

# Banking Frauds in India



A quick look at Data and  
its revelations



" IT HAS BEEN FAR  
SAFER TO STEAL A  
LARGE SUM WITH  
A PEN, THAN A  
SMALL SUM WITH  
A GUN."

*Warren Buffett*

# 185 K CRORES AND COUNTING?

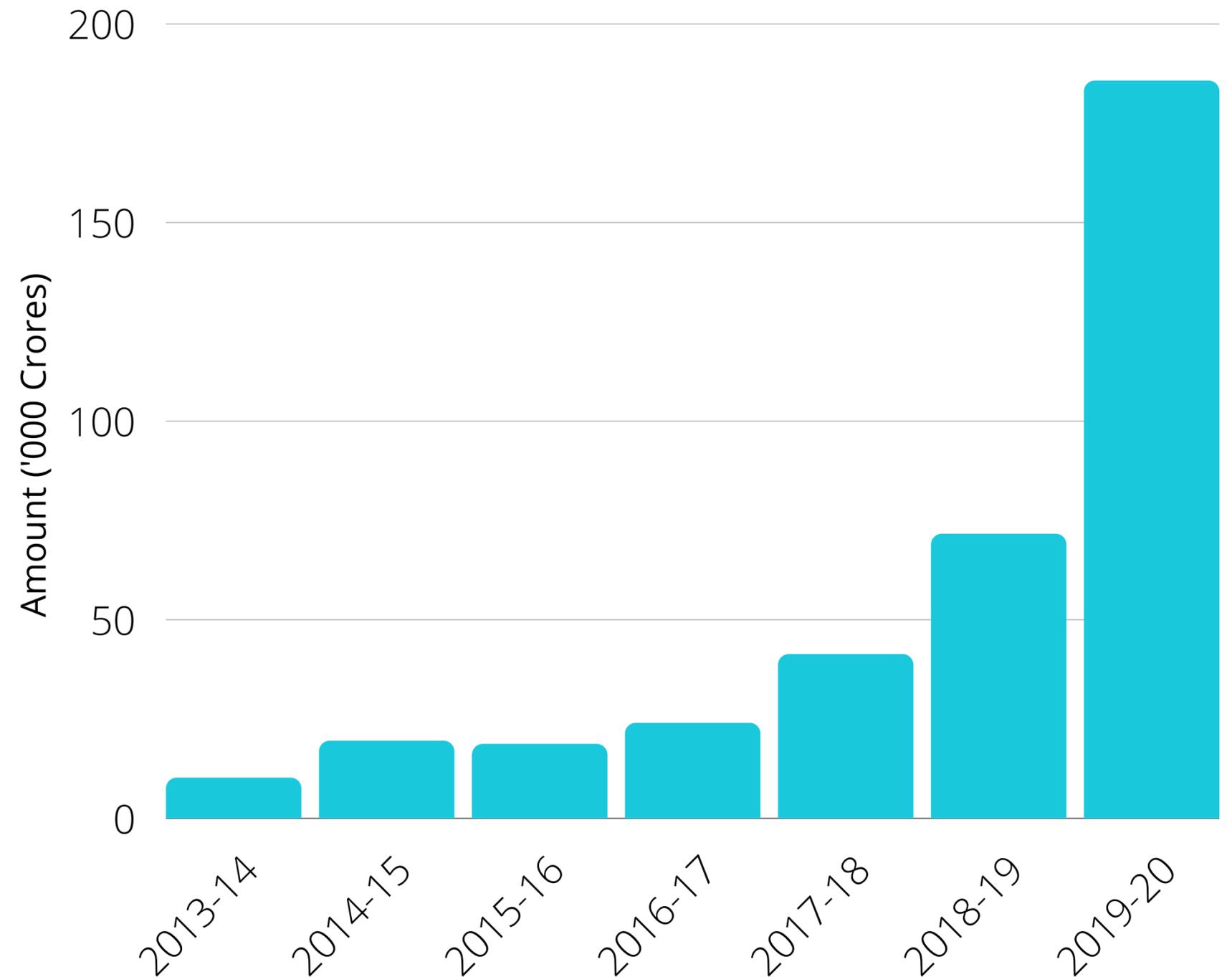
We first take a detailed look at frauds above ₹1 Lakhs, reported to RBI

 Frauds have grown at an astonishing CAGR of >60% between FY14 (10 k Crs) to FY20 (185.6 K Crs). Ofcourse last year saw the biggest spike!

RBI notes weak Early Warning Signals as one of the key issues that banks should work on.

Well, the story has a twist....

 Considering **Average Lag** (date of fraud vs detection by banks) is a whopping 2 years (and an obscene 5 years for >100 crs frauds), early warning may seem a little optimistic!



Source: RBI Annual Report FY19-20  
Banking frauds above ₹1 Lakh

# ITS THE LOAN BOOK, STUPID!

In number terms, frauds increased by 28% between FY19 (6799) and FY20 (8707).

But dont blame digital channels for it!



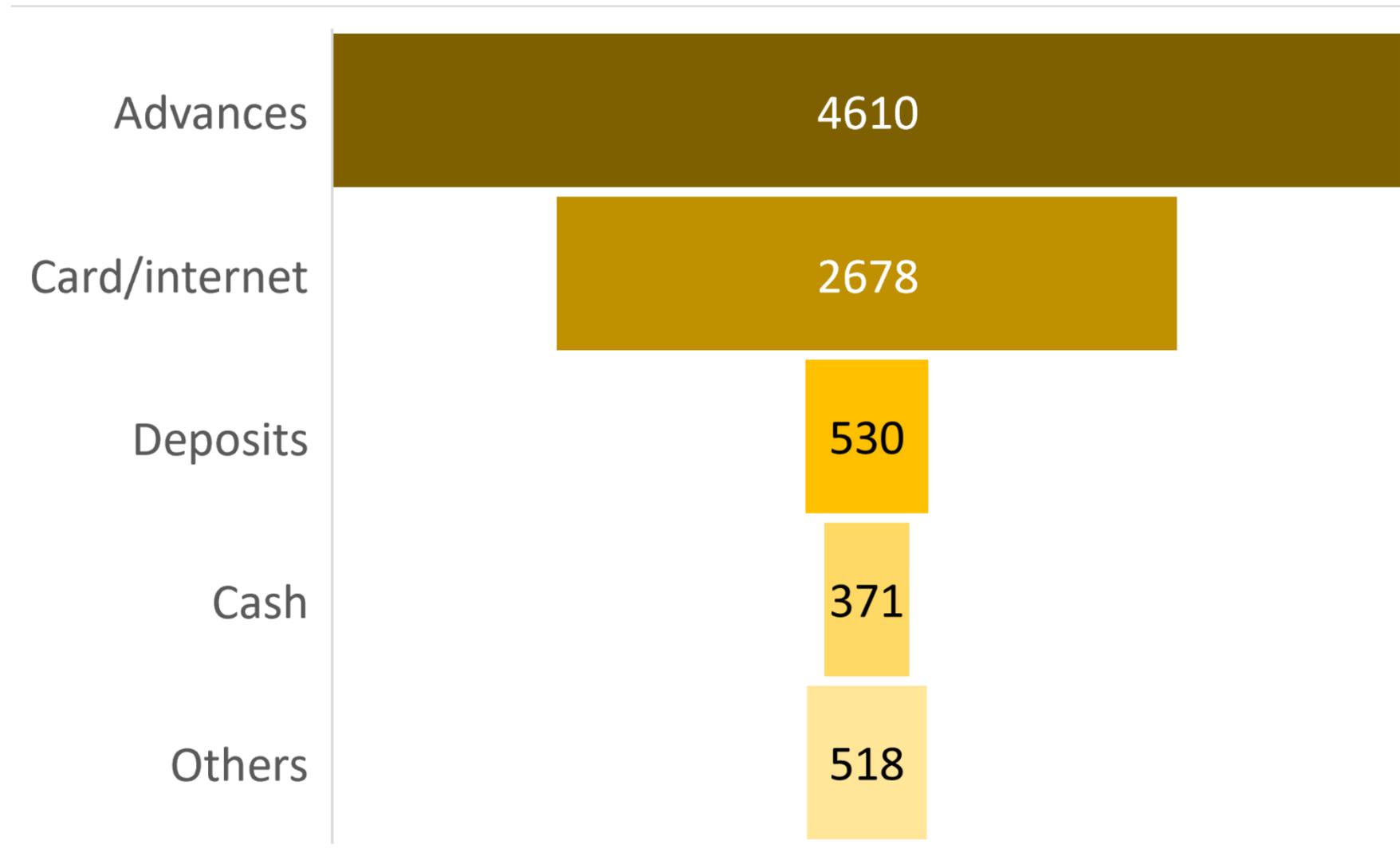
Loans and Advances constitute 98% of frauds in value terms (53% in volume), with average fraud size of of a thundering 39 crs!



The noisy Card and Internet frauds were 31% in volume but a meagre 0.1% in value.

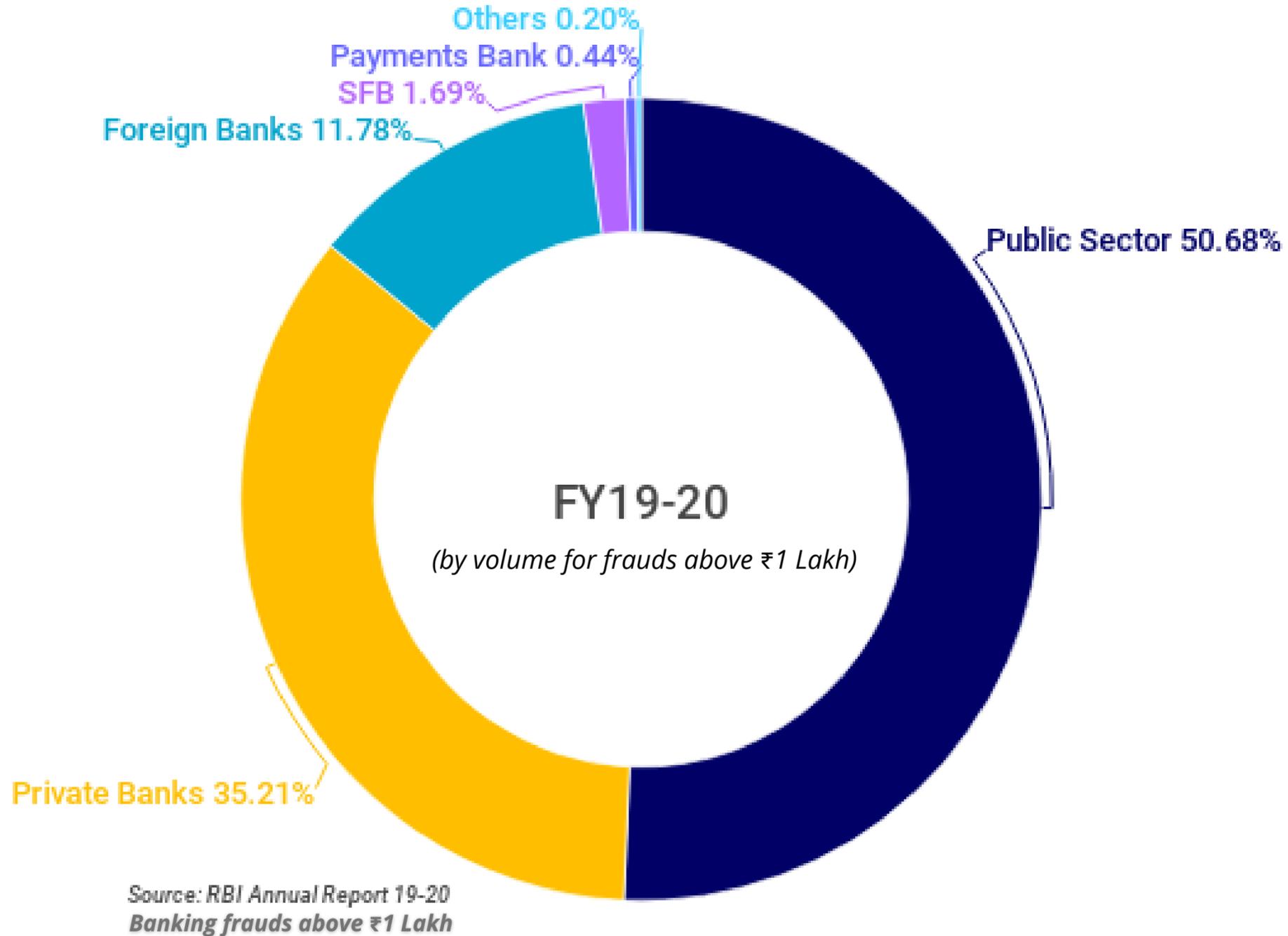
Although, with average size of 7 Lakhs per fraud, it's still a big deal for a retail product!

FY20 Volume (numbers for frauds above ₹1 Lakh)



Source: RBI Annual Report FY19-20  
Banking frauds above ₹1 Lakh

# WHICH BANKS?



Public Sector banks (PSB) have consistently faced most frauds (>50% by volume)



But the real news is elsewhere.

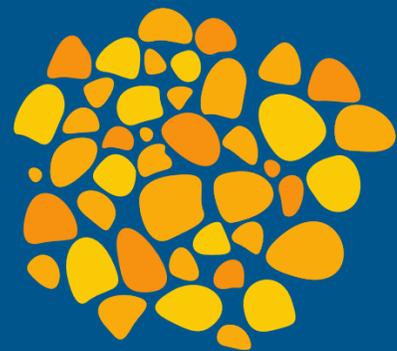
Average fraud size for PSBs was 34 crs, almost triple of Private Banks (11 crs).

What's wrong with PSBs- Process or Portfolio? What do you think?

# WHAT ABOUT SMALLER FRAUDS?

Till now we have looked at larger frauds (>₹1 Lakh). We thought to take a quick dive to check if there is anything different for smaller frauds.

Here are the numbers for Total Bank Frauds (including below ₹1 Lakh) reported by Banks & select FIs in FY20,



Volume: 84595 cases\*

Value ₹ 185.7K Crores

Relating to our earlier analysis on >₹1 Lakh frauds, seems the materiality of smaller frauds is quite low although the impact in number terms is **10x**.

\*Livemint report Jul 27, 2020

## Total Frauds FY20 based on Annual Reports of select Banks



6964 cases  
44622 Crores



509 cases  
14633.27 crores



7560 cases  
222.6 crores



2817 cases  
9472.8 crores

# BIGGEST REPORTED FRAUDS



The list is long and most are sub-judice and being investigated.  
Hopefully bankers aren't waiting to learn lessons.  
Here is a quick compilation of the ones most heard in news media.



In 2020, Central Bureau of Investigation registered 190 cases of bank fraud totaling to > ₹60,000 crore. Around 12 cases were estimated to be > ₹1,000 crore. This includes Transtroy (7926crs), VRCL (4837) Frost International (3592 crs), Surana Corporation (2930 crs), KS Oils (3269 crs), Hunang Toys (2040 crs) and others (thehindu.com Dec 31 2020)



Enforcement Directorate (ED) slapped FEMA show cause notice of Rs 7,220 crore on Kolkata-based to Shree Ganesh Jewellery House (I) Ltd and its promoters for allegedly indulging in illegal foreign exchange abroad. The firm is among the top 100 wilful bank loan defaulters in the RBI list. The ED had also filed a money laundering case against the firm and its promoters in 2018 for cases related to bank frauds.

(FE Online Jul 06, 2020)

2018, Rotomac case  
Allegedly cheating a consortium of 7 banks of Rs. 3700 crs

Key issues: Using LCs to launder money through overseas shell companies and using fake documents and declarations. Allegedly owners were trying to exploit interest rate arbitrage opportunity and creating illegal assets



2018, Nirav Modi case  
Allegations of money laundering and fraud totalling to 13,000 crs  
Key issues: Routed the borrowings through a chain of shell companies to manipulate asset prices. Allegedly some employees of PNB were hand in glove in issuing Letter of Undertakings to revolve Buyer's Credit beyond bank policy and prudence.



Bhushan Power and Steel  
The bankers alleged unauthorized use and siphoning of funds apart from false declarations and accounting.  
In 2019 CBI started investigation for total alleged fraud of 47000 crs. Presently JSW has bid to buyout under IBC



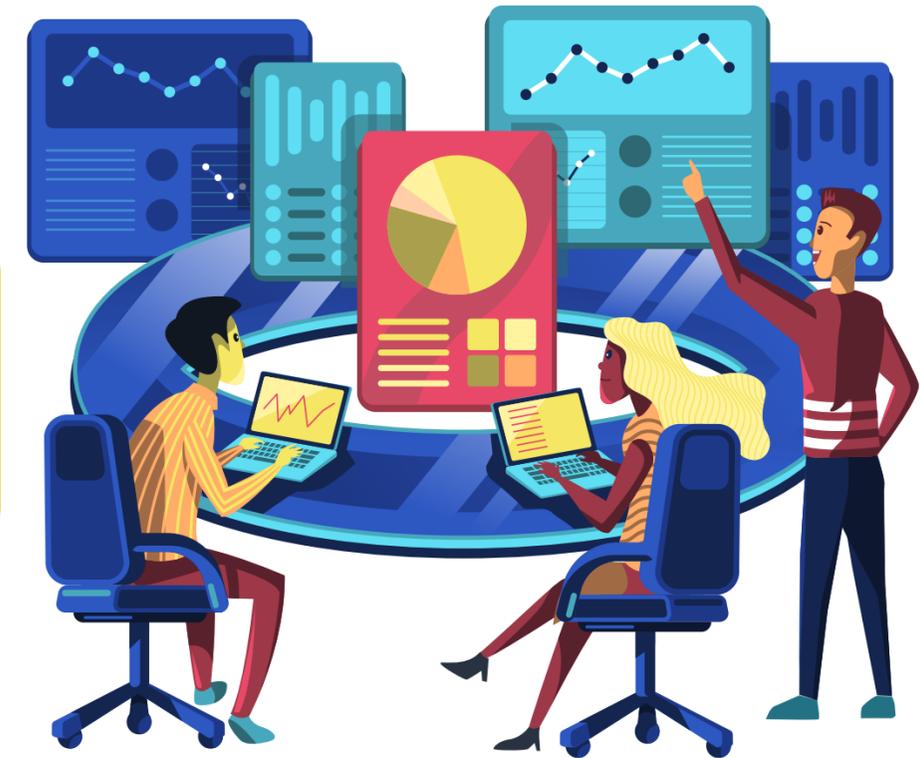
2016, Kingfisher Airlines case  
Allegedly defrauding a consortium of 17 lenders to the tune of 9000 crs  
Key issues: Use of political influence by utilising money for unauthorised purposes. Bankers seem to have missed the early warning signals and didnt follow prudent credit risk measures.

# WHAT'S THE LESSON

If history is any indication, the fraudsters become smarter by the day.  
Banks need to remain a step ahead.  
How, you ask?



Getting up Early and looking at  
Data can help!  
What say?





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