

CVC Analysis on Banking Frauds

Why in news?

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The Central Vigilance Commission (CVC) recently released a first-of-its-kind analysis of the top 100 banking frauds.

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What is the report on?

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- The banking frauds were classified and analysed for 13 sectors.
- It included gem and jewellery, manufacturing and industry, agriculture, media, aviation, service and project.
- Besides these, discounting of cheques, trading, fixed deposits, information technology, export business, demand loan and letter of comfort were also covered.

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 The analysis focussed on the \n

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i. modus operandi

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ii. amount involved

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iii. type of lending (consortium or individual)

iv. anomalies observed

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 ${\it vi.}$ the systemic improvements required to plug the gaps in the system and procedures

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• CVC shared its findings with the RBI, ED (Enforcement Directorate) and CBI (Central Bureau of Investigation) among others.

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- The names of borrower accounts or entities, and the names of the banks have not been disclosed in the report.
- \bullet However, steps are being taken for investigation by the premier investigative agencies, fixing staff accountability and recovery measures. \n

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What is the significance?

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• The latest <u>Financial Stability Report</u> of the RBI highlighted the bank frauds scenario in India.

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• The Indian banking system reported over 6,500 instances of fraud involving over Rs.30,000 crore in the last fiscal.

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• It is in this context that the Central Vigilance Commission's analysis of banking frauds gains significance.

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• It is a preventive vigilance measure to minimise the occurrence of such type of frauds in the future.

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 It will help improve the general understanding of banking frauds and make aware the field functionaries on the existing lapses.

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What are the key findings?

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• Companies in the jewellery business inflated the value of imported diamonds to avail of a higher amount of loans.

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• They took credit on the pretext that their export bills remained unpaid due to the financial difficulties faced by overseas buyers.

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- They found ways to take credit from one bank before shipping products to overseas buyers and from another after shipping.
- The credit facilities to this sector increased manifold within a short span of time, as an effort by banks to increase their credit dispensation.
- \bullet Companies also manipulated the paperwork to dupe the lenders. $\mbox{\sc h}$
- Likewise, a manufacturing company showed an audited balance sheet with a net profit of around Rs.23 crore in a particular year.
- It thus got credit facilities from a consortium of banks.
- However, without informing the lenders, it later revised its balance sheet and the profit shrank to Rs.0.34 crore. $\$
- \bullet So clearly, the books were manipulated with an intention of cheating banks. \n
- In a notable fixed deposit (FD) fraud, the fraudster presented himself as a bank representative to companies and government organizations.
- \bullet For banks, he became a financial advisor of those organizations and managed to mobilize large bulk deposits. \n
- He gave fake term deposit receipts (TDRs) to depositors.
- He later opened loan accounts in the name of the depositors by giving fictitious documents and original TDRs and took the money away.
- \bullet Based on these findings, various industry specific suggestions for systemic improvement have been given in the final report. \n

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What are the suggestions made?

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- Strengthening of <u>standard operating procedures</u> (SOPs) and the <u>monitoring system</u> was suggested.
- Having some <u>segment related limits</u> on credit exposures was also emphasized.

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• The FD fraud shows the poor level of checks and balances in the banking system.

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• Therefore, banks will need to improve their due <u>diligence capabilities</u> in disbursing loans.

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• This will lead to better credit appraisal and also help contain non-performing assets (NPAs).

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• Banks can also setup fraud <u>monitoring agencies</u> to be better prepared to avoid frauds.

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 \bullet It is also important that banks leverage $\underline{\text{technology}}$ to detect frauds and improve the sharing of information.

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- However, law enforcement agencies should not end up creating an environment of fear, affecting the flow of credit to productive sectors.
- \bullet Besides these, accountability of <u>third-party service providers</u> such as auditors and lawyers should also be fixed. \n
- India needs a system where auditors and other professionals examining fake documents are not able to escape.
- CVC noted that bank must immediately delist such third valuers, Chartered Accountants/ Chartered engineers, Advocates etc. who -

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 $i.\ have\ questionable\ credentials$

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 ${\it ii.}$ have been negligent in their professional duties (or)

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iii. have caused financial loss to the bank by their wilful acts of omission/commission/dishonesty

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• In all, Indian banks need significant improvements in operation and

governance standards.

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 \bullet Both the government and the RBI should work with banks to improve the overall structure.

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Source: Business Standard, Livemint

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