

An Anatomy of Banking Fixed Deposit Frauds.

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Bad loans are a part and parcel of the business of Banking. But the banking system is worried to the core in respect to loss due various banking frauds and not NPA. Banks across the globe are facing the massive problem of the unscrupulous borrowers utilizing the lapses and loopholes in the banking system to defraud the banks. The most surprising part is that the banks are posing an ignorant and poker face towards this cancerous disease which is chewing away our economy. As per RBI data for the financial year 2108-19 there had occurred 6801 frauds totalling to a massive Rs.71,500 crores. The fraud graph has showed a steep increase over the past decade. In-spite of continuous directions by RBI to the Banks to develop an attitude of compliance within the bank, the banks were lending a deaf ear. Among the various Bank frauds, the most audacious among the fraud cases have been the Fixed deposit fraud.

Modus Operandi of Fixed Deposit Fraud

Step 1 : Mr. A ,a fraudster, contacts companies posing as a Bank's representative convinces the company to deposit large amounts in the form of FD .

Step 2 : Mr.A now contacts the bank branch as the authorized finance officer of the company and makes bulk deposit in the name of the company and hands over the forged FD receipt to the company .

Step 3 : Mr.A again approaches the bank to open a current account with forged documents of the company .

Step 4 : Mr.A now arranges to obtain an over draft facility by mortgaging the original FDR and transferring the amount credited in the account to various banks all over India in different names .

Step 5 : The Company and the Bank realize that they have been duped when the company approached the bank for maturity of the FDR and realizes that they have been handed over forged papers .

Timeline:

2014

Dena Bank: The time period from 30th Jan 2014 to 5th May 2014 witnessed bulk deposits from various government and private entities. The quantum of the fraud amounted to Rs.256.69 crores. Oriental Bank of Commerce: 2014 was also an eye witness to an FD fraud of Rs.180 Crores involving the Jawaharlal Nehru trust. 9 separate FIR's were registered by the Mumbai police against a syndicate of 10 person accused of FD frauds

amounting to a massive 237.58 crores from various banks Dhalaxmi Bank, Punjab National Bank, Vijaya bank, State Bank of Bikaner and Jaipur, Bank of India, UCO bank and Central Bank of India.

2017

Indian Overseas Bank: A fraud of Rs.55 crores was uncovered by the police in which out of 5 accused 2 were bank officials. The FD fraud which was initiated on 24th August 2017 with Rs.20 crore FD was followed by a further Rs.35 crore FD. These Fd's were then fraudulent transferred to various accounts.

2020

Canara Bank: Mr. D. Sampath Kumar Chary, general manager of Canara Bank has issued an inter-office memorandum stating that whenever a permission is given for bulk deposits it should be ensured that the deposit is made as per the instructions which had original accompanied the original deposit. He has also advised that the bank should avoid the use of middle men to procure business. The FD fraud amounted to Rs.100 crore during the period 18th November 2019 to 5th December 2019 at the Bangalore branch of the bank.

Impact: Meanwhile the banks hit by such scams may be required to make a provision in their books for the respective financial year which will in turn deeply impact their profits. It has also been noted that as and when the banks have admitted such frauds in the media their share prices have fallen. This impact has horrified the banks to such a great extent that they either intend to hide any such fraud or delay their reporting. This gives the fraudster a massive opportunity to continue committing such frauds till someone raises a red flag or blows a whistle.

Suggestions: A forensic audit should be mandatorily conducted to investigate such frauds so as to prevent its recurrence. A close look at the modus operandi shows that these scams require the involvement of not only the company's insider but also the bank officials. RBI and the Indian government should take serious steps and issue strict directives for the banks to follow as such massive frauds which shall in the long run result into the depletion of the banks net worth and finally it's failure.

Biography:

CA. Kamakshi Mehta is an Assistant Professor at Amity University, Haryana, India, with an experience of 23 years. She has completed her CA from ICAI in 1998 and her Master's degree in commerce from Mahatma Gandhi University, Meghalaya. At present she is pursuing her doctorate from JNU, Rajasthan. She has also qualified her NET in Commerce in the year 2019. She has secured 8th Rank in BCom (Hons) from Guwahati university 1994. She has presented papers at various international and national conferences and published research papers in the journals of repute.

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