



**Uttari Bharat Sabha's**

**RAMANAND ARYA D.A.V. COLLEGE     DATAR  
COLONY BHANDUP (E), MUMBAI- 400042.**

**A PROJECT ON**

**“A STUDY OF FINANCIAL SERVICES PROVIDED BY PRIVATE  
BANKS”**

**Submitted to**



**UNIVERSITY OF MUMBAI BACHELOR OF COMMERCE**

**(FINANCIAL MARKETS)**

**Semester VI (2020-2021)**

**Under The Faculty Of Commerce**

**Submitted By:**

**Mr. Parin Priti Vijay Gogri**

**Roll No. 313 Under the Guidance of**

**Professor: Mr. Nagraj**



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**CERTIFICATE**

Date

This is to certify that **Mr. Parin Priti Vijay Gogri** has worked and duly completed her Project Work for the degree of Bachelor in Commerce under the faculty of commerce in the subject of

Account and Finance and her project is entitled, “**Study of Various Financial Scams In India**” under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is her own work and facts reported by her personal findings and investigations.

Principal

**Dr. Ajay Bhamare**

Course Coordinator

**Mrs. Chandrakala Srivastava**

Project Guide/ Internal Examiner

**Mr. Nagraj**

External Examiner

## ***DECLARATION***

I the undersigned Mr. Parin Vijay Gogri hereby, declare that the work embodied in this project work titled “ Study of Various Financial Scams In india ”, forms my own contribution to the research work carried out under the guidance of Prof. Nagraj is a result of my own research work and has not been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, hereby further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

---

Student Mr.

Certified by

---

Project Guide Prof.

## ***ACKNOWLEDGMENT***

To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

I take this opportunity to thank the **University of Mumbai** for giving me chance to do this project.

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I would also like to express my sincere gratitude towards my project guide Prof. Nagraj whose guidance and care made the project successful.

I would like to thank my **College Library**, for having provided various reference books and magazines related to my project.

Lastly, I would like to thank each and every person who directly or indirectly helped me in the completion of the project especially **my Parents and Peers** who supported me throughout my project.

## **Executive Summary**

I'm preparing this project to convey my thoughts about financial scams like how these scams happen, what was the purpose behind these scams, which people are liable for these scams, how these scams affect the economy of the country and which other people also have been affected by these scams. Because most of the scams initially does not seem to be a scam and no one knows about it initially that this type of scam will take place. So we will see further about what is financial scam, types of financial scams some top financial scams occurred in India and what was the reason behind the scams occurrence.

A famous comedian once said, "cats have a scam going – you buy the food, they eat the food, they go away; that's the deal." India seems to be a haven for such cats; take for example "cool cats" such as Nirav Modi and Vijay Mallya, who hoodwinked the entire nation by borrowing public money from banks, living like the cat's whiskers and fleeing the country, never to return again! Well, almost. To say it colloquially, 'it's not even funny' how many such high profile scamsters have actually taken the nation for a not-so-gala ride. Accounting can sometimes go very wrong, either through willful intent or failure to understand proper procedure and protocol. Some of the biggest accounting and financial frauds in history have been caused by failure to adhere to basic principles. According to the international monetary fund (IMF), the world wastes up to \$2 trillion in corruption. That is a significant number: two percent of the world's GDP. Measures to tackle corruption and curb the growing menace of black money has dominated the national discourse over the past years. Various policies and legislations, including the implementation of goods and services tax and the demonetisation of high-value currencies were some of the steps taken by the central government in a bid to make India corruption-free. India is 'most corrupt country in Asia-Pacific region', according to a recent study by transparency international, a Berlin-based NGO working against corruption. Seven out of 10 people in India, the study stated, had to pay a bribe to access public services.

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# INTRODUCTION

## WHAT IS FINANCIAL SCAM?

Financial scam is crime committed against property, involving the unlawful conversion of the ownership of property (belonging to one person) to one's own personal use and benefit. Financial crimes may involve fraud (cheque fraud, credit card fraud, mortgage fraud, medical fraud, corporate fraud, securities fraud (including insider trading), bank fraud, insurance fraud, market manipulation, payment (point of sale) fraud, health care fraud); theft; scams or confidence tricks; tax evasion; bribery; sedition; embezzlement; identity theft; money laundering; and forgery and counterfeiting, including the production of Counterfeit money and consumer goods. Financial crimes may involve additional criminal acts, such as computer crime and elder abuse, even violent crimes such as robbery, armed robbery or murder. Financial crimes may be carried out by individuals, corporations, or by organized crime groups. Victims may include individuals, corporations, governments, and entire economies. Fraud is an intentionally deceptive action designed to provide the perpetrator with an unlawful gain or to deny a right to a victim. Types of fraud include tax fraud, credit card fraud, wire fraud, securities fraud, and bankruptcy fraud. Fraudulent activity can be carried out by one individual, multiple individuals or a business firm as a whole. Fraud involves deceit with the intention to illegally or unethically gain at the expense of another. Fraud costs the economy billions of dollars each and every year, and those who are caught are subject to fines and jail time. Often, the perpetrator of fraud is aware of information that the intended victim is not, allowing the perpetrator to deceive the victim. At heart, the individual or company committing fraud is taking advantage of information asymmetry; specifically, that the resource cost of reviewing and verifying that information can be significant enough to create a disincentive to fully invest in fraud prevention. Both states and the federal government have laws that criminalize fraud, though fraudulent actions may not always result in a criminal trial. Government prosecutors often have substantial discretion in determining whether a case should go to trial and may pursue a settlement instead if this will result in a speedier and less costly resolution. If a fraud case goes to trial, the perpetrator may be convicted and sent to jail.



# **TYPES OF FINANCIAL SCAMS**

## **1. Identity theft -**

Identity theft occurs when someone steals your personal information—which can include your name, Social Security number, bank account number, and credit card information—often through data mining. The goal of the thieves is to use your personal information to assume your identity to access your bank account and drain funds, open and use credit cards in your name, take out loans, use your health insurance to pay medical bills, and file a tax return to collect your refund.

### **❖ Signs of Identity Theft**

You may be a victim of identity theft if one or more of the following occurs:

- Unexpected withdrawals are made from your bank accounts.
- Bills and financial statements you normally receive in the mail stop coming—a sign criminals changed your address so they can open financial products in your name.
- You receive calls from debt collectors about unfamiliar credit cards and debts.
- You notice unfamiliar accounts on your credit report.
- You receive bills from medical providers for treatments you didn't have.
- The IRS notifies you that more than one tax return was filed in your name.
- You receive notices, or hear news about, a data breach at a company where you do business.

### **❖ What You Can Do**

- If you believe you are a victim of identity theft, start by going to [IdentityTheft.gov](https://www.IdentityTheft.gov), a website administered by the Federal Trade Commission (FTC). The site provides directions on how to help you recover your identity and repair any damage you have experienced. In addition, the FTC urges you to:
- Call companies where you expect fraud occurred to report the fraud, close or freeze accounts, and change login passwords and PINs.
- Place a free fraud alert with credit bureaus and obtain free credit reports.
- Report the identity theft to the FTC using the [IdentityTheft.gov](https://www.IdentityTheft.gov) link above.
- Report the theft to local police for local monitoring.

## **2. Credit and debit card frauds –**

Credit or debit card fraud can occur when someone steals or finds your card or manages to obtain the information from the card to purchase goods, withdraw cash, or otherwise use your card in a fraudulent manner. You should know that the Fair Credit Billing Act limits your liability to \$50, and oftentimes, there's no cost at all depending on the bank or credit card issuer. Other than banks, insurance companies including Life Insurance Company (LIC), SBI Life, and HDFC life, also send out warning messages to their customers. They also share various measures and guidance that people should follow to stay away and avoid such frauds. Large banks like the State Bank of India (SBI), ICICI Bank, HDFC Bank, and Yes Bank keep warning their customers from time to time to keep themselves safe and make them aware of frauds like these.

Falling victim to such fraud cases can be frustrating, hence, take measures to avoid being a victim of credit card fraud in the first place.

### **❖ Signs of Credit and Debit Card Fraud**

Although credit and debit card fraud is among the most common types of consumer fraud, any of the following signs should set off red flags for you:

- Your statement contains charges you don't recognize.
- You notice several small dollar amount charges from your account—a signal someone could be testing your card in advance of a major purchase.
- You don't recognize the name of the company attached to the charge.
- Charges appear from unfamiliar or distant locations you haven't visited.
- You experience a significant and unexpected drop in your available credit balance.
- You receive phone calls requesting credit or debit card information.

### **❖ What You Can Do**

Fight against credit and debit card fraud by doing the following:

- Check accounts daily and report unusual activity to your bank.
- Complain to the CFPB if the bank's response is not satisfactory.
- Have the card canceled or your account frozen.
- Don't respond to telephone calls with information the caller should already have.
- If you decide to follow up on a call, do so by contacting your bank at a known number.

## **3. Mortgage fraud –**

The FBI deals with thousands of mortgage fraud cases each year. Today's mortgage scams are often aimed at distressed homeowners, according to the FBI's Financial Institution Fraud Unit.

These scams include foreclosure rescue schemes, loan modification schemes, and equity skimming, among others. They are often carried out by real estate and mortgage professionals who misuse their specialized knowledge and authority.

The intention of mortgage fraud is typically to receive a larger loan amount than would have been permitted if the application had been made honestly. For example, by intentionally falsifying information on a mortgage application. Mortgage fraud schemes include straw buying, air loans, and double-sales.

#### ❖ Signs of Mortgage Fraud

The National Crime Prevention Council advises that you may be a victim of mortgage fraud if one or more of the following are true:

- You were promised a loan modification or that foreclosure would not happen.
- Payment of fees was required in advance of services provided.
- You were offered a money-back guarantee, advised to stop making mortgage payments, told not to contact your mortgage servicer, or instructed to begin making payments to someone other than your servicer.
- The process to buy the home seemed much slower than normal.
- Your questions were not answered or were answered incompletely.
- You were asked to sign papers you did not have a chance to read or did not fully understand.

#### ❖ What You Can Do

The FBI recommends that consumers protect themselves against mortgage fraud by doing the following:

- Seek referrals and avoid unsolicited contacts related to any real estate deal.
- Ask for and check the license of anyone with whom you are doing business.
- Walk away from any high-pressure or "seems too good to be true" transaction.
- Don't sign any paperwork you do not fully understand.
- Seek the advice of a qualified credit counsellor or attorney.

## **4. Deceptive Interest Rate Reduction Robocalls –**

A relatively new twist on credit card fraud, according to the FTC, comes in the form of robocalls that "guarantee to reduce your credit card interest rate" (for a fee). These types of offers are usually scams and no more effective at getting credit card companies to lower your interest

rate than if you called the company yourself for free. In addition to paying a fee for no service, some of these fraudsters ask for personal information which they then use to commit identity theft. Monthly credit card bills can be a drag, especially when you're feeling financially strapped. Finding ways to lower those bills — sometimes by simply calling your credit card company directly and asking for a lower rate — can save you lots of cash. So what about those companies that call with a “guaranteed” credit card interest rate reduction offer (for a small fee) and a promise to save you thousands of dollars? Most likely, it's a deal designed to dupe you out of money.

Instead, the FTC alleges that most people ended up paying extra balance transfer and other fees that they weren't told about, in addition to the companies' hefty fee. The companies also collected Social Security and credit card numbers, security codes, and other personal information over the phone.

#### ❖ Signs of Deceptive Robocalls

According to the FTC, rate reduction robocall scams typically have one or more of the following in common:

- The call is unsolicited and not from a known or trusted source.
- The message claims to guarantee your credit card (or new card) rate will be zero or very low.
- The caller says the deal is only available for a limited time.
- A claim is made of a special relationship with credit card companies.
- You must pay a fee before any action is taken.
- Personal information such as your Social Security number is requested.

#### ❖ What You Can Do

Here are some ways to protect you from this type of scam:

- If you want a lower credit card interest rate, call the customer service number on the back of your card and request it yourself—it's free.
- Do not share credit card, bank account, Social Security numbers, or other personal information with telemarketer's period.
- Reject any deal that requires an upfront fee. Companies cannot charge a fee before performing a debt relief service.
- Hang up or do not answer unsolicited pre-recorded sales calls.

## 5. Fake Charities —

Fake charities use the same techniques to steal your money that legitimate charities use to raise funds, according to the Federal Trade Commission (FTC). Before you donate, make

sure you know where your money is going. Fake charities try to take advantage of your generosity and compassion for others in need. Scammers will steal your money by posing as a genuine charity. Not only do these scams cost you money, they also divert much needed donations away from legitimate charities and causes. Fake charity approaches occur all year round and often take the form of a response to real disasters or emergencies, such as floods, cyclones, earthquakes and bushfires.

#### ❖ Signs of a Fake Charity

Several tell-tale warning signs suggest you are dealing with a fake charity:

- You are pressured to give now even to the point a courier will come to your door to collect your contribution.
- The charity only accepts cash, gift cards, or wire transfers.
- You receive a thank you for a donation you didn't make—an attempt to make you think you already supports the organization.
- The group goes by a familiar-sounding name that doesn't quite match the organization it reminds you of.
- The caller or solicitor won't (or can't) provide detailed information about the organization.
- You are told you must donate to be included in a sweepstakes.

#### ❖ What You Can Do

FTC guidance on not falling victim to a fake charity includes doing the following:

- Get the charity's contact information and check out the organization before you give using one or more of the following: BBB Wise Giving Alliance, Charity Navigator, Charity Watch, and Guide Star.
- Ignore high-pressure pitches including pressure to pay now.
- Avoid making cash donations.
- Be careful about donating in the wake of natural disasters. This is when con artists come out of the woodwork.
- Don't provide personal information such as Social Security number or bank account information.
- Be proactive and make your annual giving plan ahead of time. Offer to add the charity's name to your list for consideration.

## 6. COVID-19 Scams

The coronavirus pandemic—and the resulting quickly passed government legislation—have created opportunities for scammers to enter the scene and use both fear and financial need to take advantage of people. You may also be asked to provide personal details to prove that you are the correct winner and to give your bank account details so the prize can be sent to you. Scammers use these details to try to misuse your identity and steal any money you have in your bank account.

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### ❖ Signs of COVID-19 Scams

Fortunately, the FTC has been tracking COVID-19 scams and scammers alike and provides a list of signs that an offer is actually fraud:

- You receive a phone call, email, or text telling you about a brand new cure, vaccine, or treatment for COVID-19 available only from this provider.
- A robocall offers financial assistance or to speed up the receipt of your unemployment or stimulus checks for a fee.
- You are contacted about obtaining a new inexpensive home test kit or contact tracing kit.
- Someone may call claiming to represent the World Health Organization (WHO) or Centres for Disease Control (CDC) to offer to sell access to special information, services, or medicine.

### ❖ What You Can Do

Don't act hastily when it comes to the coronavirus but do take appropriate action if you feel you have been scammed:

- Do not respond to calls, texts, or emails from unknown contacts.
- Never share personal information via email, texts, or over the phone.
- Do not pay until you have investigated the source.
- Watch for spoof numbers or contacts. Government agencies will never call to ask for personal information or money.
- Do not click links in text messages or email.
- Know that legitimate contact tracers need health information, not money or bank account numbers.

## 7. Debt Collection Fraud

Some scammers, posing as collection agencies, call consumers demanding payment of bogus outstanding debts. These are not legitimate debt collectors. If you have actual unpaid debt, subject to collection, you have rights there, as well. These rights are spelled out in the Fair Debt Collection Practices Act (FDCPA).

### ❖ Signs of Debt Collection Fraud

When it comes to discerning between a legitimate debt collector and a scam, here are some signs to look for:

- A scammer will withhold information from you including the exact amount of the so-called debt, the name of the creditor, that you have a right to dispute the debt, or information that lets you check on the legitimacy of the debt collector.
- They will pressure you to pay with cash, by money transfer, or with a prepaid debit card.
- They might threaten you with jail or even suggest they are a government official.
- Sometimes scammers threaten to tell family members, employers, and others that you are a deadbeat.
- They will try to get your personal information, such as account numbers or your Social Security number.
- Some scammers call early or late (before 8 a.m. or after 9 p.m.) which is forbidden by the FDCPA.

### ❖ What You Can Do

If you suspect you have been targeted by a debt collection fraudster, here's a list of actions you can take:

- Don't give any personal information to anyone over the phone or via email.
- Ask for a call back number as well as the caller's name, company name, and street address.
- If the debt collector mentions the name of the creditor, call them and ask for details including the nature of your debt and the name of the company contracted to collect the debt.
- Check your credit reports for free every 12 months to look for any reported debts. (Not all creditors report, so this isn't a failsafe way to identify all possible legitimate debt.)
- Know your rights under the FDCPA (see above).
- File a complaint with the FTC or your state Attorney General's Office if you believe you have been scammed.

## 8. Prize and Lottery Fraud

Prize and lottery fraud comes under many names—sweepstakes, drawings, foreign lotteries, and more. This type of fraud often targets the elderly and originates with a phone call or postcard. The FTC receives tens of thousands of complaints about prize and lottery fraud each year. Because many victims don't report being scammed, officials estimate the problem's scope is far greater. You will receive notification that you have won a lot of money or a fantastic prize in a competition, lottery or sweepstake that you don't remember entering. The contact may come by mail, telephone, email, text message or social media. The prize you have 'won' could be anything from a tropical holiday to electronic equipment such as a laptop or a smartphone, or even money from an international lottery. To claim your prize, you will be asked to pay a fee. Scammers will often say these fees are for insurance costs, government taxes, bank fees or courier charges. The scammers make money by continually collecting these fees from you and stalling the payment of your winnings.

You may also be asked to provide personal details to prove that you are the correct winner and to give your bank account details so the prize can be sent to you. Scammers use these details to try to misuse your identity and steal any money you have in your bank account.

### ❖ Signs of a Fake Lottery or Sweepstakes

Fake lottery scams, many of which are foreign, exhibit well-known signs that something is wrong:

- You receive notification that you are a "winner" but need to send money to the lottery or sweepstakes office to cover taxes or administrative costs.
- Your winner notification arrives by bulk mail.
- You are required to attend a meeting to collect your prize. • You don't remember entering the lottery or sweepstakes.
- Any payments you make are followed by more requests for cash or you are contacted by other organizations claiming you won their lottery as well.

### ❖ What You Can Do

There are a number of steps you can take to protect yourself:

- Never pay money to collect on a lottery or sweepstakes. Legitimate taxes can be taken out of your winnings.
- Don't share your credit card or bank account numbers or send money even if the organization sends you a check—which is probably bogus.
- If you think the prize might be real, research the name of the company or organization and contact it at a known phone number.
- Report all suspected scams to the FTC.

## **Corporate governance**



### ❖ meaning of corporate governance:

The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. Most companies strive to have a high level of corporate governance. These days, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior and sound corporate governance practices.

Corporate governance has also been defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers."

Good corporate governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. Conversely, weak corporate governance leads to waste, mismanagement, and corruption. It is also important to remember that although corporate governance has emerged as a way to manage modern joint stock corporations it is equally significant in state-owned enterprises, cooperatives, and family businesses. Regardless of the type of venture, only good governance can deliver sustainable good business performance. The presence of strong governance standards provides better access to capital and aids economic growth. Corporate governance also has broader social and institutional dimensions. Properly designed rules of governance should focus on implementing the values of fairness, transparency, accountability, and responsibility to both shareholders and stakeholders. In order to be effectively and ethically governed, businesses need not only good internal governance, but also must operate in a sound institutional environment. Therefore, elements such as secure private property rights, functioning judiciary, and free press are necessary to translate corporate governance laws and regulations into on-the-ground practice.

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy

As a result of this, the cost of capital is lower and firms are encouraged to use resources most efficiently thereby underpinning growth. Hence, good corporate governance is effectively better for everyone involved in the process of development – Corporates, investors and public at large

Corporate governance incorporates accountability among the top management which is transferred to the middle and lower level management's way of performing duties. ii.

Corporate governance inculcates a sense of trust among the investors that their hard-earned money is valued appropriately. iii. Corporate governance unlocks and capitalizes the strength of all its stakeholders irrespective of caste or gender.

#### ❖ **Guiding Principles for being ethical or not:**

It can be clearly observed that one of the major reasons of ethical lapses in the financial sector is greed of mankind. This greed becomes an accumulation fever. If you accumulate for the sake of accumulation, it becomes the end by itself and if accumulation becomes the end, there is no place to stop. So, the moral of the story is that we should never allow the self-interest turn into greed and selfishness

There can be a three-way test to decide whether your action is ethical or not.

1. Test of Legality: If the decision taken is not legal, it is not ethical.
2. Test of fairness: Being fair means providing equal advantages and disadvantages to all concerned parties. If it favors any particular party to an extent, it is not fair and therefore it is not ethical.
3. Eleventh Commandment Test: If the decision taken is known publicly in the media, will you be ashamed?

#### ❖ **Regulatory provisions and authorities**

**Companies Act 2013 (CA 2013).** This has various provisions and safeguards in relation to detecting, preventing and penalizing corporate fraud. In addition to providing an inclusive definition of the term "fraud", the CA 2013 sets out the responsibilities of various persons/authorities/officials for prevention and reporting of fraud

#### ❖ **Regulatory provisions and authorities**

**Indian Penal Code 1860 (IPC).** This sets out the penal provisions concerning the majority of criminal offences in India. With regards to fraud, the IPC penalises dishonest misappropriation of property, criminal breach of trust, cheating and dishonestly inducing delivery of property, and forgery (among others).

## ❖ **Principals of corporate governance:**

### **Rights and equitable treatment of shareholders**

Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.

### **Interests of other stakeholders**

Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

### **Role and responsibilities of the board:**

The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.

### **Integrity and ethical behavior:**

Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

### **Disclosure and transparency:**

Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

## ❖ **Corporate governance in India:**

India's SEBI Committee on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company. It has been suggested that the Indian approach is drawn from the Gandhi and principle of trusteeship and the Directive Principles of the Indian Constitution, but this conceptualization of corporate objectives is also prevalent in Anglo-American and most other jurisdictions.

Unlike south –east and east Asia, the corporate governance initiative in India and was not triggered by any serious nationwide financial, banking and economic collapse. The initiative in india was initially driven by an industry association, the confederation of Indian industry.

In December 1995, CII was set up a task force to design a voluntary code of corporate governance. The final draft of this code was widely circulated in 1997.

In April 1998, the code was released. It was called Desirable Corporate governance. Between 1998 and 2000, over 25 leading companies voluntarily followed the code:

- Bajaj Auto
- Hindalco
- Infosys
- Dr. Reddy's Laboratories
- Nicholas Piramal
- Bharat Forge
- HDFC
- BSES
- ICICI & many more

Following CII & SEBI, the department of company affairs (DCA) modified to further improve financial disclosures. These were:

- Disclosure of related party transactions.
- Disclosure of segment income: revenues, profits and capital employed
- Deferred tax liabilities or assets.
- Consolidation of accounts

Improvements led up to a largely movement—but not smooth, to broad adoption of international standards on accounting (IFRS, IPSAS) and on auditing (ISA). Even on corporate governance, EC concluded that European Union should adopt a few common essential rules. We should also point out the collaboration between two important securities market regulators (SEC in USA and CESR—Committee of European Securities Regulators) in order to enhance dialogue and prior detect emerging risks and problems as potential regulation to avoid them.

Corporate governance mechanisms continued to be improved. For instance, as institutional investor (mutual and pension fund) became important players in the majority of financial markets, more attention was given to their participation and interaction with corporate governance. Despite this engagement after 2000 scandals, a new crisis based on accounting frauds astonished the world. Bank failures and financial crisis of 2008–2009 brought out a new type of governance failure: on a system. An entire sector including its regulatory agencies decided to let it on.



### ❖ **Mandated Corporate Governance Guidelines:**

- Board of directors: Frequency of meetings and composition:

1. Board must meet at least four times a year, with a maximum time gap of four months between two successive meetings.
2. If the chairman of the Company is a non-executive then one-third of the board should consist of independent directors and 50% otherwise.
3. Independent defined as those directors who, apart from receiving director's remuneration do not have any other monetary relationship or transactions with the company, its promoters, management or subsidiaries, which in the view of the board may affect independence of judgment
4. The frequency of board meetings and board committee meetings, with their dates, must be fully disclosed to shareholders in the annual report of the company.
5. The attendance record of all directors in board meetings and board committee meetings must be fully disclosed to shareholders in the annual report of the company.
6. Full and detailed remuneration of each director (salary, sitting fees, commissions, stock options and perquisites) must be fully disclosed to shareholders in the annual report of the company.
7. Loans given to executive directors are capped (no loans permitted to non-executives), and must be fully disclosed to shareholders in the annual report of the company.

- **Board of Directors: Information that must be supplied:**

1. Annual, quarter, half year operating plans, budgets and updates.

2. Quarterly results of company and its business segments.
3. Minutes of the audit committee and other board committees.
4. Recruitment and remuneration of senior officers.
5. Materially important legal notices and claims, as well as any accidents, hazards, pollution issues and labor problems
6. Any actual or expected default in financial obligations.
7. Details of joint ventures and collaborations.
8. Transactions involving payment towards goodwill, brand equity and intellectual property.
9. Any materially significant sale of business and investments.
10. Foreign currency and other risks and risk management.
11. Any regulatory non-compliance

- **Board of directors: audit committee:**

1. Must have minimum of three members, all non-executive directors, the majority of whom are independent.
2. Chairman must be an independent director, and must be present at the annual shareholders meeting to answer audit or finance related questions.
3. At least one member must be an expert in finance/accounts.
4. Must have at least three meetings per year, including one before finalization of annual accounts
5. Must meet with statutory auditors and internal auditors; have the powers to seek any financial, legal or operational information from the management; obtain outside legal or professional advice.

● **Disclosures to shareholders in addition to balance sheet, P&L a/c & cash flow statement:**

1. Board composition (executive, non-exec, independent).
2. Qualifications and experience of directors.
3. Number of outside directorships held by each director (capped at director not being a member of more than 10 board-level committees, and Chairman of not more than 5).
4. Attendance record of directors.
5. Remuneration of directors.
6. Relationship (familial or pecuniary) with other directors.
7. Warning against insider trading, with procedures to prevent such acts.
8. Details of grievances of shareholders, and how quickly these were addressed. Date, time and venue of annual general meeting of shareholders.
9. Dates of book closure and dividend payment.
10. Details of shareholding pattern.
11. Name, address and contact details of registrars and/or share transfer agents.
12. Details about the share transfer system. Stock price data over the reporting year, and how the company stock measured up to the index.

13. Financial effects of stock options.

14. Financial effects of any share buyback.

### ❖ **Commitment to Ethical Behavior**

The University is committed to the highest ethical standards. In all dealings with commercial partners, the interest of the University must be paramount and personal or family gain, or the perception thereof, must be avoided.

### ❖ **Compliance with Laws and Regulations**

All laws and regulations applicable to the business of the University must be complied with.

### ❖ **Gifts, hospitality, private work and conflicts of interest**

The other regulations section of the Financial Regulations which address gifts and hospitality, private work and conflicts of interest must be complied with.

Conflicts of interest may arise in non-financial matters where individuals are in a position to make decisions, which have a significant impact on others. Examples are in staff recruitment or promotion and in selection and assessment of students. In all cases, decision making should be open and fair and be able to stand up to external scrutiny. Situations where a conflict of interest is present should be identified so that individuals are not open to accusations of bias.

### ❖ **Confidential information**

From time to time, individuals will become aware of confidential information, either about other individuals or about the University's commercial or academic activities. Such information must be kept confidential and all policies relating to information security and confidentiality must be complied with.

### ❖ **Fraudulent activity**

All members of Council and employees should act with integrity at all times and should not engage in fraudulent activity of any kind. Fraud includes a range of irregularities and illegal acts characterized by intentional deception e.g. obtaining property or services by deception, false accounting. Fraud may be committed for the benefit of the organization e.g. tax fraud, or it may be for the direct or indirect benefit of the employee or a third party.

The University is committed to ensure that it has cost-effective controls and procedures to prevent, detect, deter and deal with fraud. Financial Regulation G14 – Irregularities – outlines the action to be taken by anyone who believes that an irregularity or fraud has occurred or is about to take place.

### ❖ **How do financial scams take place?**



**There are several ways in which you may be caught unaware while someone tries to steal your money:**

- An email asking for help to release inheritance
- Requesting a business partner in foreign shores
- Impersonating as an employee from a reputed financial organization
- Declaring that the recipient has won a huge lottery
- Pop-ups that advertise expensive gadgets for free if the person provides his/her personal details. This is a phishing scam where the hacker is trying to engage in identity theft or install malicious software on the user's device.

❖ **Tips to avoid such scams and frauds:**

- Never share personal and financial details over the phone or email.
- Do not respond to calls that ask for personal and financial information.
- Never share your ATM and debit/credit card PIN, internet banking password, or any details regarding your bank accounts.
- Nobody can win a lottery in which they have not participated. Stay away from such scammers.
- Do not click on any random hyperlink or download software from pop-up windows that appear suspicious.
- Install an antivirus to safeguard the computer from malicious software and viruses. The antivirus program should be updated frequently.
- Never transfer funds or share debit/credit card information to any person who claims to be a long-lost relative.
- Use secure payment gateways for online payments.
- Never make payment for any sweepstakes as they do not ask for payment upfront.
- Use a caller id to identify incoming calls. In case the number shows up as private or unknown, ignore or block the call.
- Do not have easy-to-crack passwords. Most people use passwords that are related closely to their personal life. Use passwords that contain a mix of uppercase, lowercase, and special characters and are not related to any personal details or events that others may easily be able to guess.
- Use secure websites that have a lock symbol before the URL bar on the browser. This symbol indicates that the site is encrypted and protected against hackers.
- Never sign blank checks and always put a double line on the upper left corner of the check. This line ensures that any bearer cannot withdraw cash.
- Never share the one-time password (OTP) to an unknown person or caller. Make sure that the OTP has been generated for the transaction initiated only by you.
- Check with your bankers immediately when you receive a call for personal details from a person claiming to be an employee of that bank. No bank asks for personal details through call or email.

# Research Methodology

## Objective of the project

- a) To understand about scams means which circumstances are called as scams.
- b) To understand hoe, we will able to identify these scams and who were the whistle blower of these scams and how the person expose the scams means in which manner.
- c) To understand the impacts of these scams on economy and also on various factors which flourish the economy.
- d) To know financial implications of these scams.
- e) To know how man failure led to company failure and at large economy failure.
- f) To know relatedness of banking system and financial market in india.
- g) To identify the loopholes of banking system and how these scamsters have taken advantage of these loopholes.
- h) To have a clear and complete idea of actions taken again these scamsters by sebi and government and how they punished these scamsters.

The second section contains a summary of the events that occurred leading to the share scams and financial frauds in India and abroad during the recent decade that shook the financial markets. The third section surveys the rationale for regulation of securities markets and the functional procedures adopted in India in the aftermath of the scams. The fourth section looks at the theoretical underpinnings of corporate governance which, is followed by a discussion of the shortcomings of the regulatory set up in India which fails to prevent the recurrence of financial misdemeanors.

Financial Liberalization is a phenomenon that is almost all pervasive in the world today. While liberalization has led to substantial benefits in terms of increased transparency, it has ushered in opportunities of corporate misgovernance. This implies that the mechanism by which legal institutions ensure that suppliers of funds receive the return on investment is not sufficient or appropriate. Recent trends through the 1990s in India and abroad reveal how corporate governance has not been effective permitting unscrupulous and opportunistic individuals to manipulate the market in their favor. The process of financial market regulation ensures that important guidelines are issued regarding how primary dealers (brokers) should operate with regards to mode of operation, conduct, litigation, amount of business to be handled, management of risk, internal control etc.

These security scams and financial scandals discussed here involved the manipulation of huge amounts of money. The perpetrators of these gross transgression had such a comprehensive knowledge of how the system worked that they manipulated it to their advantage operating in an opportunistic manner<sup>3</sup>. The essence of the argument in is that the occurrence and reoccurrence of such security scams and financial scandals can

be attributed to a failure of corporate governance in finance<sup>4</sup> despite the existence of an functioning regulatory authority empowered with the legal sanctions.

### **Scope of study**

It is evident that post liberalization era has showered new colours of growth upon the Indian banking sector but simultaneously it has also posed some serious challenges; one of them being rise in frauds and NPAs. This unhealthy development of rising fraudulent activities afflicting the banking sector generates not only losses for the banks involved but also impinges their credibility adversely. Frauds and fraudulent activities wreak severe financial dilemmas on banks and their clients, as well as cause a significant reduction in the quantum of money accessible for economic development. While it may not be probable for banks to conduct their operations in a zero fraud milieu, proactive measures, such as conduct of risk assessment of policies and procedures can aid banks to circumvent their risk of contingent losses resulting from frauds. The data analysis technology can be leveraged by banks to detect frauds at the incipient stage itself and reduce their loss causing impact significantly.

### **Data collection**

Data has been collected from various sources like from different websites from different reports prepared by different individuals and from various news websites also which provided me in depth information about various scams as of now in India. Different articles, journals and reports helped me a lot to convey the in-depth details of scams like how it has been called as scam, reasons behind why it has been called as scam, impact of these scams on individuals and to various sectors also. Secondary data has been collected from these sites so that you will be able to learn about these scams conveniently. Various scamsters like Vijay Mallya, Nirav Modi, Harshad Mehta etc. you will learn about all of them in detail in this project and please also watch the videos link provided at the end of the project to learn about these scams visually because visually watching and learning anything is much faster than reading anything.

Various references and site URL's (uniform resource locator) also provided at the end of the project so that you will also be able to learn how these reporters or report makers prepared these reports and how this information is helpful for us.

Magazines, news reports, and various pictures also taken from different sites to convey the real facts about these scams and also to know the faces of these scamsters and in which view the people or society watches them or recognizes them and also you will be able to know how these scamsters breach the law and make money without even inking citizens or government.

So after reading this project you will know how these scamsters do scams and go beyond oceans in other countries and settle there after doing frauds and what are the impacts of these scams on our country's economy or can be said as our life cycle and who are liable for these scams who encouraged or helped these scamsters to commence these scams and what are the steps taken by government to avoid these scams further and how to recover

**the money from these scamsters also what strategies taken by government to recover the money from these scamsters.**

# REVIEW OF LITERATURE

**By Charan Singh RBI Chair Professor Economics & Social Science Indian Institute of Management Bangalore Bannerghatta Road, Bangalore – 5600 76 WORKING PAPER NO:**

**505**

In his research of frauds in Indian banking industry, examines Indian banking sector has experienced considerable growth and changes since liberalization of economy in 1991. This study endeavors to cover issues such as banking frauds and mounting credit card debt, with a detailed analysis using secondary data (literature review and case approach) as well as an interview-based approach, spanning across all players involved in reporting financial misconduct

**Daniel rathinaraj**

In his small survey of popular recent cases of financial fraud and cyber scams in india, educated us about the introduction, growth and utilization of information and telecommunication technologies have been accompanied by an increase in illegal activities. With respect to cyberspace, anonymous servers, hijacked emails and fake websites are being used as a tool and medium for fraud by cyber scammers. Indian fraud on the Internet is an obvious form of cybercrime that has been affected by the global revolution.

**By Sonia Suresh**

Provided a useful outline of the work in the area of Examining the theoretical structure of corporate governance for analysing security scams that have occurred in the 1990s and the new millennium. Without accurate and reliable estimates of fraud, it is difficult to understand what works or does not work to protect victims from harm. Unfortunately, current estimates of fraud prevalence vary widely, making it difficult for law enforcement, researchers, and policymakers to appreciate the true scope of the problem.

**Sasmita mohanty**

Educated us in recent financial scams and frauds in Indian banking system, Banking industry is an integral part of any modern economy. The health of the banking sector in a country provides the realities of its financial strengths. If the banking system of a country is developed and transparent, then the country sails smoothly in its progressive goals. On the other hand, if the banking system is corrupt and fraudulent then cronyism and nepotism overtakes the fundamental principles of financial ethics.

**By Daniel rathinaraj and chendrayan chendroyaperumal**

They both had done a small survey of popular recent cases of financial fraud and cyber scams in India. With respect to cyberspace, anonymous servers, hijacked emails and fake websites are being used as a tool and medium for fraud by cyber scammers. Indian fraud on the Internet is an obvious form of cybercrime that has been affected by the global revolution. This form of crimes is not exclusive to large sums of money to participate into business proposals but also covers romance, lottery and charity scams

**By Bhavin P.P. and Dr D. Mahila Vasanthi Thangam**

In their case analysis they are emphasizing about the rise of frauds in the financial sector is a downshifting factor which slows the circulation of the financial system and makes the economy worse. For the last few years, Indian media's sensational news items were related to financial frauds. The scams in the corporate world and frauds in banking sectors astounded the stakeholder and the general public. The researchers depicts the various types of frauds in the Indian scenario and also revealed its legal action taken by the investigation agency

**By arjan reurink**

In this literature review of financial fraud he described about the empirical universe of financial fraud as it has been documented in the academic literature. More specifically, it describes the different forms of fraudulent behavior in the context of financial market activities, the prevalence and consequences of such behavior as identified by previous research, and the economic and market structures that scholars believe facilitate it. To structure the discussion, a conceptual distinction is made between three types of financial fraud: financial statement fraud, financial scams, and fraudulent financial mis-selling. What emerges is a picture of financial fraud as a complex phenomenon that can take very different forms, depending on the market segments in which it occurs, the financial instruments it pertains to, and the actors involved.

**By DR. Gaddam Naresh Reddy**

In his case study of fraudulent financial practices and investor protection in the indian capital market- role of SEBI describes us about an attempt to dwell into the above-mentioned theme with a thrust on fraud detection, investigation and prevention practices of SEBI. With the help of perceptions collected from the sample respondents and appropriate statistical tools, it is found that the total variance explained by these three factors is 65.929%. Out of which 31.237% contributed by fraud detection practices, 19.636% by fraud investigation practices and 15.056% by fraud prevention practices. The author places on record his gratefulness to UGC for funding to the successful completion of this three years major research project.

**By Mrs. Sunindita Pan**

In her case study of analysis of frauds in Indian banking sector emphasized the following things like The report discusses about the case of mounting Nonperforming assets in past

few years across Indian scheduled public sector banks. Majority of the banks in India are facing the problems of low lending rate and nonperforming assets. Scams and non-payment of the loans by the influential and willful defaulters are one of the major problems for the banks at present. The author suggests certain measures to reduce banking sector frauds.

**By Ainsley Granville Andre Jorge Bernard, Brahma Edwin Barreto, Rodney D'silva** They educated us about the impact of frauds in the Indian banking sector. Their case study makes an attempt to review and analyses the trend of frauds plaguing the banking sector and its role in the continuous rise of Non- Performing Assets in the India. Further the study endeavors to throw light on the impact of rising bank frauds on profitability of the banking sector in India. The study concludes that the number of frauds plaguing the Indian banking sector is on a constant rise in recent years leading to a rise in NPAs and severely impacting profitability of the banking sector in India

**By Mamta Shah**

In her case study of increasing banking frauds in India. The present study is based on this sensible issue that despite many regulations, industry is facing substantial losses due to unethical conduct of people, where public money is involved. The customer money is misused by exploiting different flaws and loopholes in our financial system. It is an attempt to bring light on the various issues which create mounting of NPAs and failures on part of banking industry.

**By Dr. Vaishali Pagaria**

In her case study of Vijay Mallya another big ame in Indian financial fraud list paper has attempted to examine a recent much talked money-laundering case of Vijay Mallya. A sincere effort has been made to scrutinize fraudulent financial practices by Vijay Mallya to save his most ambitious venture Kingfisher Airline. The large part of Mallya's default of over Rs.9000 crore rest with his lenders, especially banks and that to the PSBs. Several questions have been raised against the unscrupulous businessman as well as the consortium of banks led by State Bank of India. Moves of the government, regulatory bodies and the banking systems are also analyzed to know the current status and possibilities of recovery of dues.

**By Gurinder Singh, Shalini Shrivastava, Anubhuti Gupta and Vikas Garg**

In their analysis of Financial Fraud through PNB Bank Scam and its technical Implications. This case study aims to identify and analyze the major factors that led to this huge scam and also tries to detect the involvement of various businessmen who has created an impact on the economy as a whole. This scam was almost five years old and was not detected by anyone. Therefore, there are serious questions on the internal operations and auditing processes of the bank and also a the main regulatory body RBI is also under serious mode of self-check.

**By Ms. Pooja Sharma**

In her case study of Impact of Securities and Financial Scams on Regulatory Framework. The study attempts to find out the causes of these loopholes, as well as the responses of the regulatory bodies on these scams. The objective of the study is to know the impact of securities and financial scams on regulatory framework. A thorough study of the original rules and regulations as well as the amendments made in the rules and regulations of the regulatory authorities due to the occurrence of scams was conducted. This study is descriptive in nature. It attempts to know about the effect of securities and financial scams on the regulatory framework. Therefore, the qualitative analysis of data is done in order to achieve the objective.

**By Supreena Narayana**

In her survey of Financial Market Regulation-Security Scams in India with historical evidence and the role of corporate governance explained us about in product or other service markets, purchasers' part with their money in exchange for something now. In finance, money "now" is exchanged for a "promise to pay in the future". However, in product or service markets, if the object sold – from a car to a haircut – is defective, the buyers often find out relatively soon.<sup>1</sup> On the other hand, loan quality is not readily observable for quite some time and can be hidden for extensive periods. Moreover, banks and non-bank financial intermediaries can also alter the risk composition of their assets more quickly than most non-financial industries, and banks can readily hide problems by extending loans to clients that cannot service previous debt obligations.

**By Mr. Gaurav Dawar and Ms. Swati Goyal**

In their case study of Impact of Corporate Scams on share prices: A study of Indian Stock market. This paper studied the impact of the corporate scams on the share prices of the companies. In the pre-fraud period, the typical fraudulent firm has a higher valuation, invests more and exhibits higher sensitivity of investment than industry peers. The fraud period, by contrast, is characterized by sign can't drops in valuation and investment. Corporate scandals around the world in recent years especially Satyam scandal in India created a need contributed to produce quantitative measures on ownership and to estimate their impact on the value and decision-making process of companies. The study of 8 companies has been made which has undergone the scam in the past 8 years& their impact on Indian Stock Market. Event study has been used to examine the impact of corporate scams on stock returns. The AABRs and CAARRs of overall sample are insignificant at 5% level of significance. The study concluded that the market is very efficient they absorb all the information regarding the event

**❖ Review of literature of financial scams in India**



As a behavioral category, fraud is a complex and elusive concept. In the social sciences literature, many definitions of fraud have been proposed, ranging from such cursory ones as “the obtaining of goods and/or money by deception” (Levi 2009: 224) To more elaborate ones that claim fraud is “a human endeavor, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust, rationalization, etc.” (Ramamoorti/Olsen 2007, quoted in Yu, 2013: 447).

The law is just as ambiguous about the phenomenon, and legal scholars have at times referred to the body of law dealing with fraud as a “conceptual morass” (Green 2007b: 231).

Fraud does not exist as a coherent or single activity or statutory offence and has no single legal definition (Doig 2006: 19; Pickett/Pickett 2002: 1).

The law only possesses is “a concept of fraud, a broad notion (broader indeed than the layman’s) of what it means to defraud someone” (Doig 2006: 19, emphasis in original).

This legal concept of fraud appears in various guises in a wide range of laws across different jurisdictions (Green 2007b: 229), and the meaning and definition of fraud may change, depending upon the specific statute in which the word appears (Podgor 1999: 737).

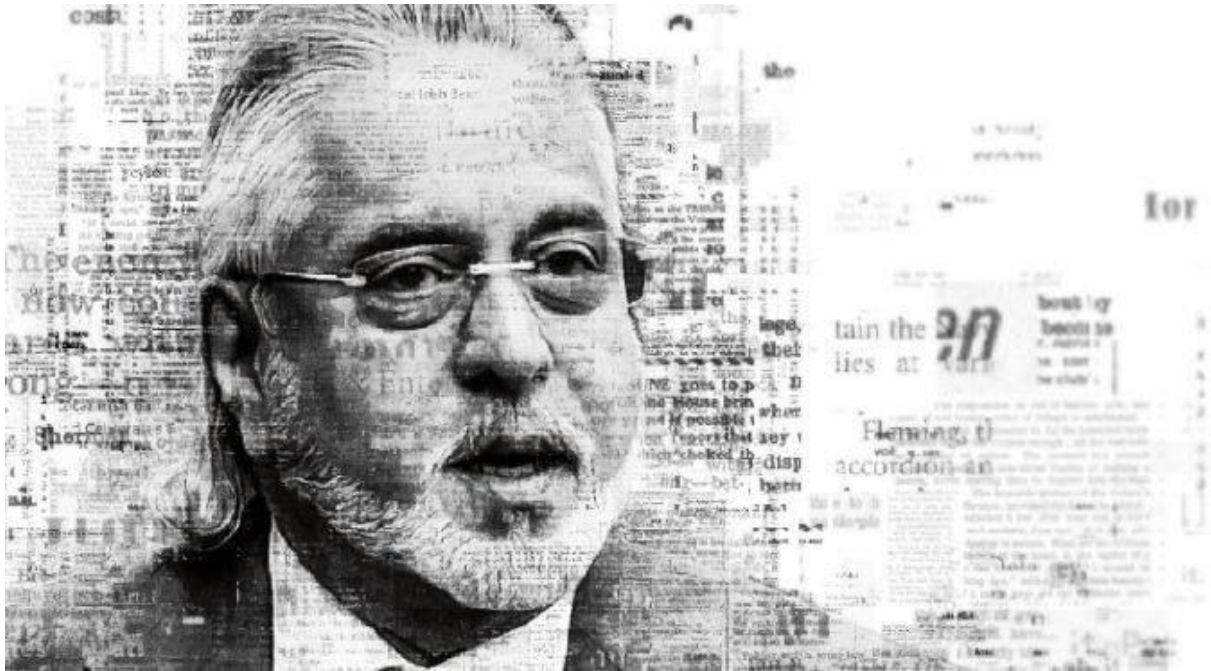
The concept of fraud also appears in varying roles within legal statutes. In addition to fraud being conduct subject to punishment, it can present itself as the state of mind required for certain acts to impose civil or criminal liability. In such cases, statutes might use the term “fraudulently” to describe the actor’s intent. Other statutes use the term “defraud” or require “intent to defraud.” Finally, some provisions speak in terms of a “scheme or artifice to defraud” (Podgor 1999: 730–731).

In the context of financial market activities – banking, securities, and insurance – fraud is attributed a more specific meaning and best understood as the unlawful falsification or manipulation of financial information (Fligstein/Roehrkasse 2013: 7). Financial information acts as the linchpin for financial market transactions.

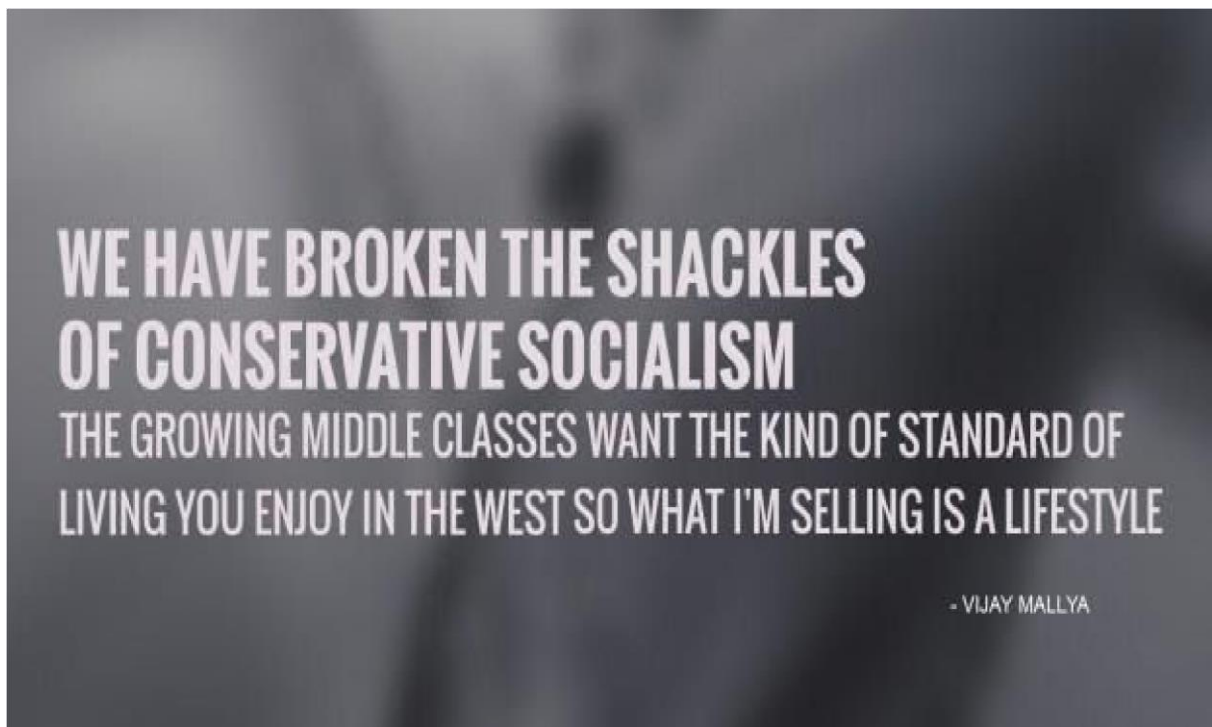
Participants in financial markets merely exchange intangible rights (and obligations), the present and future value of which depends entirely on the status and future performance of the issuer of those rights (Lomnicka 2008).

Third, legal systems prohibit certain deceptive behaviors through general fraud laws, which may appear in both civil and criminal bodies of law. As has been recognized by a number of authors, fraud is among the most serious, costly, stigmatizing, and punitive forms of liability imposed on actors in modern corporations and financial markets (Buell 2011; Green 2007a).

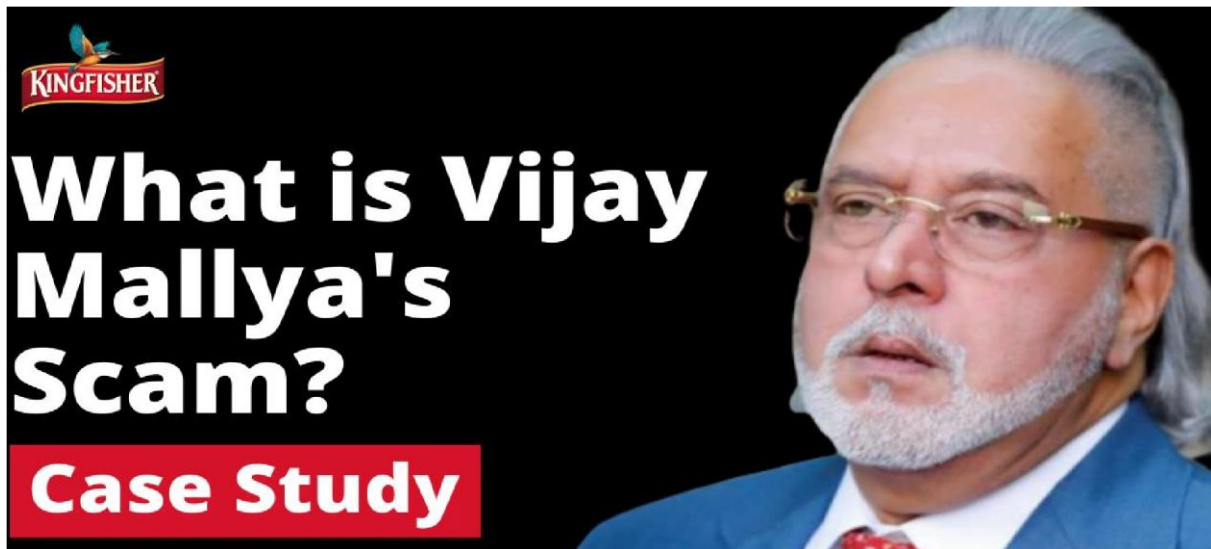
Practitioners have employed likewise similar categories. The Association of Certified Fraud Examiners, for example, distinguishes between fictitious revenues, asset valuations, concealed liabilities, improper disclosure, and timing differences (Goldmann 2010: 82).



## **VIJAY MALLYA RS.9000 CRORE SCAM**



### **What is Vijay Mallya's Scam? Vijay Mallya Case Study**



## **What is Vijay Mallya's Scam? Vijay Mallya Case Study**

Have you heard about Kingfisher? Yes, you may have heard the name of the kingfisher because it is the most prominent brand in beer.

Kingfisher Owns by United Spirits. Vijay Mallya is the chairman of United Spirits.

Mallya owes an Rs 9,000 crore from 17 Indian banks and is accused of fraud and money laundering cases in the country.

In this blog, we will discuss what the Vijay Mallya's scam. We will also read the failure reason of Kingfisher airline which is owned by Vijay Mallya. So, let's start the Vijay Mallya Case Study

### **❖ What's in it for me?**

- Kingfisher overview
- Who is Vijay mallya?
- What is Vijay Mallya's scam?
- Loans taken by Vijay mallya
- The downfall of kingfisher airlines
- RCBs connection with Vijay mallya

Of all his businesses, Vijay Mallya's name is most closely associated with now defunct Kingfisher Airlines. The airline company, launched in 2005, proved to be his undoing, as its business model floundered in 2008, when a global recession and soaring fuel prices brought it to a grinding halt. Facing heat from lenders following the collapse of the airline, Mallya fled to the UK in 2016. Mallya has publicly offered to make good on his debts and said he has been doing so since 2016.



## Kingfisher Company Overview

Kingfisher is an Indian brand owned by United Breweries Holdings Limited (UBHL) or UB Group Bangalore based Indian Company. UB group has several businesses but its core business is beer, aviation, and investment.

UB Group markets its beer product under the brand name of kingfisher, UB groups also owns several brands of beers. Kingfisher was launched in 1978 and now it is the largest beer producer of India with market shares.



Kingfisher beer is also sold in many other countries. UB group also launched Kingfisher airlines in India. Till December 2011 Kingfisher Airlines had the second largest market share in India's domestic air travel.



## Who is Vijay Malliya?

Vijay Mallya is an Indian businessman and former Member of Parliament (Rajya Sabha). Vijay Mallya also owns Royal Challenger Bangalore – IPL Team. Vijay Mallya became the chairman of United Breweries Holdings Limited (UBHL) in 1983 at the age of 28 after his father's death. Vijay Mallya grew its company rapidly.

From 1998 to 1999, Vijay Mallya grew the turnover of the company by 64%. He also diversified the business of the company by acquiring many other companies. He acquired Berger Paints which is an Indian Paint company.



Vijay Mallya was also elected as a member of parliament twice from Karnataka. The company also achieved the milestone of selling 10 crores cases in India and by this achievement, the company became the second-largest spirits company in India. All this achievement was possible by the control of Vijay Mallya's Chairmanship. Kingfisher Airlines was launched by Vijay Mallya in 2005.

Vijay Mallya also broadened his name into the sports industry after buying his own cricket team 'Royal Challengers Bangalore' in the Indian Premier League (IPL).

Vijay Mallya was known as 'The playboy of the East'. This title had established a misconception that Vijay Mallya was just a spoilt receiver of the millions he inherited.

Although, his accomplishments speak of an entirely diverse story.

### **What is Vijay Mallya's Scam**

Vijay Mallya wants to expand his liquor and Airline business. His advisors advise him not to do this but despite his advisor's advice, he does the same. He sold another company formed



by his father to fund its airline company. Vijay Mallya's kingfisher becomes India's no.1 domestic airline company and first choice of every passenger. Due to some restrictions, the Indian Government did not allow kingfishers to fly international flights. To fly international flights he leveraged United Spirits or United Breweries to buy Deccan Air which is a loss-making company and merged it with Kingfisher Airlines but it could not make the profits thus in 2010 Malaya's this business was in heavy loss.



## More Trouble

New case involves loan of about ₹6,027 crore from SBI-led consortium of lenders taken between 2005 and 2010 by Mallya-owned Kingfisher Airlines

**LOAN AMOUNT ALONG WITH INTEREST NOW STANDS AT OVER ₹9,000 CRORE**

ED, CBI allege Mallya diverted money to shell companies in nearly 7 countries

**Charge sheet expected to be filed in a month; will help India's case during his extradition hearing in Dec**

Agencies already probing Mallya in connection with **default of a ₹900-crore loan from IDBI bank**

To run this business he continuously took loans from banks. He took loans of 9000 crores by 17 banks. Although SBI has declared them as bankrupt other banks kept lending him loans because he was a member of Rajya Sabha and some parties supported him. His company kingfisher also -held service tax of passengers, PF, Income Tax of Employees, but did not submit to the PF or IT authorities. The company also did not pay the salary of its employees or ran out of cash. In 2012 the company had to shut down its operation. Vijay Mallya had a loan of 9000 from different banks and he denied paying this loan.

### ❖ What is Mallya's response to the allegations?

Mallya has denied all allegations and publicly offered to repay the full principal amount he owes the lenders.

Just before leaving the country in 2016, Mallya wrote an open letter defending himself. "All enquiries conducted have failed to find evidence of misappropriation of funds by Kingfisher Airlines or myself," Mallya said. "Despite pledging blue-chip securities and depositing significant amounts in court, a successful disinformation campaign has ensured my becoming the poster boy of all bank NPAs."

### ❖ What next?

The Indian government is making all efforts to extradite Mallya from the UK. In February

2019, UK Home Secretary approved the extradition. The case is now pending in the London High Court, where Mallya filed an appeal against the order. The appeal has been listed for a three-day hearing from February 11, 2020.

## Kingfisher Airlines Ltd.

+ WATCHLIST

NSE

BSE

Last Updated on 22 Jun, 2015, 04:00 PM IST

1.00

Today's Change  
▲ 0.04 (3.03%)

Volume 1,906,870

Open 1.00

Prev. Close 1.00

Day's Trend

Low

1.00

High

1.00

Bid

0(0)

Offer

0(0)

Mkt Cap (₹ Cr.)

109.99

Face Value (₹)

10.00

P/E (x)

-0.02

EPS-TTM (Rs.)

-59.80

P/B (x)

-0.01

BV/share (₹)

-166.59

Div\_Yield (%)

52Wk L/H

1.00 / 4.00

BETA

Avg. Daily Volatility %

1D

5D

1M

3M

6M

YTD

▼

Insights ▼

Compare ▼

Technical Chart



The Company United Breweries forced Vijay Mallya to resign the post of chairman of united spirits and paid him \$75M for a severance payment, but Indian courts blocked this payment. SBI and other banks filed a case against Vijay Mallya but before taking any action against Vijay Mallya he flew away to the United Kingdom. There is also a side story of Vijay Mallya that he offers banks to pay 4000 crores for settlement but banks refused their proposal. Banks demand at least 4900 crores which a principal amount furthermore banks are demanding interest as well.

### ❖ Negligence of Banks

A controversy also surfaces when it comes to the means used and collateral by the banks or their officials to provide Mallya with these loans. As shown above, BOI had lent a loan of 300 crores to Vijay Mallya on commodities like office stationery, boarding pass printers, and also folding chairs as collateral. The banks' readiness to give loans based on such current assets as capital, created scepticism on the officials of those banks.

The loans lent by SBI of 300 crores were lent on the trademarks and goodwill of Kingfisher airlines. These were kept as collateral. These trademarks were worth over Rs. 4000 crores in 2009 and have now fallen to not more than Rs. 6 crores.

## **Loans Taken by Vijay Mallya**

Kingfisher or Vijay Mallya was not able to make profits even after flying internationally and acquiring Deccan Air. In 2010, the company was in heavy losses as it wasn't able to keep up with its expenses.

To run this business of aviation, Mallya kept on taking loans from banks. He took loans of 9000 crores from 17 banks, and although SBI has declared Mallya as bankrupt, other banks continued to lend him loans. His company also-held service tax of passengers, PF, Income Tax of Employees. But he did not submit these amounts to the PF or IT authorities.

The company did not pay the salary of its employees and eventually ran out of cash. In 2012, Kingfisher had to shut down its operations as no further funds were available to run the business. Also, Vijay Mallya gave up paying the loans.

Following is the massive list or chart of loans taken by Vijay Mallya from the different banks

<b>BANKS</b>	<b>AMOUNT</b>
<b>SBI</b>	<b>₹ 1,600 crores</b>
<b>PNB</b>	<b>₹ 800 crores</b>
<b>IDBI</b>	<b>₹ 800 crores</b>
<b>BANK OF INDIA</b>	<b>₹ 650 crores</b>
<b>BANK OF BARODA</b>	<b>₹ 550 crores</b>
<b>UNITED BANK OF INDIA</b>	<b>₹ 430 crores</b>
<b>CENTRAL BANK OF INDIA</b>	<b>₹ 410 crores</b>
<b>UCO BANK</b>	<b>₹ 320 crores</b>
<b>CORPORATION BANK</b>	<b>₹ 310 crores</b>
<b>STATE BANK OF MYSORE</b>	<b>₹ 150 crores</b>



<b>INDIAN OVERSEAS BANK</b>	<b>₹ 140 crores</b>
<b>FEDERAL BANK</b>	<b>₹ 90 crores</b>
<b>PUNJAB&amp;SIND BANK</b>	<b>₹ 60 crores</b>
<b>AXIS BANK</b>	<b>₹ 50 crores</b>

## 1. Failure Reason of Kingfisher Airlines

### ❖ Lack of Business Strategy

The first reason for the failure of Kingfisher airlines is the lack of strategy. First, the company launched an economic class service later they shifted to luxury class After that they shifted as a low-cost airline.

As the company continuously changes its targeted audience, passengers lose interest in this airline. The other issue in their business strategy is that they do not focus on Profitable routes.

### ❖ Lack of Management

The other failure of Kingfisher airlines is that Vijay Mallya involved too much in his airline business. Kingfisher doesn't have any long-term CEO or MD. Management is an important part of any business whether its failure or success.

### ❖ 2008 Recession

There are not all internal faults in the failure of Kingfisher airlines; there are some external factors too. The other reason for failure in Kingfisher airlines is the 2008 recession which plays an important role in the failure of Kingfisher airlines.

The recession impacted the whole world and also the aviation industry. Due to the recession, there is high inflation in fuel prices or airport charges. All of these factors impact the health of Kingfisher airlines.

### ❖ Air Deccan

As we have already discussed the acquisition of Air Deccan which is a low-cost airline company that was acquired by Kingfisher airline. In the Beginning, Vijay Mallya treated both as separate companies.


There was a time when the flight of both companies flew at the same time but later they decided to cancel the flights of Air Deccan but the customers of Air Deccan did not transfer to Kingfisher Airline They transferred to their competitor.












## ❖ High Operational cost

The other external reason for the failure of kingfisher airline is that there is a high operational cost in the airline industry as compared to other industries. Airline companies require licenses for came the next thing that is a merger with Air Deccan, which the routes, investment in the aircraft maintenance, salaries were a low-cost airline.

There is also a high price of fuel and the company did not able to recover its cost or continuously made loose. There is also great competition in the airline industry that's why this company offers low cost but they forget if they did not earn a good margin their company will be closed.

I hope you learn very important lessons from Vijay Mallya Case Study. Share this case study with your friends.

 **Kingfisher Airlines Ltd. Quarterly Results** Standalone Figures in Rs. Cr

	Dec 2013	% Chg (Quarterly)	% Chg (Yearly)	Peer Range	Trend 
<b>Sales</b>	0.00	0.00	0.00	-0.53   103521.00	
Other Operating Income	0.00	0.00	0.00	-4.38   185.57	
Operating Profit	-75.84	-33.99	-80.62	-13361.96   7625.00	
Other Income	0.85	-56.03	-76.25	-8.13   4190.30	
EBITDA	-74.99	-33.61	-80.66	-13361.96   7625.00	
Interest	350.99	1.51	-12.53	-12.15   22229.94	
Depreciation	14.23	-9.43	-65.88	-1.14   2143.00	
Tax	0.00	0.00	-100.00	-630.00   1481.00	
<b>Net Profit</b>	-822.42	14.93	8.91	-867.83   5511.00	
EPS (₹)	-10.33	14.65	8.74	-322.87   424.17	

## 2. RCB's Connection with Vijay Mallya

RCB is an IPL franchises team that was founded by United Spirits in 2008. Royal Challenger Bangalore also promotes its brand Kingfisher till 2013 but in 2014 no liquor brand was promoted by RCB.

United Sprites Wholly owns the RCB thus Vijay Mallya Resigned from United Sprits's chairman he also resigned from RC's Director Position. After Vijay Mallya Financial scandals Amrit Thomas became the chairman of the Royal Challengers and RCB changed the team logo. RCB's holding company Royal Challengers Sports Pvt Ltd (RCSPL) is owned by United Spirits.

United Spirits now owned by the British beverage company Diageo, is the largest shareholder in RCSPL. Diageo Acquired United Sprits in 2014. Before Acquiring United Spirits Diageo has conducted an investigation in which they found financial irregularities of t Rs 1.15 billion (Rs 115 crore). USL's management revealed that Rs 1.15 billion had been "potentially diverted from RCSPL. In 2019, the company earns more than 10% of its operating profits Through RCB While RCB performed Very Bad in the season.

### 3. Weakness & Strength

Here is weakness & strength of Kingfisher Airlines

Strength

1. Strong Reputation in Consumers mind
2. Kingfisher's Parent Company is UB Group which is the Most Trusted Company in India
3. Kingfisher is awarded as a one of the most Premium Domestic Airline in India which creates a good image of the company among passengers
4. Kingfisher Airlines Provides Quality service to its passengers

Weakness

1. Company is competing with Brands because there is high competition in the industry
2. Company did not able to achieve to breakeven point
3. Company has high debt
4. The company was not able to cover its cost while the company charges a high price from its passengers.

### 4. Frequently Asked Questions

#### ❖ Where is Vijay Mallya?

He is in London for now as he left in March 2016. After alleged for the scam of approximately of Rs.9000 crore.

#### ❖ When is Vijay Mallya coming back to India?

As for the recent news he applied in European Human Rights Court for not sending him to India and the court denied his application. Later he applied for more.

#### ❖ What was the decision of Supreme Court for Vijay Mallya?

The Supreme Court has directed its registry to explain why the petition filed by businessman Vijay Mallya, who has sought review of its 2017 order holding him guilty of contempt of court for transferring USD 40 million to his children, was not listed before the concerned court for the last three years.

#### ❖ Did Vijay Mallya pay the debt?

As for recent news, he once again offered to repay banks 100% of the principal amount owed to them. The fresh appeal to banks came after the conclusion of a three-day British High Court appeal against an extradition order to India.

### Conclusion

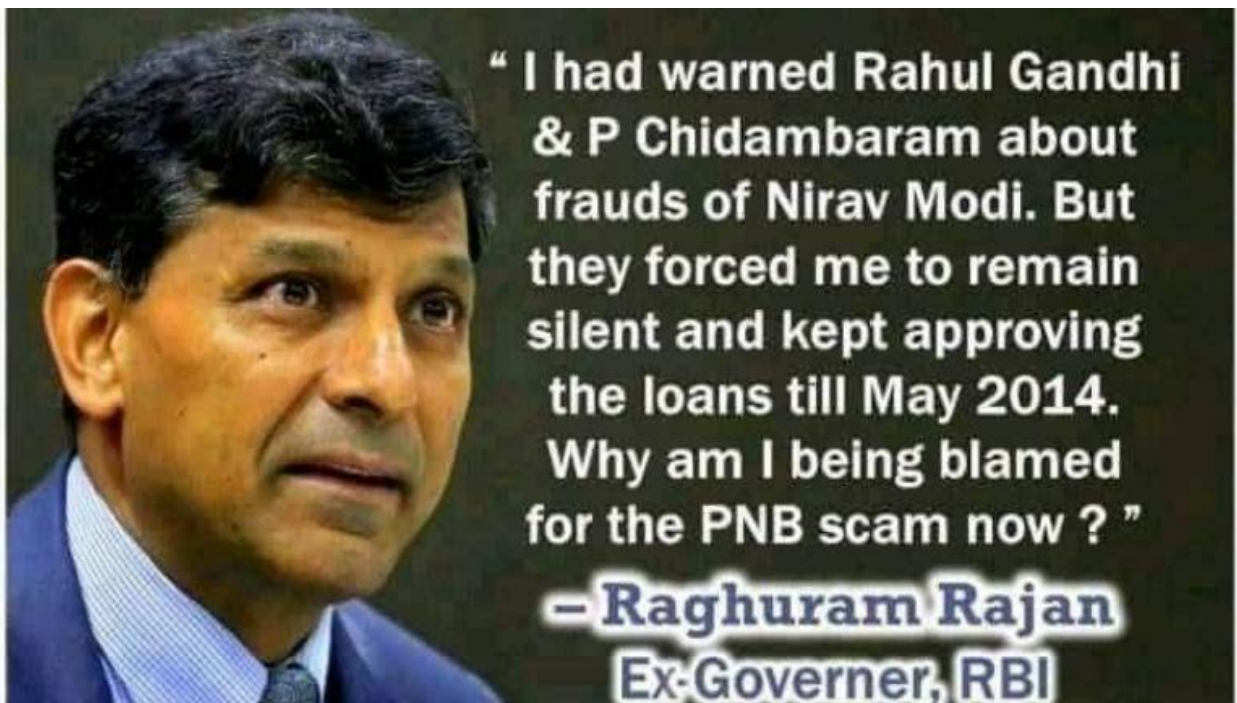
The case of Vijay Mallya is a story of ambition, luxury, lifestyle, and greed. Earlier, people used to feel pity for Mallya under the myth that his failure was just because

**of the economic situations and some sort of hard luck. But a deeper understanding of this case has shown that there was excessive money laundering from the side of this business magnate**

**Vijay Mallya was one of the best business minds of the country, who could have taken India to the skies of big achievements in the business sector. But the indifferent attitude of Vijay Mallya towards his companies and his never-ending greed made the masses compare him to a coward; a coward who is always the first person to escape when the clouds of problems occur.**



## **Nirav Modi Rs. 11,400 Crore Scam**



## **Who is Nirav Modi?**

Nirav Modi is an Indian Businessman who was involved in the business of diamonds. Nirav Modi has been charged by the Government of India and the Interpol for criminal conspiracy, fraud, money laundering, dishonesty, and embezzlement of contract since 2018. Punjab National Bank's name comes hand in hand whenever this scam is being discussed. Nirav Modi is also being scrutinized in a \$2 billion fraud case against the Punjab National Bank. He has also been sued in California for defrauding Paul Alfonso, a Los Angeles entrepreneur, over two custom made diamond rings that actually turned out to be fake diamonds. Back In March 2018, Nirav Modi applied for bankruptcy protection in New York. After three months, in June 2018, Modi was reported to be in the United Kingdom and had applied for political protection in Britain. In June 2019, Swiss authorities had frozen a total of 6 million US dollars present in Nirav Modi's Swiss bank accounts along with his assets.

## **Early Life of Nirav Modi**

Nirav Modi was born in Palanpur, Gujarat, and then moved to Antwerp, Belgium. For many generations, his family has been in the diamond business. When Modi was 19, he and his father Deepak Modi shifted to Mumbai to start working in his uncle's business, Mehul Choksi, the head of Gitanjali Group which is a retail jewellery company with nearly 4000 stores in India. Modi went to the Wharton School at the University of Pennsylvania but ultimately dropped out of the university. While studying, he met the daughter of diamond businessman Amukuraj Choksey, Ami Choksey, and later got married to her.

## **What were the early achievements of Nirav Modi?**

Despite the entire nuisance he created, Nirav Modi was undoubtedly a successful businessman, who had many feathers of fame and success to his cap, which symbolized his successful and visionary career.

- In 2010, Modi was the first jeweller from India who was featured on the covers of Sotheby's and Christie's catalogues.
- In November 2010, the Golconda Lotus Necklace, a part of the Nirav Modi Jewellery collection, which featured a rare 12.29 carat Golconda diamond, pink diamonds and exclusive Aindra cut diamonds, was sold at a Christie's auction at Hong Kong.
- Later in 2012, the 'Riviere of Perfection', a solitaire collection by Nirav Modi, featuring 36 flawless white diamonds and weighing a total of 88.88 carats was sold again in Hong Kong in Sotheby's auction.
- In 2013, in the much-awaited Forbes list, Nirav Modi was featured in the Forbes list of Indian Billionaires.
- Patents: Jasmine cut diamond, United States Design Patent USD763118S1, United States Design Patent US D738, 777 A, JEWELRY DESIGN.

## **What was the Nirav Modi Scam Story?**

Punjab National bank is involved in a major scam of above ₹ 11,000 crores by issuing a certain type of bank guarantee in a wrong way to a businessman by the name of Nirav Modi. Nirav Modi is a businessman who is having a very famous jewellery business. As per the statement given by CBI (Central bearer of Investigation) he issued fake Letter of Understanding (LOU) from Punjab National Bank (PNB) and takes loan from foreign banks of more than ₹ 11,000 crore rupees.[1] Punjab National Bank was associated with three alleged firms majorly Diamond R Us, M/s Solar Exports and M/s Stellar Diamonds. In simple words, a Letter of Understanding is a letter which is issued by the Indian bank to those people who are taking loans from foreign banks, and in case if the concerned individual is not able to pay its loans to the foreign bank the Indian bank will pay to the foreign bank on behalf of that individual.

Nirav Modi company names as Gitanjali Gems has issued LOU from PNB in eight different ways and bluffed these foreign banks and taken loan from them. These loans were taken during 2011 to 2017. These foreign banks are actually, Indian banks with their overseas branches. Now when these foreign banks are not able to get their money on time from Nirav Modi then they contacted PNB and asked him that since they have issued a LOU, therefore on the basis of that you should repay the loan on behalf of Nirav Modi. PNB after checking the LOU's realised that it was not issued by the bank and it is a fake document .As a result PNB filed a complaint to the CBI complaining about the fraud. Besides this, it was quite clear that since PNB has issued a LOU to the bank, then there are some bank officials who are also involved in it and are playing a major role in this process. After investigation two people were find accused, Gokulnath Shetty and Manoj Kharat. Besides this Nirav Modi 's entire family is involved in the fraud, like Nirav Modi's wife Ami Modi brother Neeshal Modi and his uncle Mehul Choksi .All these names were clearly mentioned in the complaint registered to CBI.

One of PNB official after detailed investigation has informed the CBI agency that majorly the culprit was the banks , Mumbai branch located at Brady house in Fort and their two more employees who are majorly employed are Gokulnath Shetty , who is the retired deputy Manager of PNB and Manoj Kharat , who is a single window operator issued illegal LOU's to the creditors who are based in Hong Kong majorly on behalf of the three firms which are mentioned above which are collaborated with Nirav Modi and Gitanjali group. Gitanjali group is one of the biggest branded jewellery stores in the world. It has it's headquarterd in Mumbai and sells its jewellery all over India. These people took illegal advantage of its official position in the country and wrongfully deal with people and took advantage of these organisations Diamonds R US, Solar Exports and Stellar Diamonds and made a yearly loss of around Rs.280.70 crores to PNB during the last year 2017. This information is on the basis of First information report released by the CBI.

### **The Allegation**

- On 29 January 2018, a PNB officer from Mumbai documented a criminal complaint with India's federal investigative agency against three companies and four people,

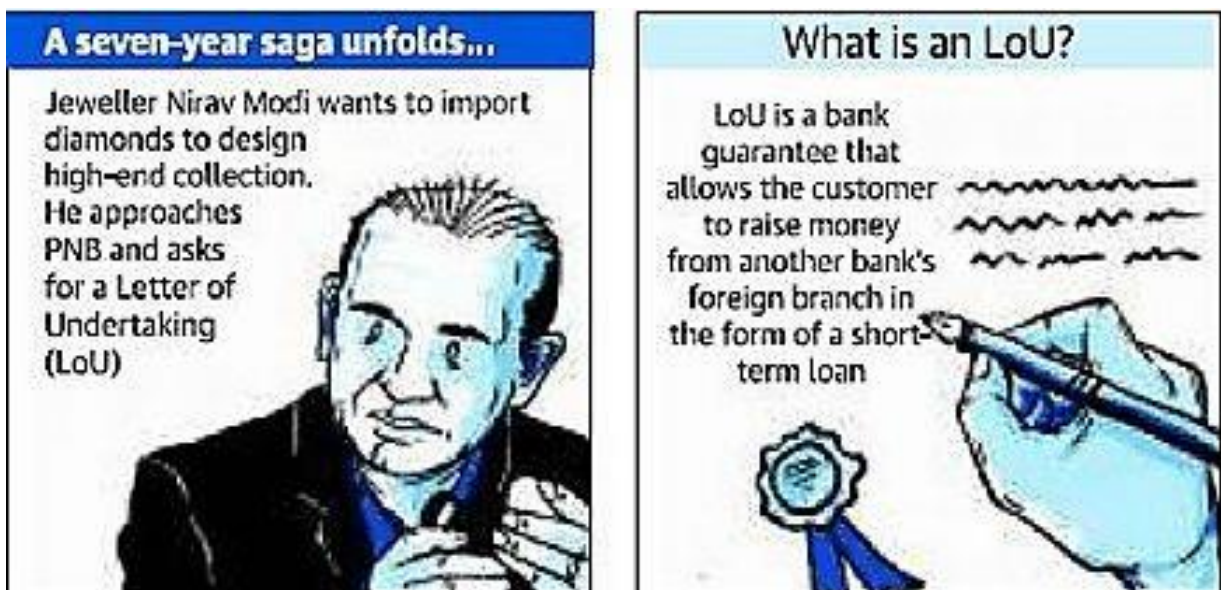


which also listed billionaire jeweller Nirav Modi and his uncle Mehul Choksi, the managing director of Gitanjali Gems Ltd, claiming that they had cheated the bank and had caused a loss of Rs 280 crore (\$43.8 million) to the Punjab National Bank.

- The bank declared that the two junior employees at the Mumbai branch of Punjab National Bank had helped and supported the companies and people managing them, in getting "letters of undertaking" (LOUs) from it without even having a sanctioned credit limit or maintaining funds "on margin".
- According to Punjab National Bank, the LOUs were used by Modi and Choksi to obtain short-term credit from overseas branches of other Indian banks.

## What is an LOU?

- In the international system of banking, a Letter of Undertaking (LOU) is a provision of a bank guarantee. Under the LOU, a bank allows its customers to raise funds from the branch of an Indian bank which is established overseas, in the form of a short-term credit. In simple words, the purpose of the bank guarantee is served by the LOU.
- On the basis of the complaint, the Central Bureau of Investigation (CBI) registered an initial case against those companies and the people named, on 31 January 2018 and Punjab National Bank announced that a detailed investigation was underway.
- Later, the bank revealed in a regulatory filing that it had excavated deceitful and unauthorized transactions totalling to Rs 11,400 crore at the Mumbai branch. The related investigators said the latest disclosure was related to the case filed earlier.



## What is SWIFT System?

- The vast messaging network which is used by the banks and financial institutions to accurately, quickly, and safely send and receive information is known as the SWIFT system. The information can involve money transfer instructions or anything related to financial transactions.



- As we all know, Nirav Modi was the man behind the entire fraud, but his companies that had their names included in the case were Solar Exports, Stellar Diamonds, and Diamond R US. They all were named as accused by the PNB, who also accused Gitanjali Gems, Gili India, and Nakshatra — companies facilitated by another jeweller, Mehul Choksi.
- On 1 January 2018, Nirav Modi flew to London and was not captured by the Indian Police. Following the footsteps of his nephew, Mehul Choksi also took the flight on 4 January 2018. Till then, no big decision had been made on these diamond moguls, though their case had been running in the court of the United Kingdom.
- The Punjab National Bank claims that till now, they have not recovered even a single penny from Nirav Modi. However, relief came in when recently a piece of news surfaced that CBI has booked one of the two fraud employees in bribery cases.

### **How did PNB come to know about the deception?**

- The Punjab National Bank said that on 16 January 2018, the accused foreign branches of banks presented a set of import documents to the Mumbai branch of PNB and requested buyers' credit to pay to the overseas lenders.
- Obviously, the Mumbai branch had no pre-arranged credit limit, and the branch officials implored companies to put down the full amount of credit as collateral so that the bank would issue a Letter of Undertakings (LOU) to authorize the credit.
- When the firms complained that they had used these facilities in the past as well, without keeping any money on the margin, PNB inspected its records and found no evidence of any such transactions, according to the accounts of Punjab National Bank.
- Later it was found out that two junior employees of Punjab National Bank had handed out LoUs on the SWIFT interbank messaging system without entering the transactions on their own bank's system. PNB revealed that such transactions went on for years without any detection.

### **PERSONS INVOLVED IN SCAM**

1. Nirav Modi – Nirav Modi is the Owner of Nirav Modi firm, Diamond R.U.S., Stellar Diamond and Solar Exports and the prime accused in this scam.
2. Mehul Choksi – Mehul Choksi is the Owner of Gitanjali Group and the uncle of Nirav Modi.
3. PNB Employees - Gokul Nath Shetty (Retired Deputy Manager), Manoj Kharat (Clerk), Hemant bhat (Clerk and Authorized Signatory), Bechhu Tiwari (Forex dept. Chief manager), Yaswant joshi, Praful sawant (They were trying to shift the blames to their colleagues.)
4. MK Sharma – Internal Auditor and chief manager of PNB.

5. Vipul Ambani – CFO of Nirav Modi Company.
6. Kavita Mankikar - Executive Assistant and Authorized Signatory.
7. Arjun Patil – Senior Executive of Fire Star Group.
8. Kapil Khandelwal - CFO of Nakshtra and Gitanjali Group.
9. Niten Shahi – Manager of Gitanjali Group.
10. Rajesh Jindal: General Manager of PNB. He has headed Brady Branch in between 2009-11.
11. Bishnubrata Mishra: Formar internal auditor of PNB. He was responsible for auditing the transactions between 2011-15.
12. Miten Anil Pandaya: Financial Manager of Firestar International Ltd.
13. Sanjay Rambiya: CA firm Sampat & Mehta partner.

### **Exposure of banks**

<b>BANKS</b>	<b>AMOUNT</b>
<b>PUNJAB NATIONAL BANK (PNB)</b>	<b>RS 12,600 CR</b>
<b>ALLAHABAD BANK</b>	<b>RS 2,400 CR</b>
<b>UCO BANK</b>	<b>RS 2635 CR</b>
<b>STATE BANK OF INDIA (SBI)</b>	<b>RS 1,360 CR</b>
<b>AXIS BANK</b>	<b>RS 200 CR</b>
<b>UNION BANK</b>	<b>RS 1920 CR</b>

### **WHY THE SCAM COULDN'T BE DETECTED EARLIER**



- The failure of Auditors – Auditors failed to detect any frauds which took place in PNB Brady branch, Mumbai
- Not linkage of SWIFT with CBS – Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Core Banking System (CBS) was not linked with each other.
- Management Failure – The management system was very weak and couldn't detect any fraud because the Deputy Manager of branch himself was involved in the fraud.

- No rotation of Employees – According to Reserve Bank of India (RBI) guidelines, every employee working in banks should be rotated from one position to other position in every three years but the same was not done in the PNB Brady Branch.

## **WHISTLE BLOWER**

- On July 26, 2016 Bangalore based Entrepreneur Hari Prasad had written to the prime minister's office (PMO) drawing the attention of the authorities towards what he thought could lead to a huge scam. According to Prasad, the balance sheets clearly gave out all the details.
- He said that he had filed a complaint against Mehul Choksi – one of the prime accused in the Rs.11,380-crore Punjab National Bank scam – after the latter's company cheated him of Rs 13 crore.
- He then registered a complaint with the Bengaluru Police against Choksi and his group companies in 2015. A year later, he wrote to the Enforcement Directorate, the Central Bureau of Investigation, the Securities and Exchange Board of India, the Ministry of Corporate Affairs and even the Prime Minister's Office.
- Whistle-blower Dinesh Dubey, a former Allahabad Bank director, has made abundantly clear the number of interventions he had attempted to make regarding unsanctioned loans to Mehul Choksi ("I have mailed multiple times. On every agenda. I have done my duty. “)
- I am not the only one. All over India, there are hundreds of people who got cheated by him,” Mr. Prasad, a Bengaluru-based investor, said in a telephone interview. “There is another guy called Dig Vijay Singh Jadeja in Ahmedabad. He got cheated of ₹ 40 crores. There is another guy in Jodhpur called S.K. Jain. He got cheated of ₹ 2 crores. There is another guy in Delhi called Vibhav Khurana. He got cheated of ₹ 1.5 crore. So many people I know. They cheated so many small investors.”
- The Enforcement Directorate has issued summons to billionaire diamond merchant Nirav Modi and Mr. Choksi in connection with the alleged fraudulent transactions in the Punjab National Bank. On February 15, the Directorate seized diamonds and gold worth ₹ 5,100 crores from Nirav Modi's firms.

## **EFFECT OF SCAM ON PNB & OTHER PUBLIC SECTOR BANKS**

- Moody and Fitch places PNB under review for downgrade. Moody's has rated PNB 'Baa3' and Fitch has rated 'bb'.
- The stock price of PNB has fallen down from Rs.160 to Rs.95.5 as on 9th Mar,2018.  
 The NIFTY Bank also fallen down 25810.25 to 24477.65 (1332.66 Points).  RBI has said to PNB to pay all debts to other banks.
- The share price of Gitanjali Gems fallen down from Rs.64.2 to Rs.15.8 as on 09th Mar, 2018.

- Sanjay Rishi (American Express), Gautham Mukkavilli (Ex. Executive PepsiCo), Suresh senapaty (Ex.CFO of Wipro), Kirthiga reddy (Ex.MD of FB India) resigned from Nirav Modi's Firestar Co. board.
- The RBI stops banks to issue LOU. 😞 Because of the fraud, PNB has lost Trust of People.
- Gitanjali Gems Share price fallen to 11.15 from 63.55(open price) as on 14.2.2018.

## **INTERESTING AND SHOCKING FACTS ABOUT BANKING FRAUD (DATA RELEASED BY RBI)**

- According to the survey of IIM Bangalore, PSB has lost a total of Rs.227.43 billion due to bank fraud between 2012 to 2016.
- During the first nine month of 2016-2017, 3870 cases were detected worth of Rs.17750.27 crore.
- PSU have NPA of Rs.7.34 lakh crore and Private Banks have Rs.1.03 lakh crore by end of September 2017.
- SBI has the highest PSU of Rs.1.86L crore, PNB = 57,630 crore
- Between 1 Jan 2015 to 31 March 2017, 5200 employees of PSB have been punished for fraud. (184 PNB Employee)
- From 1 April 2013 to 31 December 2016, all commercial banks lost nearly 66,066 crores in 17,504 frauds.

## **Chronology of Nirav Modi's case**

Following is the chronology of the case and its origin:

1. January 29, 2018: Punjab National Bank (PNB) files police complaint against Nirav Modi, Mehul Choksi and others accusing fraud to the tune of Rs 2.81 billion.
2. February 5, 2018: The Central Bureau of Investigation (CBI) launches an investigation into the alleged scam.
3. February 16, 2018: The Enforcement Directorate (ED) seizes a cumulative Rs 56.74 billion worth of diamonds, gold and jewellery from Nirav Modi's home and offices.
4. February 17, 2018: The CBI makes first arrest in the case. Two PNB employees and an executive of Nirav Modi's group detained.
5. February 17, 2018: Government suspends passports of Nirav Modi and Mehul Choksi for four weeks in connection with the PNB fraud.
6. February 21, 2018: CBI arrests CFO of Nirav Modi's firm and two other senior executives of his firms. It also seals his farmhouse in Alibaug.

7. February 22, 2018: The ED seizes nine luxury cars belonging to Nirav Modi and his firms
8. February 27, 2018: A magistrate's court issues a bail able arrest warrant against diamond trader Nirav Modi.
9. June 2, 2018: The Interpol issues Red Corner Notice against Nirav Modi for money laundering.
10. June 25, 2018: The ED moves a special court in Mumbai seeking Nirav Modi's extradition.
11. August 3, 2018: The Indian Government sends a request for the extradition of Nirav Modi to the UK authorities.
12. August 20, 2018: The CBI officials request Interpol Manchester to detain Nirav Modi after the latter informs about his presence in London to Indian authorities.
13. December 27, 2018: The UK informs India that Nirav Modi is living in the country.
14. March 9, 2019: British newspaper 'The Telegraph' confronts Nirav Modi on London's streets and confirms his presence in the country.
15. March 18, 2019: Westminster Court in London issues arrest warrant against fugitive Nirav Modi after the Indian government request was forwarded to the court by the UK Home Office
16. March 20, 2019: Nirav Modi arrested in London and produced in Westminster Court, which denies him bail.
17. March 20, 2019: Nirav Modi sent to Her Majesty's Prison (HMP) Wandsworth till March 29
18. March 29, 2019: A Westminster Magistrates Court in London rejects Nirav Modi's second bail application, saying there are "substantial grounds" to believe that he will fail to surrender. The judge fixes April 26 as the next date of hearing when he will appear via video link from jail.

## **Assets seized**

- Enforcement Directorate (ED) seized luxury cars of Nirav Modi (Rolls Royce Ghost, 2 Mercedes Benz GL Class, Porsche Panamera, Toyota Fortuner, 3 Honda cars and Toyota Innova)
- Rs.30 crore in bank account and shows worth Rs.13.86 crores. 📊 Mutual funds and shares worth Rs.94.52 crore were frozen which belongs to Nirav Modi and Mehul Choksi.
- Special economic zone property worth of Rs.1200 crore has been attached by IT Department and it belongs to Choksi helmed Gitanjali Group.
- 141 banks A/C and FD have been attached by IT Department.
- CBI seized Modi's Alibaug farmhouse worth Rs.32 crore belonging to Nirav modi ● Rs.5100 crore in Gold and Diamond Jewelry has been seized by ED.
- ED attached 21 immovable properties of Nirav Modi including Penthouse, farmhouse worth Rs.5.23 crore.
- A sea facing Samudra Mahal flat worth 15.45 Crore is also attached by ED.

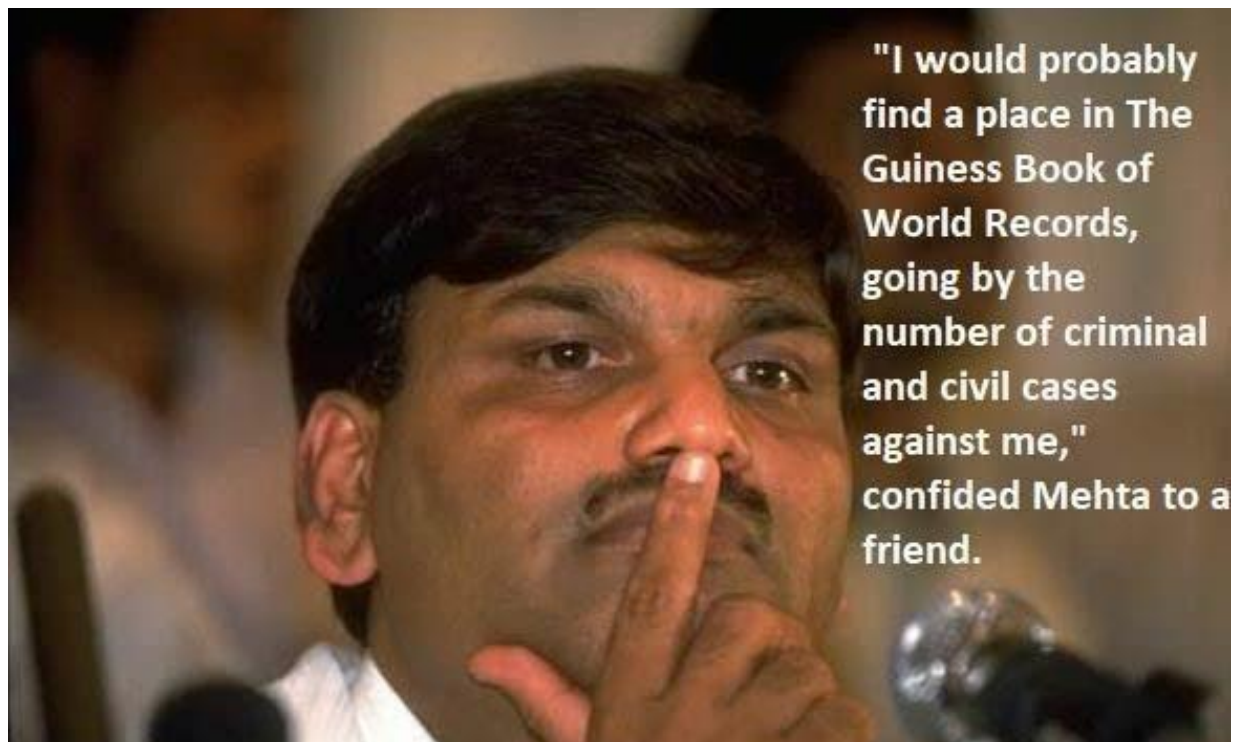
- Solar Power Plant worth Rs.70 crore in Karjat area has been seized by ED ● Two office properties about Rs.80 crore.
- So Far, Rs.6393 Crore has been seized.

## **Conclusion**

The Punjab National Bank fraud has exposed many banks to credit risk. There is a need to investigate how the process got diluted, and how a few employees in connivance with clients could lead to a fraud of large amounts of money for such a long time without raising any red flags. In the PNB case, the process of checking a transaction before disbursing a non-funded loan was not robust enough. Another compliance failure that facilitated the Rs 11,400 crore scam was the unmonitored usage of the SWIFT financial messaging system. The collateral free swift transactions which had been taking place with the co-conspirators of the banks and Nirav Modi had eluded the eyes of other officials. It is also surprising that it had not been identified even during the external audit process, for a period of seven years. The risk management system of the bank should be improved. The bank had been constantly hit by frauds which indicate the internal risk management is very fragile and non-planned. Monetary loss could be prevented with proactive follow-up with the concerned paying/intermediary banks; the incident has reinforced the fact that the various stakeholders have not learnt the lessons yet. The role of the regulator of the banks is under question now. Though RBI has come up with various risk management processes for banks, RBI should empower the banks to deal with fraudsters in a swift manner thereby avoiding unwanted red tapism.



## Harshad Mehta RS 5000 crore scam



**This part of project is aimed towards discussing the ‘Harshad Mehta Scam.’ The article talks about the kind of a scam which was primarily based on the loopholes of the Indian banking system. The article majorly covers the stages of the scam, the type of instruments used in this scam, the working of those instruments, the various offence committed, the amendments which took place in the legislation, and the current legal position of India.**

## **Introduction**

A wise man famously quoted, “there is no substitution to hard work.” If a person sees an opportunity to achieve something in ease by a ‘scheme,’ which otherwise had required the right amount of money, time, or energy, he should know that it is nothing but a scam as in the case of Harshad Mehta.

This article is aimed towards discussing the most famous Stock Market Scam of India in 1992, also known as the ‘Harshad Mehta Scam.’ The article majorly covers the stages of the scam, the type of instruments used in this scam, the working of those instruments, the various offenses committed, the amendments which took place in the legislation, and the current legal position of India.

## **Background**

Harshad Shantilal Mehta was born in Paneli Moti, Gujarat, on 29th July 1954 to Shantilal Mehta, who was a small businessman, and Rasilaben Mehta. He completed his graduation in 1976 with a B.com degree from Lala Lajpatrai College, Mumbai. Initially, he began working at various places like New India Assurance Company as a salesperson. After having an experience of about eight years, he entered into the broking houses of Mumbai, such as P. Ambala, P.D. Shukla, J.L. Shah, Nandalal Sheth, etc.

In 1984, he, along with his brothers named Ashwin Mehta and Sudhir Mehta, formed his own company called ‘Grow More Research and Asset Management Company,’ which gave investment services to its clients. He further enhanced his business by becoming a broker of the Bombay Stock Exchange (BSE) Company. He was later known as ‘Amitabh Bachchan of Stock Market’ and ‘The Big Bull.’

Harshad Shantilal Mehta was an Indian stockbroker. Mehta’s involvement in the 1992 Indian securities scam made him infamous as a market manipulator. Although, as reported by the Economic Times, some financial experts believe that Harshad Mehta did not commit any fraud, he had "simply exploited loop holes in the system".

## **Harshad Mehta Scam- How one man deceived entire Dalal Street?**



## **Explaining the Harshad Mehta Scam of 1992:**

The magnitude of the Harshad Mehta scam was so big, that if put into perspective today, it brought a bear market in the Dalal Street. If we look into the numbers, this single man deceived the entire nation with an amount of over Rs 24,000 crores (which is way bigger than Nirav Modi or Vijay Mallaya scams).

Today, we take a look at how the Harshad Mehta scam was executed and possibly try to understand how he was able to fool the entire Dalal market and even the Indian banking systems. Further, we'll also discuss why he plays such a considerable role in our pop culture and that too not as an antagonist.

## **Harshad Mehta's Rs 40 Journey**

Perhaps what makes the Harshad Mehta story even more interesting is that despite migrating to Mumbai with only Rs. 40 in his pocket he managed to influence the country in such a massive way. Once he discovered his interest in the stock market, he worked for broker Prasann Panjivandas in the 1980s. Harshad considered Prasann Panjivandas as his guru. Over the next decade, he went on to work for several brokerage firms eventually opening up his own brokerage under the name Grow More Research and Asset Management.

By the 1990s, Harshad Mehta had risen to such prominence in the Stock market that he was known as the 'Amitabh Bachchan of the Stock Market'. Terms such as 'The Big Bull' and 'Raging Bull' were regularly used in reference to him. Over time he became particularly known for his wealth in the 1990s which he did not shy away from boasting about through his 15,000 sq. ft. penthouse and array of cars. He was described by Journalist Suchita Dalal as charismatic, ebullient, and recklessly ambitious. Perhaps it was this recklessness that led to his downfall through his ambitious schemes.

## **Overview**

The scam was the biggest money market scam ever committed in India. The scam of 5000 crore. The main perpetrator of the scam was stock and money market broker Harshad Mehta. It was a systematic stock fraud using bank receipts and stamp paper which caused the Indian stock market to crash. The scam exposed the inherent loopholes of the Indian financial systems and resulted in a completely reformed system of stock transactions, including an introduction of online security systems.

Security frauds refer to the idea of diversion of funds from the banking system to various stockholders or brokers. The 1992 scam was a systematic fraud committed by Mehta in the Indian stock market which made the entire securities system collapse. He committed a fraud of over 1 billion from the banking system to buy stocks on the Bombay Stock Exchange.

This impacted the entire exchange system as the security system collapsed and investors lost thousands of rupees in the exchange system. The scope of the scam was so large that the net value of the stocks was higher than the health budget and education budget of India. The scam was orchestrated in such a way that Mehta secured securities from the State Bank of India against forged cheques signed by corrupt officials and failed to deliver the securities. Mehta

made the prices of the stocks soar high through fictitious practices and sell the stocks that he owned in these companies. The impact of the scam had many consequences, which included the loss of money to lakhs of families and the immediate crash of the stock market. The index fell from 4500 to 2500 representing a loss of Rs.1000 billion in market capitalisation. The 1992 scam raised many questions involving bank officials responsible for being in collusion with Mehta. An interview with Montek Singh Ahluwalia (Secretary, economic affairs at the Ministry of Finance) revealed that many top bank officials were involved.

## **Stamp paper scam**

In the early 1990's, banks in India were not allowed to invest in the equity markets. However, they were expected to post profits and to retain a certain ratio (threshold) of their assets in government fixed interest bonds. Mehta squeezed capital out of the banking system to address this requirement of banks and pumped this money into the share market. He promised the banks higher rates of interest, while asking them to transfer the money into his personal account, under the guise of buying securities for them from other banks. At that time, a bank had to go through a broker to buy securities and forward bonds from other banks. Mehta used this money temporarily in his account to buy shares, hike up demand of certain shares (such as that of ACC, Sterlite Industries, and Videocon) dramatically, sell them off, pass on a part of the proceeds to the bank and keep the rest for himself. This resulted in stocks like ACC, which was trading in 1991 for ₹ 200/share, catapult to nearly ₹ 9,000 in just 3 months.

## **Bank receipt scam**

Another major instrument was the bank receipt (BR). In a ready forward deal, securities were not moved back and forth in actuality. Instead, the borrower, i.e. the seller of securities, gave the buyer of the securities a BR. The BR serves as a receipt from the selling bank, and also promises that the buyer will receive the securities they have paid for at the end of the term. Having figured this out, Mehta needed banks, which could issue fake BRs, or BRs not backed by any government securities?

Once these fake BRs were issued, they were passed on to other banks and the banks in turn gave money to Mehta, plainly assuming that they were lending against government securities when this was not really the case. He took the price of ACC from ₹ 200 to ₹ 9,000. That was an increase of 4,400%. Since he had to book profits in the end, the day he sold was the day when the markets crashed.

## **Ready forward deal scam**

The ready forward deal is a way where a single broker liaisons between two banks. When one bank wants to sell securities, it approaches the broker. This broker goes to another bank and tries to sell the securities and vice versa for buying. Since Mehta was very renowned broker, he got cheques issued in his name instead of the bank. When the bank wanted money for the securities, he approached another bank and repeated the same process, and invested the bank money in the stock market.[10] Mehta used the ready forward deal and applied it to the Bank

Receipts system of the Indian financial systems. This system was the most flawed system as the Janakiraman Committee restructured the entire Bank Receipts system after the 1992 scam.

Mehta used forged BR's to gain unsecured loans, and used several small banks to issue BRs on demand. Since these banks were small, Mehta held on to the receipts as long as he wanted. The cheques in favour of both the banks were credited into the brokers' accounts which were the account of Mehta. As a result, banks made heavy investments into BOK and MCB as they showed positive signs of growth.[1] Using the BR scam, Mehta took the price of ACC from ₹ 200 to ₹ 9000 in a short span of time. This 4400% percent increase was seen in several other stocks and as he sold the stocks, the market crashed.

This went on as long as the stock prices kept going up, and no one had a clue about Mehta's operations. Once the scam was exposed, though, a lot of banks were left holding BRs which did not have any value – the banking system had been swindled of a whopping ₹ 4,000 crores (equivalent to ₹ 250 billion or US\$3.5 billion in 2019). He knew that he would be accused if people came to know about his involvement in issuing cheques to Mehta. Subsequently, it transpired that Citibank, brokers like Pallav Sheth and Ajay Kayan, industrialists like Aditya Birla, Hemendra Kothari, a number of politicians, and the RBI Governor S. Venkatraman all had played a role in allowing or facilitating Mehta's rigging of the share market.

## Realization of scam and market crash

The scam first became apparent in late April 1992, when it became clear that Mehta was a disproportionately large investor in government securities. At the time, Mehta was doing more than a third of the total securities business in India. When the public realized that Mehta's investments were illegitimate and that his stocks were likely worthless, it set off a selling frenzy of Mehta's stocks. The banks that had loaned money to Mehta were suddenly holding hundreds of millions in unsecured loans. The combination of the selling frenzy and the fact that numerous banks been defrauded crashed the Indian stock market, with prices dropping 40% immediately. Stocks eventually dropped 72%, and a bear market lasted for about 2 years.

**This table illustrates the extent of money certain banks lost.**

Name of Bank	₹ in crores
<a href="#">National Housing Bank</a> (NHB)	1199.39
<a href="#">State Bank Of Saurashtra</a>	175.04
<a href="#">SBI Capital Markets Ltd</a> _ (SBI Caps)	121.23

<a href="#">Standard Chartered Bank</a>	300.00
<b>Total</b>	1795.66

## **Exposure, trial and conviction**

Exploiting several loopholes in the banking system, Mehta and his associates siphoned off funds from inter-bank transactions and bought shares at a premium across many segments, triggering a rise in the BSE SENSEX. When the scheme was exposed, banks started demanding their money back, causing the collapse. He was later charged with 72 criminal offences, and more than 600 civil action suits were filed against him.

He was arrested and banished from the stock market with investors holding him responsible for causing losses to various entities. Mehta and his brothers were arrested by the CBI on 9 November 1992 for allegedly misappropriating more than 2.8 million shares of about 90 companies through forged share transfer forms. The total value of the shares misappropriation was placed at ₹ 250 crore (equivalent to ₹ 15 billion or US\$220 million in 2019).

Mehta made a brief comeback as a stock market guru, giving tips on his own website as well as a weekly newspaper column. However, in September 1999, Bombay High Court convicted and sentenced him to five years rigorous imprisonment and a fine of ₹ 25,000 (US\$350). On 14 January 2003, The Supreme Court of India confirmed High Court's judgement in a 2–1 decision. While Justice B.N. Agrawal and Justice Arijit Pasayat upheld his conviction, Justice M.B. Shah voted to acquit him.

## **Allegations of payment of bribe to India's prime minister**

**Mehta raised a furor on announcing that he had paid ₹ 10 million to the then Congress President and Prime Minister, P.V. Narasimha Rao, as a donation to the party, for getting him off the scandal case.**

## **The Role played by Harshad Mehta**

Harshad Mehta used to broker the RF deals as mentioned above. He managed to convince the banks to have the cheques drawn in his name. He would then manage to transfer the money deposited in his account into the stock markets. Harshad Mehta then took advantage of the broken system and took the scam to new levels.

In a normal RF deal, there would be only 2 banks involved. Securities would be taken from a bank in exchange for cash. What Harshad Mehta did here was that when a bank would request its securities or cash back he would rope in a third bank. And eventually a fourth bank so on and so forth. Instead of having just two banks involved, there were now multiple banks all connected by a web of RF deals.

## **Harshad Mehta and the Bear Cartels**

Harshad Mehta used the money he got out of the banking system to combat the Bear Cartels in the stock market. The Bear Cartels were operated by Hiten Dalal, A. D. Narottam and others. They too operated with money cheated out from the banks. The Bear Cartels would aim at driving the prices low in the market which eventually undervalued various securities. The Bear Cartels would then purchase these securities at a cheap price and make huge profits once the prices normalized.

Harshad Mehta countered this by pumping money from the stock market to keep the demand up. He argued that the market has simply corrected the undervalued stock when it revalued the company at a price equivalent to the cost of building a similar enterprise. He put forward this theory with the name replacement cost theory. This theory was a fallacy on his behalf or an illusion he resorted to the public to justify his investments. Such was his influence in the stock market that his words would be blindly followed similar to that of a religious guru.

He would use the money from the banks which was temporarily in his account to hike up the demand of certain shares. He selected well-established companies like ACC, Sterlite Industries, and Videocon. His investments along with the market reaction would result in these shares being exclusively traded. The price of ACC rose from Rs.200 to nearly Rs. 9000 in a span of 2 months.

Harshad Mehta celebrated this victory by feeding peanuts to the bears at the Bombay Zoo as it signified his victory over the bearish trends.

## **Benefits to Banks**

The banks were aware of Harshad Mehta's actions but chose to look away as they too would benefit from the profits Harshad would make from the stock market. He would transfer a percentage to the banks. This would also enable banks to maintain profitability.

## **The Scam within the Scam**

Harshad Mehta noticed early on the dependence of the RF deals on BR's. In addition to this, the RF deal system also placed a great deal of reliance on prominent brokers like Harshad Mehta. So he along with two other banks namely Bank of Karad (BOK) and the Metropolitan Co-operative Bank (MCB) decided to further exploit the system. With the help of these two banks, he was able to forge BR's. The BR's that were forged were not backed by any securities. This meant that they were just pieces of paper with no real value. This is similar to a situation where you can avail loans with no collateral. Harshad Mehta further would pump this money into the stock market increasing his amount of influence.

The RBI is supposed to conduct on-site inspections and audits of the investment accounts of the banks. A thorough audit would reveal that amount represented by BRs in circulation was

significantly higher than the government bonds actually held by the banks. When the RBI did notice irregularities it did not act decisively against Bank of Karad (BOK) and the Metropolitan Co-operative Bank (MCB).

Another method through which the collateral was eliminated was by forging government bonds themselves. Here the BRs are skipped and fake government bonds are created. This is because PSU bonds are represented by allotment letters making it easier for them to be forged. However, this forgery amounted for a very small amount of funds misappropriated.

## **Exposing the Harshad Mehta Scam**



Journalist Sucheta Dalal was intrigued by the luxurious lifestyle of Harshad Mehta. She was particularly drawn to the fleet of cars owned by Harshad Mehta. They included Toyota Corolla, Lexus Starlet, and Toyota Sera which were rarities and a dream even for the rich in India during the 1990s. This further interest had her further investigate the sources through which Harshad Mehta amassed such wealth. Sucheta Dalal exposed the scam on 23rd April 1992 in the columns of Times of India.

It has been alleged that the Bear Cartel ganged up on Mehta and blew the whistle on him to get rid of him and the bullish run altogether.

Sucheta brought the scam to light in 1992 and was later awarded a Padma Shri for journalism in 2006. Her interest in the scam when she got curious about the lifestyle that Harshad led, and his ever-growing popularity, and she decided to investigate his wealth. A journalist for The Times of India at the time, she wrote a column exposing the scam on 23 April, 1992. Post which, she published her book about the same in 1993.

## **Aftermath of Harshad Mehta Scam Exposure**

### **Effect on the Stock Market**

Less than 2 months after the scam was exposed, the stock market had already lost a trillion rupees. The RBI created a committee to investigate the matter. The Committee was called the Janakiraman Committee. As per the Janakiraman Committee Report, the scam was of the magnitude of Rs.4025 crores. This impact on the stock market was huge considering that the scam amounted to only 4025 crores in comparison to a trillion or 1 lakh crores.

This major fall, however, cannot be attributed to the scam alone but also to the governments' harsh response. In an attempt to ensure that all the parties involved are brought to justice, the government did not permit the sale of any shares that had gone through the brokers in the last one year. This affected not only the brokers but also the innocent shareholders who may have gone through these brokers to purchase securities. The shares came to be known as tainted shares. Their value was reduced to pieces of paper as their holder was not allowed to sell them. This just resulted in a worsened financial environment.

### Effect on the Political environment

The opposition demanded the resignation of the then Finance Minister Man Mohan Singh and the RBI Governor S. Venkatraman. Singh even offered his resignation but this was rejected by Prime Minister P. V. Narasimha Rao.

### Effect on the Banking Sector

When the scam was exposed the banks started demanding their money back and recovery efforts made them realize that there were no securities backing the loan either. The Investments in the stock market by Harshad Mehta were tainted and had reduced by a significant value. A number of bankers were convicted. It also led to the suicide of the chairman of Vijaya bank

### Further Investigation

The investigations revealed many players like Citibank, brokers like Pallav Sheth and Ajay Kayan; industrialists like Aditya Birla, Hemendra Kothari, a number of politicians, and the RBI Governor all had played a role in the rigging of the share market. The then minister P. Chidambaram also had utilized Harshad Mehta's services and invested in Harshad Mehta's Grow more firms through his shell companies.

### Effect on Harshad Mehta's Life

Harshad Mehta was charged with 72 criminal offenses and more than 600 criminal action suits. After spending 3 months in custody Mehta was released on a bail. The drama however never subdued but only intensified. In a press conference, Harshad Mehta claimed that he had bribed the then Prime Minister P.V. Narasimha Rao for Rs 1 crore to secure his release.

Harshad Mehta even displayed the suitcase in which he allegedly carried the cash. However he CBI never found any concrete evidence of this. Harshad Mehta was now also barred from participating in the stock market.

Investigators felt that Harshad Mehta was not the original perpetrator who forged the bank receipts. It was clear that Harshad Mehta capitalized and made profits using these methods. They also saw the possibility of the bear cartels ganging up on Harshad Mehta to get rid of the bearish markets by blowing the whistle on him and having the scam exposed through Sucheta Dalal. This, however, drew the investigators' attention to the bear cartel as well as they too had used the same means as Harshad Mehta. These other brokers were eventually tried too.

## **Life after Release and Death**

Harshad Mehta made a comeback as a market guru sharing advice on his website and newspaper columns. In September 1999 the Bombay High court convicted him and sentenced him to 5 years of imprisonment. Mehta died while in criminal custody after suffering from cardiac arrest in Thane Prison on 31st December at the age of 48.

## **Effect on Harshad Mehta's Family**

When Harshad Mehta died he still had 27 cases pending against him. Although all criminal cases have been cleared before his death there were still several civil cases pending in court. His wife still fights cases with recent victories over the IT department and a broker who owed Harshad Mehta 6 crores. The broker was ordered to pay the amount with 18% interest which roughly accumulated to 524 crores. The cases have dragged on for so long that his brother secured the law degree in his 50's and represents the family in court. Harshad Mehta's son now makes headlines regarding his investments.

## **Conclusion**

Despite the scam, Harshad Mehta is still looked up to in certain circles, As reported by Economic Times some financial experts believe that Harshad Mehta did not commit any fraud, "he simply exploited loopholes in the system". When Harshad Mehta was first released out of prison in 1992 he was greeted with cheers and applause as his return would signify the return of his bullish trend. It is doubted that if businessmen who have been embroiled in scandals with the likes of Vijay Mallya, Nirav Modi will receive the same welcome.

The Harshad Mehta scam can be looked at from two sides. The first is a scam where Harshad looted the stock market and the public or the second way where Harshad Mehta was made the scapegoat as someone had to be blamed and at the same time kept other influential people away from the limelight. The Year 1991 is generally referred to as the year of progress due to liberalization but if seen from this perspective discussed here it just makes one exclaim "What a mess!".



**Commonwealth games 2010 scam RS  
70,000 crores**



**SURESH KALMADI**

## OVERVIEW

The 2010 Commonwealth Games may have ended on October 14th, but the controversy surrounding the organizing of the games is far from over. In Parliament, the Opposition has called for a Joint-Parliamentary Committee (JPC) to be formed to investigate suspected financial irregularities in the organizing of the Games

[1]. in a statement in Parliament on Tuesday, Minister for Youth Affairs & Sports M.S. Gill commented that “All irregularities will be examined and the guilty will not be spared”

[2]. In July 2010, the Central Vigilance Commission (CVC) found irregularities in 14 Games related construction projects

[3]. It has been reported that officials from the CVC now believe total misappropriation of Games Funds could be between Rs 5000 crore and Rs 8000 crore

[4]. so what is being done about it? Currently, six different government organisations are conducting independent inquiries into financial irregularities, corruption, and mismanagement of the Games: the High Level (Shunglu) Commission, CVC, CAG, CBI, Income Tax Department, and Enforcement Directorate (ED). With so many government organisations involved, it can be difficult to decipher the big picture. Here is a breakdown of what each organisation is doing: High Level Commission (Shunglu Commission): The Commission was appointed by the Prime Minister on October 15<sup>th</sup>

[5]. It is chaired by V.K. Shunglu, former Comptroller and Auditor General of India, who has been given the status equivalent to a Supreme Court Judge

[6]. The Commission has a broad mandate to investigate all matters regarding the Games, specifically.

- Roles and responsibilities of signatories to Host City Contract
- Planning and execution of development projects and contracts
- Effectiveness of organisational structure and governance for agencies involved
- Managerial weaknesses
- All financial aspects of the event, including wrongdoing
- Coordination issues amongst agencies
- Role of advisors and consultants to Organising Committee
- Overall impact of the games
- Lessons learnt for the future

## **The key players**

Central in the Commonwealth Games controversy and this new scandal was Lalit Bhanot, Secretary-General to the 2010 Organising Committee, and Suresh Kalmadi, the committee's head.

Bhanot, who has already spent 11 months in jail on corruption charges concerning the 2010 Games, was elected unopposed as IOA secretary-general before the IOC stepped in.

Kalmadi was, and remains, a key member of parliament in a party that supports the present United Progressive Alliance government headed by Manmohan Singh and dominated by the Indian National Congress. Kalmadi was also then President of the IOA.

It should be said here that the IOC has for years ignored this “political” as opposed to “government” influence in Indian sport. Kalmadi is just one of a myriad of Indian politicians at state and national level who have used sports organisations as another vote bank.

Major sports like cricket and football have been most affected, but all sports are involved.

The IOC's real agenda was displayed through its Ethics Commission. Once Kalmadi and Bhanot, along with several others, were arrested then later released on remand pending a trial after the Commonwealth Games, the Ethics Commission declared the IOA should not elect any of them to office.

Meanwhile, in an attempt to clean up the mess the government passed the Sports Code designed to clarify election processes and organisational operations. The IOA tried to defy this, as did several other sports bodies, but a Delhi High Court decision ruled the IOA elections must occur under the Code's provisions.

## **Power plays**

Technically, this is what the IOC imposed the suspension for, but it was really aimed at those elected. This is not really about “government interference” but goes to the character of those involved at the top levels of Olympic and other sports leadership in India.

After all, the IOC still has in its ranks a range of countries whose representatives are clearly and unambiguously put there by their governments: there is constant discussion about Saudi Arabia, for example, but its Olympic body still has standing while India now does not.

At the same time as it suspended India for government interference, the IOC reinstated Kuwait citing evidence such interference no longer occurred there. Many observers would contest that.

The real focus for India, then, should be on correcting the growing outside perception that not only is its sport “politicised”, but the perception that its leadership's has low integrity and

trustworthiness. That outside perception may be unfair in that there are obviously good sports administrators in some fields, but it is becoming a dominant perception whether India likes it or not.

## **Flow-on effects**

In retrospect, the 2010 Commonwealth Games consequences are now becoming increasingly significant. They were serious enough at the time, but the IOC action suggests their on-going momentum.

In turn, that reputation, involving major politicians in their sports roles, does not help in the broader sense, as surveys like the Transparency Index match up alongside on-going corruption hearings involving, among other things, the selling off of 2G spectrum, coal license distribution, illegal iron ore mining in the southern states, and all that against the backdrop of past cases like the Bofors arms sale scandal.

The IOC's actions then, right or wrong, have focused attention squarely on India's governance and probity systems more generally. All at a time when the rest of the world is wanting to engage with India as the new world economic power. It is an uneasy combination that is likely to become even more difficult.

## **Manmohan Singh PMO recommended Kalmadi's appointment**

Criticizing the Manmohan Singh PMO, the Public Accounts Committee (PAC) has adopted the politically controversial 2010 Commonwealth Games (CWG) report.

The report said the then PMO "passed the buck" by appointing Suresh Kalmadi as the CWG Organizing Committee Chairman.

PAC dismissed the PMO's response that non-circulation of minutes of the PM Manmohan Singh-led meeting in January 2005 was best explained by the Sports Ministry.

## **CBI filed 33 cases against Kalmadi and his aides**

Reflecting an all-party consensus, the report noted the Cabinet Secretariat's failure in ensuring accountability and its "bending to political pressure".

Under BJP leader Murali Manohar Joshi, the PAC is examining the Comptroller and Auditor General report that highlighted irregularities in conducting CWG games.

CBI filed 33 cases against Kalmadi and his aides.

A committee chaired by Congress's KV Thomas recently adopted the current report.

## **Political Implications**

Political implications of the committee's report, a strong indictment of UPA-2, were reportedly held up since PM Narendra Modi assumed office; but PAC cleared the 357-page report, which criticized the Manmohan Singh PMO.

PAC said, "The MYAS (Sports Ministry) received the minutes back from the cabinet secretariat after the decision to appoint President of IOA (Kalmadi) had been implemented and that too undated."

Calling for additional scrutiny and oversight, PAC condemned the manner in which highest government institutions were allowed to be manipulated by 'extraneous influences'.

It criticized the "imprudent decision" to appoint Suresh Kalmadi as the CWG Organizing Committee (OC) Chairman despite the then Sports Minister, late Sunil Dutt's serious objections.

It said Kalmadi's appointment turned the CWG OC into a body "outside government control."

## **Committee seeks faster investigation**

PAC examined CBI's investigation and asked for an update on court developments concerning the closed cases. Directing the investigating agency to reopen the investigation in six cases that were declared closed, the committee sought faster investigation into a case involving senior CWG Organizing Committee members.

## **Socio-economic impact**

### **Financial costs**

Miloon Kothari, a leading Indian expert on socio-economic development, remarked that the 2010 Commonwealth Games will create "a negative financial legacy for the country" and asked "when one in three Indians lives below the poverty line and 40% of the hungry live in India, when 46% of India's children and 55% of women are malnourished, does spending billions of dollars on a 12-day sports event build national pride or is it a matter of national shame?"

One of the outspoken critics of the Games is Mani Shankar Aiyar, former Indian Minister for Youth Affairs and Sports. In April 2007, Aiyar commented that the Games are "irrelevant to the common man" and criticized the Indian government for sanctioning billions of dollars for the Games even though India requires massive investment in social development programs. In July 2010, he remarked that he would be "unhappy if the Commonwealth Games are successful".

Azim Premji called the 2010 Commonwealth Games a "drain on public funds" and said that hosting the high-expense Games in India is not justified given that the country had more important priorities facing it, such as education, infrastructure and public health.

### **Social and environmental impact**

Nearly 400,000 people from three large slum clusters in Delhi have been relocated since 2004. Gautam Bhan, an Indian urban planner with the University of California-Berkeley, said that the 2010 Commonwealth Games have resulted in "an unprecedented increase in the degree, frequency and scale of indiscriminate evictions without proper resettlement. We haven't seen these levels of evictions in the last five years since the Emergency."

In response to a Right to Information (RTI) application filed for study and statements by civil society groups, a report by the Housing and Land Rights Network (HLRN) - an arm of the Habitat International Coalition - detailed the social and environmental consequences of the event. It stated that no tolerance zones for beggars are enforced in Delhi, and the city has arbitrarily arrested homeless citizens under the "Bombay Prevention of Begging Act 1959".

### **Labour laws violations**

Campaigners in India have accused the organisers of enormous and systematic violations of labour laws at construction sites. Human Rights Law Network reports that independent investigations have discovered more than 70 cases where workers have died in accidents at construction sites since work began. Although official numbers have not been released, it is estimated that over 415,000 contract daily wage workers are working on Games projects. Unskilled workers are paid ₹ 85 (US\$1.20) to ₹100 (US\$1.40) per day while skilled workers are paid ₹ 120 (US\$1.70) to ₹ 130 (US\$1.80) INR per day for eight hours of work. Workers also state that they are paid ₹ 134 (US\$1.90) to ₹150 (US\$2.10) for 12 hours of work (eight hours plus four hours of overtime). Both these wages contravene the stipulated Delhi state minimum wage of ₹152 (US\$2.10) for eight hours of work. Nearly 50 construction workers have died in the past two years while employed on Games projects.

These represent violations of the Minimum Wages Act, 1948; Interstate Migrant Workmen (Regulation of Employment and Condition of Services) Act 1979, and the constitutionally enshrined fundamental rights per the 1982 Supreme Court of India judgement on Asiad workers. The public have been banned from the camps where workers live and work – a situation which human rights campaigners say prevents the garnering of information regarding labour conditions and number of workers.

There have been documented instances of the presence of young children at hazardous construction sites, due to a lack of child care facilities for women workers living and working in the labour camp style work sites. Furthermore, workers on the site of the main Commonwealth stadium have reportedly been issued with hard hats, yet most work in open-toed sandals and live in cramped tin tenements in which illnesses are rife. The High Court of Delhi is presently hearing a public interest petition relating to employers not paying employees for overtime and it has appointed a four-member committee to submit a report on the alleged violations of workers' rights.

During the construction of the Games Village, there was controversy over financial mismanagement, profiteering by the Delhi Development Authority and private real estate companies, and inhumane working conditions.

## **Child labour**

CNN has broadcast evidence showing children, as young as seven, being used in the construction of the game venues. According to Siddharth Kara, who provided CNN with the evidence, he documented 14 cases of child labour within a few days. In reply to a question whether it could have been just a case of kids being present at the construction site along with their parents, he replied: "It's not just kids playing in the dirt or using a hammer as a toy." He further stated about the kids: "They're told to do the work and they just do the work. They don't know that they should be in school or that they should be playing."

Even though the New Delhi chief minister Sheila Dikshit claimed that nobody had approached her, according to CNN, they had tried to contact her as far back as 23 July 2010.

In spite of repeated attempts, according to them, no official reply was ever made.

## **Urban change**

Mitu Sengupta, a professor of politics at Ryerson University, Canada, points out that there is a "tradition of using 'urban spectacles' such as the Olympics and World's Fairs to enhance a city's global recognition, image and status, and to push through controversial policy reforms that might otherwise linger in the pending file for years (it is easier to undercut local opposition under the pressure of a fixed deadline and the international spotlight)." She writes that the reforms involved are often "the invention of an affluent, globally connected minority that is relatively detached from local conditions and the local population". The 2010 Commonwealth Games, she says, are being used to invigorate an elite-driven program of urban transformation that centres on privatization, securitization, and the construction of "monuments to vanity". Sengupta expands upon this argument in a subsequent article in *Z*

Magazine Amita Baviskar, a professor of sociology at the Institute of Economic Growth,

University of Delhi, makes a similar argument, on how mega-events, like the Olympics and Commonwealth Games, are used to advance narrow agendas of urban reform that cater to the middle class and rich. She focuses on how, in preparation for the Commonwealth Games, the city's slums were bulldozed in order to make room for shopping malls and expensive real estate.

### **Sex slavery and prostitution boom**

There has been a boom in the number of young girls, mostly from impoverished parts of India, coming to Delhi after being offered jobs by disguised criminals, only to be taken prisoner and forced into sex slavery. The number of victims is believed to be in the hundreds. Many brothels have been running English courses for sex workers and upgrading their facilities in anticipation of a business upturn during the games. Overseas prostitutes are also expected to come as tourists and ply their trade. One anti-trafficking NGO has claimed that there are reports of 40,000 women being brought in from north eastern India alone. A spokesperson said that recruits from that part of India were favoured because of their lighter skin. It has been reported that over 3,000 bar girls in Mumbai have stopped going to work; this has been blamed on an exodus to Delhi for the Commonwealth Games.

### **Organisational failure**

#### **Vigilance-related irregularities and Over-Invoicing**

On 28 July 2010, the Central Vigilance Commission, an Indian government body created to address governmental corruption, released a report showing irregularities in up to 14 CWG projects. As per official reports, in total 129 works in 71 organisations have been inspected. The detailed preliminary findings included the award of work contracts at higher prices, poor quality assurance and management, and work contracts awarded to ineligible agencies. There are also allegations of widespread corruption in various aspects of organising the games including procurement and awarding contracts for constructing the game venues. The Commonwealth Games Organising Committee on 5 August 2010 suspended joint director T S Darbari and M Jayachandran following the report of the three-member panel which was probing the financial irregularities related to the Queen's Baton Relay.

Also, Organising Committee treasurer Anil Khanna resigned from the post in the wake of allegations that his son's firm had secured a contract for laying synthetic courts at a tennis stadium. The Global Post news agency reports that scandals have come to light, such as "shadowy off-shore firms, forged emails, inexplicable payments to bogus companies and inflated bills – for every purchase from toilet paper to treadmills." Among the alleged corruption and defrauding of the games budget, toilet paper rolls valued at \$2 were costed at \$80, \$2 soap dispensers at \$60, \$98 mirrors at \$220, \$11,830 altitude training simulators at \$250,190.



### **Mass volunteer walkout**

Around 10,000 of the 22,000 selected volunteers quit, less than a week before the event. This has been blamed on a lack of training for personnel, or dissatisfaction with assignments. There are reports that some who have quit have not returned their uniforms.

### **Poor ticket sales and attendance**

The start of the Games saw extremely poor ticket sales, with many venues near empty. In a press conference, organising Chairman Suresh Kalmadi admitted that there were problems, and blamed empty venues on ticket booths not being set up outside stadiums. Commonwealth Games chief Mike Fennell admitted that many venues had been nearly empty on the opening day of the Games, saying "A number of venues do not have lots of spectators tone area which causes us concern". On the second day of competition, less than 100 people filled the hockey venue—the 19,000-seat MDC Stadium. Less than 20 people watched the first tennis match of the tournament in the 5,000-seat tennis stadium, and just 58 fans watched the netball opening match.

One Indian competitor tried to buy tickets for relatives online, only to be informed by the website that tickets were sold out. When he arrived to compete, he found the venue to be empty.

The streets of Delhi were deserted for the cycling road races and walking event.

### **Spectators' response at opening ceremony**

At the opening ceremony, the chairman of the organising committee, Suresh Kalmadi, faced embarrassment, when he was booed by spectators at the start of his welcome speech to 60,000 spectators. Kalmadi came under further strain when he "thanked" the late Princess Diana for attending the opening ceremony of the games. The chairman made the blunder at a press conference saying 'Yes, Princess Diana was there,' after which he immediately corrected himself by saying 'Prince Charles and (Camilla) the Duchess of Cornwall.

### **Opening ceremony**

The Australian Commonwealth contingent expressed frustration over the opening ceremony, in which there were claims that the athletes and delegation support staff were "treated like cattle" and subjected to "disgraceful" and unbearable conditions. Australia's chef de mission Steve Moneghetti complained about the athletes being trapped in "absolute cauldron conditions" under the main stadium before marching for the opening ceremony. The Australians were stuck in a tunnel, where Moneghetti described the temperature as exceeding 40 °C (104 °F) due to a lack of air conditioning and ventilation. When attempting to move out, the Australian delegation was stopped by staff. When the contestants were finally able to move out into the arena, they were described as being emotionally affected.

## **Racism allegations**

African countries have complained that they are getting second-class treatment from the Games organisers, in spite of them offering India a hand in the preparation of the Games. They have alleged that accommodation given to them was inferior compared to the accommodation provided to the Australian and New Zealand teams. They went on to state that India was complaining about being victims of racial bias in the reporting of the Games; while simultaneously perpetrating the same kind of racism against the African countries.

## **Infrastructure issues**

### **Transport infrastructure**

The Delhi Airport Metro express built by Reliance Infrastructure and CAF Beasain missed its deadline of 31 July 2010 and the private consortium was fined Rs 112.5 million.

### **Venues**

Less than two weeks before the opening ceremony, Fennell wrote to the Indian cabinet secretary, urging action in response to the village being "seriously compromised." He said that though team officials were impressed with the international zone and main dining area, they were "shocked" by the state of the accommodation. "The village is the cornerstone of any Games and the athletes deserve the best possible environment to prepare for their competition." The BBC published photographs of the village taken two days before 23 September showing unfinished living quarters.

New Zealand, Canada, Scotland and Northern Ireland have expressed concern about unliveable conditions. The Times of India newspaper reports that the Scottish delegation apparently submitted a photograph of a dog defecating on a bed in the games village. Hooper said that there was "excrement in places it shouldn't be" in the athletes' quarters and that members of visiting delegations had to help clean up the unsanitary things. The BBC released images of bathrooms with brown-coloured paan stains on the walls and floor, liquids on the floor, and brown paw prints on athletes' beds. Lalit Bhanot, the secretary general of the Organising Committee, rejected the complaint that sanitation was poor by saying that, due to cultural differences, there are different standards about cleanliness in India and the western world, a statement for which he was widely ridiculed in Indian and international media. Bhanot went on to say of the athletes' village that, "This is a world-class village, probably one of the best ever."

Meanwhile, Pakistan also made reservations over the condition of the athletes' village and asked for an alternate accommodation to be made available to its contingent while preparation was still in progress. The Pakistan Olympic Association president Syed Arif Hasan remarked: "We want the CGF to ensure that the athletes' village is in good condition. Athletes cannot stay at a substandard place." Hasan however added that there were no doubts over Pakistan's participation and the contingent would leave as planned.

On the other hand, England's Chef de mission Craig Hunter praised the Games Village, remarking that "the Commonwealth Games Village here [in New Delhi] is better than the Beijing Olympics". He added that the arrangements at the Games Village are much better than that at the 2008 Summer Olympics.

Canada's sports minister also supported the Games, saying that big events always face issues, and the media often exaggerates them, as Canada found during the Vancouver Winter Olympics. He added that "We are coming in full force."

### **Problems with functionality of equipment and infrastructure during events**

On the first night of swimming, debris landed in the swimming pool, causing delays ahead of a race. It is believed that part of the ceiling or its paint had fallen off.

Before the last night of swimming finals, the filtration system broke down and the pool was turbid and murky during the warm-up session and the finals; it was described as the least clear ever seen for a swimming competition. A disproportionate number of swimmers fell ill with intestinal complaints, leading to concerns over the cleanliness and sanitation of the pool. Early suspicions rested on the quality of water in the swimming pools of the SPM Complex, but other competing teams, including South Africa, reported no such illness. Daily water quality tests were being carried out on the water of the pools, as mandated by the event standards. Additional tests were ordered after news of the illnesses, but they also did not find anything amiss. The Australian team's chief doctor, Peter Harcourt, ruled that the "chances of the [Delhi] pool being the cause of the problem is very remote" and praised the hygiene and food quality in the Delhi Games Village. He suggested that it could be a common case of Traveller's diarrhea (locally called Delhi belly), or the Australian swimmers could have contracted the stomach virus during their training camp in Kuala Lumpur, Malaysia. English Olympic and Commonwealth gold-medalist swimmer Rebecca Aldington said that the water quality was absolutely fine.

After the opening ceremony, the ground at the athletics arena was damaged, and the grass infield and the track were still being re-laid two hours before competition started.

### **Allegations of corruption and financial irregularities**

The day after the conclusion of the Games, the Indian Government announced formation of a special committee to probe the allegations of corruption and mismanagement against the Organizing Committee (OC). The probe committee was led by former Comptroller and Auditor General of India V. K. Shunglu. This probe was in addition to the Directorate General of Income Tax Investigation, Central Bureau of Investigation (CBI), Enforcement Directorate, and Central Vigilance Commission (CVC) investigations already underway. The then Prime Minister, Dr. Man Mohan Singh, had promised in mid-August, when reports of the bungling

first surfaced, that corrupt officials will be given "severe and exemplary" punishment after the Games. The committee was given three months' time to submit its report.

A total of 53 corruption cases were being examined by the CVC. As of September 2012, 28 of them were still in different stages of investigation, 13 were referred to CBI for further investigation and 12 were closed.

## **Timing-Scoring-Result (TSR) case**

This case relates to allegations of corruption in awarding TSR system contract to a Swiss firm

### **CBI investigation and charge sheet**

On 25 April 2011, CBI arrested former CWG Organising Committee (OC) chairman Suresh Kalmadi in the Timing-Scoring-Result (TSR) case. He was arrested under Sections 120 B (criminal conspiracy) and 420 (cheating) of the Indian Penal Code.

On 20 May 2011, CBI filed the first charge sheet in a special CBI court against Kalmadi. The CBI alleged that he was the main accused in awarding TSR system contract to a Swiss firm. The charge sheet said, "Kalmadi is the main accused as he was the person with all supreme powers. He had the supreme over-riding powers in the Organising Committee of the CWG, 2010." In addition to Kalmadi, the CBI named two companies and eight persons including OC former Secretary General Lalit Bhanot and former Director General VK Verma as accused.

The accused were charged under various provisions of the Indian Penal Code sections dealing with criminal conspiracy, forging documents and using fake documents as genuine, Section 13 (1) (d) of the Prevention of Corruption Act.

According to the charge sheet, the accused allegedly awarded the lucrative contract to the Swiss firm to install a TSR system for the Commonwealth Games at an excessive cost, causing a loss of over ₹ 900 million (US\$13 million) to the exchequer. The investigation revealed that officials of the OC had conspired with private persons for awarding the contract at an excessive net cost of about ₹ 1,576 million (US\$22 million) as compared to a net bid of Spain-based company for approximately ₹ 620 million (US\$8.7 million). This resulted in a loss of about ₹ 956 million (US\$13 million) by wrongly eliminating all competitors of Swiss-based company.[138][139] Two bids were received for TSR contract from Swiss Timing and MSL Spain and they were opened on 4 November 2009.

# Havala scam RS 130 crores

## POLITICIANS INVOLVED



**LK Advani**(the Leader of  
Opposition at that time)



Gov MP  
**Balram Jakhar**



The former Union  
Minister, **P. Shiv Shankar**



Former Delhi CM  
**Madan Lal Khurana**



Janata Dal (U) president  
**Sharad Yadav**



Senior politician and former  
Union Minister, **V.C. Shukla**

## **What is hawala? And what is the hawala scandal?**

A system for remitting money, primarily in Islamic societies, in which a financial obligation between two parties is settled by transferring it to a third party, as when money owed by a debtor to a creditor is paid by a person who owes the debtor money. Hawala transactions are usually based on trust and leave no written record.

"Transfer, trust." Hawala is an ancient system of money transfer that existed in South Asia before Western banking arrived. Customers entrust money to hawala bankers or operators (hawaladars), who facilitate money movement worldwide through personal connections, sometimes using legitimate bank accounts, but leaving a minimal paper trail. The few records kept are encoded. Dubai, India and Pakistan form a "hawala triangle," responsible for the heaviest traffic in worldwide financial transfers

Hawala (also known as hundi) is an informal value transfer system based on performance and honour of a huge network of money brokers which are primarily located in the Middle East, Africa and Asia.

### **Origins**

Its origins are not entirely clear, but it is believed to have arisen first in the financing of long-distance trade around the emerging capital trade centres in the early medieval period. Hawala is mentioned in texts of Islamic jurisprudence as early as the 8th century. In South Asia, it appears to have developed into a fully-fledged money market instrument, which was only gradually replaced by the instruments of the formal banking system in the first half of the 20th century. Today hawala is probably used mostly for migrant workers' remittances to their countries of origin.

### **How Hawala Works**

In the most basic variant of the hawala system, money is transferred via a network of hawala brokers, or hawaladars. A customer approaches a hawala broker in one city and gives a sum of money to be transferred to a recipient in another, usually foreign, city. The hawala broker calls another hawala broker in the recipient's city, gives disposition instructions of the funds (usually minus a small commission), and promises to settle the debt at a later date.

The unique feature of the system is that no promissory instruments are exchanged between the hawala brokers; the transaction takes place entirely on the honour system. As the system does not depend on the legal enforceability of claims, it can operate even in the absence of a legal and juridical environment. No records are produced of individual transactions; only a running tally of the amount owed one broker by the other is kept. Settlements of debts between hawala brokers can take a variety of forms, and need not take the form of direct cash transactions.

Furthermore, the transfers are informal and not effectively regulated by governments, which are a major advantage to customers with tax, currency control, immigration, or other legal concerns. For the same reasons, governments do not favour the system, and accusations have been made in recent years that terrorist funding often changes hands through hawala networks.

### **Hundis (The bill of exchange)**

On a similar note, Hundis referred to legal financial instruments evolved on the Indian sub-continent. These were used in trade and credit transactions; they were used as remittance instruments for the purpose of transfer of funds from one place to another. In the era of bygone kings and the British Raj these Hundis served as Travellers Cheques. They were also used as credit instruments for borrowing and as bills of exchange for trade transactions. Technically, a Hundi is an unconditional order in writing made by a person directing another to pay a certain sum of money to a person named in the order. Being a part of an informal system, Hundis now have no legal status and were not covered under the Negotiable Instruments Act, 1881. They were mostly used as cheques by indigenous bankers.

### **Angadia**

The word angadia means courier (in Hindi) but it is also used for people who act as Hawaladars within the country (India). These people mostly act as a parallel banking system for businessmen. They charge a commission of around 0.2-0.5% per transaction from transferring money from one city to another.

### **Hawala after September 11, 2001**

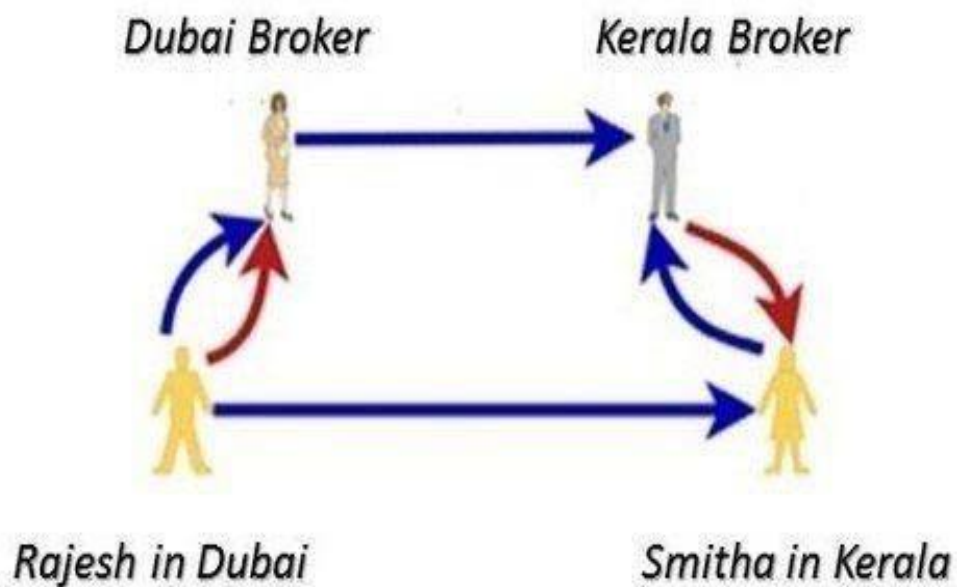
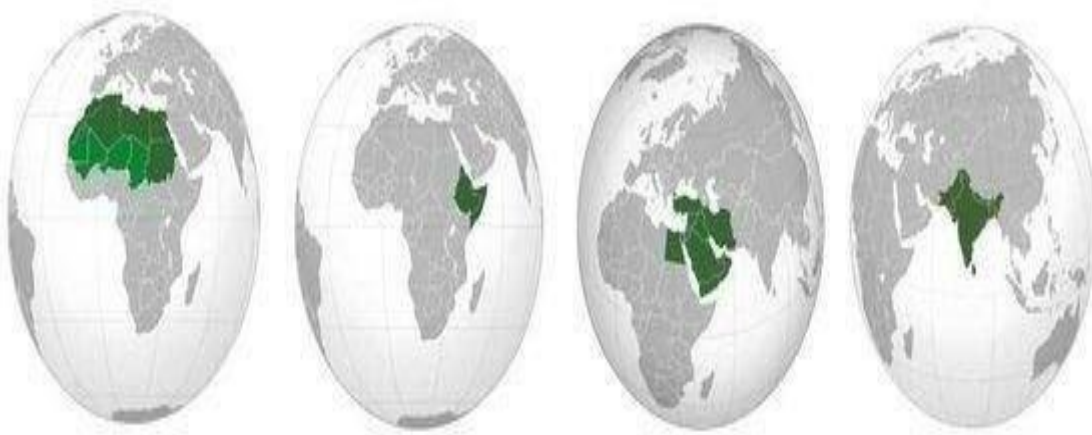
After the September 11 terrorist attacks, the American government suspected that some hawala brokers may have helped terrorist organizations to transfer money to fund their activities. The 9/11 Commission Report has since confirmed that the bulk of the funds used to finance the assault were not sent through the hawala system, but rather by inter-bank wire transfer to a SunTrust Bank in Florida, where two of the conspirators had opened a personal account. However as a result of intense pressure from the US authorities, widespread efforts are currently being made to introduce systematic anti-money laundering initiatives on a global scale, the better to curb the activities of the financiers of terrorism and those engaged in laundering the profits of drug smuggling. Whether these initiatives will have the desired effect of curbing such activities has yet to be seen; although a number of hawala networks have been closed down and a number of hawaladars have been successfully prosecuted for money laundering, there is little sign that these actions have brought the authorities any closer to identifying and arresting a significant number of terrorists or drug smugglers.

In November, 2001, the Bush administration froze the assets of Al Barakat, a Somali remittance hawala company used primarily by the large Somali Diaspora. Many of its agents in several countries were initially arrested, though later freed after no concrete evidence against them was found. In August 2006 the last Al Barakat representatives were taken off the U.S. terror list, though some assets remain frozen.

Hawala has been made illegal in some states of the US and other countries as it is seen to be a form of money laundering and terrorist funding.

In simple words it is transfer of money without moving it, the process will have no traces or evidences left. Hawala system is mainly used to transfer money among long distant countries.

## Hawala prevalent countries



Rajesh is working in Dubai and wants to send a part of his salary to his wife, Smitha in Kerala. Here is how Hawala would be used.

- Step 1: Rajesh contacts a Hawala broker in Dubai, and hands over 1 lakh rupees and gives him a password.



- Step 2: The Hawala broker from Dubai, then contacts another Hawala broker in Kerala and asks him to pay Smitha 1 lakh rupees.
- Step 3: Smitha would be informed earlier by Rajesh about the password.
- Step 4: Smitha tells the password to Hawala Broker in Kerala and collects 1 lakh rupees from him.
- Step 5: Now basically, broker in Dubai owes money to the broker in Kerala. And he decides to settle the due in a later date.

Hawala is the biggest ever scandal in the world which involved over 115 top politicians and bureaucrats of the country.

The Hawala scandal or Hawala scam was an Indian political scandal involving payments allegedly received by politicians through four hawala brokers, the Jain brothers.

It was a US\$18 million bribery scandal that implicated some of the country's leading politicians.

## **HOW IT CAME OUT??**

- The case broke out on March 1991, with the arrest of two Kashmiri militants, Shahbuddin Ghauri and Ashfaq Hussain Lone, in March 1991.
- They had, in turn, led the CBI to high-profile hawala operators Shambhu Dayal Sharma and Moolchand Shah. It was the testimony of the hawala operators that led to the unfolding of the case.
- The hawala operators, Sharma and Shah, told the agency during interrogation that they had been working for the Jain brothers, N.K. Jain and S.K. Jain.
- This led to the immediate arrest of the Jain brothers. In his 1995 confession, S.K. Jain alleged that he had paid a number of politicians, including the then Prime Minister, P.V. Narasimha Rao.
- Vineet Narain was responsible for bringing the scam to light

## **The charge sheets against politicians**

The charges common to all the charge sheeted politicians are as listed below:

Section 120-B Indian Penal Code (IPC): Being party to or abetting a criminal conspiracy to commit an offence. Section 161 IPC: Whoever, being or expecting to be a public servant, accepts any gratification, other than legal remuneration, as a motive or reward for showing favours while exercising official functions.

Section 165 IPC: Whoever, being a public servant accepts any valuable without consideration from any person with whom he is likely to have a transaction is liable for punishment. Section 7 Prevention of Corruption Act, 1988 (PCA): Whoever, being or expecting to be a public servant, accepts any gratification other than legal remuneration, as a motive or reward for showing favours to any person.

Section 13(1)(d): A public servant commits criminal misconduct if he, by corrupt or illegal means, obtains for himself any valuable by abusing his position as a public servant and without showing any public interest.

### **Madhavrao Scindia: Rs 75 lakh**

Diary entry: Allegedly received Rs 75 lakh.

Scindia's claim: "I knew the Jains and they may have visited my office, just as a thousand other people do. The charges are baseless and contemptible."

S.K. Jain's statement: Jain said that he knew Scindia well, visited him regularly at home and in office and contributed Rs 75 lakh as political expenses.

Charges: Charged with accepting Rs 75 lakh from S.K. Jain between November, 1989 and February, 1991 when he was a public servant.

### **Balram Jakhar: Rs 83.24 lakh**

Diary entry: Allegedly received Rs 83.24 lakh.

Jakhar's claim: "I have not accepted any money from the Jains."

S.K. Jain's statement: He said that he had paid amounts to Jakhar regularly in the hope of getting closer to people in power and becoming a Rajya Sabha member.

Charges: Accepted Rs 51.24 lakh from S.K. Jain between March, 1988 and April, 1991, a period during which he was a public servant.

### **Devi Lal: Rs 1 lakh; Pradeep Singh: Rs 14.63 lakh**

Diary entry: Allegedly received Rs 1 lakh.

Devi Lal's claim: "When I was the deputy prime minister, industrialists were throwing a lot of money at politicians. But I never took any money from him. I don't remember having met him."

S.K. Jain's statement: He gave Rs 1 lakh in two instalments to Devi Lal as he was a close friend and he expected certain favours from him.

Charges: Accepted Rs 1 lakh from S.K. Jain in November, 1989 when he was a public servant.

### **Vidya Charan Shukla: Rs 80.85 lakh**

Diary entry: Allegedly received Rs 80.85 lakh.

Shukla's claim (as told to CBI): "I know the families of S.K. Jain and his brother B.R. Jain quite intimately for the last 20 years. But I have not received any political donations for myself or my party from them."

S.K. Jain's statement: Jain said that he was very friendly with Shukla and knew his family from Madhya Pradesh and that he had contributed amounts for Shukla's hospital - Ravi Shankar Shukla Hospital - in Madhya Pradesh.

Charges: Charged with accepting Rs 38.85 lakh in five instalments between July, 1989 and April 1991, when he was a public servant.

### **Lal Krishna Advani: Rs 60 lakh**

Diary entry: Allegedly received Rs 60 lakh from S.K. Jain.

Advani's claim: "I have never met the man nor do I know him. The charge of having received money from him is absolutely baseless."

S.K. Jain's statement: During his interrogation, Jain allegedly told the CBI that he had met Advani along with two or three other persons at his brother N.K.Jain's residence at 14, Link Road near Jangpura, New Delhi. He stated that he had made the payments in three instalments as donations towards party funds.

### **Kalpna Rai: Rs 71.5 lakh**

Diary entry: Allegedly received Rs 71.5 lakh.

S.K. Jain's statement: Amounts were paid in instalments to Rai at his residence, partly by him (S.K. Jain) and partly by his employee J.K. Jain. Occasionally the Jains paid the money to Rai's household employees.

Charges: Accepted Rs 51.5 lakh as a public servant between June 25, 1988 and March 3, 1991 and Rs 20 lakh in March and April 1991, when he was not a public servant.

### **Arjun Singh: Rs 10.5 lakh**

Diary entry: Allegedly received Rs 10.5 lakh.

Singh's claim: "I did meet B.R. Jain (S.K. Jain's elder brother) in connection with some official work. He was the director on the board of the Teachers' Technical Training Institute in Bhopal. But I have never met S.K. Jain. The question of having received any money from him does not arise."

S.K. Jain's statement: He claims to have paid Singh Rs 10.5 lakh in two instalments as electoral expenses.

Charges: Accepted Rs 10.5 lakh as a public servant in two instalments; Rs 10 lakh between April, 1988 and March, 1990 and Rs 50,000 in August, 1990.

### **Yashwant Sinha: Rs 21.18 lakh**

Diary entry: Allegedly received Rs 21.18 lakh.

Sinha's claim: "I do remember meeting S.K. Jain on a couple of occasions. But I can categorically state that I did not receive any money from him."

S.K. Jain's statement: Jain said that he paid Sinha Rs 21.18 lakh in three instalments in Sinha's Delhi office as election expenses in Patna.

Charges: Charged with accepting Rs 21.18 lakh from S.K. Jain during March, 1990 and March, 1991, when he was a public servant.

### **WHO GOT WHAT AS PER JAIN DIARY**

- LK Advani Rs 68.5lakh Bhartiya Janata Party
- Arif Mohd Khan Rs 7.5 crore Independent
- Arjun Singh Tiwari Rs 10.5lakh Congress
- Yashwant Sinha Rs 21lakh Bhartiya Janata Party
- Kalpnath Roy Rs 54.7lakh Congress
- Devi Lal Rs 50 lakh SJP
- Pradeep Kumar Rs 14.6 lakh SJP
- VC Shukla Rs 65.8 lakh Congress
- Balram Jhakhar Rs 61 lakh Congress

- Madhavrao Scindia Rs 75 lakh Congress
- RK Dhawan Rs 50 lakh Congress
- Sharad Yadav Rs 5 lakh Janata Dal
- Jafar Shareef Rs 15 lakh Congress
- Buta Singh Rs 7.5lakh Congress
- Kamal Nath Rs 22 lakh Congress
- Arvin Netam Rs 50 thousand Congress
- AK Sen Rs 20 lakh Congress
- Natwar Singh Rs 23 lakh Congress
- LP Shahi Rs 5 lakh Congress
- Ranjeet Singh Rs 5 lakh Congress ● ND Tiwari Rs 26.1 lakh Congress
- Harmohan Dhawan Rs 1.1 crore SJP
- Kailash Joshi Rs 10 lakh Bhartiya Janata Party
- BD Dahkne Rs 10 lakh Bhartiya Janata Party
- Madan Lal Khurana Rs 3 lakh Bhartiya Janata Party



The case got a momentary boost up as a result of a PIL (Public Interest Litigation) filed by

**Vineet Narain (an Indian Journalist) in the Supreme Court.**

He also wrote a book on the case entitled ‘**Hawala ke deshdrohi**’ or ‘ **Dangerous Silence**’ .

Salute sir..!!

## Why do they use Hawala?

If a system still exists, it is only because of convenience or other monetary benefits. It is the same case with Hawala too. It has its own reasons for survival. Here are they:

1. Helps avoid tax: since no banks are involved in the process, and also no records maintained, you need not have to pay any taxes to the government. And this is the main reason for it to be termed Illegal. Hence it has to be carried out in secrecy.
2. Lower brokerage rates: Hawala brokers charge very low amount and the transactions turns out cheaper than bank transactions.
3. Easy to use: you need not have to stand in long queues, fill complicated forms, submit documents or worry about exchange rates with banks, you would just have to pass it to a trustworthy Hawala Broker. And he would do the rest.

4. To protect the source of money: since no official records are maintained, the source of the money cannot be traced. This benefit is exploited by Terrorists, Smugglers and other anti-social elements.
5. Money Laundering: Hawala can bring the black money into the market, as no source is disclosed. This is detrimental to the law enforcement and encourages Illegal businesses.

## **Why is Hawala money considered bad?**

Since the money transferred gave away no clues as to the source, the transaction was soon exploited by Terrorists, Smugglers, Naxals and other Anti-Social activities for funding. Money transferred around the world needs to be kept track off, and accounted in such a volatile global situation. This parallel system will disturb the Banking system and Foreign Exchange equations. And also this is highly unreliable for Common man, as trusting Hawala brokers without any proof is asking for trouble.

Hawala system may have certain benefits in under developed countries, but it is no substitute to the formal banking system in the long run. It needs to be kept under check and cracked down with zero tolerance.

Migrant workers who frequently send remittances to relatives and friends in their countries of origin find the hawala system advantageous. Hawala facilitates the flow of money between poor countries where formal banking is too expensive or difficult to access. In addition to the convenience and speed of conducting hawala, the commission rates are usually low compared to the high rates that banks charge. To encourage foreign exchange transfers through hawala, dealers sometimes exempt expatriates from paying fees. The system is also easy to use, as one only needs to find a trusted hawaladar to transfer money.

Hawala provides anonymity in its transactions, as official records are not kept and the source of money that is transferred cannot be traced. In addition, corrupt politicians and the wealthy that would prefer to evade taxes use hawala to anonymize their wealth and activities.

## **Conclusion and recommendations**

### **Conclusion**

Despite the issue of Indian companies being family owned, accounting fraud in India has nothing new about it, except perhaps the ways in which it has been perpetrated. The latest cases of accounting fraud seem to involve aspects of stock based incentive and mark-to market accounting. However, the techniques to curb fraud must continue to involve tracking down all people who hold stakes in the business- those who stand to gain in case there is an inflated opinion about the performance. As for the regulations themselves, it is perhaps not necessary to bring in new regulations by the dozen- it is more important to understand the mind-set of the Indian fraudster, bring in meaningful regulations that are not aped versions of their US and European legal counterparts, to administer and implement them more effectively and to understand that technology can both help and hurt our case, as we take our battle against accounting fraud to the next level.

So this concludes the list of Indian scams of all times. According to the compilation, the total amount of money involved in various scams over the last 12 years alone, since 1992, is estimated to be over Rs 80 lakh crore (Rs 80 trillion) or \$1.80 trillion!• To many people abroad, India is seen sentimentally as Mahatma Gandhi's country of khadi cloth, good ethics, and care for the poor. To some it is an economic miracle and a future super power, while to others it is an unkind cruel place of caste, ethnic and rich-poor divisions and violence. Above all however, and not far below the surface, India is a maze of unethical, unlawful and illegal swindles that link most politicians, many bureaucrats, and a large number of businessmen and others.

There was also a survey taken out with some relative questions with some common people through the means of Google forms

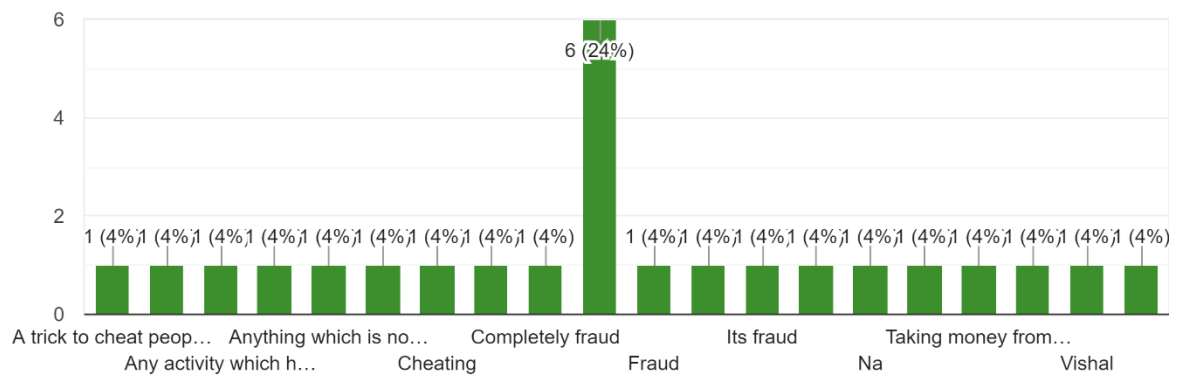
**\*All Covid Measures were followed while conducting the survey**

Also thanks to the persons how responded the Survey and helping me completing the project.

All the Responses are attested below

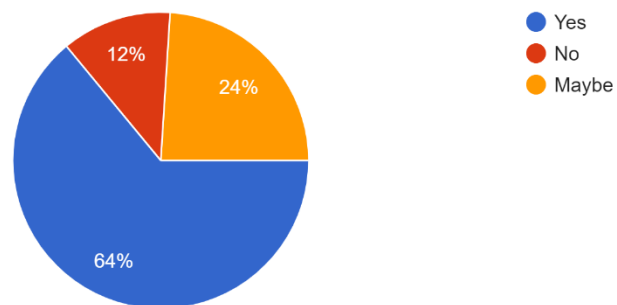
### What is scam according to you?

25 responses



### Do you know whom should you ask for help when you find a fraud ?

25 responses

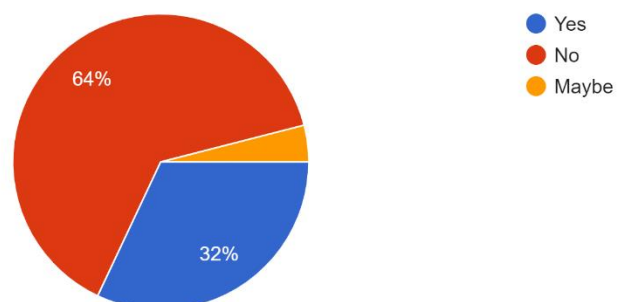


### Interpretation

From the above Pie diagram out of total respondent 64% were yes 12% were no 24% were

### Have you ever got scammed?

25 responses



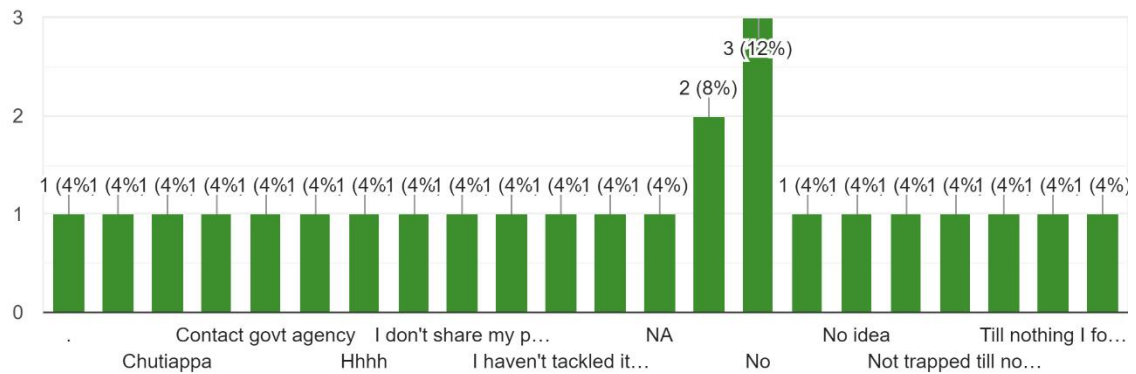
### Interpretation



From the above Pie diagram out of total respondent 32% were yes 64% were no 1% were

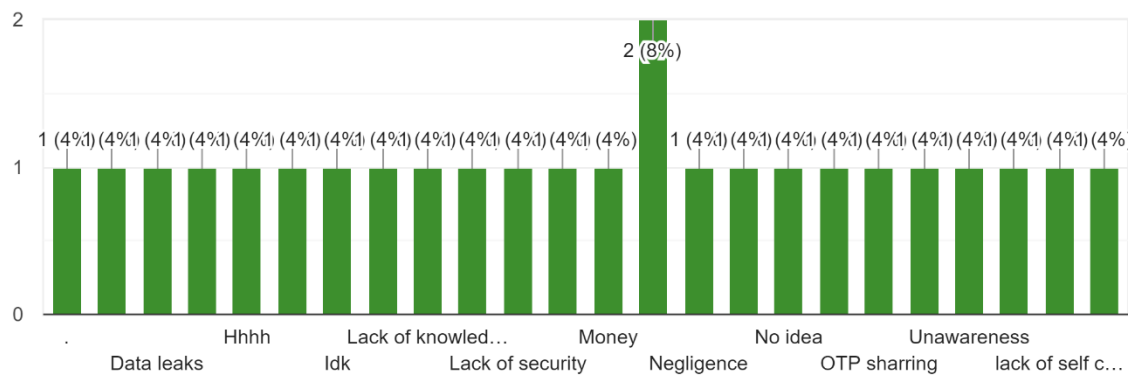
when and how did you tackled a scam or fraud ? if any.

25 responses



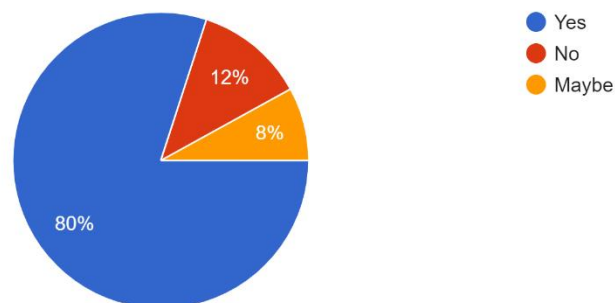
### What are the core reasons frauds/scam happen ?

25 responses



## Are scams really a burden ?

25 responses



## Interpretation

From the above Pie diagram out of total respondent 80% were yes 12% were no 8% were

How can we improve AI in detecting fraudulent activities on digital payments? 25 responses

Na

Before sending out any money there should be brief info. about the recipient

Video calling

don't share OTP, and idea to any stranger that you are having daily transection, don't fall for free gift cards and voucher, and download unknown application

By creating a system holding on to the money until the service or product is not delivered.

By keeping all the details of the clients, a secret. Stopping leakage of data

By making it available for all easily

I think it can be improved if it has some security code

Quick action on spam numbers

Bank should be keep more privacy

I dont know

Understand user patterns and any unusual activity can be highlighted and governed.

Chutiapa

Probably more security systems like One Time Password or any such transactional passwords, which are needed for every transaction. More of awareness to be created by respective financial institutions for their customers which is most important considering the increasing focus on digital payments are increasing. UPI payments should ideally be restricted not allowing to every ecommerce platform to register for UPI. There has to one platform of control with which all ecommerce platforms to be linked & the security to be focused. I am not the expert on this mode of payments, but its the thought from secure platform perspective.

No idea

By creating transparent transaction system

Hhhh

No comments

Idk

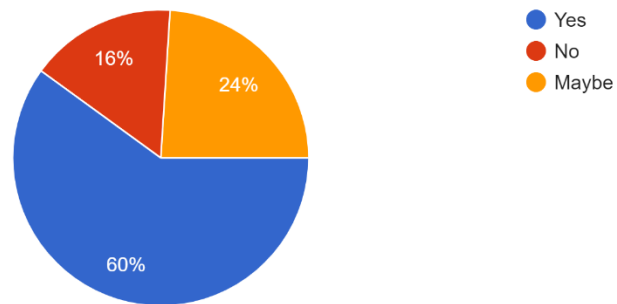
Don't know

.

neutral

Are they the penalty of the loopholes in the system your views?

25 responses

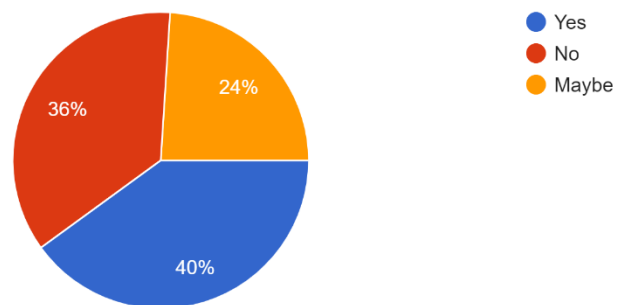


### Interpretation

From the above Pie diagram out of total respondent 60% were yes 16% were no 24% were

Should we reward scammers for finding loopholes?

25 responses

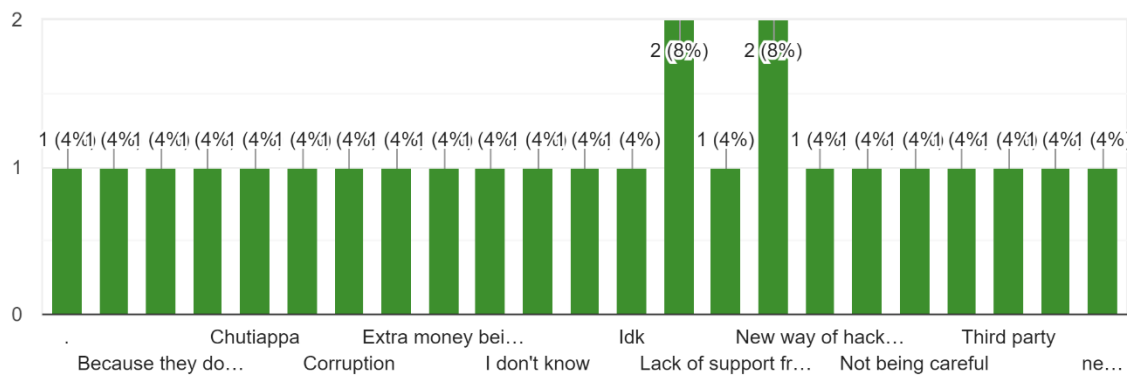


### Interpretation

From the above Pie diagram out of total respondent 40% were yes 36% were no 24% were

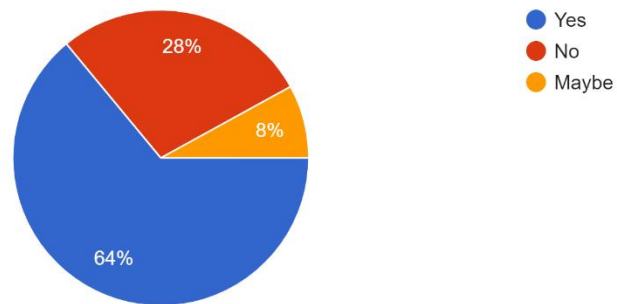
Why do most financial frauds go unnoticed?

25 responses



Has cyber/fraud become a concern in your country?

25 responses

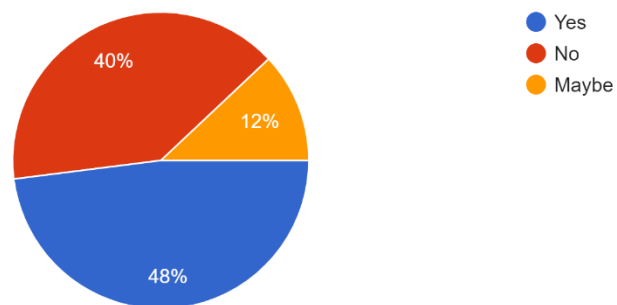


### Interpretation

From the above Pie diagram out of total respondent 64% were yes 28% were no 8% were

Do you know a company that has been a victim of a fraud incident in your country?

25 responses

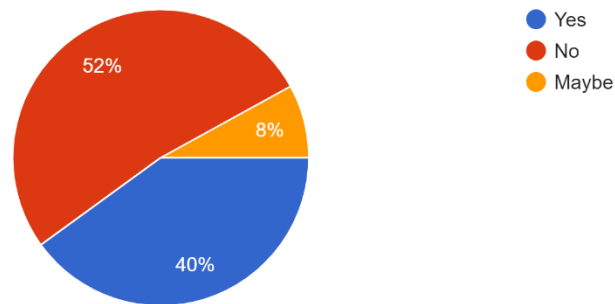


### Interpretation

From the above Pie diagram out of total respondent 48% were yes 40% were no 12% were

Are you aware that there are insurance solutions to protect companies against cyber & fraud risks ?

25 responses

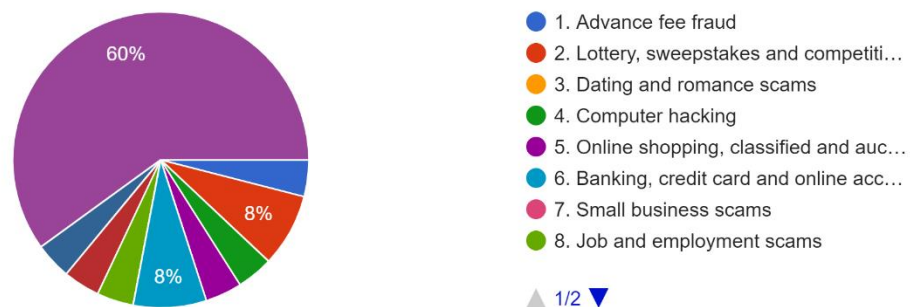


### Interpretation

From the above Pie diagram out of total respondent 40% were yes 52% were no 8% were

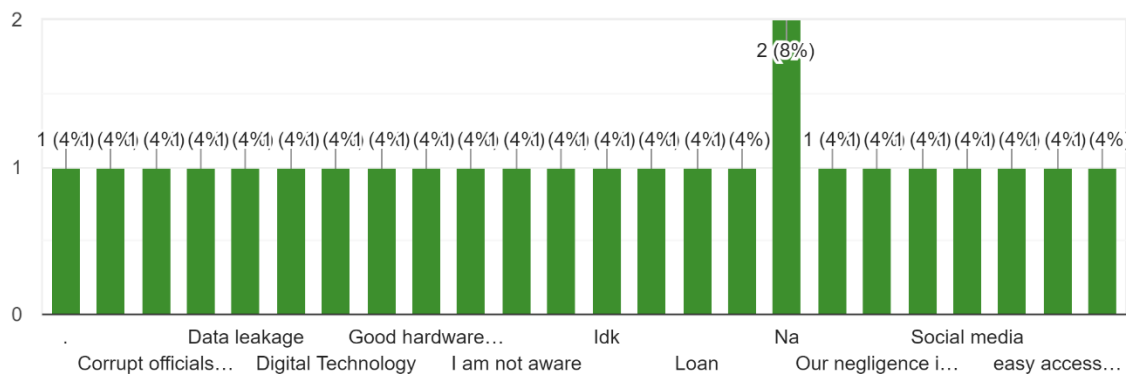
Which of the following is a scam

25 responses



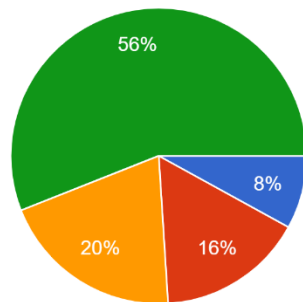
What are the resources of scammers According to you ?

25 responses



Which of the following scenarios does NOT describe a tech support scam?

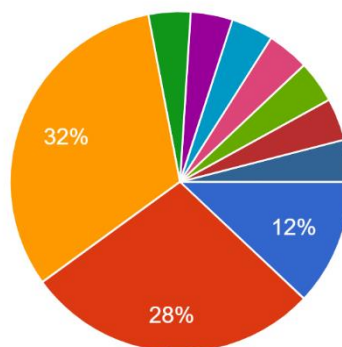
25 responses



- Someone calls and tells you they've found viruses on your computer, then asks for credit card information so the...
- While you're browsing online, an urgent message pops up telling you that there's a problem with your computer and dire...
- A caller asks you to give him remote access to your computer to fix a probl...
- You pay a trusted security professional to check your network for intrusions, a...

How much work force is required for a successful scam to be done ?

25 responses

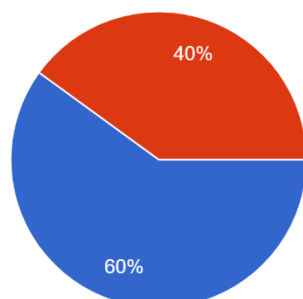


- 5
- 10
- 1
- 2
- not aware as I'm not a scammer
- Depends upon the scam
- Depends
- Chutiappa

▲ 1/2 ▼

True or False? You can avoid scams by only taking tech support calls from well-known tech companies.

25 responses



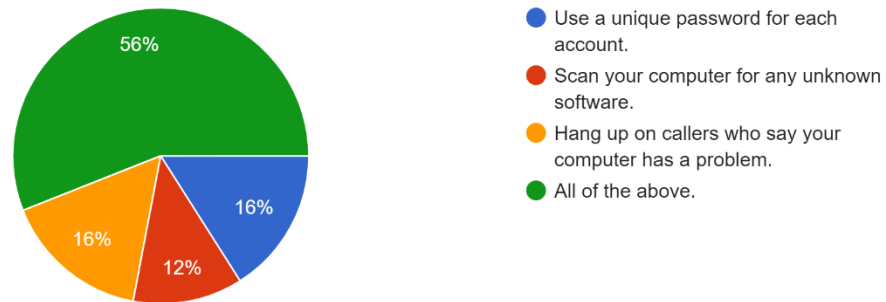
- True
- False

## Interpretation

From the above Pie diagram out of total respondent 60% were True % were False

Which of these answers describes the best way to protect against tech support scams?

25 responses

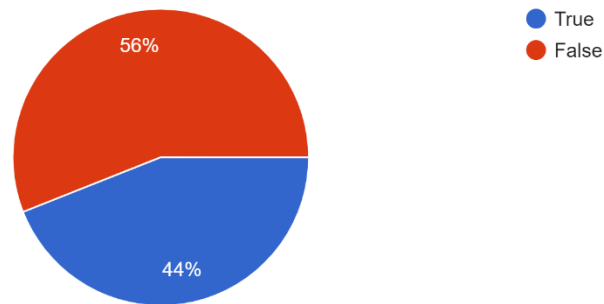


### Interpretation

From the above Pie diagram out of total respondent 56% were all of the above  
16% were use unique password for each account  
16% were hang up on callers who say your computer has a problem.  
12% were scan your computer for any unkown software

True or False? Small businesses should focus more on other cybersecurity threats, because tech support scammers usually target only large companies.

25 responses

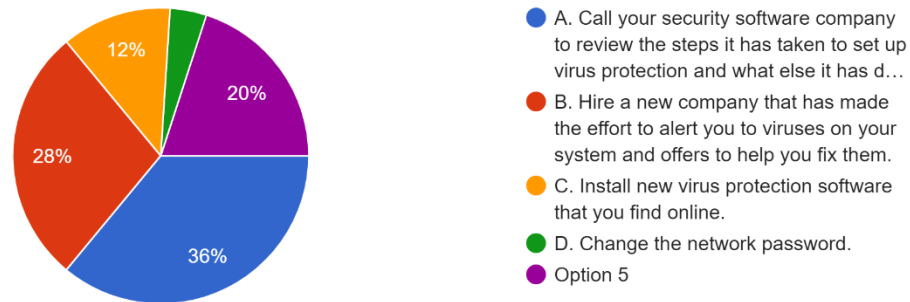


### Interpretation

From the above Pie diagram out of total respondent 56% True and 44% False

Which is the best way to protect against viruses or other security threats?

25 responses



### Interpretation

From the above Pie diagram out of total respondent

36% were A. Call your security software company to review the steps it has taken to set up virus protection and what else it has done or can do to protect your business.

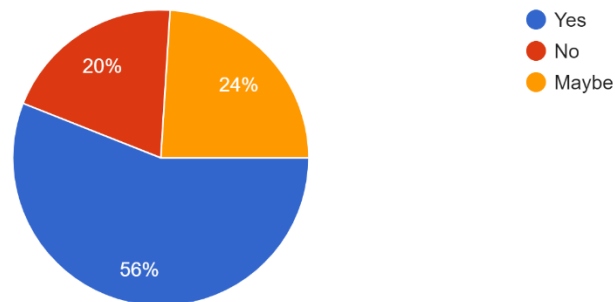
28% were B. Hire a new company that has made the effort to alert you to viruses on your system and offers to help you fix them.

20% option 5

12% were C. Install new virus protection software that you find online.

Did you know you can be scammed by clicking on malicious links .

25 responses



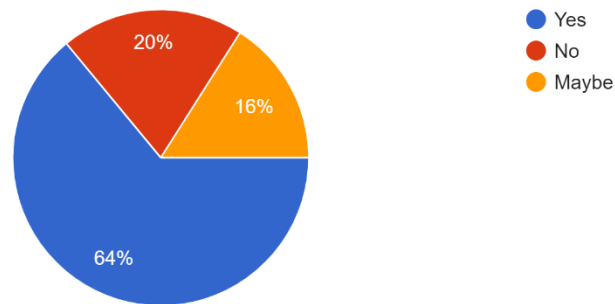
### Interpretation

From the above Pie diagram out of total respondent 56% were Yes, 20% were No and Remaining 24% were maybe



Did you know not getting a proper documented bill from a grocery after purchase store can also be considered as scam

25 responses



### Interpretation

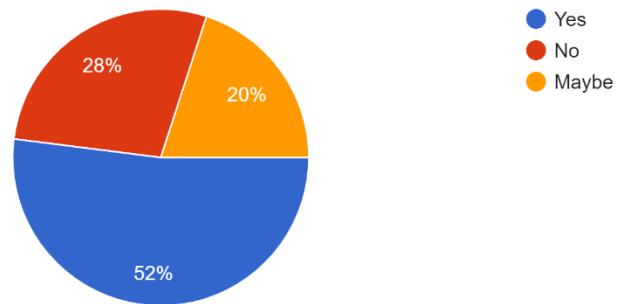
From the above Pie diagram out of total respondent 64% were Yes, 20% were No and Remaining 16% were maybe

How do you protect yourself from getting into a scam or Fraud?

25 responses

Na  
Research and analysis  
I need support from tech team  
avoid clicking on various unknown links  
Be attentive  
By not clicking on unknown links and avoiding doubtful calls  
By verifying all the details  
With Guidance of Digital experience  
Yes  
Using different password every were  
Rechecking twice or thinking twice before clicking on a link or giving some information about it  
Be aware  
Chutiapp  
Try to vigilant & alert.  
No idea  
Try to get knowledge of every new thing  
Hhhh  
Strong passwrđ  
No comments  
Idk  
Think before trust  
.  
neutral  
I don't pick up calls and I ignore unknown

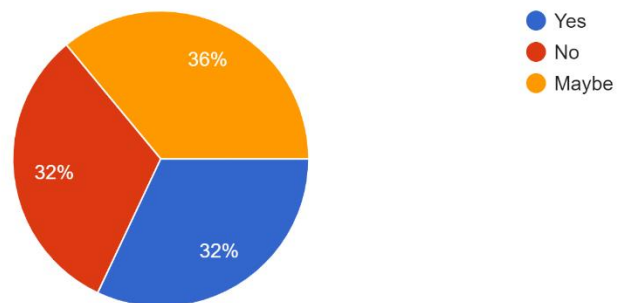
Are you protected from being scammed  
25 responses



### Interpretation

From the above Pie diagram out of total respondent 52% were Yes, 28% were No and Remaing 20% were maybe

Are you prepared for not being scammed  
25 responses



### Interpretation

From the above Pie diagram out of total respondent 32% were Yes, 32% were No and Remaing 36% were maybe

what would you recommend for stopping frauds in India

25 responses

Na

Awareness

Return my money...

frauds are running nation, elect wisely

Better laws severe punishment needs to be passed for scammers

Stop corruption and being alert

By making it Viral

To get a secure password or security code

Awareness

Their should be lots of privacy policy

Spread awareness

Penalize

Non sense

Improved technology, Awareness & most important self to be more vigilant & alert specially when someone asks for personal details like PAN, Aadhar, Credit Card details or ecommerce platforms asking to scan the barcodes, etc, etc which gives opportunity for the scammer to do it smoothly. In my view, security starts with alertness & presence of mind within ourself. We should be aware as to what details can be shared to public & what cannot be.

Be alert

Change in education system

Bbbn

By improving security and knowledge to public

No comments

Idk

Spread around the awareness

.

neutral

N.A.

### **Recommendations**

**Please refer the below link to know in detail about these scams because you know visual learning is faster than reading anything**

**Vijay mallya scam <https://youtu.be/j35e6PhOMJU>**

**Nirav Modi scam <https://youtu.be/3mayl29EWCK>**

**Harshad Mehta scam [https://youtu.be/d\\_xqhSD44gY](https://youtu.be/d_xqhSD44gY)**

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