



Jus Corpus Law Journal

Open Access Law Journal – Copyright © 2024 – ISSN 2582-7820
Editor-in-Chief – Prof. (Dr.) Rhishikesh Dave; Publisher – Ayush Pandey

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Preventing The Banks Fraud: An Analytical Study

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Received 22 January 2024; Accepted 17 February 2024; Published 22 February 2024

In the 21st century, India faces a big challenge in the development of advancement in technology. We know that India's economy is major dependent on the banking sector. Given the increasing bank fraud in India. It needs hours to control and prevent such bank fraud. the researcher has studied some perceptions regarding bankers and customers. The paper consists of different aspects of policies, bank frauds, and its prevention mechanism at an earlier stage. So, it has covered the 3P (Perception, Policy, and Prevention) of the paper for reducing and controlling bank fraud. It will help to detect, investigate, and resolve the perpetrated fraud. It also includes the responsibility and the duty of the bank management to evolve proper anti-fraud concepts and frame effective policies to contain the expanding crime. There is an increasing realization that fighting the menace conjointly is a better, more effective, and less costly proposition.

Keywords: *bank fraud, management, banker, customer, technology, perceptions.*

INTRODUCTION

The Bank Fraud Prevention is a multiple-dimensional process involving control over men, materials, and situations. It is a multi-professional task, involving bankers, police investigators, forensic experts, lawyers, judges, and the public at large. Further, it needs effective antifraud

perceptions, policies, strategies, checks and balances, supervisions, real-time scrutiny of bank transactions, eternal vigilance, rules, regulations, and effective scientific tools to fight the menace of ever-increasing innovative frauds and colossal losses. The bankers, in fraud prevention, have certain effective specific perceptions, policies, and strategies to safeguard the bank's transactions to make them invulnerable to fraud. In short, the creation of a mechanism that makes the perpetration of fraud extremely difficult, if not impossible. Further, when fraud is perpetrated, the bank must have an in-built system to detect it, investigate it or get it investigated, prosecute the perpetrator, and secure deterrent punishment. The input includes relevant concepts, policies, and proper machinery to handle fraud. They help understand the mechanism of the perpetration of frauds and thereby thwart future frauds. They help to detect, investigate, and resolve the perpetrated frauds. Above all, they provide leads to prevent frauds that are being committed; or, which are being planned or even contemplated. They indicate the sources and the improved modes of collection of evidence, which, in turn, help to prosecute and punish the fraudsters, act as deterrents to the would-be fraudsters or the recidivists, and make them realize that frauds do not pay, and are hazardous.

It is the prerogative, rather the responsibility and the duty of the bank management to evolve proper anti-fraud concepts and frame effective policies to contain the expanding crime. Brainstorming of the top professionals from the concerned departments (banks, police), forensic institutions, prosecution, and even judiciary can provide potent policies and perceptions. There is an increasing realization that fighting the menace conjointly is a better, more effective and less costly proposition. In some of the countries, they hold meetings from time to time on one platform. They also promote research to improve the modes, methods, and instruments to reduce the depredation of fraudsters.

OBJECTIVES OF STUDY

1. To understand the bank fraud.
2. To analyze the policies and circulars of RBI.
3. To discuss preventive measures for bank fraud.

RESEARCH METHODOLOGY

The researcher has adopted purely doctrinal research and secondary data for the study. The study utilizes a combination of quantitative data and qualitative data analysis. The study includes books, reports, circulars, and regulatory and institutional measures for controlling and preventing bank fraud.

BANK FRAUD PREVENTION (BFP)

The induction of modern technology helps to control and contain evil and to provide secure banking services. Some bigger institutions are creating research wings in their organization. Scientific inputs are becoming indispensable in the face of the scientific criminal who is exploiting science in his nefarious work increasingly. There are multi-pronged needed inputs relating to fraud prevention:¹

- a) Defining fraud.
- b) Identifying fraud-prone areas.
- c) Identifying the suspected bunco banker.
- d) Bundling the bunco banker.
- e) Formulation of fraud prevention policy.
- f) Establishing a viable fraud prevention strategy.
- g) Creation of in-service anti-fraud culture.
- h) Induction of appropriate deterrence.
- i) Basic training and other inputs to the banker to 'Know Your Customer' (KYC).
- j) Creating a customer acceptance policy to ensure 'no entry' to rogue customers.
- k) Real-time monitoring of all high-stakes transactions.
- l) Periodic appraisal of existing anti-fraud inputs, and inducting the experience of new frauds and scientific advances (instrumental, software) to further improve the anti-fraud system.
- m) Eternal vigilance.
- n) Induction of anti-fraud transactional strategies.

¹ B R Sharma, *Bank Frauds: Prevention and Detection* (4th edn, EBC 2016)

- o) Periodic appraisal of new fraud perpetrators modes, and deficiencies of the anti-fraud techniques to meet such frauds squarely.
- p) Improving detection methodologies, induction of new scientific technologies for fraud prevention.
- q) Periodic anti-fraud brainstorming.
- r) Careful evaluation of novel and new types of frauds, where the losses are colossal, to detect banker's failure and to plug the loopholes in the system to prevent repetition of the mode. New strategies should be evolved to prevent recidivism and the repetition of this type of fraud.
- s) Prompt and time-bound investigation by seasoned professional investigators. No vendetta; no victimization, no leniency, no justification/rationalization, no bias.
- t) Deterrent punishment (long jail terms, full recovery, heavy fines, immediate termination of services. etc..) should be the rule. In no case, the culprit should be allowed to enjoy the fruit of fraud and take the punishment as a business cost.
- u) Proper security of both paper and E-documents, relevant software, computers, important data, and other paraphernalia should be ensured.
- v) Check the antecedent of the person (clients, customers, service providers, vendors, consultants, programmers) involved in banking. The verifications cost less than the fraudulent loot.

PERCEPTIONS FOR FRAUD PREVENTION

The basic perceptions of bank fraud prevention² have been discussed to understand the genesis and nemesis of bank fraud prevention.

1. Fraud prevention is the responsibility of all persons involved in banking: The concept enunciates that all employees (whether it is full-time, part-time, ad hoc, temporary, or contract), all consultants, lenders, borrowers, service providers, vendors, suppliers, contractors, other persons or agencies doing any business with the bank, must contribute their mite to make

² Sharma (n 1) 96

banking fraud-free. In case frauds still occur, they should be reported promptly to the specified official. If the reporting official does not know the designated officer, he should report the case to his manager or his next superior officer without delay. If a person comes to know that some hanky-pranky fraudulent activities are going on in some area under their control or knowledge, he should go deeper into the matter and ascertain the suspicions. If the suspicions are fortified by some evidence, appropriate preventive or investigative action should be taken at once. Simultaneously, they should inform the superior of guidelines to handle the case. Similar action should be taken when they notice or suspect such activities in other departments. Informing the concerned authorities is the minimum input. Therefore, this perception is relevant for all types of frauds or suspected frauds, which may involve a professional fraudster, a bunco banker, a rouge customer, a consultant, a vendor, a lender, a borrower, or other dealing with the bank.

2. The occurrence of fraud is the failure of the banker. He has to be the Prima Dona for their

Prevention: Bank frauds are basically the results of the failures of the bankers (they are involved in 65% of the reported fraud cases! The percentage must be much higher in reality), the banking system, the prevailing callousness, the depredation of the Banco Banker, non-accountability of the defaulters and steep fall in moral values. Their prevention is also primarily the banker's legal, professional, functional, social, and moral responsibility. The bankers play a pivotal role. We may have the best policies, the best tools and techniques, the latest technologies and express but they are futile if the banker who is implementing them is dishonest corrupt, negligent, ill-trained, or incompetent or who turns his Nelson eye to the fraud being committed by his colleagues or an acquaintance. We have, therefore, to give priority to seeing that the banks are administered by men of integrity, devoted to their duty and motivated to achieve targets well-trained, experienced, and competent in the task they are handling the focus of bank fraud prevention should, therefore, be on the bankers: correct selection, proper training, adequate experience, (in-service attachments!) and periodic scrutiny for the honest angle to pursue the banco banker through scientific means! Brain printing, Narco-analysis, psychological detections of deceptions, and psychological stress evaluators are commonly used methods for other methods in the offing.

The minimum immediate action that can be taken is that the employee's background screening, with an unbiased perspective, must be Done. A complete range of advanced, tailor-made modes combining all aspects of the employee screening process are available. One or more of the following aspects should be checked:³

- a. Social identity verification from the documents.
- b. Previous employment record check.
- c. Personal Reference checks.
- d. Credit history.
- e. Criminal history.
- f. Motor vehicle records.
- g. Court records.

The above verification often gives a fair idea about the personality of a person. As a banker is the prima Dona of the banking and banking frauds such checks can go a long way to curb the fraudster.

3. Some bankers, clients, customers, service providers, vendors, and consultants are always dishonest. Hence potential fraudsters! They must be kept at Bay:⁴ The third basic tenet of bank fraud prevention is that some clients or customers, bankers, and service providers are always dishonest hence, they are potential fraudsters. If they happen to be involved in bank transactions, they commit fraud at the first suitable opportunity. They must not be allowed to play their nefarious game. Background checks and periodic appraisal via PDD (Psychological Detection of Deception = Using a Lie Detector or similar device), for reliable honest dealing between the banker and the customer will go a long way to minimize the occurrence of bank fraud. This is especially important in high-stake transactions. The fraudsters, egging for heavy loans, likely to perpetrate fraud, must be identified and the heavy loans denied. If he has already secured the loan, solid evidence should be collected to establish his link with the fraud and he should be prosecuted as per law. Every effort should be made to secure exemplary deterrent

³ Sharma (n 1) 97

⁴ Sharma (n 1) 98

punishment so that he and other persons find the fraud business too hazardous to venture into another such venture into another such venture. If the fraudster happens to a banker, alone or in collusion, the punishment should be still more stringent and fraud should be made costly to the perpetrator so that the other bankers take the end result as a lesson that the 'business' is hazardous and not worth pursuing.

The prevailing policy and practice to whitewash the incidents of frauds, protecting the errant banker and meeting the losses from insurance claims or sundry accounts must be bidden goodbye, if the frauds are to be tackled in right earnest. The guidelines given on 'KYC' in a master circular by the RBI⁵ are useful for discriminating the honest the dishonest customers. The background screening services are available in India. they provide an unbiased perspective of the specified individuals. The services are time and cost-effective, in the ultimate analysis. The bank employee should invariably be screened before employment for his correct identity, residence, home, and prior activities. Typical checkpoints for identity and his residence include ADHAAR Card Data: Identity Data and residence proof, Personal reference checks, previous employment verification, criminal history, credit history, worker's working records, and his social reputation among his associates. Therefore, 'failure to implement pre-employment screening could be costly; background checks are indispensable in today's business climate.'

4. Real-time Monitoring of transactions is the key to bank fraud prevention: Early Monitoring and scrutiny of bank transactions⁶, especially those involving high stakes, have many advantages including early detection of fraud. The fraudster is often caught unaware; he is unable to destroy the evidence of fraud or the evidence of his link with the fraud. Hence better chance of conviction; more importantly, he does not get time to hide or use the booty. Thus, the recovery of the fraud money is almost full or satisfyingly substantial.

⁵ 'Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002' (RBI, 01 July 2013)

<<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/94CF010713FL.pdf>> accessed 21 January 2024

⁶ Sharma (n 1) 99

5. Filch the fruits of fraud from the fraudsters to foil fraud: The fraudster commits fraud to collect and enjoy the fruits of fraud.⁷ If he is disabled to do so, he will not commit fraud a second time. The tenet, therefore, de-motivates the fraudsters. It prevents fraud. Appropriate, prompt, exemplary, and proper deterrent punishment is the word. The punitive actions are likely to inhibit the fraudsters from recidivism. Further, he suffers from mental torture, material losses, and social discrimination. It will prove that the crime does not pay. The action will also deter aspiring fraudsters.

6. Exemplary punishment deters and hence prevents frauds: The fraudster⁸ often gets away scot-free; or, receives very light punishment for frauds even now. It does not deter the criminal. He takes the punishment as a 'business hazard' or 'business expense. He enjoyed the fruit of the frauds and lived happily ever after. The situation needs a change. Exemplary punishment will change the perception of the fraudster. Punishment should be included: 1) Adverse publicity – the punishment awarded to the fraudster should include negative publicity, widely spread through media so that all his kith and kin, would-be employers, and the public know his dishonest and ostracized character. The punishment should hang around his neck like the albatross of the ancient mariner: to teach him a lifetime lesson. 2) Re-employment Inhibition – A roster of the convicted fraudsters, updated every time up to the time of publication, should be circulated repeatedly with reasonable periodicity, among the possible fraud-prone institutions so that they know the fraudster and do not re-employ him or do any transactions with him. 3) Social Boycott – A social boycott of an erring person has been a potent weapon in maintaining proper social order in the past. It can still be an effective means in some modified forms 4) Recovery - complete recovery of defrauded money/property.5) Heavy Fines – to recover black money, he may have collected, in similar other frauds. 6) Long-term jails – these punitive deterrents are likely to prevent the fraudster from recidivism. Further, his sufferings (Mental torture, material losses, and social boycott) will prove 'crime does not pay'.

⁷ *Ibid*

⁸ *Ibid*

We know that Fraud will continue to occur. Only the number can be reduced and perhaps drastically. Real-time scrutiny of transactions, prompt time-bound comprehensive and thorough investigations, and exemplary severe punishments should act as a bitter pill to the would-be fraudsters. The action will also highlight the message that frauds do not pay. It can prevent many a fraudster from adopting the 'trade'.

7. Let us fight fraud together! United we prevail, divided we Fail: The UK Government has realized that frauds cause huge losses to the Government, public bodies, and individuals.⁹ For example, the fraud losses were about 32 billion in 2011. The Government had organized a committee to suggest ways and means to counter the calamity correctly, control the losses, and reduce the misery of the victims. The Committee has come up with certain good ideas:

1. **Fight Fraud together:** All agencies, governmental or others, and individuals fighting fraud should join efforts, exchange information, and expose the bunco banker and other fraudsters. They should share information on fraud, of fraudsters, of their modus operandi, and of the effective tools and techniques used to handle fraud through regular exchange of information periodically.
2. **Information:** the fraud fighters should exchange information on the effective proven preventive methods and technologies that have been useful in preventing, detecting, and investigating fraud and finding proof of criminal activity against the fraudster.
3. **Multi-Pronged Fight:** In general they have suggested a multi-pronged process to fight fraud like continuing with measures to prevent, detect, and disrupt institutions and those organizations who are doing out frauds and punish the fraudsters both within their sectors and by working collaboratively across sectors, sharing intelligence, information and good practices; commit to a new set of cross-cutting initiatives to provide fresh impetus in their fight against fraud; widen their partnership working to involve other sectors who are less advanced in their approach to fighting fraud; strengthen the institutional arrangements for coordinating their work; ensure that their work is informed by the best intelligence picture

⁹ *Ibid* 100

we can develop and continually review future as well as current threats; publish regular reports on their progress.

8. Banking is a Business of trust, ensure it remains as such: To maintain the trustworthiness of banking the management has to take numerous steps including the following:¹⁰

No Bunco Bankers in the Banks: A banker is like a fish in an ocean. Nobody can know when and how much water the fish has taken. Likewise, the banker can embezzle the bank's money. Nobody will be much wiser, at least for a long time. It is, therefore, imperative that the bankers are honest. However, we have seen above that most of the human beings are prone to dishonesty. We have to keep them away from the banking industry.

Ethics: The bank authorities educate the staff about various aspects of bank fraud through the bank's training colleges and schools, circulars, seminars, workshops, meetings, conferencing, etc. on various relevant issues they must start courses in the bank about work ethics. Induct ethics in all bank transactions. Create fraud-free environment and culture among bankers and others connected with banking.

Ignorance is no bliss: It has been realized that keeping the bank staff ignorant about the modus operandi and handling techniques does not help. If they know the ways of the bunco banker, they are better prepared to handle the menace. Consequently, there is now renewed emphasis on imparting all relevant information like informing the staff how frauds are committed, how they can be detected, and investigated, and how the recurrence is prevented. Drill in the bank fraud prevention precepts, policies, strategies, and technologies among the staff. Some bank administrators feel that some ethically unstable bankers, especially under financial pressure, can be overwhelmed if the opportunity comes their way. If they know the modes and methods, they will use the knowledge to commit fraud, leading to more fraud. Thus, such training will prove counterproductive. The bank authorities have since woken up and realized that knowledge is power. They are now in for teaching and training courses to educate the staff about various

¹⁰ Sharma (n 1) 101

aspects of bank frauds through circulars, seminars, workshops, meetings, conferencing, and regular classroom teaching, etc. on various relevant issues including the following points:

1. Awareness of the responsibility of management and the staff of the bank to prevent bank fraud.
2. Identification of the sensitive fraud areas/transactions/situations.
3. Anti-fraud modus operandi and current anti-fraud programme.
4. Envisaged changes in the programs to control the new emerging trends in fraud.
5. New rules and regulations for implementing the changes and improvements.
6. Instructions on handling new and novel modes of fraud.
7. Need to improve reporting formats for reporting the suspected/committed frauds.
8. New tools and techniques for sensing and detecting frauds, if any.
9. Ensuring non-involvement of the staff in any fraudulent activity.
10. Reporting any suspicious fraudulent activity with reasons for the suspicion to the appropriate authority at the earliest.
11. Creating an environment of trust.
12. Teaching and training required to staff all about bank fraud and the latest technology to prevent fraud.
13. Inducting forensic auditing and regular scientific appraisal of the bankers.
14. Periodic updating of new projects and transaction details for bank health.
15. Need to protect whistle-blowers in the bank to give information on fraudulent activities and keep the information secret.
16. Ensure that the fraudster does not enjoy the fruits of fraud. He fears its loss the most. Not only full recovery is made but also the culprit is fined heavily.
17. Planning intelligence inputs to anticipate future fraud threats and trends.

FRAUD PREVENTION POLICY (FPP)

A fraud Prevention Policy is a written document framed by the bank authorities to control, contain, detect, and investigate frauds; to prosecute the fraudsters and get them punished in a court of law. It delineates the bank's policy regarding the prevention of fraudulent activities of

the banker. The document provides guidelines to the bankers for action in a situation where fraud is in the offing. Previously it was mainly a document to handle the aftermath of perpetrated fraud. It laid down policies, rules, and procedures to prevent fraud and to identify fraudsters. The policy documents start with an undertaking in writing from its staff and other concerned persons that they would not indulge in fraudulent activities and to inform immediately the designated authorities about the fraud or suspected fraud as soon as it comes to their notice. Further, the specified authorities must initiate the needed action immediately as per the policies, rules, and regulations of the bank.

Objectives of Policy:

- a. Immediate Reporting of fraud.
- b. Early detection of fraud.
- c. Assessment of risk parameters.
- d. Adopting recommended procedures for the prevention of fraud.
- e. Warning and informing the bank staff, allied employees, and others dealing with bank work.
- f. To create awareness of frauds and fraudsters among the public, bankers and other financial institutions, and other organizations in the private, public, and voluntary sectors, who are concerned with frauds, so that they can protect and safeguard themselves from frauds and help the anti-fraud agencies in containing them.
- g. To improve and strengthen systems and controls in banking.
- h. To deal with the fraudster with more severe laws to punish him in an exemplary manner.
- i. To prevent the fraudsters from enjoying the fruits of fraud.

Important Aspects of the Policy:

The banks need to work on the various stages of fraud and some of the policies are discussed as follows:

Prompt Reporting: Prompt reporting of fraud to the right authority unambiguously is an important aspect of handling fraud. RBI, the apex institution of banking in India, has provided

the needed guidelines to all the banks under its jurisdiction and even to others through a master circular.¹¹ All reports of fraud or suspected fraud shall be processed expeditiously. The reporting of the fraud normally should be in writing. The nodal officer shall seize all relevant records, documents, and other evidence immediately and covertly, whenever possible, so that it is not tampered with, destroyed, or removed by the fraudsters or his close associates. The reporting bank official who reports suspected dishonest or fraudulent activity is not authorized to investigate the case he has reported, nor is he to conduct interviews or interrogations relating to the case.

Investigation Policy: The bank officer handling the fraud or suspected fraud must remember that he is not authorized to give information to any unauthorized person. He must observe: complete confidentiality relating to the suspect or evidence in the case. Suspected improprieties are carefully located and authenticated through evidence. The progress stage of the investigation, at the given time, is not revealed to any unauthorized person. The officer should convey to the seeker that he is not competent to give information about the case. The case is assigned with no name. it is simply a case under investigation. There should be confidential investigation findings. They are not discussed with any unauthorized person. Non-disclosures avoid embarrassment and, in some cases, damages to reputations, if the accused is declared innocent in a court. During preliminary investigation, the suspected fraudsters are not interrogated or interviewed. The complete case file is sent to the vigilance department for further appropriate action.

Customer Acceptance Policy (CAP): A Customer Acceptance Policy is coming to give the increasing incidences of fraud. If the bank can keep out the fraudster from its customer list, it can prevent many frauds. Many banks are inclined to induct the CAP. The silent features of the Customer Acceptance Policy are:

¹¹ 'Frauds - Classification and Reporting' (RBI, 01 July 2014)

<<https://www.rbi.org.in/commonman/Upload/English/Notification/PDFs/85MR01072014V.pdf>> accessed 21 January 2024

- Every bank should frame a customer acceptance policy in black and white, delineating the criteria for acceptance of customers. The document should also provide guidelines to the bankers as well as to the customers.
- No bank will open an account in an anonymous/fictitious/Benami name. When any new account is opened the banker must check the personality profile of the applicant, in addition to his business and social profiles to eliminate the chances of entry, into the banking, of a known criminal or a member of a banned organization.
- Every bank will ensure that the customer's claimed identity is correct. The bank may verify identity by checking proper documents like Aadhar Card, PAN card, Voter's identity card, etc.
- Need to check risk parameters on the basis of customer's identity and address, sources of wealth, nature and volume of business, location of the business, financial standing and social status, etc. There are other factors important to fixing the risk category. High-risk customers may need strict oversight and continued monitoring of business progress.
- Refusal to open a bank account that belongs to a high-risk category¹² on the basis of given information which is not satisfied up to mark.
- Infusing awareness of the responsibility of the management and the staff of the bank to prevent bank fraud.
- Ensuring non-involvement of the staff in any fraudulent activity.
- The fraudsters must not be allowed to enjoy the fruits of fraud! Filch the fruits of fraud: foil future frauds and ensure full recovery, heavy fines, and long-term jails.

CONCLUSION

The research on stakeholder views and bank fraud prevention policies clarifies the complex interplay between stakeholder perceptions and the efficacy of putting into practice regulations. In the view of the report, effective fraud prevention necessitates a multifaceted strategy that

¹² 'Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002' (RBI, 02 July 2012)
<[490](https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7361&Mode=0#:~:text=In%20this%20regard%2C%20banks%20may,Anti%2DMoney%20Laundering%20(AML)> accessed 21 January 2024</p></div><div data-bbox=)

takes into account both human factors and technology weaknesses. It has a significant view and influence on attitudes towards security measures. Therefore, raising awareness and promoting education are vital parts of any all-encompassing fraud prevention approach. Greater coordination between financial institutions, regulatory authorities, and law enforcement agencies must emerge as a major subject. It is an hour for exchanging proper knowledge and putting best practices into curbing and fighting against bank fraud. So, it is required to promote a strong fraud prevention ecosystem and a comprehensive and inclusive strategy. Lawmakers may create more robust and successful plans to safeguard the integrity of the financial system by comprehending and resolving the worries and opinions of all parties involved. Sustaining confidence and security in financial transactions will need constant research and cooperation in the banking sector.