FINANCIAL FRAUDS & UNPREDICTABLE ENVIRONMENT OF INDIA

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ABSTRACT

Financial fraud is a very common word in India. It refers to getting monetary benefits or money by deceiving someone or masses using some fake documents. Since 1947 we have witnessed more than 230 scams in India i.e. more than 3 scams per year, if we look closely we will find that out of these scams majorly took place Liberalization therefore, the average scams per year is more than 8 during 1991-2017. This paper is an attempt to discuss few major scams and analysis of the current scenario & remedies to bring back the confidence of the investors.

KEYWORDS

Financial frauds, Liberalization, Scam

INTRODUCTION

There was a time when India was knows as bird of gold “sone ki cheriya” but now after witnessing so many financial scams it can be said that India seems to be a capital of financial scams. Financial scam or fraud can be defined as an activity of trickery involving financial transactions for purpose of personal gain. These types of Frauds are always a crime; most of scams involve complex financial transactions executed by 'white collar criminals' such as expert professionals & powerful persons of our society with specialized knowledge and intention. Most of scams caused a lot of financial distress to the common man.

However in India we have several regulatory bodies or authorities to prevent the scams such as SEBI, IRDA, RBI, ROC, FMC, PFRDA, CCI, ICAI, TRAI & many more. These regulators are reviving rules & regulations to path up the loops holes of the system but it seems that either they failed to understand the market & masses or some super powers possess them & they wake up after the event. Following are some famous scams out of the long list produced by our country.

- **Harshad Mehta Case**:

The most buzzing scam of 1992 fooling many investors by taking advantage of loop holes in the system. This was the most publicized scam & popularly called as Harshad Mehta scam. Harshad & his team initiated securities scam by diverting around Rs. 5000 crore from the banks to stockbrokers. It was alleged that Mehta engaged in a massive stock manipulation scheme financed by worthless bank receipts, which his firm brokered in "ready forward" transactions between banks.

- **Ketan Parekh Case:**

He was a trainee of Harshad Mehta at GrowMore investments, a firm that Mehta had set up with capital. Following his Boss, Ketan Parekh had bigger plans. During 1998-2001 he conned banks and exchanges like the Allahabad Stock Exchange and the Calcutta Stock Exchange, and bought shares in fictitious names to manipulate the share prices in companies. He was alleged for his involvement in circular trading. Ketan was a chartered accountant who used to run a family business, named NH Securities.

- **Satyam Case:**

India's one of the biggest corporate scandal affecting India-based company Satyam Computer Services in 2009 in which Satyam Company's chairman Ramalinga Raju confessed that he manipulated accounts to show increased sales, profits and margins from 2003 to 2008. CBI took over the investigation and filed three partial charge sheets over the course of the year. It later merged those three partial charge sheets into a single charge sheet. On April 9, 2015, B. Ramalinga Raju, along with 9 others were pronounced guilty in satyam scam.

- **Chain Roop Bhansali Case:**

This case took place in 1995 and worth Rs.1200 crores and the key person was CR Bhansali. Between 1992-1996, Bhansali was running a lot of financial firms like CRB capital markets, CRB mutual funds & CRB share custodial services. He offered lot of attractive schemes and invited the public and big organization to invest in his schemes. Once invest was made Bhansali very conveniently transferred the money to imaginary companies. Bhansali came under suspicion when his capital grew from Rs.2 crore in 1992 to 430 crore in 1996.

✓ **Subrata Roy Case**

Subrata Roy case is also called Sahara India Pariwar investor fraud case. In this case Subrata Roy, the chairman of the Sahara India issued Optionally Fully Convertable Debentures by the two companies of Sahara India pariwar. The case itself comprises big numbers such as collection of over Rs 24,000 crore from three crore individuals from West Bengal & Odisha. Securities and Exchange Board of India (SEBI) had claimed its jurisdiction and objected on why Sahara has not taken permission from it. SEBI ordered Sahara's two companies to stop issuing the said bonds and return monies to investors. Subrata failed to return Rs 24,000 crore plus interests to its investors as directed by the Supreme Court of India. Eventually, he was arrested by Uttar Pradesh police on a Supreme Court warrant.

✓ **National Spot Exchange (NSEL) Case**

NSEL scam was a payment default by National Spot Exchange. NSEL was promoted by Financial Technologies India Ltd. The payment default took place when the then commodities market regulator, the Forward Markets Commission (FMC) directed NSEL to stop launching any fresh contracts leading to an abrupt closure of the Exchange in July 2013. As a result Investors money was siphoned off as the most of the underlying commodities did not exist and the buying and the selling of commodities were being only conducted only on paper. Investors were attracted by offering fixed returns on paired contracts in commodities. The case is under investigation with the spotlight on the involvement of brokers, defaulters, investors and key decision makers.

CURRENT SCENARIO

At present multiple activities are initiated on the name of financial inclusion; Black Money, Parallel Economy, Tax evasion, NPA, Banking Regulations & many more. If we analyze these activities step by step it provides an indication to be alert as all these activities involve the money of masses.

Step 1: The financial inclusion campaign was initiated on 28 August 2014, on the inauguration day, 1.5 crore bank accounts were opened under this scheme. This activity was appreciated and recorded by Guinness book as “The most bank accounts opened in 1 week as a part of financial inclusion campaign is 18096130 (1.8 crore) and was achieved by Banks in India from 23 to 29 August 2014”. As per the following link on the site of GOI the total balances in these accounts till 31-Jan, 2015 was (https://www.pmjdy.gov.in/files/progress/phase1.pdf) approx 10500 crore (in 5 months). This scheme took 16 months to accumulate balance of Rs. 27283 crore till 31-December 2015, therefore the average monthly inflow of the scheme is somewhere between 1700 to 2000 crore.

Step 2: Prime Minister of India Narendra Modi announced the demonetization in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November. In the announcement, Modi declared that use of all Rs. 500 and Rs. 1000 banknotes of the Mahatma Gandhi Series would be invalid past midnight. On 28 October 2016 the total banknotes in circulation in India was Rs.17.77 trillion (US$280 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to Rs.16.42 trillion (US$260 billion) of which nearly 86% (around RS.14.18 trillion (US$220 billion)) were Rs.500 and Rs.1,000 banknotes. In the first two weeks of demonetization, the total balance in no-frills accounts under the Pradhan Mantri Jan Dhan Yojana increased by 60% to Rs 72,834.72 crore. That is a jump of Rs 27,198.11 crore in 14 days.

Step 3: The government wants to give less-cash economy a major push by incentivizing digital transactions with a possible cash back offer or discount of 2 per cent on bills up to Rs 2,000. The 2% incentive will be over the applicable GST tax rate. Apart from this Businesses with turnover up to Rs 2 crore will have to pay less tax on electronic payment receipts as compared to on receipts/payments received in cash. For businesses with turnover up to Rs 2 crore, it has been decided to reduce the existing rate of deemed profit of 8% under section 44AD of the Income Tax Act to 6% in respect of the amount of total turnover or gross receipts received through banking channel / digital means for the financial year 2016-17, according to a press release from the Central Board of Direct Taxes 20-12-2016.

Step 4: Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. GST replaced a slew of indirect taxes with a unified tax and is therefore set to dramatically reshape the country's 2 trillion dollar economy.

Step 5: The Financial Resolution and Deposit Insurance Bill (FRDI) aims to set up a resolution corporation to replace the existing Deposit Insurance & Guarantee Corporation, which will monitor financial companies, categorize them as per their risk profiles and step in to prevent them from going bankrupts by writing down their liabilities. The corporation is also tasked with providing deposit insurance up to a certain limit yet to be specified, in the even of a bank failure. The corporation will also be tasked with classifying financial firms on their risk of failure (low, moderate, material, imminent or critical). It will take over the management of a company once it is deemed critical.

The Resolution Corporation will be under Finance Ministry with representatives from SEBI, RBI, IRDAI, and PFRDA. The Corporation shall consist of the following Members, to be appointed by the Central Government, namely:—

(a) A Chairperson;
(b) One officer of the Government of India in the Ministry of Finance, ex officio;
(c) One Member to be nominated by the Reserve Bank of India, ex officio;
(d) One Member to be nominated by the Securities and Exchange Board of India, ex officio;
(e) One Member to be nominated by the Insurance Regulatory and Development Authority of India, ex officio;
(f) One Member to be nominated by the Pension Fund Regulatory and Development Authority of India, ex officio;
(g) such number of whole-time Members, not exceeding three, as may be decided by the Central Government; and
(h) Two independent Members.

CONTRADICTIONS WITH REFERENCE TO CURRENT SCENARIO

As far as financial inclusion is concerned it has made a mark in Guinness book but the biggest problem in rural India with concerns of finances is that they do not have the financial stability to maintain a bank account. Banks are regularly complaining that it is tough for them to manage these accounts due to zero balances & other account holders have to take the burden in the form of higher maintainable balances or fees. After demonetization the surprising hike in the balances of these accounts shows that these accounts were not used by actual users but they have surrogated their accounts to some big bulls. Demonetization was announced to hit the black money actually but later on it targeted terrorism, cash less society and many more in reality all of us do not know that what was the target & it is achieved or not.

For digitized transactions the income tax rates are reduced to 6% shows the intention to motivate the people to do business through banks and not in cash. Which is indeed a good move but it will take time to produce results. GST a unified indirect tax is assumed to reshape the country's 2 trillion dollar economy. This seems very glossy but in reality more than 20% of top Indian companies are reporting loss. In such a situation how can one expect the increase in tax collection or GDP? Apart from this to achieve, the optimum rate of economic growth, the rate of capital formation should be above 40% of GDP but we are somewhere around 27% though during 2009-10 it was 36.5%. The recent step i.e. Financial Resolution and Deposit Insurance Bill (FRDI) will mark another dent as after, all the current activities people are trying to believe on the banking system. This FRDI is developing trust deficit, due to two reasons:

First reason is of its clause bail-in. This is one of the methods to resolution, where banks issue securities in lieu of the money deposited. In other words if bank fails then depositors money can be used to fulfill these losses. In the past bail-in efforts had largely worked against depositors. In Cyprus depositors lost almost 50% of their savings when a bail-in was implemented. As far as Indian banking sector is concerned it is under stress due to bad loans. According to RBI’s Financial Stability Report released in June 2017, the gross non performing advances ratio of all banks stood at 9.6% as of March 2017. Second reason is bill itself. As till now RBI is an apex body to look after all such matters. RBI manages all these activities through Deposit Insurance and Credit Guarantee Corporation (DICGC), which is a subsidiary of Reserve Bank of India. It was established on 15 July 1978 under Deposit Insurance and Credit Guarantee Corporation Act, 1961 for the purpose of providing insurance of deposits and guaranteeing of credit facilities. DICGC insures all bank deposits, such as saving, fixed current, recurring deposit for up to the limit of Rs. 100,000 of each deposit in a bank.

ANALYSIS

Financial inclusion cannot said to be successful by just getting a place in Guinness book as the objective is not to make the record or put the efforts into limelight but to bring everyone together to create a grand success story, the data shows it is not happening. The cost of this record is being paid by the common tax payer as the biggest public sector bank of India State Bank of India had waved off the penalties for non maintenance of balance in saving accounts way back in 2012 but w.e.f. 1st April 2017 they have brought it back. The State Bank of India collected Rs. 1771 crore during April-November 2017 as charges from customers who did not maintain their minimum monthly average balance (MAB) in their accounts. This is more than the bank's July-September quarter net profit of Rs. 1581.55 crore and nearly half of the Rs.3586 crore it earned as net profit April-September. To bring back the confidence of general public clear objective vis-à-vis achievement of the demonetization should be provided. A pre & post demonetization scenario should also be explained. GST was introduced as one nation one tax but it is not so as several important items are not included in GST such as petroleum products & alcohol. However if it is not one national on tax, then too it is an excellent move but most of people are not welcoming it because of its structure and high tax rates as show in Table 1. It is clear from table 1 that tax rates are highest in India.

Table 1: Tax Rates across Countries

S.No.	Country	GST Rates
1.	India	0%,0.25%, 3%, 5%, 12%, 18%, & (28% + 22% cess) Tax on petroleum product more than 40% Tax on alcohol more than 100%
2.	France	2.1 to 20%
3.	U.K.	20%
4.	Ukraine	20% Goods & 7% services
5.	New Zealand	15%
6.	Australia	10%
7.	Vietnam	0 to 10%
8.	Singapore	7%
9.	Malaysia	6%
10	Canada	5% mostly, & 15% in some provinces

When it comes to FRDI it creates a trust deficit as we are already having an apex body which has a subsidiary to manage all these matters along with a guarantee of Rs. 100000 for each deposit in a bank. Then why do we need to develop FRDI which comprises a team of 11 members out of which 6 belongs to central government. By empowering this committee the Reserve Bank of India (RBI) has nothing to do in these matters and central government will be the decision maker. As far as bail in clause is concerned, it is being said by government that we will protect the interest of the investors & it will bring discipline in the sector but it will also bring the fear among the investors which will hinder to dream of cash less society.

CONCLUSION

From the present scenario it can be concluded that we are in the era of financial revolution every day we come to know something new is happening sometimes we understand it perfectly but sometimes it is very complex. As in case of Pradhan Mantri Jan Dhan Yojana, Demonetization, GST & FRDI; it is very difficult for a citizen to understand what the target was & what is achieved till date. FRDI is still in pipe line to unlike the previous steps this time general public must be taken in to confidence before any announcement or implementation. The Indian economy is not in the state of bear any more shock now therefore, FRDI should be postponed or abolished and existing system should be strengthened. As government is saying that they are in the support of the general public then & no bank is going to fail in India & bail-in is just one measure of resolution which can be used. This word "CAN" is the source of trust deficit if government is so confident then why do not we increase the insurance limit of DICGC as the existing limit was set somewhere in 1993. This will bring the confidence of general public back & penetration of banking will also increase.

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