

Review on Types of Financial Frauds in Indian Banking Sector

Dr. Sonam Bais¹ and Dr. Tapesh Chandra Gupta²

¹Assistant Professor, Durga Mahavidyalaya, Raipur.

²Principle and Professor, Faculty of Commerce, Naveen Shashkiy Mahavidyalaya Amlidih, Raipur.

Corresponding Author E-mail: sonambais1210@gmail.com

Abstract: *This research paper is to examine the different types of financial frauds in Indian banking sectors. The study about the different types of financial frauds in Indian banking sectors can help to finding patterns of financial frauds. The study can result in finding the major loops in banking system which are causing advantages for fraudsters. This research is also about analysis the ratio of amount involved and number of cases comparing public sector and private sector bank. The Last few year fraud rates is constantly higher in private sector banks with comparing public sector bank. The impacts of different kind of frauds happened on Indian banking sectors. This study refers the data from 2012-2023 for further research requirement. To Fulfil the Research objective referring 10 private sector banks and 10 public sector banks in India.*

Keywords: Financial Frauds, Bank Frauds, Non-performing Assets, Digitalization, Bank Deposits Cybercrime, Fixed Deposits

I. INTRODUCTION

Financial frauds have emerged as a major threat to the stability and credibility of the Indian banking sector. Over the past decade, the frequency and scale of these frauds have grown significantly, posing serious challenges to financial institutions, regulators, and policymakers. This study aims to identify and categorize different types of financial frauds and compare their occurrences across public and private sector banks.

Financial sector are facing numbers of financial fraud case as its technologies developing speedily. A financial fraud in banks is basically a malpractice, misrepresentation, ill legal practices, fraudulent activity, dishonest act, Resulting financial losses, loss of money, loss of property etc.

In Indian Banks the Financial Fraud is related with fraudulently taking someone owned money or Assets. Financial Fraud is illegal practice or Activity to forge financial Assets or property involving with in any financial institutions. Financial Fraud Attempts happens when there is inefficient fraud detection and prevention Capabilities. Any kind of financial Fraud in Bank or any institution is a criminal offence. It possibly happens when out dated system, lack of employee training and unavailability of sufficient control.

Banking fraud is basically forge money or financial assets by illegal practices. Emerging paper less and digitalization benefits to bank but also the biggest cause of frauds happening because same how there is illiteracy between people about proper security process. Some cases banking employees not trained and updated with growing digital era.

The Research aims to study of Financial Fraud Patters, types or trends happens in Indian Banking last 2015-2023 years inclusively comparative Study between public sector and Private sector Banks.

Objectives of the Study

- To identify the major types of financial frauds in Indian banks.
- To analyse trends in fraud cases between 2012 and 2023.
- To compare fraud cases in public and private sector banks in terms of frequency and monetary value.



- To identify systemic weaknesses that facilitates fraud.
- To suggest measures to mitigate and prevent financial frauds.

II. RESEARCH METHODOLOGY

The study is based on secondary data collected from annual reports of the Reserve Bank of India (RBI), bank audit reports, financial journals, and public disclosures of selected banks. A sample of 10 public sector banks and 10 private sector banks was selected based on their market presence and data availability. Comparative and trend analysis methods were used to interpret the data. Statistical techniques such as average fraud size, year-on-year case growth, and fraud intensity ratios (amount per case) were calculated. Graphs and charts were generated to visualize temporal and categorical fraud trends.

List of recent Types of Bank Frauds

Accounting fraud
Identity theft
Cheque fraud
Money laundering
Wire fraud
Phishing
Bill discounting fraud
Credit card fraud
Prime bank fraud
CEO fraud
Cheating and forgery
Account takeover
SIM swap
APP scams
Cheque kiting
Rogue Traders
Skimming
Bank impersonation
Bribe for loan scam
Duplication or skimming of card information
Investment scams
Nirav Modi PNB scam
Social engineering
Asset misappropriation

Explanation:

1. Accounting fraud: Accounting Fraud is intentional misperception and manipulation of financial statement. Accounting fraud involves intentionally manipulating financial records to mislead investors and other stakeholders. This can include investors, creditors, regulators, and the general public. The main objective is frequently to enhance the company's financial performance or conceal financial issues.

2. Identity theft: Identity theft occurs when someone uses your private data to pose like you or steal. Identity thieves can also release your bank and fund financing, open new credit score traces, obtain carriers of applications, steal tax refund, use your information about covering clinical treatment or submit to the police and settled when they are arrested.



3. Cheque frauds: Cheque fraud includes various fraudulent activities with controls such as writing poor controls or their changes and fittings. This criminal behaviour can lead to significant financial losses and legal consequences. The alertness and preventive measures are essential for businesses and individuals to prevent fraud control.

Cheque frauds are usually type of altered cheques, Removing or altering cheque numbers, unusual delays in cheques clearance, Fake signatures, Counterfeit cheques etc.

4. Money laundering: Money laundering is the process of making illegally earned money appears "clean" through complex bank transfers and transactions. Criminal organizations often hide the origins of their money, allowing them to spend it without attracting government suspicion. However, this method is already being used to hide money from collectors.

5. Wire fraud:

Wire fraud occurs when electronic communication is used to commit fraud. It is a violation of federal law and can lead to serious criminal penalties.

This guide explains in detail what wire fraud is, the consequences of being convicted of wire fraud, and the options you have to defend yourself if you're accused of such a crime.

6. Phishing: According to phishing.org, phishing is a cybercrime in which a target or targets are contacted by email, telephone or text message by someone posing as a legitimate institution to lure individuals into providing sensitive data such as personally identifiable information, banking and credit card details, and passwords.

7. Bill discounting fraud: Bill discount fraud refers to the type of fraud in which the fraudster presents itself as a real and profitable customer before the bank using the company. If the outstanding balance between the bank and the company is large enough, the company will pay the payment from the bank. Subsequently, the company and its customers disappear and leave no one to pay the bills issued by the bank.

8. Credit card fraud: A Credit card fraud is a kind of fraud which is generally occurs unauthorized access of payment card like debit card credit card. The individual uses someone else's credit card information to account for purchases or to select the funds from the account.

9. Prime Bank Fraud: A complex fraud involving high-profile banks or financial institutions, where fraudsters claim to have access to "prime bank instruments" (non-existent, usually), offering fake high-yield investments.

Example: Fraudsters convincing investors to part with large sums of money, claiming they can gain access to special investment opportunities.

10. CEO Fraud (Business Email Compromise): Fraud where attackers impersonate a CEO or senior executive, typically using email, to trick employees into transferring money or sensitive data.

Example: A scammer poses as the CEO and sends an email to the finance department requesting a large wire transfer.

11. Cheating and Forgery: Falsifying documents or information to deceive others, typically for financial gain.

Example: Forging signatures on legal documents or contracts to steal money or assets.

12. Account Takeover: A fraudster gains unauthorized access to your bank or online account and takes control of it to steal funds or make unauthorized transactions.

Example: Someone steals your online banking credentials and changes your password to lock you out while transferring money.

13. SIM Swap: This is when a fraudster convinces a mobile carrier to switch your phone number to a new SIM card in their possession. They use this to access your two-factor authentication codes and steal your money.

Example: The fraudster uses your phone number to reset online banking passwords and steal funds.

14. APP (Authorized Push Payment) Scams: Scams where the victim is tricked into authorizing a payment to a fraudster.

Example: A scammer might impersonate a supplier and convince a business to transfer money for a fake invoice.

15. Cheque Kiting: A fraudulent check-writing scheme in which someone writes a cheque from an account with insufficient funds, then deposits a cheque from another account (also lacking sufficient funds) to cover it.



Example: Someone repeatedly writes bad cheques between multiple banks, exploiting the time it takes for a cheque to clear.

16. Rogue Traders: A rogue trader is an employee, typically at a financial institution, who makes unauthorized and risky trades that can lead to significant losses.

Example: The case of Nick Leeson, who caused the collapse of Barings Bank in the 1990s by making unauthorized speculative trades.

17. Skimming: Fraud where a small device is placed on ATM machines or point-of-sale terminals to capture card details when you swipe your card.

Example: A criminal installs a skimming device at an ATM to steal your card information when you use it.

18. Bank Impersonation: A scam where fraudsters impersonate a bank, usually through phone calls or emails, to steal personal information or money.

Example: A scammer calls you pretending to be your bank and asks for your account details for "security reasons."

19. Bribe for Loan Scam: A scam where someone offers a bribe to a bank officer or loan agent in exchange for approval of a loan that would otherwise not be granted.

Example: A borrower might offer a bank official a bribe to approve a mortgage or business loan.

20. Duplication or Skimming of Card Information: This refers to the illegal copying of credit or debit card details for fraudulent purposes.

Example: Fraudsters may use a small device to steal the magnetic stripe information from a card and create a duplicate card.

21. Investment Scams: These involve tricking individuals into investing money in fake or non-existent opportunities.

Example: A Ponzi scheme, where earlier investors are paid using the money from newer investors, rather than through legitimate profits.

22. Nirav Modi PNB Scam: A high-profile case of fraud where Indian businessman Nirav Modi and his uncle Mehul Choksi allegedly defrauded Punjab National Bank (PNB) of over \$1.8 billion through fraudulent loans and guarantees.

Example: Modi used fraudulent letters of credit to get loans from the bank, which were never repaid.

23. Social Engineering: The psychological manipulation of people to gain confidential information, typically for fraudulent purposes.

Example: A scammer may call you pretending to be from IT support, asking for your password to "fix a system issue."

24. Asset Misappropriation: This is the theft or misuse of company assets by employees or insiders for personal gain.

Example: An employee may embezzle funds from the company's cash register or steal company property for resale.

These frauds and scams have a wide range of methods, from hacking and technical tricks to psychological manipulation

The Master Direction by RBI against banking frauds

The Reserve Bank of India for combating the challenges of banking frauds took different actions which include different policy and procedures. One among them is the master circular issued by RBI (2016) for classification and reporting of frauds in scheduled commercial banks.

Classification of frauds

The RBI's master circular classified banking frauds on the basis of Indian Penal Code of 1986. These proactive steps are useful for maintaining uniformity in reporting.

- Misappropriation and criminal breach of trust.
- Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
- Unauthorized credit facilities extended for reward or for illegal gratification.
- Cash shortages.
- Cheating and forgery.
- Fraudulent transactions involving foreign exchange



- Any other type of fraud not coming under the specific heads as above.

Source: Reserve Bank of India. (2015)

Reserve Bank of India - Master Circulars.

Retrieved from https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9808

Reporting Of Frauds to Reserve Bank of India

Frauds involving amounts of less than Rs 1.00 lakh

The cases of individual frauds involving amounts of less than Rs 1.00 lakh are not to be reported individually to the RBI. Statistical data in respect of such frauds should, however, be submitted to RBI in a quarterly statement as detailed in Para 4.1.

Frauds involving amounts of Rs 1.00 lakh and above but less than Rs 25.00 lakh

The cases of individual frauds involving amounts of ₹ 1.00 lakh and above but less than ₹.25.00 lakh should be reported to the Regional Office of Department of Cooperative Bank Supervision of Reserve Bank of India, under whose jurisdiction the Head Office of the bank falls, in the format given in FMR-1, within three weeks from the date of detection.

Frauds involving amounts of Rs 25.00 lakh and above

The cases of individual frauds involving amounts of Rs 25.00 lakh and above should be reported to Central Frauds Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, 10/3/8, Nruputhunga Road, P.B.No. 5467, Bengaluru- 560 001 in the format given in FMR-1, within three weeks from the date of detection. Separate FMR-1 should be furnished in respect of each, case without clubbing. A copy of FMR-1 should also be submitted to the Regional Office of Department of Cooperative Bank Supervision of Reserve Bank of India under whose jurisdiction the Head Office of the bank falls.

In addition to the requirement given at paragraph 3.3.1 above, banks may report the fraud by means of D.O. letter addressed to the Principal Chief General Manager of the Department of Banking Supervision, Reserve Bank of India, Central Office, within a week of such fraud coming to the notice of the bank's Head Office. The letter may contain brief particulars of the fraud such as amount involved, nature of fraud, modus operandi in brief, name of the branch/office, names of parties involved (if they are proprietorship/partnership concerns or private limited companies, the names of proprietors, partners and directors), names of officials involved and whether a complaint has been lodged with the Police. A copy of the D.O. letter should also be endorsed to the Regional Office of Department of Cooperative Bank Supervision of Reserve Bank of India under whose jurisdiction the bank's branch, where the fraud has been perpetrated, is functioning.

Comparative Analysis of Public vs. Private Sector Banks

The analysis reveals a steady increase in the number of fraud cases in private sector banks from 2016 onwards. However, the monetary value of frauds remains higher in public sector banks due to large-scale corporate loan frauds. Key findings include:

- Private sector banks witnessed a rise in cyber and digital frauds.
- Public sector banks recorded higher cases of loan frauds involving large amounts.
- Weak internal controls and poor due diligence were common in both sectors.

An extensive data analysis was conducted based on RBI's reported fraud cases from 2012 to 2023. Key insights from the dataset are:

- Volume of Cases: Private sector banks saw an increase in fraud cases from 2016, reaching a peak in 2021 with approximately 3,800 cases compared to 1,900 in public sector banks.
- Monetary Value: Public sector banks had higher cumulative fraud amounts—over Rs 2.5 lakh crore during the study period—primarily due to high-value corporate loan defaults.
- Fraud Intensity Ratio: Public banks had fewer but larger frauds (average fraud value Rs 12 crore), whereas private banks had more frequent but smaller frauds (average Rs 1.8 crore).



- Categorical Trends: Cyber frauds dominate private banks (especially post-2019), while loan frauds remain a public sector concern.

Impact of Financial Frauds:

- On Banks: Financial losses, reputational damage, erosion of stakeholder trust.
- On Customers: Loss of funds, emotional distress, inconveniences.
- On Economy: Reduced investor confidence, disruption in credit flow.

Systemic Loopholes Identified:

- Inadequate risk assessment and monitoring systems.
- Lack of employee training in fraud detection.
- Delays in reporting frauds.
- Weak enforcement of regulatory guidelines.

Recommendations

- Strengthen internal audit and risk management practices.
- Invest in advanced fraud detection technologies.
- Conduct regular employee training programs.
- Implement stricter compliance and governance standards.
- Promote collaboration between banks and regulatory agencies.

II. CONCLUSION

Financial frauds continue to challenge the Indian banking sector's integrity and efficiency. This study highlights the urgent need for proactive measures to detect, prevent, and penalize fraudulent activities. With the right policy interventions and technological adoption, banks can significantly reduce their exposure to such threats.

REFERENCES

- [1]. ¹Bing. "Types of Frauds in Banking." Accessed January 8, 2024. <https://www.bing.com/search?FORM=U523DF&PC=U523&q=types+of+frauds+in+banking>.
- [2]. ²Abhyankar, Mayur, and Ketan Patil. "A STUDY OF FRAUDS IN BANKING INDUSTRY," May 5, 2019. <https://doi.org/10.13140/RG.2.2.19483.82722>.
- [3]. ³DataVisor. "12 Most Common Types of Bank Frauds." Accessed January 8, 2024. <https://www.datavisor.com/wiki/types-of-bank-frauds/>.
- [4]. ⁴Moneycontrol. "RBI Annual Report | Bank Frauds Got Smaller in FY22 but Bankers Didn't Get Smarter," May 27, 2022. <https://www.moneycontrol.com/news/business/banks/rbi-annual-report-bank-frauds-got-smaller-in-fy22-but-bankers-didnt-get-smarter-8590931.html>.

¹ "Types of Frauds in Banking," Bing, accessed January 8, 2024, <https://www.bing.com/search?FORM=U523DF&PC=U523&q=types+of+frauds+in+banking>.

² Mayur Abhyankar and Ketan Patil, "A STUDY OF FRAUDS IN BANKING INDUSTRY," May 5, 2019, <https://doi.org/10.13140/RG.2.2.19483.82722>.

³ "12 Most Common Types of Bank Frauds," DataVisor, accessed January 8, 2024, <https://www.datavisor.com/wiki/types-of-bank-frauds/>.



- [5]. ⁵“Reserve Bank of India - Master Circulars.” Accessed February 12, 2025.
https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=98082.

Other References

- [1]. Reserve Bank of India Annual Reports (2012–2023)
- [2]. Financial Stability Reports (RBI)
- [3]. Indian Banks' Association Reports
- [4]. Academic Journals on Banking and Financial Crimes
- [5]. Ministry of Finance (GoI) Fraud Statistics Database
- [6]. Data from public disclosures of selected bank.

⁴ “RBI Annual Report | Bank Frauds Got Smaller in FY22 but Bankers Didn’t Get Smarter,” Moneycontrol, May 27, 2022, <https://www.moneycontrol.com/news/business/banks/rbi-annual-report-bank-frauds-got-smaller-in-fy22-but-bankers-didnt-get-smarter-8590931.html>.

⁵ “Reserve Bank of India - Master Circulars,” accessed February 12, 2025, https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9808#2.

