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PREVENTATIVE MEASURES FOR REDUCTION OF FRAUD IN THE BANKING SECTOR IN INDIA

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ABSTRACT
Since the economy was liberalized in 1991, there has been significant expansion and change in the Indian banking industry. Although the banking sector is generally properly governed and overseen, it faces its own unique set of problems with regard to moral behavior, financial crisis, and corporate governance. Thisstudy aims to address problems including banking frauds and rising credit card debt by including all parties engaged in disclosing financial misbehavior. The methodology adopted in this paper is doctrinal. The sources too are primarily secondary in nature. The study's findings demonstrate that implementing updated technology for effective fraud detection and efficient client services, as well as strengthening the framework of banks in accordance with international best practices, can help to reduce banking fraud.
Keywords*: Fraud, Preventive measures, Banking, Non-performing assets, Credit database*

INTRODUCTION
In India, there have been more instances of financial fraud in recent years. Since the nations' economic growth, the quantity, level of detail, and cost of fraudulent banking activities have all greatly grown,economic liberalization, even though they were previously frequently considered a necessary cost of doing business in India. “For authorities like the Reserve Bank of India” (RBI), this is a very severe reason for concern." The RBI, the organization that regulates Indian banks, regulates fraud as "a planned act of intentional misconduct or commission by anyone, whether carried out in the process of a payment transaction or within the financial records of makes up retained electronically or manually in financial institutions which ended into unlawful gain for any individual for a short amount of time or contrary, whether or not it causes a financial harm to the bank."
“The definition of "fraud" is absent from India's foundational criminal statute, the Indian criminal statute of 1860. The legislation only defines the keywords" "fraudulently" and "dishonestly," and it merely addresses the aspect of "fraud" in the crimes of "cheating[1]," "forgery[2]," etc., to a certain extent. The Indian Contract Act, 1872[3]provides a comprehensive definition of fraud under civil law remedies, and tort law recognizes the evil of "deceit or fraud."In Derry v. Peek[4], Case Lord Herschell stated that "Fraud" is defined as a false statement made knowingly, recklessly, or without belief in its veracity and similarly in the case of Long v Lloyd[5] court finds that false statement will be considered as the misrepresentation. A misleading statement that is made by someone who doesn't believe it to be true constitutes a fraudulent misrepresentation. The RBI has taken a variety of measures that have reduced the three are more examples of financial fraud, although the total amount of money stolen has increased with time. Additionally, "non-performing assets (NPAs)" have sharply increased, especially

[1]“3 Id., Section 415”
[2]“Id., Section 463”.
[3]“Indian Contract Act, 1872”
[4]“Derry v. Peek, (1889) 14 AC 337 : 5 TLR625”
[5]Long v Lloyd [1958] 1 WLR 753

for PSBs.resulting in a decline in its financial success. The reasons of risky NPAs are many, such as the global and domestic recession, although there is some proof that frauds and NPAs are related[6].
As a result, all frauds committed in a financial system are collectively referred to as "banking fraud" in this phrase. Accounts, tangible assets, loans, investments, or nearly any sort of financial assistance. Another time, it might be carried out be a client, someone who is someone from outside a banker, or many parties working together. All of these crimes are commonly referred to collectively as "banking fraud." Forgery, embezzlement, breach of trust, theft, cheating, and other dishonest acts are all examples of ways to commit banking fraud.

ADVISORY BY THE RESERVE BANK OF INDIA

According to regulatory regulations, the RBI must be informed of such scam within 21 days of its occurrence. The data shall be diligently collected and transmitted to the bank's headquarters in accordance with the RBI's rules so that it is available to all of the bank's branch offices. Additionally, According to the oval, Zonal Heads must continue to notify every account or incidents as bogus to Head Office's Vigilance the Department throughout a seven-day period related to any expand or office beneath their jurisdiction or other physical locations like MCU/FCC/Processing centers that fall within their working area wherever an illegal the component is discernible.

CAUSES BEHIND FRAUD

While there is a myriad of financial and moral reasons behind the commission of such frauds, the following mentioned are certain broad causes that have been identified[7]:

1. Poor banking governance: Most frauds demonstrate that banks neglected to exercise adequate care before and after disbursing loans.
2. Poor monitoring: Due to a lack of technological advances and deception monitor companies, the problem is made more difficult. The is no trustworthy mechanism in place to monitor the movement of credit.
3. Technological laggards: In addition to an over-reliance on oversight from humans throughout internal as well as external levels, the sheer number of interactions makes it difficult to manually manage and oversee them.

PREVENTATIVE MEASURES TO COMBAT FRAD IN BANKING INDUSTRY

1. Basel III: Basel III is a collection of regulations that have been adopted globally and were created by the Basel Committee on Banking Regulation as a result to the 2007–2009 financial crisis.
2. **A Central Fraud Registry** (CFR) which banks have been given access by means of passwords and usernames that are publicly accessible. The Financial Monitor Statements submitted by the lending institutions and the chosen FIs, included amendments thereto, serve as the foundation for the CFR. A searchable web-based repository called CFR exists.

[6]"Divyesh Dixit, Bikram Singh, the author, Deepanshu, Antony, for it Kiran, Mohit had Agarwala, Raja Kant, he Mukunda, Criminals across the Indian Banking The manufacturing sector, S & Nayak, respectively, the Buddha, Makked, Suryaansh, Singh, who is Tamanna, and Mathur, who is Vipul (March 2, 2016). 505th essay from the Indian Institute of Management, Bangalore, Available at"
SSRN: https://ssrn.com/abstract=2741013 or http://dx.doi.org/10.2139/ssrn.2741013
[7]https://www.acfe.com/fraud-resources/fraud-101-what-is-fraud

Additionally, banks are urged to set up appropriate processes and procedures to make sure that the data from CA[8]/CFR is used as part of the governance of credit risk and the management of fraud risk.

3. **Frauds must be reported to the Reserve Bank of India:** No matter how much money is at stake, banks must electronically submit Fraud Monitoring Returns (FMR) for each individual fraud instance to the RBI using the Within three days of their confirmation of identification, FMR Program was sent to its destination in an XBRL manner.
4. **Early Identification and Disclosure:**Banks today have very limited avenue of sources which results in fraud detection taking quite some time and furthermore, an account is only considered fraudulent after other ways of recovery have been explored and yielded nothing. Among other factors, a delay in reporting frauds prevents the RBI from warning other banks about the method of operation through "Caution Advice/ CFR", which could prevent other banks from reporting frauds of a similar nature.
5. **EWSs (Early Warning Signals):** Here are a few Earlier Warning Signs (EWS) that banks ought to stay aware of officials about potential fraud in loan accounts:
   (a) Bouncing of high value checks; •
   (b) Uncontested payment to the statutory bodies as stated in the Annual report
   (c)Frequent changes to the project's scope made by the borrower; long periods of time that foreign payments remain unpaid at the bank; and a propensity for bills to be late.
   (d) There has been a delay in paying past-due fees.

CONCLUSION

There is no particular way for authorities to regulate and thereis Lack of information among customers and workers, inadequate training for foreign and domestic banks, and a shortage of devices and technologies to identify the first indications of fraud are all contributing factors may be the major reasons of the frauds. Other possible contributing issues include inadequate upper management monitoring, poor employee incentive programs, collusion between employees13, corporate customers, and other organizations, and a dearth of efficient laws and regulations. Many of the main causes of thefts and NPAs have been recognized as inefficiencies in the official report procedure and structural flaws. financial fraud may be reduced with the use of measures like updating equipment to improve detection of fraud and efficient customer assistance, as well as enhancing the regulating guidelines of banking institutions and bringing them into compliance with global norms.

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2. Supra Note 5, p.9.
3. https://www.acfe.com/fraud-resources/fraud-101-what-is-fraud
4. https://www.ca-cib.com/sites/default/files/2021-10/Basel-III-Disclosures_0921.pdf
5. https://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=826

[8] CA- Caution Advice

SECTIONS:

6. Id., Section 24
7. Id., Section 415
8. Id., Section 463.
9. Section 25

ACTS:

1. The Indian Penal Code, 1860
2. The Indian Contract Act, 1872

CASE LAWS:

1. Derry v. Peek, (1889) 14 AC 337: 5 TLR625
2. Long v Lloyd [1958] 1 WLR 753