

Rising Mortgage Fraud in India: Identification of Loopholes and Suggestive Measures

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While Indian banks emphasize mortgage-based retail loans to augment asset book quality, the growing trend of mortgage frauds is giving threat to financial stability. Lack of public information related to encumbrance on immovable property exposes risks of frauds for the banking system and general public. No field work has been conducted to deal in specific with the reasons behind rising mortgage frauds and to find out the systemic measures for the containment of risk. Thus, a need has been felt for an in-depth study on the present lending mechanism followed in the banking industry, and approaches of government in dealing with mortgage-related issues. The author undertook primary semi-structured interviews with senior bank officials, NBFC promoters, legal experts, statutory auditors and concurrent auditors of banks to have thorough understanding on the lapses and loopholes in the existing lending processes which expose risks of frauds. The article concludes with research findings and interactions with industry veterans and senior officials dealing with land and land reforms.

I Introduction

The endeavour of sustainable growth in a developing country like India needs support of a sound financial system that ensures active participation of all sections of the population. At present the Indian financial system is mainly supported by 12 public sector banks (PSBs), 22 private sector banks and 44 foreign banks operating as on 30/09/2020¹. These 78 banks are listed² in the Second Schedule of the Reserve Bank of India Act, 1934 and termed as Scheduled Commercial Banks (SCBs).

Nowadays getting an institutional credit by extending immovable properties to lenders as security has become easier. This secured lending approach of lenders is apparently supplementing financial inclusion agenda of Indian government. But the recent data on banking related fraud speaks bitter truths. RBI, in response to a RTI, disclosed that 6801 cases of frauds have been reported involving an amount of ₹ 71,542.93 crore during 2018-2019 as compared with 5916 fraud cases involving ₹ 41,167 crore during 2017-2018. The report³ on *Trend and Progress of Banking in India 2018-2019* revealed that PSBs contributed 55 per cent to the number of fraud cases and 90 per cent to the total amount involved in overall

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