

CASE OF BANK FRAUD AT PUNJAB NATIONAL BANK LINK ROAD BRANCH KOZHIKODE

Introduction

Banks being a part of the financial system are more prone to frauds, through attacks which seek to exploit the vulnerabilities in the systems and processes, targeting both the banks as well as its customers. These fraud risks could be both internal and external and both entail serious financial, legal and reputational risks for banks. In an effort to contain this menace and ensure financial stability, RBI has issued detailed *Guidance Note on Operational Risk Management and Operational Resilience*¹ covering major operational risks including frauds. The guidance note *inter alia* deals with various issues including lines of defence, governance and risk culture, roles and responsibilities, identification and management of risks, risk monitoring and reporting, control and mitigation, change management, etc. RBI has streamlined its Department of Supervision by strengthening *Fraud Risk Management System (FRMS)*. RBI had also dedicated its *fourth cohort of Regulatory Sandbox* for the theme *Prevention and Mitigation of Financial Frauds* under which six entities were shortlisted. Based on data for the past three years 2021-22, 2022-23 and 2023-24, it is found that although the instances of fraud have increased by around 400%, the amount involved has reduced substantially by around 69% during the same period. The sharp increase in instances of frauds could be attributed to proliferation of online / internet frauds, which has witnessed a more than 800% increase. Fraud cases reported by banks, bank group-wise and area of operation-wise are given as follows² :

| Fraud Cases - Bank Group-wise | | | | | | |
|---|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Bank Group/Institution | (Amount in ₹ crore) | | | | | |
| | 2021-22 | | 2022-23 | | 2023-24 | |
| | Number of Frauds | Amount Involved | Number of Frauds | Amount Involved | Number of Frauds | Amount Involved |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Public Sector Banks | 3,044 (33.7) | 32,288 (71.1) | 3,392 (25.0) | 18,750 (71.8) | 7,472 (20.7) | 10,507 (75.3) |
| Private Sector Banks | 5,312 (58.7) | 10,653 (23.5) | 8,979 (66.2) | 6,159 (23.6) | 24,210 (67.1) | 3,170 (22.8) |
| Foreign Banks | 494 (5.5) | 1,206 (2.7) | 804 (5.9) | 292 (1.1) | 2,899 (8.1) | 154 (1.1) |
| Financial Institutions | 9 (0.1) | 1,178 (2.6) | 10 (0.1) | 888 (3.4) | 1 - | - - |
| Small Finance Banks | 155 (1.7) | 30 (0.1) | 311 (2.3) | 31 (0.1) | 1,019 (2.8) | 64 (0.5) |
| Payments Banks | 30 (0.3) | 1 - | 68 (0.5) | 7 - | 472 (1.3) | 35 (0.3) |
| Local Area Banks | 2 - | 2 - | - - | - - | 2 - | - - |
| Total | 9,046 (100.0) | 45,358 (100.0) | 13,564 (100.0) | 26,127 (100.0) | 36,075 (100.0) | 13,930 (100.0) |
| -: Nil/Negligible. | | | | | | |
| Note: 1. Figures in parentheses represent the percentage share of the total. 2. Data are in respect of frauds of ₹1 lakh and above reported during the period. 3. The figures reported by banks and FIs are subject to changes based on revisions filed by them. 4. Frauds reported in a year could have occurred several years prior to year of reporting. 5. Amounts involved reported do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved is not necessarily diverted. | | | | | | |
| Source: RBI Supervisory Returns. | | | | | | |

¹ RBI/2024-25/31 DOR.ORG.REC.21/14.10.001/2024-25 dated April 30, 2024

² Annual Report RBI 2023-24

An assessment of bank group-wise fraud cases over the last three years indicates that while private sector banks reported maximum number of frauds, public sector banks continued to contribute maximum in terms of fraud amount.

| Frauds Cases - Area of Operations | | | | | | |
|---|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| (Amount in ₹ crore) | | | | | | |
| Area of Operation | 2021-22 | | 2022-23 | | 2023-24 | |
| | Number of Frauds | Amount Involved | Number of Frauds | Amount Involved | Number of Frauds | Amount Involved |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Advances | 3,782 | 43,272 | 4,090 | 24,685 | 4,133 | 11,772 |
| | (41.8) | (95.4) | (30.2) | (94.5) | (11.5) | (84.5) |
| Off-balance Sheet | 21 | 1,077 | 14 | 285 | 11 | 256 |
| | (0.2) | (2.4) | (0.1) | (1.1) | - | (1.8) |
| Forex Transactions | 7 | 7 | 13 | 12 | 19 | 38 |
| | (0.1) | - | (0.1) | - | (0.1) | (0.3) |
| Card/Internet | 3,596 | 155 | 6,699 | 277 | 29,082 | 1,457 |
| | (39.8) | (0.3) | (49.4) | (1.1) | (80.6) | (10.4) |
| Deposits | 471 | 493 | 652 | 258 | 2,002 | 240 |
| | (5.2) | (1.1) | (4.8) | (1.0) | (5.5) | (1.7) |
| Inter-Branch Accounts | 3 | 2 | 3 | - | 29 | 10 |
| | - | - | - | - | (0.1) | (0.1) |
| Cash | 649 | 93 | 1,485 | 159 | 484 | 78 |
| | (7.2) | (0.2) | (10.9) | (0.6) | (1.3) | (0.6) |
| Cheques/DDs, etc. | 201 | 158 | 118 | 25 | 127 | 42 |
| | (2.2) | (0.4) | (0.9) | (0.1) | (0.4) | (0.3) |
| Clearing Accounts | 16 | 1 | 18 | 3 | 17 | 2 |
| | (0.2) | - | (0.1) | - | - | - |
| Others | 300 | 100 | 472 | 423 | 171 | 35 |
| | (3.3) | (0.2) | (3.5) | (1.6) | (0.5) | (0.3) |
| Total | 9,046 | 45,358 | 13,564 | 26,127 | 36,075 | 13,930 |
| | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) |
| -: Nil/Negligible. | | | | | | |
| Note: 1. Figures in parentheses represent the percentage share of the total. | | | | | | |
| 2. Refer to footnotes 2-5 of Table VI.1. | | | | | | |
| Source: RBI Supervisory Returns. | | | | | | |

Analysis of frauds by area of operation indicate that most number of frauds have occurred in the category of digital payments (card/internet). However, in terms of value, advances related frauds contributed to around 85% of the amount involved. Whereas bulk of the attention is currently devoted to payments related fraud, especially in the area of digital / internet / online transactions, the amount involved in other cases of frauds, wherein employee malafide could be involved remain disproportionately high. Trust is vital in banking and customer loyalties are build around it. Although frauds involving digital / internet / online transactions and scams effect customer behaviour for a particular product or mode, they do not necessarily abet a shift in customer trust from the banking system as a whole, as much as employee / insider enabled frauds could do.

Further, an analysis of the vintage of frauds reported during 2022-23 and 2023-24 shows a significant time-lag between the date of occurrence of a fraud and its detection (Table below). The amount involved in frauds that occurred in previous financial years (at times more than 10 years back) formed 94.0 per cent of the frauds reported in 2022-23 in terms of value. Similarly, 89.2 per cent of the frauds reported in 2023-24 by value occurred in previous financial years. Early detection would not only aid putting in place a system of checks before the proverbial *horse has bolted*, but also deter encourage of similar fraudulent behaviour by others.

| Vintage of Frauds Reported in 2022-23 and 2023-24 | | | |
|---|-----------------|---------------------|-----------------|
| 2022-23 | | 2023-24 | |
| 1 | 2 | 3 | 4 |
| Occurrence of Fraud | Amount Involved | Occurrence of Fraud | Amount Involved |
| Before 2013-14 | 1,444 | Before 2013-14 | 2,133 |
| 2013-14 | 1,082 | 2013-14 | 1,327 |
| 2014-15 | 828 | 2014-15 | 1,616 |
| 2015-16 | 494 | 2015-16 | 951 |
| 2016-17 | 6,526 | 2016-17 | 858 |
| 2017-18 | 2,985 | 2017-18 | 781 |
| 2018-19 | 4,613 | 2018-19 | 1,196 |
| 2019-20 | 1,253 | 2019-20 | 835 |
| 2020-21 | 2,171 | 2020-21 | 807 |
| 2021-22 | 3,164 | 2021-22 | 844 |
| 2022-23 | 1,567 | 2022-23 | 1,073 |
| | | 2023-24 | 1,509 |
| Total | 26,127 | Total | 13,930 |
| Note: 1. Data are in respect of frauds of ₹1 lakh and above reported during the period. 2. Refer to footnotes 3 and 5 of Table VI.1. Source: RBI Supervisory Returns. | | | |

Frauds in Rural Financial Institutions (RFIs)

The number of frauds in the Regional Rural Banks (RRBs) and Rural Co-operative Banks are on a rise since FY 2015-16. From FY 2015-16 to FY 2022-23, there were 2119 frauds involving Rs.2051 crore reported by RRBs and RCBs. In FY 2022-23 RFIs reported 365 frauds involving Rs.447 crore. The maximum number of frauds were reported by District Central Co-operative Banks (DCCBs) followed by Regional Rural Banks (RRBs) and State Co-operative Banks (StCBs). One important highlight of frauds in RFIs is that 85% of the frauds were committed either by staff or in connivance with staff. The modus operandi generally adopted for such frauds included :

- The fraud in loans and advances was committed through fraudulent documents on collateral, forged KYC documents, over-valuation, and by opening ghost loan accounts against fixed deposits. Poor appraisal system and monitoring mechanism is also responsible for frauds in loans and advances in RFIs.
- Fraud was committed in PACS by including fake members in Normal Credit Limit statements based on forged documents.
- Similarly, fraud in SHGs occurred by including bogus members based on forged KYC.
- Fraud on the deposit accounts transpired through fraudulent withdrawal by the cashier after issuing a fake counter receipt.
- Frauds were also committed internally by siphoning off the bank's funds by passing fraudulent entries in general ledgers.

The frauds in RFIs could not be prevented mainly due to :

- Lack of oversight by senior management on deviations from existing processes indicating weak internal checks and control. For e.g. - The perpetrators (mostly

internal staff) disabled the SMS alert or changed the registered mobile numbers of the customer and thus fraudulently sanctioned and disbursed loans or made fraudulent withdrawals.

- Weak customer due diligence – no system of verification of the customers in case of new deposit accounts or loan applications.
- Lack of tools to identify potential red flags.
- Low financial literacy among customers of these SEs also aggravates the situation. The customers do not opt for the SMS/email alerts facility to save the service charges.

An analysis of Fraud Vulnerability Index (VINFRA) a self-assessment tool developed by NABARD to evaluate a bank's fraud risk management highlighted top 5 areas in which SEs have inadequate systems, as shown below :

| Sl. No. | Areas | % of SEs |
|---------|---|----------|
| 1 | Absence of system of Early Warning Signals and Red Flagging of Accounts | 54% |
| 2 | Non-conduct of IS Audit | 40% |
| 3 | Non- Availability of Fraud Insurance cover | 40% |
| 4 | Proper Resolution of Fraud Cases | 37% |
| 5 | Board-approved Fraud Risk Management Policy | 34% |

Bankers' Perception

A study conducted by National Institute of Bank Management, Pune titled *Bank Frauds in India : Trends, Modus Operandi and Preventive Measures*³, which also involved Bankers' Interviews, wherein interviewees generally linked employee participation in frauds to advances, and considered that an adequate system of checks and practices were in place to prevent them and that certain transgressions observed resulted more from lack of knowledge or negligence rather than malefice. In terms of methodologies used to monitor employee behaviour, it was considered that employee involvement in frauds is rare, mainly due to double checking, reconciliations, compulsory leaves, rotation of desks, visits by senior officials to employee homes to check on lifestyle, monitoring of employee accounts for unusual credits, flagging for review employees accessing unrelated accounts of customers, etc.

However, banks remain most vulnerable to deviant employees, with knowledge of systems and procedures, identify loopholes and defraud banks, and these frauds may not necessarily be related to advances. Timely detection and adoption of fraud control methods remain vital in ensuring lower incidence of frauds, as also discouraging others from indulging in fraudulent behaviour⁴.

³ Inquisitive – Internal Newsletter of Department of Supervision, NABARD; January 2024 – Issue 46 (accessed online)

⁴ NIBM Working Paper Series - Working Paper (WP35/2024)

Fraud in Punjab National Bank, Link Road, Kozhikode Branch

Here we discuss case of a fraud committed by an employee of a public sector bank who alleged defrauded ⁵ clients of the bank for a reasonably long period of time, performing multiple fraudulent transactions and managing to stay safe all the while without his actions being discovered until one fine day....

First Information Report

As per the First Information Report (FIR) dated 10 October 2023 by Central Bureau of Investigation⁶, (the case was transferred from Kozhikode Town Police Station, Kerala and FIR is based on oral submission made by Shri Vishnu C R, Senior Manager, Punjab National Bank, Link Road Branch, Kozhikode on 26 November 2022). Shri Vishnu working as Senior Manager at Punjab National Bank, Link Road Branch filed a complaint against Shri. Rijil M P, erstwhile Senior Manager of the branch, who worked at the branch from 08 May 2019 to 18 June 2022. As per the statement Shri Vishnu C R joined the branch on 18 September 2022, and on 25 November 2022, the Accounts Department of Kozhikode Municipal Corporation requested for *Statement of Accounts and Balance* with respect to one of the accounts wherein it receives Professional Tax payments, and maintained by them at the branch. The request for *Statement of Accounts and Balance* itself was prompted due to a cheque which it issued being bounced. On being provided a copy of the *Statement of Accounts*, and based on perusal of the same, it was informed that an amount of Rs.98.60 lakh was withdrawn from the account on various dates, through transactions which were not authorised by the account holder. On analysis of the transactions, it was revealed that the transactions were conducted at Eranielam Branch of the bank, incidentally wherein the erstwhile Senior Manager Shri Rijil M P had been transferred. On being approached, Shri Rijil M P feigned ignorance and promised to speak with the Accounts Officer at Kozhikode Municipal Corporation and resolve the issue. Thereafter when Shri Vishnu C R verified the said account it was revealed that the amount was reversed with a remarks *Wrong Entry Reversed*. While checking the source of credit of funds, it was found that the same belonged to another account of Kozhikode Municipal Corporation. Suspicious, Shri Vishnu C R sought to delve deeper into the issue and checked the beneficiary account wherein the original withdrawal amount was credited. It was found that the amount was credited to account of one Shri Raveendran M P, maintained with PNB Link Road Branch. From that account, amounts were transferred on various dates to account of Shri Rijil M P maintained with Axis Bank. Since the transactions appeared prima facie doubtful, records of HR Wing were compared, wherein it was understood that Shri Rijil M P had declared his father's name as Shri Raveendran M P, owner of the account maintained at PNB Link Road Branch and beneficiary of the original credit. Hence, on preliminary inquiry it was understood that Shri. Rijil M P misappropriated an amount of Rs.98.60 lakh belonging

⁵ Disclaimer – This case study has been prepared based on FIR submitted by CBI and other details available in public domain, mainly media coverage, and prepared exclusively for educational and training purposes. The matter is *sub judice* and it is not claimed that the contents of this paper represent the true and factual representation of actual events. The matter will eventually be decided by the court of law. The available material has been reviewed and edited to remove inconsistencies and enable a wholesome reading.

⁶ <https://cbi.gov.in/assets/files/fir/RC2232020A0010.pdf>

to Kozhikode Municipal Corporation, using his knowledge of the account and powers entrusted to him as Senior Manager by Punjab National Bank, utilising the proceeds for his own pecuniary gain, and cheating Punjab National Bank as well as Kozhikode Corporation to the tune of Rs.98.60. Accordingly, Shri Vishnu C R approached his higher authorities, informing them about the issue and his findings, who advised him to file a police complaint.

The Accused

Shri Rijil (31) was employed as a Senior Manager with Punjab National Bank, Link Road Branch Kozhikode. Shri Rijil, having come up the *hard way*, was an ideal employee, diligent, hardworking and helpful to his colleges. He grew up in Erimala, a village near National Institute of Technology, Kozhikode and was the first generation college student from his household. After graduation he had joined for a MBA course, but dropped out after securing the bank job. At PNB he rose fast, becoming a *Senior Manager* within seven years and was in line to be promoted as *Chief Manager* in one year, an achievement that he would have made at the age of 32 years. During his school and college days, he used to help his father in digging wells and undertaking digging work for KSEB in order to supplement family income. In fact his mother used to take up work under MNREGS. The family lived in an old dilapidated home. He maintained *Zero* social media presence, and was absent on any social networking websites. As per his neighbours he was an ideal boy, family oriented, hardworking, committed to ensuring a better future and good in studies. He was engaged to be married, but the same was called off after the bank fraud was discovered.

Investigation & Findings

Based on investigation for verification of the complaint as also to ascertain further transactions, if any, and thereby to arrive at the actual amount of fraud, the case was investigated by the Kozhikode Town Police Station. Simultaneously, the case was also investigated by the Internal Audit Wing of PNB which found that the total value of fraud transactions involved was Rs.12.81 crore. Whereas Rs.10.50 crore was stolen from the account of Kudumbashree, four accounts of MPLADS, MLALADS, AMRUT office renovation fund and non-biodegradable waste disposal fund, belonging to the Municipal Corporation were affected. It emerged that he utilised more than Rs.11.0 crore for stock market speculative activities and the balance at *Rummy Circle*. There was no withdrawal of cash. During the course of the investigation and internal audit, an amount of Rs.2.53 crore considered to have been lost was traced to different accounts and refunded to the Kozhikode Municipal Corporation. The Crime Branch also investigated accounts relating to Eranhipalam and Palakkad branches where the accused had worked, but found no irregularities.

It was found that in all Shri Rijil M P had conducted around 250 transactions using the bank's CBS, during one and half years, almost on a daily basis with amounts ranging between Rs.1.0 – 5.0 lakh. At times he also shifted Rs.5.0 lakh on three occasions in a single day. The amounts were shifted to his father's account maintained with the same branch and later to his account maintained with Axis Bank. When the police checked both these accounts, it emerged that whereas his father's account had a balance of Rs.1000, his own account with Axis Bank had a balance of Rs.5.0 lakh. During transfer of money, he omitted the purpose of the transaction, and the column was intentionally left *blank*. It is reported that he initially siphoned Rs.25.0 lakh from

the Corporation's account, and encouraged with the fact that nobody discovered the wrongdoing, prompted him for further such transactions, which eventually ballooned out of control. In the meanwhile he also falsified bank records to hide his activities.

Modus Operandi

Shri. Rijil M P, erstwhile Senior Manager of the branch, who worked at the branch from 08 May 2019 to 18 June 2022, after which he was transferred to Eranhipalam branch of PNB about 4 kms away. As per the FIR, the period of occurrence of frauds was between 12 October 2022 and 25 November 2022 and took place when Shri Rijil M P was posted at the Eranhipalam Branch of PNB, with the accused using his knowledge of accounts of bank's customers from his previous branch and misusing access to the bank's systems to divert funds. During investigation other transfers pre-dating the FIR period were discovered, with the total amount of fraud assessed at Rs.21.29 crore. However, the actual loss was pegged at Rs.12.81 crore, from nine accounts (five belonging to Kozhikode Municipal Corporation which lost Rs.12.68 crore and four belonging to other individuals involving Rs.0.13 crore). It was found that the Kozhikode Municipal Corporation had lost a total amount of Rs.15.21 crore of which Rs.2.53 crore was credited back to their accounts after detection of the loss, and subsequent to audit conducted by the bank on transactions into accounts wherein disparity was noticed. It was alleged that Shri Rijil M P provided the Corporation cooked up statements to evade any suspicion. The fraud could only be identified when one of the cheques the Corporation had issued bounced due to *lack of sufficient funds*. It appeared he was shuffling money from one account to another to evade detection. The fraud essentially involved diverting money from eight accounts of Kozhikode Municipal Corporation and 9 accounts of private individuals, i.e., a total of 17 accounts were involved.

Aftermath of Reporting

Shri Rijil M P went into hiding immediately after the issue was reported on 29 November 2022, and was untraceable to the police. On 08 December 2022 he moved an application for grant of anticipatory bail with Principal Sessions Court in Kozhikode. During the bail application, it was argued by the counsel for Shri Rijil M P that his client was being made a scapegoat to prevent the role of influential persons from being highlighted and that others had misused his password and fingerprint. It was also argued that the Corporation officials were likely involved as money could not be transferred from one account to another without the knowledge and consent of the account holder or their authorized representative. He also submitted that certain amounts were transferred when he himself was on leave. He requested that the source of Rs.2.53 crore which was returned to the bank post the issue coming to light be investigated, and that would then allow the real culprits to be identified. It was also argued that many officers of the bank appeared to be involved in the scam and that a proper investigation was necessary. The bail application was rejected by the Court, but the accused Shri Rijil M P did not surrender or appear before the police.

He again moved District and Session Court for anticipatory bail on 14 December 2022 citing considerable change in circumstances post rejection of his earlier bail application dated 08 December 2022. He stated that large sums of money were returned to the accounts by some senior persons/s in PNB, indicating a deeper conspiracy and that he was victimized to hide the illegalities committed by his

senior/s. He also indicated that atleast a good part of the alleged scam took place when he was posted to Eranhipalam branch and as such did not have knowledge or control over accounts of Link Road Branch. However, the application for anticipatory bail was rejected again by the court and accordingly, Shri Rijil M P was arrested on 14 December 2022 from a relative's house near Mukkam by the Crime Branch Wing of the Kerala Police and charged with siphoning Rs.12.68 crore when he was attached to the Bank's Kozhikode Link Road Branch.

The Statement of Accused

As per the statement of the accused Shri Rijil M P to the police provided after arrest, he admitted that he had misappropriated the money and utilized the money to invest in stocks, online games and other *get rich quick* schemes. He also indicated that he had done the transactions on his own misusing his powers as *Senior Manager* and nobody else was involved. The accused also provided a statement that he had availed housing loan of Rs.50.0 lakh from his bank, part of which was diverted for his online trading and games, and was eventually lost. This compelled him to commit the fraud trying to recover the lost money. However, it was noted that he rarely made profits on his stock market trades. Part of the money was also utilized for repayment of personal loan of Rs.25.0 lakh availed by the accused. The police on its part did not find any inconsistencies in the statement of the accused.

Action Taken

Based on the findings of the investigations, a Case No. 0780 dated 29 November 2022 was registered with the Kozhikode Town Police Station, u/s 409 (*criminal breach of trust by public servants, bankers, merchants, etc.*), 420 (*cheating and dishonestly inducing delivery of property*) of Indian Penal Code (IPC) r/w 13(2) (*Any public servant who commits criminal misconduct shall be punishable with imprisonment for a term which shall be not less than one year but which may extend to seven years and shall also be liable to fine*) r/w 13(1) (a) (*A public servant is said to commit the offence of criminal misconduct, -if he dishonestly or fraudulently misappropriates or otherwise converts for his own use any property entrusted to him or any property under his control as a public servant or allows any other person so to do*) of Prevention of Corruption Act, 1988 (As amended in 2018).

On 20 July 2023, PNB moved the High Court seeking a CBI probe into the case in tune with RBI Master Directions on Fraud RBI/DBS/2016-17/28 DBS.CO.CFMC.BC.No.1 / 23.04.001/2016-17 01 July 2016 (*Updated as on July 03, 2017*) advising that *Cases to be referred to CBI - Cases involving Rs.300. lakh and above and up to Rs.2500 lakh, where staff involvement is prima facie evident* vide High Court Orders dated 20 July 2023, a plea which was granted. Accordingly, The case was later transferred to CBI (Anti Corruption Branch), and on 05 October 2023 a FIR No. RC0332023AOO02 was filed by CBI. Pending inquiry, Shri Rijil M P was suspended and later, on the basis of internal inquiry conducted by PNB, he was dismissed from service.

After repaying Kozhikode Municipal Corporation in two instalments, Punjab National Bank in July 2023 released an amount of Rs.33.0 lakh as interest to Kozhikode Municipal Corporation as interest on the amount swindled by its employee,

Bank's Systems & Procedures

The Four-Eye Principle, also known as the dual control or two-man rule, is an internal control mechanism that requires two separate, independent, qualified and responsible individuals to approve or review an action before it can proceed. This principle is designed to reduce the risk of fraud, errors, and unauthorized activity by ensuring that no single person has absolute control over sensitive processes or transactions. PNB's Core Banking System (CBS) does not allow the same person to generate a transaction and approve it. The person initiating a transaction is called *Maker* and person verifying it is called *Checker*. A biometric firewall prevents unauthorised persons from accessing the CBS. Suspicious, high value and exceptional transactions show up in bank's daily monitoring report which are auto generated. Each of the PNB branches are also subjected to internal audit every six months during which daily monitoring reports are checked. The CBS also provides for auto generation of Suspicious Transaction Reports (STRs). The STRs flag instances where elements of suspicion like unusual activity, complex transaction, large value transaction, lack of legitimate purpose, structuring, etc. The STRs are generated based bank's monitoring mechanisms, employee training and vigilance, due diligence processes under KYC mechanism. These are reviewed at bank level for reasonableness of suspicion and reported to Financial Intelligence Unit (FIU-IND) for analysis and, as appropriate, disseminate information to intelligence/enforcement agencies and regulatory authorities.

Issues for Discussion

- What happened – Could the fraud have been prevented ? If yes, how ?
- Do you consider that in case the incumbent Branch Manager Shri Vishnu C R was vigilant enough ? Could the fraud would have come to light earlier ? If no, How long could the fraud have been perpetrated ? What could have been the potential monetary loss for the bank ?
- Do you think you can identify an accused's intentions or actions solely on the basis of external behaviour – discuss potential giveaways that could be flagged as deviant behaviour
- Form two groups – one providing reasons / justifications for acquitting the accused and other proving him guilty seeking maximum punishment. Debate with appropriate well reasoned arguments.
- Identify areas in your bank / branches open to frauds by employees and discuss measures to plug the loopholes.

Post Script

In the preface to *An Analytical Study on Bank Frauds and Scams in India* by Shri Pullela Murali Mohan IPS⁷, Sardar Vallabhbhai Patel National Police Academy, Hyderabad (2002), the author starts with the quote "*People who deal with honey can't resist the temptation of licking their fingers*". He further states ... *I joined State Bank of Hyderabad, Nizamabad branch in December 1979 as a Probationary Officer... In the evening we had checking of vouchers and ledgers. Since one was full with so much of work, all day one never used to have the idea of what exactly went*

⁷ https://www.svpnpa.gov.in/static/gallery/docs/25_analyticalstudybankfrauds.pdf

into the so called “Checking”. Every day at the bank, ended only as a late night. All exhausted and fizzled out. In this kind of a scenario I always used to think about my state of alertness to prevent any untoward happening in the bank. Anyone could easily hoodwink me and I would be blissfully unaware of it. The idea of frauds in the banks struck me back then. If my colleague was a little smart, I would be certainly involved in a fraud. If the customer across the counter were better equipped, I would be in a soup. If an outsider and my dear bank colleague were in league, the bank was in danger. But at that point of time, I was a greenhorn. I never knew how bank frauds could take place. Though I certainly knew that the ambience was always available for any ‘smart pack’ to outwit the bank and get away with it. I spent a full 8 years in the bank, and had seen several frauds occurring happening right under my nose without my knowledge. My dearest colleague whom I thought was a paragon of all good virtues had ultimately turned out to be a paragon of all virtues. He duped the bank by committing a fraud. The modus operandi being purchasing / discounting outstation cheques, which had accounts with nil balances. He saw to it that they were subsequently not sent for collection. I was taken by another surprise that such a thing could be done by him. Later on, as a Field Officer for advances I knew how hypothecation frauds were committed. I also came to know about frauds occurring in bank guarantees department... My deep interest to understand frauds in banks took me to Banking Securities and Frauds Cell (BS&FC) Mumbai in 1995 when I joined CBI... I once again went to a bank after a long hiatus of nearly 14 years. This time – for a serious study. I wanted to know what had changed over the years. Surprisingly the scenario in public sector banks is much the same even now. It has not changed much except the presence of ubiquitous computers all over the place. However, the man in front of the computer has not changed a wee bit – either in his values or attitudes or work styles.