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# INDIAN ECONOMY IS THE 4TH LAGEST IN TERMS OF PURCHASING POWER AND IS THE FASTEST GROWING IN THE WORLD.

**BANKING IS A SOURCE OF PILLAR OF STRNGTH FOR INDIAN ECONOMY. 75% OF THE BANKING BUSINESS ARE TRANSACTED THROUGHT PUBLIC SECTOR BANKS**

# BANKS ARE REPOSITORIES OF

1. PUBLIC FAITH AND TRUST
2. ENJOYING RESPECT
3. GOOD WILL OF THE SOCIETY

WHILE US AND EUROPEAN BANKS HAD CRUMBLED IN THE ECONOMIC MELTDOWN.

THE INDIAN BANKS HAVE WITHSTOOD THE SAME WITH STOUTNESS AND STURDINESS. DUE TO THEIR INHERENT IN BUILT STRENGTHS

ABLY REGULATED BY THE REGULATOR- RBI

# Why Risk Management in Banks…..

- Banking function hinges on vast superstructure of credit, which is a risk taking function;
- Banks have always managed their risks, however, the degree and sophistication of risks have undergone changes over time.

With the advent of sophisticated technology and integration of financial market, Basel Committee (Basel II) classified risks under three major categories viz., Credit Risk, Market Risk & Operational Risk. Other risks which Banks may perceive to be detrimental for its existence are classified under Pillar II of the accord.

# Major Risks in Banks…..

- **Credit Risk:** Put simply, these are risk of default by the obligor. Banking function is primarily a function of accepting deposits for the purpose of lending and investment, these risk are basically ingrained in our structure.
- **Market Risk:** The second part of banking definition talks about investment. This risk arises on account of volatility in the interest rate scenario which ultimately impacts the price of the securities.

•**Operational Risk**: This risk arises on account of inadequate or failed internal processes, people or systems or from external event. This is the point where "Vigilance Structure" in a Bank assumes paramount importance.

•**Interest Rate Risk in Banking Book (IRRBB):** IRRBB is the risk to interest income arising from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

# Other major risks.....

- **Liquidity Risk:** This risk arises on account of mismatch between inflow and outflow of assets and liabilities under different time buckets.
- **Concentration Risk:** This risk can arise on account of substantial chunk of loan book being concentrated with one party, one region, one sector, one industry etc. This can severely jeopardize Bank's interest in the long run.

# Contd…..

- **Technology Risk:** Complete dependence on technology have given rise to these kind of risk, which can vary from failure of links to system shutdown and complete damage to data warehouse. Of late, trans border cyber crimes can be cited as an illicit child of network connectivity.
- **Legal Risk:** From improper documentation to adverse court case judgment can give rise to legal risk.

**Other Risks**:

In addition to the risks mentioned above, there are other risks which have the potential to wipe out the assets of banks, viz.,

Reputation Risk,

Model Risk,

Strategic Risk,

Settlement Risk, et al.

# Risk Mitigants.....

The following are the important mitigants which banks adopt to mitigate its risks:

- Sufficiency of Capital;
- Adequacy of Processes viz., proper pre sanction and post sanction follow up;
- Adequate Credit Risk Mitigation and Collateral Management policy;

Diversification of Risks to take care of market risk, liquidity risk;

Business Continuity Plan;

And above all,

A robust Vigilance and Fraud Prevention Structure

DIFFERNCE BETWEEN

CUSTOMER SERVICE

AND

FRAUD -IS VERY THIN.

CUSTOMER SERVICE MAY BE THE DRIVING FORCE WHILE TAKING DECISIONS BY ANY BANK OFFICIALS

DUE DILIGENCE

AND

ALERTNESS

ARE THE KEY WORD

WHILE OVERCONFIDENCE

SHOULD BE AVOIDED

# EMERGING TRENDS
# IN
# BANKING FRAUDS

# WHY BANK FRAUDS ?

It is a particular crime which does not involve violence but can have devastating effects on the life of the people and efficacy of the institutional governance.

## ESSENTIAL OF FRAUD

- Motivation
- Opportunity
- Target

# Motivation

There is a range of motivations behind the fraudulent behavior.

i) Financial/Greed ii)Gambling

iii) Addictions iv) Revenge

v)Maintain life style vi)Jealousy

vii) Financial support for business

viii) Personal debt

ix) Thrill seeker

x) Power dominance

# Top 10 Categories of Frauds in Indian Banking Sector [ Amount involved]

- Cash Credit
- Advances – Others
- Letter of Credit [Mostly issued to Corporate]
- Advances – Term Loans
- Bills – Purchase and Discounting
- Housing Loans
- Deposits – Current A/C ,SB A/C,TDR
- Credit Card

# Instrument frauds

- Forgery
- Colour photo copy
- Colour photo copy with MICR coding
- Scanned image printed on security paper
- Large value cheques issued without balance in account

# Frauds in Payment Systems

- Paper based: -Cheques
  -Dividend/Interest warrants
  - Demand Drafts/Pay orders
- Electronic -CTS (Cheque Truncation System)
  -RTGS/NEFT
  – ECS – Debit and Credit
  – ATMs
  – Credit cards including prepaid
  – Internet Banking
  – Mobile Banking

# Opportunity

- Poor internal control
- Non adherence of system and procedure
- Complacency
- Negligence
- Ineffectiveness
- Lack of alertness
- Lack of awareness

# Target

**Any industry particularly financial institution.**

# Banking Frauds in India (2005 to 2010-2011) *

| Period | Pubic Sector Banks | | Private Sector Banks | | Foreign Banks | |
|---|---|---|---|---|---|---|
| | No. | Amount (Crs.) | No. | Amount (Crs.) | No. | Amount (Crs.) |
| 2005 | 2662 | 1134.52 | 6169 | 222.24 | 3604 | 29.82 |
| 2006 | 2569 | 844.79 | 14432 | 322.05 | 4688 | 34.44 |
| 2007 | 2932 | 792.72 | 12313 | 220.68 | 7031 | 60.73 |
| 2008 | 3294 | 1050.21 | 12643 | 345.85 | 6215 | 56.61 |
| 2009 | 3413 | 1987.97 | 17339 | 299.68 | 6153 | 98.86 |
| 2010-2011 | 3718 | 2569.01 | 11435 | 708.31 | 4680 | 521.70 |

*Source : RBI

# Banking Frauds in India(2005-06 TO 2010-2011)*

| Year | No. of Frauds | Amount (in Crs.) | Frauds more than Rs. 1 cr. | Amount (in Crs.) |
|---|---|---|---|---|
| 2005-06 | 13914 | 1381 | 194 | 1094 |
| 2006-07 | 23618 | 1194 | 150 | 840 |
| 2007-08 | 21247 | 1059 | 177 | 659 |
| 2008-09 | 23914 | 1883 | 212 | 1404 |
| 2009-10 | 24797 | 2017 | 225 | 1524 |
| 2010-2011 | 19833 | 3799 | 293 | 3309 |

* Source : RBI

# Modus operandi adopted by the borrowers

- Submission of false / forged audit report
- Submission of false certificate of CA relating to raising of capital, end-use of funds, etc.
- Floating of fictitious companies/firms
- Furnishing of forged/false invoices/bills through fictitious companies/firms

# Modus operandi adopted by the borrowers (Contd...)

Diversion of bank's funds by borrower through fictitious/fake companies/ firms.Ploughing back bank funds from same or other borrowers account towards infusion of capital to raise further funds

Submission of forged/fake LCs.Tendency on the part of borrower to get Non-fund Based limits sanctioned which are later sought to be converted into fund based limits, viz. LC limit, BG limit, etc.

# Emerging Areas of Bank Frauds

- Frauds in Consortium / multiple bank lending
- Frauds in Takeover of borrowal accounts ending in quick mortality
- Frauds in One Time Settlement (OTS) accounts
- Frauds in non-fund based limits (BGs, LCs, etc.)

- KYC norms not fully complied with, while opening of new accounts – visit report of the transferee bank officials not put on record
- Borrowers in the habit of frequently changing their bankers and this fact being ignored
- The health of the taken over account with the transferor bank being not as sound as is depicted in the statements of accounts

# MONEY LAUNDERING

- The word 'Laundering' in general terms means to wash and iron clothes. Now in addition, it has become a very significant topic in financial sector.
- In financial sector, the word 'laundering' is links to money laundering. It means "informal transfer (of illegally obtained money)" to conceal its origin.

- …contd

# MONEY LAUNDERING

- Money Laundering is defined in "The Prevention of Money Laundering Act, 2002" as under:-
- 'whoever directly or indirectly attempts to indulge or knowingly assist or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of money – laundering",

# General

- One of the "India Fraud Survey Report 2008" has pointed out that the financial sector is the most susceptible sector to frauds. The survey has termed India as a "Fraud Heaven" with 60% institutions surveyed, reporting incidences of frauds.
- 75% of the top corporate executives contacted, considered fraud as their highest concern. As per report, financial sector is on top with regard to susceptibility to frauds followed by the real estate & infrastructure, IT, ITeS and so on.

# Awareness to prevent

- Customer awareness
  - Newspapers & other media
  - SMS alerts
  - Emails
- Staff awareness
  - Training programmes
    - Practical
    - Online
  - Culture building
  - Rewarding ‘fraud preventers’