as this research opines, are concomitances of government policy to banks under the Neo-liberal growth strategy under which many decisions have been taken by government to implement the *diktats* of the IMF and the World Bank, to locate the policy lacunae of the government that have prepared ground for fraudulent activities.
3. How frauds are organized to evade the repayment of banks' loan.
4. To trace government's, RBI's and other governmental agencies' role to assist the defaulters etc.

**Hypothesis :**

In June, 1990 a confidential report from the World Bank on financial sector reform was handed over to India, directing the government of India to implement the directives given therein. But the government of India was apprehensive of severe public agitation on sudden implementation of the clauses laid down in the confidential report. To justify the stands to be taken in compliance of the report government of India adopted a tactical line to establish the relevance of the execution of the report by appointing committees more than one. In that corollary there were appointed Narasimham Committee in 1991, R.V. Gupta Committee was appointed by RBI in 1997 and the second time the Narasimham Committee was again appointed in 1998. Mean while the RBI, in coordination of the government, introduced changes in definition of priority sector and expanded investment ceiling of the priority sector. More surprising was the presentation of data on NPAs which were not reliable by any means. All these actions, on parts of government and RBI, were to accuse priority sector as the main culprit for NPAs of public sector banks. All these actions of government and RBI were directed to facilitate to provide opportunities to corporate sector to have its entry in priority sector be ensured. From hereonwards fraudulent activities in banks lending reached a greater height and government was quite passive to take any action against big capital who fully refrained from repaying loans. But the faults which enhanced the amount of NPA every year had been shifted to priority sector. Figures and data on NPAs approve it although government of India leaves no tone untouched to prove priority sector being the real culprit.

**Approach and Methodology :**

The approach, the research has adopted, is to interpret available data in their real contents and scientifically probing into their conditionalities. The method, adopted, is analytical, based on reliable documents, Original and published both sources of data have been used to collect information and analyze the facts.

**Fact Analysis :**

In 1990, when the government of India was negotiating with World Bank for a huge amount of loan when its foreign exchange had been plummeted to the extent that India was not financially capable to meet even the international liabilities and the country was at the verge of bankruptcy the world bank agreed to provide loans but on certain conditions. In June, 1990 the World Bank, in a confidential report "*India*" : *Financial Sector Report : consolidation of Financial System*" was handed over to India with laying down the conditions for receiving the loan from the World Bank. Besides so many other conditions, one of the conditions relating to priority sector, the Report said : "*In the near term : re-categories immediately Commercial Bank lending to large borrowers among small scale industrialists and farmers, thus reducing the priority sector lending target to 10 percent in three years*"<sup>5</sup>.

The government of India ignominiously surrendered to the *diktats* of the World Bank and the IMF and accepted the conditions of the Confidential Report. However, being apprehensive of the possibilities of bigger mass agitation in the country the government avoided a direct firing squad approach and appointed Narasimham committee in 1991, to give a report on reforms suggested by the World Bank.

When Narasimham (1<sup>st</sup>) Committee was appointed the agricultural credit was getting murkier and murkier. But direct advances to agriculture for March, 1997 provision for inclusion of some corporate loan were included to agriculture direct lending. As it was revealed by a news media<sup>6</sup> that the RBI had instructed banks that : " All short terms advances to traditional plantations (i.e. tea, coffee, rubber and spices), irrespective of the size of holdings, would be treated as direct agricultural advances under the priority sector<sup>7</sup>. The press pointed out that "This move will bring large corporate and multinational companies under the umbrella of priority sector lending"<sup>8</sup>. Sequel to these directives of the RBI the share of "indirect advances" in total agricultural advances grew sharply. But those were not the advances in favour of peasants and agriculturists but to allied activities. The outstanding loans of public sector banks in June, 1991 were just 6.4 percent but by March, 1997 they enhanced to 16.7 percent<sup>9</sup>. Indirect credit to agriculture was made, now, towards the activities of financing and distributing agriculture inputs, that is, the advances made to dealers and distributors of agricultural inputs and machineries were to be included in agricultural indirect advances. Had such indirect agricultural advances not grown speedily in the years between 1991 and 1997 the figure for total agricultural advances would have fallen down in real term? But the story of expanding definition and scope of priority sector did not end here. On 28 May, 1997 banks were advised that advances made to state Electricity Boards for system improvement in rural areas was classified as indirect loan to agriculture.

All these steps initiated by the RBI in coordination of the government of India are, in real sense, not less than a fraud although they were committed not for self-interest but definitely for class interests of big capital whom the neo-liberal policy adherent government represents. It is a fraud, in the sense, that for the economic interests of a few percentages of moneyed people the interests of more than 65 percent of ill-fed people have been sacrificed. All these foulnesses, on part of economic game, played by government have been directed to create in India a "Financial Oligarchy" that is merger of bank capital and industrial capital together.

The real culprits are those foul economic games in dealing with bank advances and non-payment of loans outstanding to them are big borrowers whose fraudulent activities are known to all, but no action has yet been initiated by the government. In that stead, the government attempts to protect them at every critical juncture. The term of reference of Gupta committee was to suggest to improve the delivery system and simplification of procedure for agriculture credit. But in that stead, the significant recommendations of the committee were, 1. doing way with target for agricultural credit, that is to abolish the conditions of 18 percent of total credit of banks, 2. empowering commercial banks to freely

fix the rate of interests on their credit even on the small credit, that is doing away with subsidy on agricultural loans. and 3. doing away with compulsory posting of bank staff in rural centres. Gupta Committee supported the suggestions of Narasimham (1<sup>st</sup>) Committee.

The rationale of the 2<sup>nd</sup> Narasimham Committee was directed to make a crucial attack on the priority sector lending as responsible for commercial banks NPAs.- a bad debts of the banks to which payment by the borrowers was arrears to some extent or another. In Narasimham (2<sup>nd</sup>) Committee's report the committee laid the fault for huge NPAs, of Commercial banks on the priority sector. All these committees echoed in chorus. But the question to fix responsibilities for rising commercial sector NPAs was not allocated by the citation of reliable data as well as the modes adopted by the borrowers to refrain from payment of arrears of loan outstanding to them. Mostly, NPAs are outstanding to borrowers who willfully deny or neglect to repay their loans. To evade the debt payment they usually adopt fraudulent methods to deceive banks. The documents definitely supply data on total NPAs outstanding to non-priority sector, but have never supplied how much NAPs have been arisen specifically from corporate sector. The method of operation of the corporate sector is well known in banking sector. A corporate group borrows a huge sum from a particular bank in the name of one company and, systematically drains the amount from that company to another company. The loanee company itself quickly turns sick and the debtor bank finds it impossible to realize the payment but it must join the line of creditors and the helpless workers fruitlessly pursue the company through court and the Board of Industrial and Financial Reconstruction. But all these incidences do not prevent the same corporate group to borrow again in the name of another company even from the same bank. The worst is that so disinterested are the government and its banking industry that they never made any serious efforts for realization of outstanding loans to cooperators. In that stead banks pump funds into one after another companies belonging to the same group which has specialized to sickness'. Even if an individual firm is black listed the entire group, as a whole, is not.

One common practice, which banks do not want to classified a loan as NPA, is what is a called 'evergreening' that is banks give an another loan to company which is apprehensive of defaulting payment. With this fresh loan the bank continues to make payment by the concealment of fact that the debt is, in fact, really a bad debt. To get this fact understood is the real scale of corporate sector bad debt. But such frauds, committed by the corporate groups, in connivance with the senior public sector banks officials, have never been taken into seriously made efforts to put restriction upon this clique. The government's favour to such cliques was evidently opened when an executive order possessed by this United Front Government in the last day of 1996, the central Bureau of Investigation was prevented to make even a preliminary investigation on the part of senior officials of public sector banks without permission of the Finance Ministry. It was said : "The government will be hard put to counter the charge that the motive for this order is to shield the perpetrators of a scandal at the Indian bank, which advanced Rs. 1500 crores in bad loans to relatives of certain political leaders<sup>10</sup>. Mr. P. Bidwai

who pointed out the aforesaid fact, also claimed that " The top 15 business houses alone accounted for over a third of total NPAs<sup>11</sup>. Single example of Kolkata based UCO bank is enough to explain how the frauds of big companies are applied to their banks loan for willful non-payment of credited amount. In years between 1995 and 1997 gross NPAs of UCO bank rose from R.s 339 crore to Rs. 560 crores, From the list of defaulters prepared by RBI appeared on 31 March, 1997, which revealed that the 10 defaulter accounted for nearly half of NPAs of UCO Bank. In 2016 the RBI, on the pressure of the supreme court of India, submitted certain names of big defaulters requesting not to reveal their names. From the Halafnama of the RBI to the apex court it was revealed that within three years (2012-2015) the numbers of defaulters and the amount of NPAs became double-from 3703 defaulters and Rs. 22,332 crore in 2012 to 6,819 defaulters and Rs. 74,699 crores outstanding NPAs in their name, the companies and their individual amount due to them were as given below :

**Table No. 1**

**The list of defaulters and NPAs, (Rs. in Crores)**

S.No.	Companies	Amount
01.	Vinsome Forever Group	3969
02.	Zoom Developers	1,911
03.	S. Kumar Red and Tailors	1,489
04.	Pearl Piction Company	1,220
05.	King Fisher Airlines	1,798
06.	Duncon Chromicle	0,991
07.	Excel Energy	652
08.	Beta Nap-Toual	951
09.	Gilong system	440
10.	Telidala Group Comp.	577
11.	Vindhyavashini Steel Group Com.	455
12.	REI Agro	313
13.	Panther fineap	233
14.	J.B. Diamond	465
15.	Indian Techno mach.	303

Sources : *Indian Express, CIBL.*

Quoted by Prabhat Khabar, 2 April, 2016, p. 18.

Above illustrated are the facts accounted for NPAs of public sector banks, arisen on account of , a nexus been the corporations on the one hand and the higher bank officials and politicians. Non-payment of bank dues is willful incidence and the effective remedy to realize it is to convert all loans to such corporations in government equity, but the neo-liberal policy adherent government which is

moving fastly to merger of banking capital and industrial capital for building up a "Financial Oligarchy" will not initiate such reforms. Other remedial steps will be ineffective in removing the policy odds because NPA : is resultant effect of vested interests seating at the helm of policy making.

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