



Pre and Post Covid-19 Effect on Employment and Frauds in Indian Banking Sector

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Abstract

Every year banking industry suffers with NPAs, and bank frauds play a significant role in increasing it. Covid-19 created unprecedented challenges in our economy. In this paper we made an effort to find out whether there is any link between unemployment and increasing bank frauds. We also focused on that which operational mode is most prevalent among the various modes of frauds along with which type of banks are facing more bank frauds in Indian Banking Industry. This study is based on secondary data collected from Reserve Bank of India and World Bank. To analyse the data Regression analysis was performed.

Keywords: Bank, Frauds, Unemployment, Bank stress test

1. Introduction

Indian banks have witnessed some unprecedented scams recently. These scams and frauds were committed by few big businessmen but there are another types of frauds which are affecting common customers of the banks. Mostly such frauds are known as fishing in technical world. Many of the cases remain unreported while some individuals get courage to report these events with the authorities. Though enforcement agencies have launched online portal to report such events to encourage the affected people, still online banks frauds are prevalent and increasing day by day. Scammers are inventing new ways for fishing and bank customers are losing their hard-earned money.

Covid-19 created unprecedented challenge for the economy and one of them is unemployment. Skilled and unemployed youth find it easy and convenient way to earn money. In this paper we made an effort to understand effect of unemployment on online bank frauds in India.



2. Brief Literature Review

Charan Singh Et al. (2016) observed that in public sector banks observed less frauds in comparison to private sector bank but in terms of amount situation in opposite. This can be attributed to huge amount of loans which is given to the customer by PSBs. Internet based frauds occur primarily due to lack of adequate supervision of top management, faulty incentive mechanism in place for employees; collusion between the staff, corporate borrowers, and third-party agencies; weak regulatory system; lack of appropriate tools and technologies in place to detect early warning signals of a fraud; lack of awareness of bank employees and customers; and lack of coordination among different banks across India and abroad.

Neha Sharma (2018) says that there is urgent need for banks to always stay alive to threat of frauds, build strong systems that can shield, pre-empt frauds, continuously monitor and review the efficiency of such preventive systems. To succeed in controlling frauds, banks need to be proactive and pre-emptive.

Othman (2020) investigated that due to depression in economy unemployment increases which might have caused people to commit financial crimes, such as fraud, to survive.

Rob T Stewart (2016) observed that there is a theoretical relationship between macroeconomy and risk of fraud losses in banks. The results support the suggestion that a positive relationship exists between bank fraud and the macroeconomy, directing that this link should be accounted for in a bank's stress tests, and that policymakers may benefit from using fraud patterns as an economic indicator.

3. Research Methodology

This research study is descriptive type empirical research. All the scheduled and Non-Scheduled banks and financial institutions have been identified as Population for this study. Study is based on secondary data collected from Reserve Bank of India and The World Bank. For the analysis of data correlation and Linear regression analysis has been used.



4. Analysis

Table 1 shows year wise comparison of number of frauds in Indian banking sector. In the financial year 2018-19 which is pre Covid period in India, number of frauds were 6,798 (Amount: 71,534 Cr). During Covid period we observe significant increase in number of frauds and their financial value. In this period banking industry observed total 8,703 frauds (Amount: 1,85,468 Cr). This period also observed significant increase in rate of unemployment in India i.e., 8% (Table 3). In the period of 2020-21 which is post covid period we observed (Table 3) decrease in unemployment rate and decrease in Bank frauds as well. In this period banks observed 7,363 fraud cases which were less in comparison to previous financial year (Covid Period).

Data (Table 1) also shows that during pre-Covid period Public Sector Banks observed more fraud cases while during post-Covid period Private Sector Banks observed more fraud cases.

Data in table 2 shows most fraud cases occur in two major operational areas; one is advances and another is Internet based frauds. We observed that during post-Covid period Internet based frauds have significantly increased in comparison to previous years.

Table 1: Year wise comparison of number of frauds in Indian banking sector

| Year | 2018-19 | | 2019-20 | | 2020-21 | |
|------------------------|---------------|-------------|-----------------|-------------|-----------------|-------------|
| Public Sector Bank | 3,704 | 54% | 4,410 | 51% | 2,903 | 39% |
| Private Sector Bank | 2,149 | 32% | 3,065 | 35% | 3,710 | 50% |
| Foreign Banks | 762 | 11% | 1026 | 12% | 521 | 7% |
| financial Institutions | 28 | 0% | 15 | 0% | 25 | 0% |
| Small Banks | 115 | 2% | 147 | 2% | 114 | 2% |
| Payment Banks | 39 | 1% | 38 | 0% | 88 | 1% |
| Local Banks | 1 | 0% | 2 | 0% | 2 | 0% |
| Total | 6,798 | 100% | 8,703 | 100% | 7,363 | 100% |
| Amount in Cr. | 71,534 | | 1,85,468 | | 1,38,422 | |

Source: Reserve Bank of India



Table 2: Highly used mode of fraudsin operational areas

| Year | 2018-19 | | 2019-20 | | 2020-21 | |
|---------------|---------|--------|---------|--------|---------|--------|
| Advances | 3,603 | 53.00% | 4,608 | 52.90% | 3,501 | 47.50% |
| Card/Internet | 1,866 | 27.50% | 2,677 | 30.70% | 2,545 | 34.60% |

Source: Reserve Bank of India

Table 3: Unemployment Rates

| Year | 2019 | 2020 | 2021 |
|-------------------|-------|------|-------|
| Unemployment Rate | 5.27% | 8% | 5.98% |

Source: World Bank

After reviewing concerned literature, we made an alternate hypothesis that “there is significant impact of unemployment on increasing Bank Fraud cases”. Based on this alternate hypothesis we made following Null Hypothesis.

H_0 = “There is no significant impact of unemployment on increasing Bank Fraud cases”

To test this hypothesis, we conducted Regression analysis with the help of Microsoft Excel and observed following results.

Table 4: Regression Analysis

| Regression Statistics | |
|-----------------------|--------------------|
| Multiple R | 0.999217336 |
| R Square | 0.998435284 |
| Adjusted R Square | 0.996870569 |
| Standard Error | 54.73418032 |
| Observations | 3 |



Table 5: Regression Analysis

ANOVA

| | df | SS | MS | F | Significance F |
|------------|----|-------------|-------------|-------------|----------------|
| Regression | 1 | 1911620.836 | 1911620.836 | 638.0937905 | 0.025189013 |
| Residual | 1 | 2995.830495 | 2995.830495 | | |
| Total | 2 | 1914616.667 | | | |

Figure 1: Regression Analysis

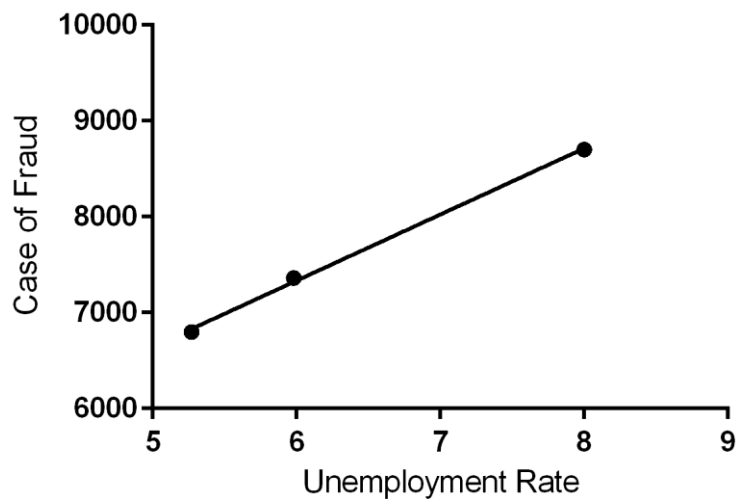


Table 4 shows statistics related to regression analysis which was run to identify the impact and association of variables with each other. Multiple R is the correlation coefficient which measured the strength of liner relationship between two variables. Here the value (0.99) exhibits strong liner correlation between the variables (Unemployment and Frauds) as the value is close to 1.



R Square is the Coefficient of Determination and shows the goodness of fit. The value of R Square of this study is 0.998. It means that 99.8% values fit the regression analysis model. As the R Square value is close to 1, it shows greater impact of independent (Unemployment) variables on dependent variable (Frauds). Figure 1 also exhibits positive regression which means, there is a possibility that with the increase of Unemployment, frauds will increase as well.

Table 5 (ANOVA) table show significant value (**p value = 0.0251**) which is less than 0.05. It means the Null hypothesis is rejected and alternate hypothesis is accepted which says that there is significant impact of unemployment on increasing Bank Fraud cases.

5. Discussion

Analysis of the data shows that there is close association of increasing rate of unemployment on **increasing** numbers of bank frauds in India. In present most of the youth is tech-friendly and many are technically trained. By increasing number of such technically skill unemployed youth we are observing increasing number of bank frauds in India. Data also shows that initially there were more fraud cases related to advances but after Post Covid period it is being observed that internet-based bank frauds are increasing significantly. One reason for this situation may be increased uses of internet-based banking services during Covid and Post Covid period in comparison to Pre Covid period.

These skilled youth can be attached to various schemes to make the Bank customers aware about the online banking system and keep themselves refrain from such frauds. But this can not be an ultimate solution to the problem. Enforcement authorities should trace and penalise individual who are involve in any kind of banks frauds. Banks must develop more secure banking system and include unemployment as important measure under bank stress test to avoid such fraud cases.



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