

NEED FOR BANKING OMBUDSMAN IN THE ERA OF BANK RELATED SCAMS IN INDIA

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ABSTRACT

Today the Indian banking system, it has begun to grow rapidly and also faced many challenges. Recent news have shown that the bank is vulnerable to many risk of scams. In spite of various observations and regulations being introduced to reduce the frauds, still it is observed that frauds are being committed.

This paper aims at studying the number of frauds being committed by various banks year wise, and sector wise. This study is descriptive in nature and secondary data collected from various reliable sources mainly RBI reports, websites, etc. The primary data is collected from 50 respondents through the online google form as a data collection tool. Analysis of data is based on various statistical tools like two-tailed Mann-Whitney, Kruskal-Wallis test and graphs.

The study reveals that there is a rising trend in the frauds. So now here is a need of Banking Ombudsman as redressal and regulatory mechanism to control bank cams.

KEYWORDS: Bank, scams, Investors, Banking Ombudsman, Reserve Bank of India

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INTRODUCTION

The Indian banking offers good opportunity for investors to invest their hard earn money for good returns and banks channelizes these resources for the growth and sustenance of business, trade, service, commerce and industry. Therefore an efficient banking system is need of hour of the day for the growth and development of national economy.

Bank scam is also known as bank frauds, Bank fraud means an unethical and/or criminal act by an individual or firm to illegally attempt to possess or receive money from a bank or financial institution.

The Reserve Bank of India has classified frauds into the following categories for the purpose of uniformity of reporting by the banks to the RBI and in keeping with the provision of the IPC-

- (a) Misappropriation and criminal breach of trust.
- (b) Forging of documents and instruments and manipulation of the books of accounts.
- (c) Negligence and cash shortages.

(d) Cheating.

(e) Irregularities in extension of credit facilities against illegal gratification.

(f) Cases of frauds not covered above.

It is pertinent to note here that the cases of theft, burglary and dacoit are not covered in any of the above classification but have to be reported separately to the RBI.

The Banking Ombudsman Scheme was first introduced in India under Section 35 A of the Banking Regulation Act, 1949 by RBI in the year 1995 and it was revised in 2002, 2006 and 2009 respectively. Banking Ombudsman is a senior official appointed by RBI who handle and redress customer complaints against deficiency in certain banking services. There are 22 offices of Banking Ombudsmen. All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Banking Ombudsman Scheme.

The performance of Banking Ombudsman of last three year is as:

Number of Complaints	2017-18	2018-19	2019-20
Received during the year	1,63,590	1,95,901	3,08,630
Brought forward from previous year	11,215	6,182	12,069
Handled during the year	1,74,805	2,02,083	3,20,699
Disposed during the year	1,68,623	1,90,014	2,96,201
Rate of Disposal (%)	96.46%	94.03%	92.36%
Carried forward to the next year	6,182	12,069	24,498

Complaints to banking ombudsman rise 20% in FY'19: RBI | Business Insider India

RBI reported, the value of frauds for the F.Y 2019-20 Rs.1,85,644 Crores was alone higher than the last four previous year total value about Rs.1.55 lakhs

Crores. Therefore it resulted into huge financial loss which can affect adversely the Indian economic growth.

Value of Bank Frauds in India during the last 5 financial years

Financial Year	Value(Crores)	No. of Cases	Average value of frauds per case(Crores)
2019-20	₹185,644.00	8,707	₹21.32
2018-19	₹71,543.00	6,799	₹10.52
2017-18	₹41,167.04	5,916	₹6.96
2016-17	₹23,933.85	5,076	₹4.72
2015-16	₹18,698.82	4,693	₹3.98

Bank Frauds in India /Financial Frauds in India 2020 (arthikdisha.com)

Some of top bank scam in the recent year:

- Punjab National Bank Scam ₹ 11,400 Crore. - JewelerNiravModi and MehulChoksi case
- Rotomac case: round ₹ 3,700 Crores Punjab National Bank the directors of business group Vikram Kothari and Rahul Kothari.
- Andhra Bank Scam ₹5000 Crore -a former director of Andhra Bank director of Gujarat based Pharma Companies sterling biotech.
- Bank Scam by Vijay MallyaRs 9,432 crore from 13 banks
- Punjab Maharashtra co-operative Bank fraud of Rs.4355 (HDIL case)
- Yes Bank scam Rs.4300 crores (DHFL case)
- ICICI Bank Scam Rs.1730 (Former Md and CEO ChandaKochar and Deepak Kochar case)

LITERATURE REVIEW:

Gandhi (2015) stressed on the basic principles that can go a long way in preventing fraud, namely the principles of knowing the customer and employees as well as partners. He also pointed out the significance of a robust appraisal mechanism and continuous monitoring.

Swain &Pani (2016) in their study frauds in Indian banking sector have been a rising trend in India over the last few years. Some reasons like bank frauds are negligence by concerned officer, lack of seriousness, knowledge among bank employees, non-compliance to KYC guidelines as prescribed by

RBI, more pressure on their staff regarding the same may create and can lead to a bank fraud.

Neha&Dhiraj Sharma (2018) in their study realized that the bank bridges the gap between availability of funds and usage of these funds in a proper way in the society. Fraudsters commit fraud in every possible way and are prevalent in every facet of banking sector. It's a high time when banks need to prevent threat of frauds, built a strong system to protect, continuously monitor and the evaluation of the efficient systems.

Objectives of the Study

1. To determine trends in banking scams in India.

2. To find awareness about Banking Ombudsman among respondents.
3. To ascertain whether banking ombudsman is possible core solution for preventing banking scams.

Hypothesis:

1. H1: There is significance increase in banking scam in India.

H0: There is no significance increase in banking scam in India.

2. H1: There is significance difference between Gender and perception towards increase banking scam in India.

H0: There is no significance difference between Gender and perception towards increase banking scam in India.

3. H1: There is significance difference between Demographic Factors and awareness about Banking Ombudsman among respondents

H0: There is no significance difference between Demographic Factors and awareness about Banking Ombudsman among respondents

4. H1: Banking Ombudsman is likely to become core solution for banking scam.

H0: Banking Ombudsman is not likely to become core solution for banking scam.

Statement of the Problem

The latest financial stability revealed by RBI in December 2019, frauds reported by banks during the first half of the current fiscal touched an all-time high amount of ₹1.13 lakh crore, owing to delay in detection by lenders. This involved 4,412 fraud cases of ₹1 lakh and above, as per the report. In FY19, banks had reported 6,801 cases of fraud involving ₹71,543crore.

The study undertaken to analysed the trends in banking frauds and the mechanism role of Banking Ombudsman as supervisor authority over banking transaction. Efficient banking system is required for protecting the interest of investors and bank customers as well and to have healthy economy of the country.

Data Collection

a. Primary Data: Primary data has collected through well-structured questionnaire from respondents. Most of

questions has asked on banking scam and banking ombudsman as a regulatory and supervisory body to prevent banking scams.

b. Secondary Data: Secondary data has collected from books, journals, RBI reports, newspapers and internet for this study.

Data Collection Tool: Google form has designed to collect online data from respondents through structured questionnaire.

Sample: Total 50 sample of male and female were responded to the questionnaire which enable to the researcher to draw conclusion.

Sampling Technique Non probability Convenient Sampling method is used for this research.

Data Analysis And Interpretation

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	28	56.0	56.0	56.0
Female	22	44.0	44.0	100.0
Total	50	100.0	100.0	

Educational Qualification	Frequency	Percent	Valid Percent	Cumulative Percent
Graduate	18	36.0	36.0	36.0
Post Graduate	24	48.0	48.0	84.0
Professional	4	8.0	8.0	92.0
Doctorate	4	8.0	8.0	100.0

Income Level	Frequency	Percent	Valid Percent	Cumulative Percent
Up to 3 lakhs	25	50.0	50.0	50.0
3 lakhs to 5 lakhs	11	22.0	22.0	72.0
5 lakhs to 10 lakhs	9	18.0	18.0	90.0
10 lakhs above	5	10.0	10.0	100.0

Occupation	Frequency	Percent	Valid Percent	Cumulative Percent
Service	38	76.0	76.0	76.0
Business	3	6.0	6.0	82.0
Professional	6	12.0	12.0	94.0
Others	3	6.0	6.0	100.0

Testing of Hypothesis:

1. Two-Tailed Mann-Whitney U Test: The result of the two-tailed Mann-Whitney U test was not significant based on an alpha value of 0.05, $U = 338$, $z = -0.65$, $p = .513$. The mean rank for group Male was 26.57 and the

mean rank for group Female was 24.14. This suggests that the distribution of Trends for group Male ($Mdn = 4.00$) was not significantly different from the distribution of Trends for the Female ($Mdn = 3.50$) category. Table 1 presents the result of the two-tailed Mann-Whitney U test.

Two-Tailed Mann-Whitney Test for Trends by Gender

Variable	Mean Rank		U	Z	p
	Male	Female			
Trends	26.57	24.14	338.00	-0.65	.513

2. Two-Tailed Mann Whitney Rank Sum Test For Awareness Towards Banking Ombudsman By Gender

The result of the two-tailed Mann-Whitney U test was not significant based on an alpha value of 0.05, $U = 284$, $z = -0.51$, $p = .607$. The mean rank for group Male was 24.64 and the mean rank for group Female was 26.59. This suggests that the distribution of Awareness

towards Banking Ombudsman for group Male ($Mdn = 1.00$) was not significantly different from the distribution of Awareness towards Banking Ombudsman for the Female ($Mdn = 1.00$) category. Table 1 presents the result of the two-tailed Mann-Whitney U test.

Two-Tailed Mann-Whitney Test for Awareness towards Banking Ombudsman by Gender

Variable	Mean Rank		U	z	p
	Male	Female			
Awareness towards Banking Ombudsman	24.64	26.59	284.00	-0.51	.607

3. Kruskal Wallis Test for Awareness towards Banking Ombudsman by Qualification

The results of the Kruskal-Wallis test were not significant based on an alpha value of 0.05, $\chi^2(3) = 0.25$, $p = .970$, indicating that the mean rank of *Awareness towards Banking Ombudsman* was similar for each level of Qualification. Table presents the

Kruskal-Wallis Rank Sum Test for *Awareness towards Banking Ombudsman* by Qualification

Level	Mean Rank	χ^2	df	p
Graduate	25.17	0.25	3	.970
Post Graduate	26.33			
Professional	23.50			
Doctorate	24.00			

4.I. Kruskal Wallis Test For Awareness Towards Banking Ombudsman By Income Level

The results of the Kruskal-Wallis test were not significant based on an alpha value of 0.05, $\chi^2(3) = 2.83$, $p = .418$, indicating that the mean rank of

Kruskal-Wallis Rank Sum Test for *Awareness towards Banking Ombudsman* by Income Level

Level	Mean Rank	χ^2	df	p
Upto 3 lakhs	26.38	2.83	3	.418
3 Lakhs to 5 Lakhs	25.50			
5 Lakhs to 10 Lakhs	19.72			
Above 10 Lakhs	31.50			

4.Ii. Kruskal Wallis Test For Awareness Towards Banking Ombudsman By Occupation

The results of the Kruskal-Wallis test were not significant based on an alpha value of 0.05, $\chi^2(3) = 0.61$, $p = .894$, indicating that the mean rank of

Kruskal-Wallis Rank Sum Test for *Awareness towards Banking Ombudsman* by Occupation

Level	Mean Rank	χ^2	df	p
Service	25.45	0.61	3	.894
Business	24.17			
Professional	23.83			
Others	30.83			

CONCLUSION OF THE STUDY

In the recent decade, trends for banking scam notified rising phenomena which can prove as termite for any gamut economy to get collapse. The investors hard earn money are kept in trust of bank but on a contrary bank authorities violating their powers to grant the loan, which in turns result into increases NPA and that is financial loss of investors.

Now it’s time to take strong regulatory and supervisory remedies to control banking scams by Banking ombudsman who is playing vital role in redressing the bank complaints up to the amount of Rs.!0 lakhs, RBI should provide more supervisory power to Banking Ombudsman by opening the cap of limit of redressing

RECOMMENDATIONS

It is felt that bank scams are increasing due to some negligence on the top management and supervisory authority.

There should be highly committed, dedicated and responsible person kept at board level who will adhere corporate governance for the best interest of investors.

results of the Kruskal-Wallis rank sum test. Figure 2 presents boxplots of the ranked values of *Awareness towards Banking Ombudsman* by the levels of Qualification.

Awareness towards Banking Ombudsman was similar for each level of Income Level. Table 3 presents the results of the Kruskal-Wallis rank sum test. Figure 3 presents boxplots of the ranked values of *Awareness towards Banking Ombudsman* by the levels of Income Level.

Awareness towards Banking Ombudsman was similar for each level of Occupation. Table 4 presents the results of the Kruskal-Wallis rank sum test. Figure 4 presents boxplots of the ranked values of *Awareness towards Banking Ombudsman* by the levels of Occupation.

Strict supervision and control is required from governing authority like RBI

There should be an entry of Banking Ombudsman at every stages and every type of banking transaction.

Do not ignore the call by vassal blower and see to it they are not victamised to avoid huge financial loss in future.

There should be stringent and quick trail to undertake against authorities involved in scams.

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