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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.
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- It included gem and jewellery, manufacturing and industry, agriculture, media, aviation, service and project.
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- 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
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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)
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iv. anomalies observed
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v. loopholes that facilitated perpetration of the fraud concerned
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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.
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- However, steps are being taken for investigation by the premier investigative agencies, fixing staff accountability and recovery measures.
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What is the significance?

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

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- Strengthening of standard operating procedures (SOPs) and the monitoring system was suggested.
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- Having some segment related limits 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 diligence capabilities 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 monitoring agencies to be better prepared to avoid frauds.
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- It is also important that banks leverage 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.
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- Besides these, accountability of third-party service providers such as auditors and lawyers should also be fixed.
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- India needs a system where auditors and other professionals examining fake documents are not able to escape.
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- 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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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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- 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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