

# AccountAble™

Banking

Issue # 9

## Frauds

Frauds in banks are more common than you may think. This year, over 22,000 major frauds were reported. A fraud normally involves bank officials. It may not affect your account directly.

Its effect on you will depend on its size. Frauds like the Share Market Scam are quite capable of wiping out entire banking networks. Even a small fraud may affect the confidence of the depositors. They may queue up at the bank and demand their money. This is called a run on the bank. What follows depends mainly on mass psychology and to some extent on the bank's liquidity and intervention of the RBI.

## The Changing Scene

As the economy liberalizes, we need to be more watchful. Bank ownership may change (Bank of Benares was sold last year). There may be tussles for takeover (as in Catholic Syrian Bank). A bank may get involved in a scam and may suspend business till RBI bails it out (such as the Bank of Karad).

All these events will affect your work - some may cause minor inconvenience, others may even result in a major loss. So choose your bank wisely. Keep an eye on what it is upto. Don't keep all your money in one bank - spread it around over different banks.

## The Benzene Miracle

In 1948, Bank of India paid Rs. 25,000 to a person over the counter. This was a bearer cheque favoring Krishna Baldev. Krishna Baldev denied taking the payment in cash. The publishing firm also insisted that it had issued an 'A/c Payee Cheque'. The cheque however did not bear any such crossing.

Later the story came to light. The cheque had come to Trilok Nath Sood, Chief Accountant of the bank for initials. He saw that the 'A/c Payee' stamp was on the white edge of the cheque. It did not cover any of the background pattern on the cheque. So he erased the crossing with Benzene. The pattern was not disturbed. Then he initialed the cheque and collected the payment in cash, being himself a top official of the bank.

Trilok Nath received a jail sentence of seven years.

## Alterations:

Suppose the bank receives a cheque for

### The Hardworking Postmen

In 1976, Lalit Kumar and Radhey Shyam put on the khaki uniform of post-men. Then they went around stealing mail from letter boxes placed at selected locations. Later they would open these and take out things which were useful for them. One day they got a signed cheque of Jnanpith Sansthan.

First they printed an exact copy of the requisition slip. Then they forged the signatures and obtained a cheque book from Syndicate Bank. Then they started forging bearer cheques of Jnanpith Sansthan. In ten days, they managed to draw seventy thousand from the account. The next cheque was for forty thousand. The bank got suspicious and the balloon went up. But the bank had already lost seventy thousand rupees.

Later it was discovered that these people had defrauded several banks of lacs of rupees in the same manner.

payment. You had originally made out the cheque for Rs.6000 only. Someone changes the word 'six' to 'sixty'. He also adds a zero to 6000, making it 60000. This alteration is done very cleverly. It can not be seen unless one examines it very carefully. The bank pays Rs.60,000 to this person. Can you recover the difference from the bank? No, you can not!

Section 89 of the Negotiable Instrument Act protects the banker in such a case. Only exception is where you can prove that the bank was careless on other counts - for example if the person who encashed the cheque looked like a beggar. Or that one of the bank employees had made the alteration, as in the case of Trilok Nath Sood (See box 'The Benzene Miracle').

## Forgeries:

No protection is available to the bank in case someone has forged your signatures (See 'The Hardworking Postmen'). This is so because a forged cheque is treated as never having been issued. It does not matter how good the forgery was. It is also immaterial that the forger got hold of the cheque due to your carelessness, such as from your unlocked drawer.

