5. Banking Fraud- Economy

Banks report 30% jump in fraud amount in Apr-Sep 2025- RBI. The RBI's 2024-25 report highlights a paradox where the total number of banking frauds has declined, yet the financial loss has surged significantly due to high-value corporate loan frauds. This points to deep structural flaws in credit appraisal, particularly in Public Sector Banks, despite the dominance of digital frauds in volume terms.

Introduction- The Fraud Paradox

The RBI report highlights a concerning paradox in the Indian banking system for the fiscal year 2024-25. While the incidence (number) of fraud cases has successfully declined, the total value (amount) of losses has surged significantly. This discrepancy points towards deep-seated structural and supervisory weaknesses, indicating that while small-ticket frauds are being managed, high-value frauds remain a critical threat.

Key Findings from the RBI Report

Nature of Frauds

Volume Drivers (Digital)- Card and Internet frauds dominated the volume of cases, accounting for 66.8% of the total number of reported frauds. This highlights persistent vulnerabilities and security gaps in the digital banking infrastructure.

Value Drivers (Loans)- In terms of financial impact, advances-related frauds (loan frauds) accounted for 33.1% of the total amount involved. This indicates that while fewer in number, loan frauds cause the most significant financial damage.

Bank-wise Distribution

Parameter	**Private Sector Banks (PVBs)**	**Public Sector Banks (PSBs)**
Share in Volume (Number of cases)	59.3% (Dominated by digital/retail frauds)	Lower share in volume
Share in Value (Amount involved)	Lower share in value	70.7% (Dominated by high-value corporate loan frauds)

Reasons for the Rise in Fraud Amounts

Weak Appraisal Mechanisms- Flaws in credit appraisal and monitoring, especially in consortium and multiple banking arrangements, create loopholes that allow borrowers to divert funds and misreport financial health.

Delayed Recognition- There is often a significant lag in reporting; losses are allowed to accumulate over several years before being officially recognized as fraud, leading to a sudden spike in reported amounts.

Governance Gaps- Limited accountability and governance failures in the sanctioning and restructuring of large corporate loans contribute to repeated instances of high-value fraud.

Legacy Cases- A major reason for the sharp increase in the *reported* amount is the re-examination and fresh reporting of large legacy cases. This was necessitated to ensure compliance with the Supreme Court judgment of March 27, 2023, regarding the classification of fraud accounts.

High-Value Corporate Loans- Even a small number of advances-related frauds can inflate the total loss figure massively because they typically involve large corporate ticket sizes.

Impacts of Rising Banking Frauds

Balance Sheet Stress- Large-scale frauds weaken bank balance sheets by drastically increasing Non-Performing Assets (NPAs) and necessitating higher provisioning (setting aside capital to cover losses), which eats into profits.

Erosion of Trust- Repeated disclosures of high-value frauds erode public confidence in the integrity of the banking system, particularly affecting the reputation of Public Sector Banks (PSBs).

Fiscal Burden- The subsequent need for the government to recapitalize these struggling banks imposes a heavy fiscal burden on the state and diverts public resources away from development.

Credit Contraction- As banks become more risk-averse to avoid fraud, they may tighten lending excessively. This leads to credit contraction, disproportionately hurting MSMEs and other productive sectors that rely on credit flow.

Initiatives Taken by the Government & RBI

Central Fraud Registry (CFR)- A centralized searchable database has been established to enable real-time information sharing among banks, helping to identify and prevent repeat offenders.

Early Warning Systems (EWS)- The RBI has mandated the implementation of EWS and Red-Flagged **Accounts (RFA)** frameworks. These are designed to detect early signs of financial stress or suspicious activity before a default turn into a confirmed fraud.

Insolvency and Bankruptcy Code (IBC), 2016- This legislation has strengthened credit discipline among borrowers and significantly improved recovery mechanisms for stressed assets.

Financial Fraud Risk Indicator (FRI)

1. **Mandate-** The RBI has directed all banks to adopt the FRI technology.
2. **Developer-** Developed by the Department of Telecommunications (DoT).
3. **Function-** It supports real-time monitoring and sends alerts to help protect customers specifically from cyber and UPI-related frauds.

Way Ahead

Real-Time Intelligence- Moving from reactive reporting to early detection and real-time intelligence sharing is crucial to stop fraud before the damage spreads.

Internal Governance- Banks must enforce stronger internal governance protocols and establish clear **escalation norms** to ensure accountability at senior management levels.

Consumer Protection- There is a need for robust consumer protection mechanisms, including faster **dispute resolution** and clear liability protections for customers who fall victim to digital fraud.

Technology Leverage- The sector must actively leverage advanced technologies like Artificial Intelligence (AI), shared data platforms, and predictive risk indicators to stay ahead of increasingly sophisticated digital fraudsters.

Source- https-//indianexpress.com/article/business/banking-and-finance/banks-report-30-jump-in-fraud-amount-in-apr-sep-2025-rbi-10445757/

Frauds cases

Advances

	No.of frauds	Amount in (₹ crore)
FY23	3,989	15,065
FY24	4,113	9,160
FY25	7,934	31,911
H1FY26	4,255	17,501

Card/internet

	No.of frauds	Amount in (₹ crore)
FY23	6,669	277
FY24	29,080	1,457
FY25	13,469	520
H1FY26	195	14

Deposits

	No.of frauds	Amount in (₹ crore)
FY23	652	259
FY24	2,002	240
FY25	1,207	521
H1FY26	222	131

Total

	No. of frauds	Amount in (₹ crore)
FY23	13,462	16,502
FY24	36,052	11,261
FY25	23,879	34,771
H1FY26	5,092	21,515

Source: RBI Trends & Progress Report