Context: Banking frauds have been rising. During the first six months of this fiscal, frauds of Rs.1 lakh and above, as reported by commercial banks, touched Rs.1.13 trillion. This, after frauds worth Rs.41,167 crore had been reported in 2017-18.

By how much have bank frauds risen?

- As the above chart shows, total bank frauds reported in 2015-16 stood at Rs.18,699 crore. In a matter of four years, they have jumped more than six-fold. By the time we get around to the end of this fiscal, the amount involved in frauds would be Rs.1 trillion higher than in 2015-16.

- An important distinction needs to be made here. As the Reserve Bank of India (RBI) Master Circular on frauds points out, “It has been observed that frauds are, at times, detected in banks long after their perpetration.” What this basically means is that frauds reported during the current fiscal didn’t necessarily happen during this year.

Why has there been a jump in bank frauds?

There is no straight answer to this. But as John Kenneth Galbraith wrote in The Great Crash, 1929: “At any given time there exists an inventory of undisclosed embezzlement. This inventory—it should perhaps be called the bezzle—amounts at any moment to many millions of dollars. In good times, people are relaxed, trusting, and money is plentiful... (so) the rate of embezzlement grows, the rate of discovery falls off, and the bezzle increases rapidly. In depression all this is reversed.” As per this theory, bank frauds have been building up over the
years and there has been an explosion in their recognition this year.

What’s the link between frauds and slow growth?

Growth during the first half of FY20 fell to 4.8%. According to Galbraith, the rate of discovery of what he calls bezzle rises in a depression. While India’s economy is nowhere near a depression, it is in the middle of a slowdown. This is why fraud recognition has increased. A rapid build-up in fraud recognition doesn’t mean the system has turned more corrupt this year.

Why has there been a build-up in frauds?

The frauds being recognized now were committed earlier. Why was there a jump in frauds at all? As Urjit Patel, RBI governor from September 2016-December 2018, said in a speech in March 2018: “Indeed, RBI data on banking frauds suggests that only a handful of cases over the past five years have had closure, and cases of substantive economic significance remain open. As a result, the overall enforcement mechanism… is not perceived to be a major deterrent to frauds relative to economic gains from fraud.”

What does this tell us about bank frauds?

The RBI top brass has openly talked about big businessmen siphoning off money from different projects. This was money they had borrowed from banks to finance the projects. Such incidents haven’t been properly investigated over the years and have led to these people defaulting on loans after siphoning off the money. This has only incentivized fraudsters to become bolder. Only proper investigations leading to convictions can stop this practice.