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ANALYTICAL STUDY OF E-BANKING **FRAUDS AND ITS IMPACT ON** **INDIAN ECONOMY**

AUTHORED BY - KAJOL KIRTI

ABSTRACT

Today, the majority of banking can be conducted while enjoying a cup of coffee or engaged in an important conversation, thanks to the advent of Information Technology (IT). ATMs are now conveniently located right at your doorstep, and banking services are accessible 24/7. The proliferation of plastic cards has surpassed that of currency notes. This significant change is largely attributable to the highly globalized, liberalized, privatized, and competitive environment in which banks operate today. In order to survive in this challenging setting, banks have to embrace IT. As a result, the Indian banking industry has undergone tremendous developments brought about by sweeping changes in IT.

Electronic banking, or e-banking, has emerged as a groundbreaking development in this environment, and this paper aims to study and analyze the progress made by the Indian banking industry in adopting this technology. This study is analytical in nature and uses secondary data to measure progress in e-banking by examining various parameters such as computerization of branches, automated teller machines, and transactions through retail electronic payment methods. Statistical and mathematical tools such as growth rates, percentages, and averages are employed to analyze the data.

This study demonstrates that e-banking offers a wide range of benefits to both individuals and corporations, but it is not without certain challenges and issues related to customer security and interests. Although several studies have examined the success of e-banking on various scales, it is strongly felt that few of them have systematically and comprehensively focused on the Indian banking sector. Therefore, this paper will highlight various aspects of the e-banking system from a researcher's viewpoint and identify research gaps specific to the Indian context.

Keywords – Analysis, Fraud, Control, Scam, Economy

INTRODUCTION

Electronic payment systems have revolutionized the way transactions are conducted, but they have also brought new threats and susceptibilities. Fraudsters can employ various tactics to obtain sensitive information such as credit card details, login credentials, and personal identification information (PII) to carry out fraudulent activities.

Counterfeiting involves fabricating fake currency or payment cards to conduct deceitful transactions. Identity theft happens when criminals acquire someone's personal data and exploit it to make unauthorized transactions. Cloning involves duplicating a payment card to conduct deceitful transactions. Malware attacks involve infecting a victim's computer or mobile device with malicious software to steal information. Skimming involves using a device to steal payment card information when the card is swiped at a payment terminal. Phishing involves deceiving victims into providing their sensitive information through fraudulent emails, messages or phone calls. Lastly, carding is the practice of using stolen payment card information to purchase goods or services. To protect themselves from these types of crimes, users of electronic payment systems should be vigilant and take necessary precautions. This includes monitoring bank statements for any unauthorized transactions, using strong passwords, and avoiding suspicious emails or messages. Additionally, merchants and financial institutions should implement advanced security measures such as multi-factor authentication, encryption, and fraud detection systems to safeguard their customers' information.

There is need for all banking institute to have wide framework on fraud governance with particular emphasis on tackling electronic channel-based frauds. This note endeavors to bring out the challenges and suggests a framework which can be implemented across banks to effectively tackle the electronic fraud menace. The definition of banking frauds is as follows “A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to

any person for a temporary period or otherwise, with or without any monetary loss to the bank”¹.

OBJECTIVES OF RESEARCH

- To highlight the various ways of E-Banking Frauds done by fraudsters and study the ways of E-Banking frauds Risk management
- It's impact on Indian economy.
- To study cybercrimes and its implications on the Banking Sector
- To understand the seriousness of online cyber threats available to Internet banking industry.
- To measure the scope of security and its implementation in Internet banking sectors.
- To analyze and study the lacunas and problems and use the preventive measures available to control frauds.

LITERATURE REVIEWS

1. **Swain, S., & Pani, L. K. 2016**² - Bank fraud in India has witnessed a rise in recent years (2016). The compliance with the Reserve Bank of India's KYC regulations is not being adequately upheld, and there is a lack of dedication among bank employees towards their responsibilities.
2. **Yego, J. K. 2016**³ - According to fraud has risen to the level of a major global issue and is not likely to diminish any time soon. Many businesses are losing money and becoming unprofitable because of this type of fraud.
3. **Sharma, N., & Sharma, D. 2017**⁴ – According to Banking Fraud in India: An Empirical Study of the Impact of Employee Education Cryptographic check barriers like multipoint inquiries can help banks keep their customers' confidence.
4. **D. M. M., & Nalawade, M. P. J. D. K. 2015**⁵ - A Review of Cyber-attacks on Online Bank Accounts, we are in the following situation: Online banking has become a necessary part of life in

¹ <http://oldtm.lbp.world/SeminarPdf/167.pdf>

² https://www.himjournals.com/articles/655_Emerging_Trends_of_Banking_Frauds_and_Impact_on_Economy_Analytical_Review_with_Respect_to_India

³ <https://www.jcreview.com/admin/Uploads/Files/61a8c9bf6c2ac4.16325992.pdf>

⁴ [https://www.scirp.org/\(S\(351jmbtvnsjt1aadkposzje\)\)/reference/referencespapers.aspx?referenceid=3166546](https://www.scirp.org/(S(351jmbtvnsjt1aadkposzje))/reference/referencespapers.aspx?referenceid=3166546)

⁵ <https://www.himjournals.com/article/articleID=655>

the twenty-first century. Finding the source of the crime, shortages in training, and the growth of the underground economy all play a role in decreasing cybercrime.

HYPOTHESIS

The hypothesis created in this study is that

1. We will be able to find the reasons to switch from physical to digital means of banking.
2. The lacunas for electronic banking fraud and approx. numbers of victims through it.
3. The prime reasons as to increase in the numbers of crime across India,
4. And also, about the laws, policies and rules which needed to be implemented properly or amended accordingly.

RESEARCH METHODOLOGY

1. The present paper is concerned with the Indian banking system. The required data have been collected from the various issues of Banking Statistics, published by Reserve Bank of India.
2. The survey has been conducted through questionnaires from various persons belonging to different professions like bank employees, advocates, engineers, students, home-makers etc. of different age and having experiences related to banking sectors, thus having different opinion. So, it would be helpful to understand the sector through them.
3. The study is empirical and explorative in nature and therefore the information presented is based on both primary and secondary data.
4. Secondary information has been collected from various documents such as books, newsletters, reports, magazines, journals, daily newspaper, websites, as well as from existing literatures.

CHAPTERIZATION: CHAPTER I -BANKING FRAUD

In the case of *Pradeep Kumar And Another v. Postmaster General And Others* (2016)⁶, the Supreme Court of India had opined that individual employees are capable of being dishonest and committing fraud or wrongdoings on their own or in cooperation with others. Such activities of bank/post office workers, when done in the course of employment, bind the bank/post office at the instance of the person who is damnified by the bank/post office officers' fraud and illegal conduct. Thus, post offices, banks are vicariously liable for fraud, wrongs by employees during their employment.

Cheque frauds, deposit account frauds, purchase bill frauds, hypothecation frauds, loan frauds, frauds in foreign currency transactions, and inter-branch account scams are all examples of bank frauds. The failure of supervisory employees to follow established systems and processes is a major source of fraud. Unscrupulous constituents conduct frauds by taking advantage of authorities' weakness in enforcing the Reserve Bank of India's (RBI) time-tested safeguards. In its central office, the RBI has established an investigation unit. It is manned by an ace investigator with extensive expertise. The bank team delves into the core causes of bank fraud and offers comprehensive prevention recommendations. The RBI conducts in-depth analyses and research into the commission of bank frauds and makes recommendations for fraud prevention measures.

CHAPTER – II: LESSONS TO BE LEARNT FROM ALL THE SCAMS

- It is important that banks should take help of technology to detect frauds and improve the sharing of information.
- Law enforcement agencies should work in such a way that they don't end up creating an environment of fear, affecting the flow of credit to productive sectors.
- Apart from improving capabilities in the banking system, accountability of third-party service providers such as auditors and lawyers should also be fixed.

⁶ Civil Appeal No.. 8775-8776 OF 2016

- Assessment of working capital limit should be done before the flow of credit.
- Awareness should be created about loopholes; consequences of bypassing procedural aspects and benchmarks should be provided for evaluating genuineness of various essential documents.
- The investigation should be done to find out the trail of diversion of funds and whether any money has been remitted abroad.
- The Banks should pay the required attention to the area of internal control system and the fraud prevention measures to ensure compliance of instructions issued by them from time to time.
- The status of the borrower should be more critically analyzed by credit rating agencies to put a check on bad debts.
- The bank should set up centralized loan processing hubs which will help in streamlining the selection of borrowers with enhanced due diligence, assessment of proposal etc, thus delinking the sanction process from the branch heads.⁷

CHAPTER – III: INTRODUCTION TO ELECTRONIC BANKING

Digitalization has turned the world upside down. With the constant upgradation in technology, e, all sectors have benefitted, the banking sector being no different. Remember a time when one had to stand in long queues to deposit cheques or negotiable instruments or when people could not transfer money on a bank holiday? Well, we have left those kinds of days behind us. Now, the transfer of money from one account to another is just one click away. Payment to vendors has become so easy. Modern-day banking has made life easier and simpler. Electronic signature has replaced physical signature. There was a time when buying something meant the hassle of dressing up and stepping out but shopping these days is also a click away.

Covid-19 has changed the dynamics of monetary transactions. Most people were out of jobs, out of cash, and had to stand in long queues outside the banks for cash withdrawal. These hassles made people turn to digital banking. It was at this time that UPI payments such as [Paytm](#), [Google Pay](#),

⁷ https://www.drishtias.com/daily-updates/daily-news-editorials/the-anatomy-of-banking-frauds/print_manually

BHIM, etc gained their footing in the Indian banking sector. According to a survey by Statista Research Department 32% of the people who took the survey turned to digital banking in 2020. Most people think Internet Banking and Electronic Banking are one and the same but there is a difference between the two.

ARE ELECTRONIC BANKING AND INTERNET BANKING ONE AND SAME?

The terms electronic banking and internet banking are often misinterpreted and mixed up, as previously discussed. However, many people mistakenly consider them as one and the same. Although these terms are distinct, they are not entirely separate from each other. Electronic banking encompasses a broader range of services, including internet banking, mobile banking, ATM usage, and debit card transactions. On the other hand, internet banking is a recent addition to electronic banking and represents a specific form of it. Internet banking provides traditional banking services like accessing account statements, checking balances, depositing and withdrawing funds, and making transfers. Therefore, we can conclude that internet banking is a component or subset of electronic banking.

CHAPTER-IV: CHALLENGES OF ELECTRONIC BANKING

As more technologies are been embraced, we are also witnessing its abuses in the digital world with the fraudsters developing more and more skills and technologies for duping banks as well as our hard-earned money. Events of ATM Cloning, deciphering PIN and passwords, phishing or fraudulently influencing customers to give their own information and thereafter duping money from their account is happening almost every day. These frauds are still more individual-centric and do not have much impact on the economy as a whole. Thus, the paper will discuss about various fraud and scams such as Harshad Mehta scam, Vijay Mallya Scam, Nirav Modi scam etc.

CHAPTER -V: PROBLEMS WITH ELECTRONIC BANKING

The more appropriate way of understanding the occurrence of the crime related electronic banking can be studied through a case which is more prominently known as **JAMTARA CASE**, which is now famous for all forms of cybercrime especially in phishing and now with the growth of technologies the level of crime has now also been advanced and people are being scammed much more easily and with higher amounts.

India Today's ground report in Jharkhand's Jamtara, one of the most notorious hotspots of digital fraud that has even inspired a Netflix series, has found scammers have become more organized and innovative which is not something a state could be proud of but rather a matter of high concern that it's a national issue of public interest.

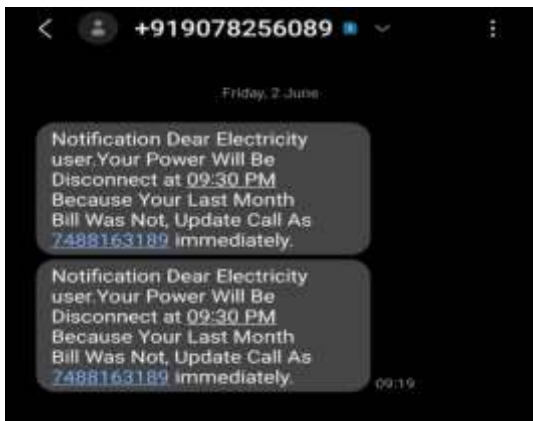


One must have come across WhatsApp forwards like these where people are being defrauded by claiming them to be lottery winners. Scammers here manage to get some information about the customers and based on it they get through a call and ask the people to deposit a certain amount of money in order to get the lottery amount and people are thus easily scammed. They try to make it look as real as possible by accompanying this type of poster with an audio to make it sound more genuine. The audio message came from a person who claimed to be a member of KBC. This WhatsApp audio included a poster message with the faces of Amitabh Bachchan, Prime Minister Narendra Modi, and RIL Chairman Mukesh Ambani. This was all that came when in India, WhatsApp Payments was testing a 'Cashback' feature.

In the recent incident happened with a person named Raza in Mumbai who unknowingly believed that she would be able to claim her prize. To be eligible for the prize, the scammer demanded that she pay a processing fee of Rs 25,000. Raza realized she had been duped for Rs 25,000 when the scammer asked her to pay an additional Rs 45,000 rather than transferring Rs 25 lakh into her bank account. In a recent episode of KBC, actor Amitabh Bachchan warned viewers that Sony TV does not ask for money for KBC and to be wary of anyone who does.

Another way of fraud which has been seen wherein the would come to your house with the basic info like name address and phone number and pretend to be a delivery person and ask for COD for the parcel, denying to which they'll ask for the OTP for cancellation and thus one will be debited with all the amount and hence scammed.

In the past week, there have been news for yet another creative way of committing fraud which I also encountered with, wherein they'll send you a message on your number regarding non payment of your electricity bill, and that if not paid, the connection would be cut, panicking to which many call the given number and ask for help and thus they guide them through their strategized standard way of scamming.



CHAPTER -VI: REASONS FOR ELECTRONIC BANK FRAUD

1. People are not aware about the pros and cons related to it.
2. Victims are so in desperate need to earn money that they tend to forget to check the geniuses of the fraudsters.
3. There is a need to create awareness among Internet banking customer on how to avoid the available threats.
4. There have been cases where it has been seen that these types of incidents are politically encouraged, more likely by the existing government and opposition as well as they get high amount of commission through it, so it could be seen to be very well rooted in the community.
5. So thus, there is no proper execution of laws in this societies as almost every official is being involved and supports and acknowledge this.
6. One of the major reason is the unemployment and poverty that is why the local youth are being involved in these scams, as they don't have enough money for proper education, so for their survival as they offer enough money to live a proper life they opt for conducting these scams, so all of these a vicious cycle in which the whole society suffers.
7. Moreover, the sufferers, the victims not only in rural India but also urban India are not well educated as to how to handle the situation and how to complaint about it and how to recover their lost funds.

CHAPTER VII : IMPACT ON INDIAN ECONOMY

Bank fraud can have a significant impact on economies. Regulators have no choice but to slap stiff penalties on the defrauded banks. Economic imbalances caused by bank fraud may cause the stock market to fall.

As a result of these schemes, there has been a significant economic impact on the stock market. The economy deteriorates and foreign investment declines, slowing economic growth. Following this wild ride, investors from all over the world are scrambling to find safer havens for their money.

A common scam involves depositing black money in a bank in order to convert it to white money. Bank lending practices are well-known for making loans to individuals and businesses that cannot be repaid. Banks frequently suffer long-term consequences as a result of these activities. Associate business executives' fraudulent money transfers to associate offshore banks are also common.

Financial losses incurred due to fraudulent activities have caused a drain on the economy thus hampering the growth and development of the banking sector, leading to a negative ripple effect on the overall GDP of the country.

When banks fail, the economic impact is greater. Economic factors have a significant impact on people's daily lives. As a result, non-bank payment methods are becoming more popular than bank payment methods. As a result, trust is the most important factor in a bank's failure. It would be an understatement to say that this bank has impacted millions of Indians.

Scams, on the other hand, have become all too common. There was once a stigma attached to banking because it was only available to India's wealthy, but that has changed dramatically in the last ten years or so. A bank fraud or failure has a direct impact on the general public's mood.

CHAPTER –VIII SURVEY ANALYSIS

1. According to the given data, we can easily see that around 48.8% of the users of the 80 responses which we have got are very frequent users of the services of Electronic Banking, 28.7% are frequent users while 21.3% of people are there who are occasional users that means there are huge section of people who are interacting in everyday basis and having transactions through electronic medium and availing services , as this is with 80 responses compared to the 1.4 billion population of India, and India contributes to 17% of the total world population and as this study has only be considering about Indian banking frauds it leads to approx. 68,32,000,00people who are active users which is literally very huge number.

2. Now, out of this total 98.8% are active users of the electronic banking services, 24% of them have been the victim of the electronic bank fraud as of 80 responses which we have collected which is major number i.e 24 out of 80 responses have been the victim of it compared to the total population which accumulates to around 33,66,000,00. By the research conducted the fraudsters are now very frequently coming up with the new strategies with the advanced knowledge to fool people and its irrespective of how educated or rich they are, they understand the structure of a particular society and greedy and people in need and formulate their tricks accordingly to fraud them, so by the time the new solutions are made to get hold of them they already get rid of the evidences and everything apart from the huge political support they have been getting and the reason why it has been spread like a virus across India.

3. The data collected from the responses it is seen that around 7.6% users are SBI customers, 7.6% are ICICI customers, 6.3% are HDFC customers and like wise, so the bank accordingly needs to be alerted and the proper investigations need to be done and a proper regulation needs to be implemented according to the amount of active customers in each sector of bank whether being a public sector bank or a private sector bank.

4. Now, out of the total users, most victims are affected by vishing wherein they are actually defrauded over the phone through calls as when they are asked to perform certain actions by the fraudsters over the calls like to send the otp or certain amount to get more amount in return , like in a recent case fraudsters have manage to circulate a message to certain sections of people wherein they electricity will be cut as they have not paid the bill amount , though they have paid the full amount and out of panic the customers calls on the given numbers and then they are advised to perform certain actions and thus they are been frauded. Likewise the customers are been frauded by skimming and phishing too , so these are the concerns which have to majorly looked upon as these are the cases which are mostly easily approachable and easy to target the needy and greedy customers.

5. With these types of frauds there are around 72.1% of people who have been affected by the fraud have lost around 5000 and less, 16% with 5000- 10000 while there are significantly 7% of people who have been affected for amount more than 1,00,000 amount of 80 responses which we have collected which can be huge amount to when compared to 1.4 billion of population and huge

number of people. So there huge section of people who are been affected in large amounts too and which should be in notice in urgent basis, but also people do realize it that they have been frauded only after the amount has been lost that also means theta there are people who still have knowledge about it but are not fully aware to know that they are been frauded and how to complaint about it or to take actions to prevent it for future. As more and more people would report about it, it would be more easier to catch them, but people just tend to think that its of no use or if they have been saved then they won't even bother to complaint, thus leading to high rise of cases, as somewhere even we are responsible for all the casual behaviors we have for it this encouraging these fraudsters. Also others do get notified by the bank for misplacement, the laws like if there any suspicious act has been found in transferring funds the customer should be immediately warned, though such rules have now been introduced by some banks and upi apps but still need to be executed properly.

6. So, from the study it was also seen that 21.1% do register a complaint about it to the concerned authorities but still there are 11% of them who do not do so, there could be multiple reasons to it including that firstly people may not wish to indulge into any sort of legal actions and waste time behind the money they lost, they assume they won't be able to recover it. Secondly it could be that they are not well informed as to whom to approach when these kinds of frauds occur and how to proceed, what can be the immediate action or else how to prevent it from occurring. Some people also thinks that there would be no need for them to file a complaint as they will do no good now for anyone as they already have been cheated , but they don't understand that these fraudsters are encouraged if not complained about it , also the records of these data of the total amount and the people who are ben frauded are affected and thus no proper executions of plans, policy and laws are made even though they are made but unless we know what we are exactly dealing with and what's the depth of it we won't be able to fully succeed in it.

7. And therefore only few people are been satisfied even if they complaint about it i.e 2.5% of total people , 6.3% only satisfied as all of this is a vicious cycle in which we are just trapped, hoping to come out of it and it would be only then be possible to change the graph as we can see that there are more number of people who are dissatisfied and very dissatisfied with the response of these authorities , thus they also have to take proper actions accordingly without any political interference.

8. They were not satisfied with the results because they were not able to recover the lost funds which turns out to be 21.3% of total responses and only 3.8% were able to recover the partial amount of what they lost. So likewise, the technology for the cyber cell and the concerned authorities need to be highly advanced and have a proper strategy in accordance with the past crimes and structure their plans accordingly.

9. According to the data, 72% of the total responses takes preventive measures for these kind of frauds like majority of them around 46.4% of people never shares their passwords or any kind of personal details over any medium be it over call, mail or anything, 31.9% are the ones who enabled the two-factor authentication, 15.5% are the ones who change their passwords frequently and only 4.3% are the ones who keep their software updated. And out of this 32% of total responses are also who don't take preventive measures because they are not been informed and they don't know how to do it , and there could be multiple reasons some of them that they are old enough to know the technological know-how then in that case they could be provided with the number to just dial in like customer service and the rest would be taken care of or likewise , or some of them are like very poor people who are in dire need of money so they could be easily frauded or may be ones who lives in rural place who are not very well educated , so they are been trapped even the ones who are educated and at high official ranks are been the victims of it as they are not much aware of it and thus they have casual attitude towards it. As we can see only 43.8% of them are highly aware but 37% of them are moderately aware and 15% of them are slightly aware and still 4% people are there who know nothing about the fraud at all thus easily trapped. And thus, for this reason there are 18.4% of total 80 responses who believes that it's not the safe and secure way of conducting transactions when we are in the stage of advance level of technological era and we on daily basis surrounded through this digitalization.

10. And thus, according to the study conducted there are people who wants the banks and government and any concerned authorities to take measures to improve security though banking, educate their customers on the fraud, implement stricter regulations and to bring in action any ant fraud detecting mechanisms and also to conduct public campaigns, increase regulatory measures and enforcement the stringent laws which are made. So, their higher section of people who do want there should be proper adherence of made laws. Even, after the survey was conducted people were asked

to comment especially , some of them even agreed that the laws are made in place the only problem we face is that the proper execution of it are not been done and even if it us tried to , they are politically exploited and the rest of them agrees that we should be made more aware about it as when compared to other countries apart from knowing the technological know how they also know how to deal with any sort of fraud and to complaints , so there is smooth advancement level with less political interference and that is the reason why are economy is being affected and are GDP is also affected by the illicit practices made , sometimes to help these fraudsters even the bank employees becomes the part of it and shares the confidential and significant information about the customers , or else they could be forced to which they should now be looked upon and proper actions should be taken to curb down the same.

CHAPTER IX : PREVENTIVE MEASURES TO CONTROL BANK FRAUDS

Almost every aspect of life has changed dramatically in the twenty-first century. Technology has promised humanity enormous progress, with computerization serving as a wellspring of new age wisdom and a slew of innovative, rapid, and efficient financial services. However, this facility introduced hazards to a variety of banking activities, necessitating well-defined and timely preventative actions. Computer automation, which provides a plethora of services, is susceptible to various security/precautionary procedures to protect against its inherent weaknesses, and RBI, in outlining the activities, recommends preventive vigilance steps to be done to avoid such risks.

CHAPTER – X: CONCLUSIONS

E-banking offers a higher level of convenience for managing one’s finances. However, it continues to present challenges to financial security and personal privacy. Many people have had their account details compromised, as a result of online banking. Thus, if one is going to use it for financial transactions, he should be aware of the risks involved. Awareness of the risks and problems enables him to take precautions for a more secure online banking experience. The e-Banking system is not

only popular nationally, but also internationally, where a person can transfer money through any part of the world. The e-banking system is useful for bankers as well as customers of banks.

Increasing competition has become a challenge for Indian banks but it also provides thoughtful opportunities to develop the banking business as per international standards. Though, IT leads improvement in all banks however e banks are gaining the momentum. The technology holds the key to future success of Indian banks as India could leap-frog into internet banking quicker than the United States provided Indian banks grab the opportunity.

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