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India Banking Fraud Survey

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Enhancing and complementing FRM teams with market intelligence and data analytics capabilities to ensure continuous monitoring



The Indian banking industry, over the last few years, has emphasised on the significance of establishing anti-fraud cells or fraud monitoring departments to perform investigations and also focus on prevention and the timely detection of potential fraud activities through fraud monitoring systems, etc. However, considering the increasing value and incidents of frauds, as published in RBI's Annual Report for FY 2020-21, there appears to be significant scope to improve the prevention and detection capabilities of fraud monitoring units to make them more comprehensive, and proactive in nature.¹

In fact, in January 2020, the RBI had provided excerpts of recommendations from the expert committee on NPAs and frauds, constituted under the chairmanship of Shri Y. H. Malegam. The recommendations include setting up a Market Intelligence Unit (MIU) to support fraud risk management, as well as the inclusion of a credit monitoring team in the bank to provide inputs/insights at the time of appraisal/sanctioning/during monitoring of customer activities.

Currently, the alert definitions configured for EWS and fraud monitoring systems are primarily based on a customer's transaction in the bank and financial statements. However, inputs from MIU will help identify and highlight red flags such as the presence of shell companies, feedback from top vendors/customers, reason

for change in promoters/management, progress on construction sites, and activity levels in a factory.

To receive timely and relevant results from the MIU, it is important to ensure that the feed provided by the monitoring team to MIU is accurate and current. For example, the feed given to MIU to perform checks on suspicious parties who have received payments from borrowers out of the bank loan should be based on the current information available with the bank. This is where data analytics can play a key role to detect potential fraud cases sooner and reduce financial loss, as opposed to the incident being discovered at a later stage. Data analytics does not only mean configuring pre-defined rules for alert generation but also identifying ever-changing anomalous activity patterns. This dynamism can only be brought about by the use of AI and ML tools.

Over the coming years, banks will need to adopt a more sophisticated approach to fraud risk management by integrating state-of-the-art fraud detection tools, as well as by combining Big Data analytics with AI to generate more meaningful and accurate alerts. Integrating these features with the fraud risk management approach will allow banks/FIs to monitor customers across all stages of their lifecycle, from onboarding to settlement.

¹ <https://www.financialexpress.com/industry/banking-finance/rbi-annual-report-number-of-frauds-in-private-banks-up-21-in-fy21/2260406/>



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