

Stealing from the Poor: Banking, Credit and Investments Services Related Financial FraudsRakesh Narayana¹, Ajay Sharma², Vikram Kandukuri²

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Abstract

Based on the 160 financial fraud cases registered by Shram Sarathi in 2023-24, this article highlights the underreported financial exploitation of South Rajasthan's rural poor. While media focuses on urban scams, rural communities lose significant amounts annually through frauds related to banking, credit, and investment services. Banking Correspondents are exploiting the Aadhaar Enabled Payment System to make unauthorized withdrawals. Predatory Micro Finance Institutions are misappropriating loan repayments while damaging borrowers' credit histories. The absence of formal investment opportunities creates a vacuum filled by fraudulent Ponzi schemes. There is a strong argument for severe gaps in financial literacy, information asymmetry, and ineffective redressal mechanisms are enabling this exploitation. We propose a multi-faceted approach involving community empowerment through financial education, improved service provider accountability, creation of safe reporting channels, and the development of suitable micro-investment products to combat this systemic issue to enable a choice based and safe methodology to protect the vulnerable and prone to fraud communities.

Introduction

Newspaper reports are strewn with various types of financial and digital fraud taking place daily. The modus operandi changes with the season and people have lost crores of rupees to these well-orchestrated scams. Courier scam has given way to the latest strategy of digital arrests¹. Middle and high income group people are the victims of these reported scams. However, the print and digital media are underreporting or just quiet about the financial frauds being committed on the rural poor, they are collectively losing 1000s of crores on an annual basis². In a country where majority population is residing in rural areas, the focus on financial and digital fraud is disproportionately on urban populace.

This article is based on the financial fraud prevention, detection and redressal programme of Shram Sarathi, a not-for-profit financial inclusion organization working in South Rajasthan. In 2023 and 2024, we registered 160 financial fraud cases. The common refrain we hear from people during financial literacy events is “*humko nahi pata hamaare account mein kya ho raha hai*” (We do not know what is happening in our accounts). Most people are not aware that they have been duped and are surprised when we identify fraudulent transactions in their accounts. A gentleman had noticed a withdrawal of ₹1200 from his bank account that he didn't make but had simply done nothing about it for over a year. The bank always has reasons for some deduction or the other he reasoned. It turned out to be a fraudulent withdrawal by a banking correspondent.

The growing digitalization of banking and financial services has also created new forms of financial frauds. There are severe gaps in financial and digital literacy which makes it difficult for people to identify financial frauds, much less seek redressal. People don't/can't keep track of their transaction histories, they don't understand the scope of access their biometric gives and don't know what their rights are as customers. There is great information asymmetry and power imbalance between the people and the financial service providers. This makes the fraudulent conduct highly likely. Based on our field work in the rural blocks of South Rajasthan, we have identified three major forms of financial fraud being committed against the rural poor – Banking Services related, Credit Services related and Investment Services related.

Banking Services Related Fraud

Banking Correspondents (BCs) are bank representatives who bring banking services to the doorsteps of villagers. These services include opening bank accounts, collection & payment of small value deposits and withdrawals, identification of borrowers, disbursement of small value credit, etc. Without their services, people would be forced to lose wages, spend money and travel far to carry out these transactions in the banks. However, this critical financial inclusion measure has also become a major channel of committing financial fraud against the rural poor.

Account holders give thumb impressions or digital signatures to withdraw money and get account information from the BCs. The biometric scan machines do not work well and it is common to give biometric information multiple times. Banking correspondents ask unnecessarily for multiple uses of someone's biometric information, going on to withdraw more money than they were asked to and pocketing what is extra. People are dependent on them to get printouts of transaction histories, which the BCs refuse to print giving flimsy reasons. Lack of transaction histories make it harder for people to identify fraudulent transactions. Some BCs also work as E-Mitra enabling people to file applications for various forms of State social security schemes. People are highly dependent on the BCs due to the different services provided by them and also less inclined to complaint against them / question them.

BCs target account holders who have received direct cash transfers or payments from the government like NREGA wages, scholarship amount, pensions, etc. The social security systems are in such a disarray that people are unsure of when and if they can expect these amounts to hit their bank accounts. It is less probable that people will notice withdrawal of an amount they did not know has hit their account or amount they were not expecting.

ATM cards are mostly not issued for zero balance accounts. The only way to withdraw money is to go to the branch or use the Aadhar Enabled Payment Systems³ with a Banking Correspondent. Hence BCs are providing an important service. It is important to strengthen this system and make it safer. One proposal is to instate a system of providing thumb impressions twice for cash withdrawals and once for account information. There should be a voice announcement giving the details of the amount withdrawn so BCs cannot key in a higher amount than requested by the account holders. People should always request for a receipt of each transaction. They should stick to one BC and not withdraw amounts from multiple sources so it will be easy to assign responsibility and seek accountability if a fraudulent transaction is discovered.

There are also instances of financial fraud committed by bank staff. One modus operandi is to get a higher loan amount sanctioned than the applicant requested for and pocketing the additional amount by getting signatures / thumb impressions on cash withdrawal slips. The unsuspecting person continues paying the EMIs until the surged loan amount is paid back. Shram Sarathi has registered and resolved a number of fraud cases committed by bank staff.

Credit Services Related Fraud

The predatory practices of for-profit Micro Finance Institutions (MFI) are well documented. More than 65 private lending institutions operate in just 2 rural blocks of Gogunda and Salumbar in South Rajasthan aggressively pushing loans and subsequently engaging in unethical recovery practices. The most common financial fraud is MFI staff collecting payments, not giving receipts and pocketing the money instead. The effect of Credit Services related fraud goes much beyond the amount stolen. People get classified as defaulters and their credit history & CIBIL scores get negatively affected through no fault of theirs. This could make it harder for them to borrow credit in times of need in the future. We have discovered cases where amounts as low as INR 500 or INR 1,000 would be overdue while the customer would believe that they had repaid their dues in full. Collections from the side of the credit provider would also have stopped, and their credit report would have labeled them a defaulter. Another method of committing fraud is Collecting EMIs from families after the death of the borrower, though the law is clear that MFIs cannot collect EMIs after the borrower's death.

Many borrowers are not aware of the principal amount they have repaid, total interest paid and remaining loan amount details. There is a need to create long term demand for transparency from credit providers. As part of our financial literacy programme, we provide printed credit reports at a nominal cost. This has led to people demanding greater transparency from their credit providers and asking for credit reports to track their repayments, pending loans and credit histories.

Investments Related Fraud

There has been some progress in the financial inclusion and coverage of the rural poor in terms of banking and credit services. One area where there is a huge vacuum is in the field of investment services. There are some savings schemes offered by local SHGs and Post Offices but not much else in terms of investments. Traditionally, rural communities are not seen as being a market for investment services. This vacuum is unfortunately being filled by fly by the night Ponzi schemes running players. Various manifestations of 'get-rich-quick' / high rate of returns promising Ponzi schemes targeted at the rural communities are being revealed in our operational areas. Those responsible in such cases are most likely to have ran away from their operational areas, if they weren't operating remotely to begin with. Identifying suitable micro-investment products and linking migrant families to them becomes critical both to fill the vacuum of investment services and to combat the Ponzi scheme operators. Financial literacy programmes should also focus on investment options available and the risk assessment of the various options.

Combating Financial Fraud Against Rural Communities

Severe gaps in financial literacy, access to information and associated prudence prevent most affected from even checking transaction histories and keeping track of their funds. Financial fraud is also a subject that has associations of shame, and those affected (who are mostly women) are often unwilling to admit they have been victims of financial fraud due to various pressures and expected blowbacks. Significant power imbalances between victims and the service providers also prevent victims from being willing to initiate redressal processes. Even when victims are willing to seek redressal, these efforts must face existing redressal mechanisms that are largely ineffective. In order to prevent, identify and redress financial fraud, civil society and financial inclusion organisations should:

- a) Empower communities with financial skills and information: Passbook printing, transaction history, credit reports and other financial information should be made easily and readily available at the doorstep.
- b) Create and disseminate knowledge tools on fraud prevention which will lead to responsible finance
- c) Train and monitor digital micro-entrepreneurs and improve accountability among service providers
- d) Create Safe Environments for Reporting fraud through Financial Literacy programmes and Clinics
- e) Grievance Redressal: Accompanying those aggrieved to seek accountability and demand redressal.
- f) Identifying suitable micro-investment products and linking rural community members to them

The existing state mechanisms to deal with digital and financial fraud are not catered towards addressing the frauds being perpetrated on rural poor communities. The cybercrime command centre in Rajasthan – ABHAY – does not act upon complaints where the capital loss is less than ₹ 1 lakh. The State authorities seem to be largely unaware about the scale of the problem and / or deprioritizing to act on this issue. As mentioned earlier, rural communities in India are losing 1,000s of crores annually through such financial frauds – one fraudulent transaction at a time. Specific mechanisms to address these micro-frauds need to be developed – both preventive and redressal mechanisms. We would not like to belabor the point about how important ₹10,000 or even a ₹1,000 could be for a poor rural household in critical situations.

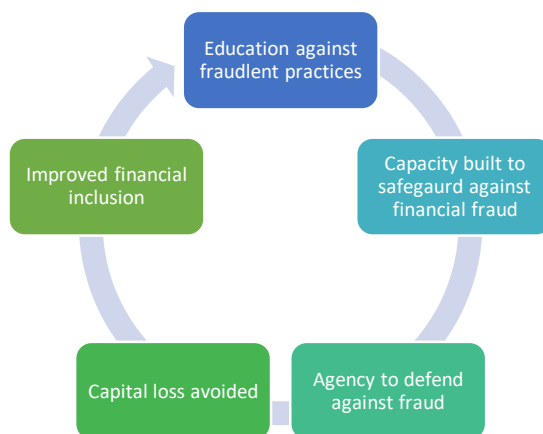


Figure 1 The cycle of defence and growth

Credit, Insurance, Micro-Investments, Financial Inclusion and Prevention of Fraud are all Inter-connected. Lack of credit services from formal banking systems has led to a proliferation of predatory for-profit Micro Finance Institutions. Similarly, lack of micro investment opportunities enables Ponzi scheme players in the fray. In the long run easy and quality access to formal banking, credit and investment services along with financial literacy is key in combatting financial fraud against rural communities.

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