

GHOTALAS IN BANKS AND MOUNTING NPAS

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Abstract

Banking sector is the blood vascular system of our economy which plays a positive role in the economic development of the country, depending upon the mobilization of resources and their investment in a congruous manner. The banking system in India has gone through sundry stages of development and experienced a series of consequential transformations in the last few decades. Due to cutthroat competition and incipient entrants, the banks have enforced to undertake expeditious vicissitudes in their operations to maintain the market share by providing the services at customer's door step to retain them as well. But as every coin has two aspects, at one instance invention of incipient technology has made banking sector accessible and convenient to common man but on the other instance the banks have been suffering from its own set of challenges when it comes to ethical practices, financial distress and corporate governance, resultant to which ghotalas (frauds) and incremented NPAs are coming across. This study endeavors to cover issues such as banking frauds and mounting NPAs, with a detailed description using secondary data. The credibility of third parties such as auditing firms, credit rating agencies and may be RBI as well is additionally questioned in the study because the confidence of general public has also been shaken though the banking industry is well regulated and supervised.

Key words:

Indian **B**anking **S**ystem,

Ethical **P**ractices,

Frauds **A**nd **N**PAs.

Introduction

Many frauds of banking sector namely top lenders of the company- SBI, PNB and Canara Bank have come into picture in this year 2017-18 and even many more in past as well because of which investors and customers have lost their trust in the financial institutions. The core operations of banks are accepting deposits and lending to needy people. This is the trustworthy financial institution in the country but sometimes when some corrupted officials involve in some unethical practices resultant into frauds which is questionable. In some circumstances, bank officials lend to achieve set targets, though they are supposed to lend to the priority sector as per the banking guidelines, which leads to increased NPAs. Though the Indian Banks are well regulated and supervised by RBI, but the issues related to frauds and mounting NPAs are the serious concern in the Indian Banking Industry which is highlighted in this study as it directly impacts the growth of Indian Banks.

Literature Review

Rohilla Anju and Bansal Ipshita (2017) found in their study that the advance related fraud result into increase into

NPA's. They additionally developed a framework for reducing the same in two

parts: Pre Verification phase related to ensuring KYC Policy, History of Applicant, Scrutiny of Documents and Post Verification phase related to Periodic Verification of Asset, Periodic Audit of Funds, and Periodic Review of KYC, KYE, KYP Policies. Singh Charan, Pattanayak Deepanshu, Dixit Satishkumar Divyesh, Antony Kiran, Agarwala Mohit, Kant Ravi, Mukunda S, Nayak Siddharth, Maked Suryaansh, Singh Tamanna and Mathur Vipul (2016) discussed about frauds and high NPAs in Indian Banking industry in their working paper and withal proposed some recommendations to reduce future occurrence of frauds in Indian banking sector such as Independent specialized cadre, Know your markets, Internal rating agency, Use of latest technology and data analytics in order to ensure effective implementation of the red flagged account (RFA) and early warning signals (EWS) framework suggested by the RBI, which would help in a better profiling of customers, Monitoring outlier movement at regional level, Strong punitive measures for third parties, Strong laws to prevent fraudulent financial reporting etc. Bhasin Lal Madan (2015) in

his study revealed that there are poor employment practices and lack of effective training; over-burdened staff, weak internal control systems, and low compliance levels on the part of Bank Managers, Offices and Clerks, on the basis of survey conducted among 345 bank employees of NCR area in 2012-13. R. R. Soni and Soni Neena (2013) showed in their study a bigger share of private and foreign banks in frauds related to online banking, ATM, cards and other digital banking transactions, which has become a solemn issue due to cumbersomely hefty dependency on electronic and digital implements to carry out business and payment transactions, a solemn threat has additionally been imposed to the safety and reliability of financial operations.

Objective of the study

To highlight the frauds and increasing NPAs in Indian Banks.

Frauds of some banks in 2017-18

1) The country's second-most immensely colossal state-run lender Punjab National Bank (PNB), had been defrauded of about Rs. 12,954 crore by celebrity jeweller Nirav Modi and his uncle Mehul Choksi, owner of Gitanjali Gems as the most astronomically immense fraud in India's banking history. The two jewellers

allegedly raised credit from overseas banks predicated on fraudulent guarantees issued in collusion with rogue PNB staff.

2) As if the proximately Rs. 13,000 crore fraud was not enough, PNB unearthed another credit-guarantee fraud at its Brady House, Mumbai, branch which is withal at the centre of the Nirav Modi scam. According to a complaint filed with the Central Bureau of Investigation (CBI), the alleged embezzlement of around Rs. 9 crore involved executives of a company called Chandri Paper and Allied Products,

3) The most sizably voluminous lender of the country, State Bank of India (SBI) was at the forefront of an Rs. 824.15-crore bank fraud involving Kanishk Gold Pvt Ltd. The CBI registered a case against Kanishk Gold, inculpating it of defrauding a consortium of 14 banks led by SBI. The jewellery company had taken an imprest of Rs. 824.15 crore from the consortium and the loan account has turned lamentable.

4) State-run Canara Bank was additionally defrauded of about Rs. 1 crore by one of its former chairmen. The CBI filed charges against the ex-chairman of Canara Bank and others over allegations that the officials availed a company defraud the bank of about Rs. 1 crore taken in loans over four years ago. The CBI withal verbalized it had apprehended seven people - including two former managers of

SBI, a former manager of Canara Bank and directors of a Kolkata-predicated private company - in a separate "bank fraud" case of about Rs. 15 crore.

In another case of banking fraud involving an amount of Rs. 515 crore and a group of 10 banks including SBI, PNB and Canara Bank, the CBI apprehended two directors of a company, RP Infosystems, over allegations that they had cheated the banks by utilizing forged documents to raise credit and "siphoned off" funds. (Source: <https://www.ndtv.com/business/fy18s-biggest-banking-frauds-punjab-national-bank-pnb-state-bank-of-india-sbi-1828884>)

The following figures showing increased bank frauds and NPAs in India, which has a negative impact on the growth of Indian Banks:

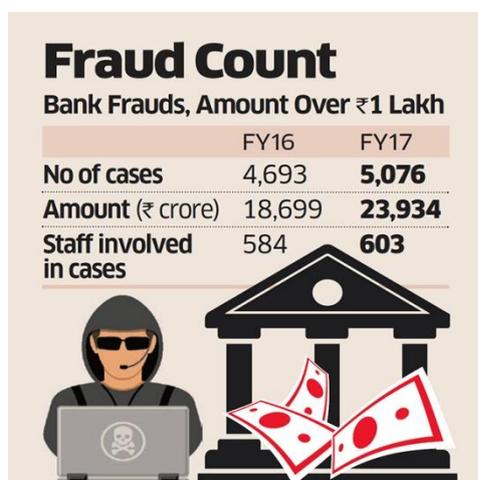


Figure 1: Showing Bank Frauds

NPA position as on June 2017		
	NPAs (Rs. crore)	NPA ratio
Mar-16	5,71,841.00	7.69
Jun-16	6,18,109.00	8.42
Sep-16	6,51,792.00	8.81
Dec-16	6,77,443.00	9.18
Mar-17	7,11,312.00	9.06
Jun-17	8,29,338.00	10.21

Figure 2: Showing Increased NPAs

(Source (Figure 1):

<https://economictimes.indiatimes.com/news/economy/finance/public-sector-banks-wrote-off-rs-81683-crore-loans-in-fy17/articleshow/63187643.cms>

Source (Figure 2):

<https://www.dsij.in/article-details/articleid/23685/banking-sector-future-growth-compounded>)

Factors

Increasing NPAs in banks from time to time is also a serious issue. There are factors contributing to NPA formation in banks, which might leads into converting NPAs of banks like Business failure of parties, inefficiency in bank management, slackness in credit management and monitoring, exchange rate fluctuations, business pressure related to granting of loans to certain or priority sectors as per Government directives, recession in the economy as a whole etc.

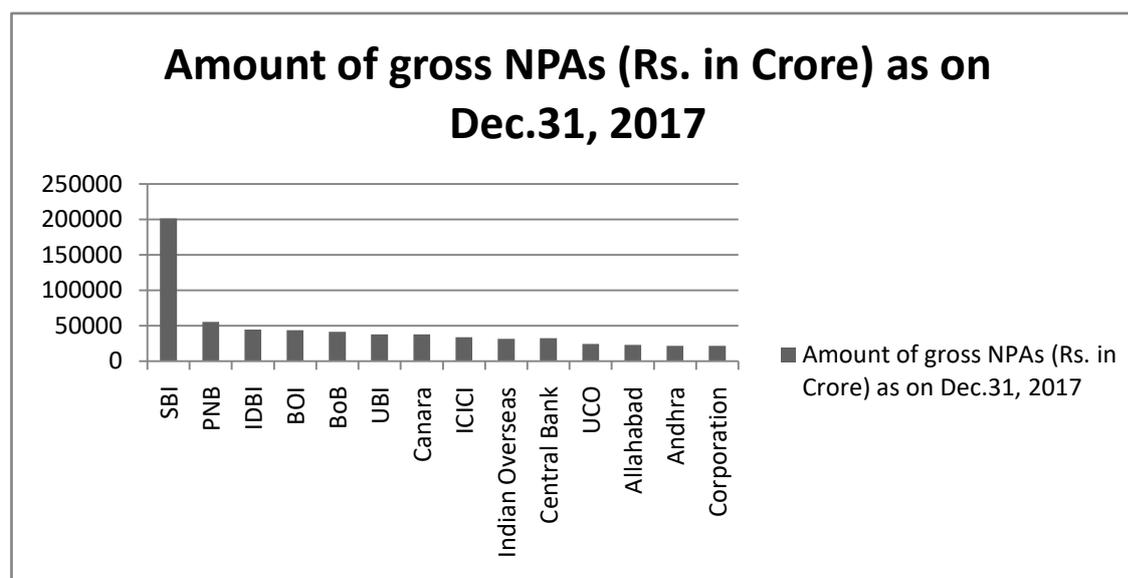
As per Govt. data, all the Indian Banks amounted gross non-performing assets (NPAs) to Rs. 8,40,958 crore in December 2017, led by industry loans followed by services and agriculture sectors. As on December 31, 2017, the gross NPAs or

bad loans of scheduled commercial banks due to loans to industry were at Rs 6,09,222 crore, accounting for 20.41 per cent of the gross advances.

TABLE 1: List of Banks with gross NPAs (Rs. in Crore) as on Dec.31, 2017

Name of Bank	Amount of gross NPAs (in Rs. Crore) as on Dec.31, 2017	Name of Bank	Amount of gross NPAs (in Rs. Crore) as on Dec.31, 2017
State Bank of India	2,01,560.00	ICICI Bank	33,849.00
Punjab National Bank	55,200.00	Indian Overseas Bank	31,724.00
IDBI Bank	44,542.00	Central Bank of India	32,491.00
Bank of India	43,474.00	UCO Bank	24,308.00
Bank of Baroda	41,649.00	Allahabad Bank	23,120.00
Union Bank of India	38,047.00	Andhra Bank	21,599.00
Canara Bank	37,794.00	Corporation Bank	21,818.00

Source: <https://www.thehindubusinessline.com/money-and-banking/banks-gross-npas-at-rs-841-lakh-crore-in-dec/article23004896.ece>



Graph 1: Banks with gross NPAs (Rs. in Crore) as on Dec.31, 2017

State Bank of India (including associate banks) has the major portion of 24.39% of the total gross NPAs among Public Sector Banks (PSBs). Gross NPAs of Rs 2 lakh crore of SBI account for 27.49% of the total of 21 PSBs' gross NPAs. With gross NPAs worth Rs 55,200 crore, PNB accounts for 6.68% and 7.53% of the total and PSBs' gross NPAs each. IDBI Bank, Bank of India, and Bank of Baroda with gross NPAs worth Rs 44,542, crore, Rs 43,474, crore and Rs 41,649 crore each make up the top 5 PSBs with maximum gross NPAs. These five PSBs have total gross NPAs of Rs 3.86 lakh crore – which constitutes 46.76% of the total gross NPAs of the 42 banks, and 52.69% of the gross NPAs of the 21 PSBs. (Source: <https://www.thehindubusinessline.com/money-and-banking/banks-gross-npas-at-rs-841-lakh-crore-in-dec/article23004896.ece>)

Conclusion

This study highlighted glimpses of some ghotalas (frauds) happened and mounting NPAs in Indian Banking Industry in recent years due to lacking of tools to identify potential red flags but there are still many uncovered in this area, which is alarming at this stage and indicates to reform Indian Banks. It is true that there is no rule to have a zero fraud situation in Banks but some precautionary or triggering steps can

be taken to detect fraud in time and related to not converting into NPAs as it ultimately affects the trust of public and hampers the growth and development of Indian Banks, which leads to negative or positive economic development of a country.

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