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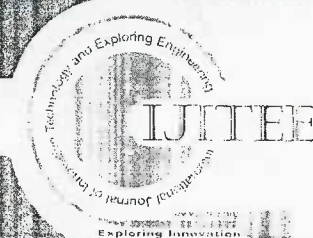
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Impact of Frauds on the Indian Banking Sector

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Abstract: Banks act as engines that steer the processes of money markets, the financial sector and economic growth. The Indian banking sector has expanded at a fast pace, especially as we stand today on the brink of the fourth industrial revolution. However, this has not come without its due share of complications. Along with the swiftly growing banking industry, frauds in Indian banks have seen an rising trend and there is an urgent need to revamp the banking sector in India, given the scams involving crores of rupees being unearthed in the recent past. The present study makes an attempt to review and analyse the trend of frauds plaguing the banking sector and its role in the continuous rise of Non- Performing Assets in the India. Further the study endeavours to throw light on the impact of rising bank frauds on profitability of the banking sector in India. The study concludes that the number of frauds plaguing the Indian banking sector is on a constant rise in recent years leading to a rise in NPAs and severely impacting profitability of the banking sector in India. Stringent action by authorities along with finding new means of fraud prevention and reduction is the only way forward for safeguarding the credibility of Indian banks and giving a face-lift to the banking sector of the country.

Keywords: Frauds, Non-Performing Assets, Profitability, Banking Sector

I. INTRODUCTION

The resilience of a growing economy is determined when its banking system is put to test. India, with its immense growth potential, has stayed relatively stable throughout a series of global recessions and has emerged reasonably unscathed. It is ironic however, that a steadfast system such as this, would contain a series of vulnerabilities which have been left unaddressed; increasingly becoming gaping black holes and tarnishing the image of the banking sector. The most evident of the issues faced by the sector and also its primal risk factor is the resultant impact of frauds. Frauds continue to be one of the major problems in the banking and financial services domain and the rapid growth of fraudulent activity is a testament to how difficult fraud is to detect and prevent — a fact that criminals take advantage of. The health of a nation's financial and banking system facilitates in determining its production and consumption patterns of goods and services. It acts as a direct gauge of the standard of living and well-being of its citizens.

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Thus, if the banking structure is afflicted with soaring levels of frauds and consequently increasing NPAs, then it becomes a source of worry, since it mirrors financial anguish of borrowers and clients, as well as inefficiencies in transmission mechanisms.

In recent years, instances of banking fraud reported in India are on a steady rise. Even though in India, banking frauds have frequently been treated as one of the costs of transacting business, after liberalisation their frequency, complexity and inherent costs of frauds have swelled manifold resulting in a very grave cause of alarm for regulators due to its harsh impact on the banks profitability and consequently on the Indian economy.

II. LITERATURE REVIEW

P.K. Gupta and Sanjeev Gupta (2015) identified that the regulatory system is very weak and there is a dire need of redefining the role of auditors in today's globalised business environment. This study assumes that fraud could be mitigated by proactive and conscious action by auditors and corporate executives who are willing to avoid perpetrating financial fraud despite pressures from investors, government securities regulators and exogenous market fluctuations. The research also made a structured attempt to investigate into the role of fraud perpetrators, quantum of frauds and the modus operandi behind frauds.

Douglas E. Ziegenfuss (1995) made an attempt to lay emphasis on local and state government fraud survey. The research made use of questionnaire method wherein local government auditors were interviewed to determine the amount of fraud in state and local governments. The study concludes that fraud is a significant problem for state and local governments and finds that management is not responding effectively to the actual frauds when they are discovered; most of the loss in fraud cases is accounted for by misappropriation of funds, other false representation, other fraud, or false invoices.

Soni R. R. and Soni Neena (2013) made an attempt to investigate into cyber frauds plaguing the private as well as public sector banks. The study aimed to introduce the concept of cyber frauds in banking sector and make meaningful analysis on the same. Data from RBI website was used to support the study. The study concluded that private sector banks and foreign banks have a significantly higher number of cyber frauds as compared to public sector banks. It also showed that though there has been a considerable decline in the number of bank cyber frauds the value of such frauds has not come down proportionately.