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Mitigating Banking Frauds Through Governance: A Fraud Triangle Perspective in the Indian Context

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***Abstract*—Bank fraud remains a serious challenge, reducing public trust and undermining the stability of financial institutions and reporting a rise in the frequency and value of fraud cases. This study seeks to understand how strong corporate governance can work as a shield for the banking sectors against fraud, by understanding the Fraud Triangle Framework which states that fraud is a result of pressure, opportunity and rationalization. Through an extensive literature review and real case studies from the Indian banking sector, the research explores how tools like independent boards, strict internal controls, ethical leadership and active audit committees can make a huge impact on the occurrence and detection of frauds. It can be analyzed that the banks with stronger governance systems are in a better position to detect the fraud risk with help of early warning signs, closing loopholes in the system and are building a culture where integrity gets prioritised. Overall the research reflects that the regulators play an important role in supporting governance and ensuring prevention of fraud in terms of national and international standards & aligning to the advancing technology. Aligning governance frameworks with human behaviour as per the fraud triangle will help banks in managing fraud risks and maintain trust and efficiency in the finance industry for the long term. Thus strong governance practices combined with behavioral understanding of fraud can help build safer and more accountable financial systems.**

***Index Terms*—Banking Fraud, Corporate Governance, Fraud Triangle, Internal Controls, Ethical Leadership.**

I. Introduction

"What happens when trust, the foundation of banking, crumbles under the weight of rampant fraud? Can corporate governance genuinely be an antidote?"

The financial sector, particularly banking, serves as the backbone of the economy by facilitating financial transactions, providing credit and promoting economic growth. It is one of the extremely significant components of an economy. It performs a crucial part in the socioeconomic matters of the nation. With the benefit this sector provides to the economy through its development over the period, it also has become more prone to fraudulent acts that weaken public confidence, disrupt financial stability, and cause immense economic losses. Banking frauds and scandals highlight the weakness in governance structure and regulatory oversights, necessitating stronger mechanisms to ensure accountability and prevent financial misconduct. High Profile bank fraud instances in India like the infamous Punjab National Bank and Yes Bank scam have raised concerns about weak governance and regulation.

Corporate Governance is the structures and procedures by which an organisation is directed and controlled. It serves as a foundation for ethical business practices, financial transparency, and stakeholder trust. It is important in the sense that it maintains the confidence of investors, complies with the regulations and carries out ethical business activities. Corporate Governance helps the organizations to formulate a clear and optimal policy, maintain transparency by disclosing all material facts and establish an efficient internal control system. Thus, Corporate governance has a major significance in the banking sector. It enhances financial stability, promotes transparency, ensures regulatory compliance, facilitates efficient capital allocation and mitigates fraud risks. By integrating such corporate governance practices in the banking sector it can help to strengthen their structure, increase the trust among the stakeholders and contribute positively to economic growth.

Besides lack of governance, banking frauds also point the necessity to combat the kind of fraud which arises based on theoretical constructs such as Fraud Triangle Theory propounded by criminologist Donald Cressey, which asserts that the pressure (motivation), opportunity (means to commit fraud) and rationalisation (justifications for committing an unethical act) are the three reasons contributing to the happening of fraud.

When we look from the fraud triangle perspective it provides a comprehensive lens for understanding how unethical behaviour originates in complex organisations like banks where everything is under strict compliance and regulations. According to fraud triangle theory the financial pressure may arise from personal obligations, targets, profit

motives. Opportunities in cases of banking sector frauds are created by lack of internal controls and inadequate monitoring and the culture that allows individuals to rationalize unethical behavior leads to the risk of fraud.

This study tells how effective corporate governance practices in terms of the fraud triangle theory to mitigate frauds, which can include methods to reduce **pressure** through ethical leadership, limiting the **opportunities** leading to the increasing number of frauds by strict internal control in which proper rule and regulations are followed, and use of accountability measures which includes transparent reporting, effective risk management, etc to counter **rationalization**. In terms of looking through motives for why people do fraud, there does fraud triangle theory "triggers" come handy, which is the three elements of fraud that is, pressure, opportunity and rationalization.

Thus this research focuses on explaining how combining the fraud triangle perspective with the corporate governance activities will help mitigate frauds in the banking sector and they will be detected before their occurrence.

Corporate governance and fraud prevention are two interconnected terms that have significant effect on the operational integrity and sustainability in banking sector. In recent years the banking sector became an important pillar of the economy in terms of economic growth, financial stability and public trust. However, the increase in the number of frauds in the banking industry over the period reveals that the corporate governance structure has been found wanting resulting in more frequent frauds in the economy. All these financial frauds in the banking sector is a big question mark on the effectiveness of the corporate governance and demands for changes in the corporate governance structure to safeguard the stakeholders interest and prevent fraudulent activities.

This research is significant for several reasons. It addresses the impact on the economy, as a weak corporate governance structure in banks leads to frauds in the banks which erodes the trust of customers/public, and the economic development of the nation. Here's where a well-functioning corporate structure becomes relevant now to rebuild trust and to do the right behaviour in running banks. It mentions that the fraud triangle perspective is that the application of the fraud triangle framework – pressure, opportunity, and rationalization assists in comprehending and having a structured manner in analyzing frauds of why or what is the reason behind the fraudulent behaviour of any individual or person and finding a solution which would be suitable to content to minimize the future likelihood of frauds. It addresses the importance of regulations. The Reserve Bank of India already provides various regulations to ensure effective corporate governance but still gaps remain which lead to fraudulent activities. Thus this shows the need to frame corporate governance structure in a way that detection of any fraud prior to their occurrence is possible other than the prevention aspect which will reduce the number of frauds and fraud risk. It aims towards practical implications to corporate governance of the frameworks like fraud triangle which are really helpful in analyzing the fraudulent behaviour and help in the detection of fraudulent activities. It will offer recommendations for banks, regulators and policymakers to enhance the governance practices by integrating frameworks from forensic accounting like fraud triangle theory, fraud diamond etc which focuses on understanding the reason behind the fraud, impact of accounting and non-accounting decisions on detection methods.

II. Literature Review

This study aims to synthesize and understand existing academic literature about corporate governance roles discussed above. It also includes the fraud triangle theory perspective, how from this theory the corporate governance mechanism can be enhanced by analysing the pressure, opportunity and rationalisation behind the frauds and reducing the risk of fraud. The aim is to establish theoretical and factual context for this study, identify research gaps, and build a conceptual framework that helps in better understanding.

Before understanding corporate governance and fraud triangle theory it is important to understand the fundamental concept of fraud which seems to have accelerated in last few years especially occupational frauds and financial frauds. Occupational fraud occurs when one uses their occupation and obligations for personal gain, making self benefit use of position in misuse of the authorities capacity including the committed fraudulence of the organization resources. According to Merriam Webster's Dictionary of Law (1996) as quoted in Abdullahi & Mansor [1], fraud is“Any act, expression, omission or concealment that is calculated to deceive another to his or her disadvantage, Specifically, a misrepresentation or concealment with reference to some fact material to a transaction that is made with knowledge of its falsity or in reckless disregard of its truth or falsity and with the intent to deceive another and that is reasonably relied on by the other who is injured.” Fraud according to corporate auditor is a conscious act done by an entity who knows that such act can make him have possession of gain of illegitimate manner. Fraud alternatively is the purposeful distortion, concealment and disregard of a fact.

A. Review of Relevant Literature and Theoretical Frameworks

Bank Corporate Governance: Shield against fraud - is one of the most relevant literature for this research as it highlights how governance mechanisms contribute in prevention of fraud. An efficient Corporate governance system significantly reduces fraud risk in banks and for maintaining financial stability, boosting stakeholder confidence, corporate accountability which is done by ensuring transparency, accountability and ethical code of conduct in the banks. As per Kulmie & Ibrahim [2], mechanisms such as board oversight, audit and risk committees, remuneration systems, and compliance units are instrumental in deterring fraudulent activities. The financial crimes occurring in banks are committed by professionals

which differs from crimes that take place due to poverty, thus these crimes taking place inside the banking institution come under white collar crime.

So it is important to understand the reason behind the fraud in which fraud triangle theory is a theoretical aspect which identifies pressure, opportunity and rationalisation are the elements that help in understanding the reason for fraud being done by fraudsters; this theory was developed after interviewing 250 criminals. The pressure may be personal, work or external pressure based on external factors like greed, social issues and financial difficulties and it can also be seen as what is termed personal and institutional pressure. Due to pressure individuals seek for opportunity to commit fraud and the opportunity arises due lack of control and governance inadequacy. Whereas rationalization is the justification for unethical behaviour done because of some pressure. In addition to the fraud triangle theory, agency theory and institutional theory explain the conditions that lead to fraud in the organisations. Integration of the theoretical constructs of the Fraud Triangle Theory, Agency Theory and Institutional Theory, provide analytical lens of examination in this paper. The theories explain the underlying drivers of fraudulent behavior, such as pressure, opportunity, and rationalization (Abdullahi & Mansor, 2018; Mubarokah & Rahayu, 2024), and underscore how robust governance mechanisms can directly counteract these fraud risk factors. Further, ethics based practices create new openings for organizations, strengthen good governance whistleblowing mechanisms, sustainability, performance and growth and governance measures can pre-emptively tackle.Kulmie and Ibrahim [2]. Their review also identifies the gap like limited focus on governance challenges in developing countries. The essence of their research is that corporate governance plays a fundamental role in mitigating fraud risk in the banking sector and effective governance frameworks utilize both human and technological resources to strengthen internal controls and promote ethical leadership which is crucial in mitigating fraud risks.

B. Fraud Triangle Theory

Donald Cressey, a criminologist, established the study of fraud in the 1950s. He was curious to know why people commit fraud, and his research led to the conclusion that i) people initially take the responsibility of trust positively, and ii) they are later forced to break that trust. He then explained how these three elements (pressure, opportunity and rationalization) must all exist before someone will commit wrongdoing. They described that trust violators [i.e., potential offenders], “when they have perceived themselves as facing a non-shareable financial problem and are conscious of the fact that this problem can be 'solved' secretly by a violation of the institution of financial trust. They may apply to their own conduct in that situation verbalizations which help them dovetail conceptions of themselves as trustful persons with conceptions of themselves as users of the trust funds or property.” (Cressey 1953) [1]

Pressure is the factor that leads to unethical behaviour. Every person who thinks to commit fraud faces some pressure to commit unethical behaviour. Pressure is a factor to commit fraud; it can be further classified into three types of pressure which are personal, employment stress and external pressure. Then comes the second element, Opportunity which is created due to ineffective control or governance system that allows an individual to commit organisational fraud. It can also be referred to as a necessary point because fraud can not occur until and unless the opportunity is present even if the pressure is extreme. Rationalisation the third element is the reasons and excuses that people give to argue that unethical behavior is not the same as criminal behavior due to lack of internal ethical compass, or moral reasoning. So it is the bridge between pressure and opportunity when someone justifies the fraud [1]. Thus with fraud triangle implications, In banks corporate governance primarily targets reducing the opportunity by tightening controls and oversights in the banks, while ethical leadership addresses rationalization and organizational culture helps in mitigating pressure.

C. Corporate Governance Theory

Corporate Governance may be described as the manner in which companies are governed or controlled. In the world of multi branched banking competition good governance is what everyne is trying to imbibe in their workplace. Thus corporate governance becomes very important for which corporate governance theories are used to guide the mechanisms, processes of an organisation for implementation of a good corporate governance. Key governance frameworks such as Agency Theory, Stakeholder Theory and Stewardship Theory are essential for evaluating how oversight mechanisms can determine fraudulent behavior. Agency Theory: Much of the research related to corporate governance is based on agency theory, the principals have their own interest and so do the agents. Principally focuses on agent-principal conflict where agents are managers, the principals are the owners and the board of directors acts as a monitoring mechanism [3] (Mallin, 2004). Thus weak governance allows opportunistic behaviour in the agents. Three assumptions in this theory about human nature are: it assumes that human beings act in self interest, have limited reasoning capabilities for future perceptions and are reluctant to take risks [2] (Mubarokah & Rahayu 2024). Agency theory relates agency problems with banking fraud, wherein agents misuse information for self interest causing losses to the principals leading to huge losses incurred by banks, clients, and owners. This indicates the weak corporate governance which leads to fraudulent management activities [2]. Stakeholder Theory - This theory focuses on the issues concerning the stakeholders in an institution. It encourages inclusive governance to balance interests. It specifies that organisations provide a balance between the interest of its diverse stakeholders in order to ensure that each stakeholder interest is taken into concern [3]. Stewardship Theory -On the other hand, stewardship theory provides an opposite model of management from agency theory in which

managers are seen as stewards acting in the best interests of owners. Steward behavior, in contrast to that of agency behavior, is beneficial to the enterprise and hence a higher utility considered than individualistic self-interest behavior. This behavior has an interest in accomplishing goals of the organization benefiting both the organization and other stakeholders. They require less control as they are only working for the benefit of the principals, but sometimes may be misused in fraud prone environments when the pressure element is high and leads to opportunity.

D. Corporate Governance Mechanisms in Banking

An effective corporate governance framework is essential for establishing a structure that protects the confidentiality and integrity of bank and helps to reduce fraud. Studies show that strong corporate governance correlates with lower incidence of fraud in financial institutions.

E. Board of Directors Composition and Roles

The entire responsibility for bank governance is cast on the Board of Directors, as they are accountable to the shareholders for creating, thus delivering, sustainable value through adequate management supervision [4]. The making of strategic decisions and control are the two quite essential duties of the Board of Directors. The composition of and functioning of the BODs are critical in shaping the governance landscape of banks. An independent and freely functional board without any external interference can provide unbiased oversight and strategic decision. Defining policies, endorsing tactical initiatives, and guaranteeing compliance with regulatory standards are board functions. Good corporate governance leads to transparency within the management and helps in identifying potential risks [5].

F. Audit Committees

Audit Committees ensure the credibility of the books and records by mitigating fraudulent falsification like misrepresentation in the books. They serve as a critical line of defense against financial misconduct. The responsibilities of an audit committee includes supervising internal and external audit, overseeing internal controls and ensuring fairness in financial reporting. Financial literacy, member independence and their control over the working and proactive risk assessment shows the effectiveness of the audit committees [4].

G. Risk Governance and Compliance Functions

They are the backbone of a bank's internal control framework as is the formal structure and processes by which risk management responsibilities are defined, delegated and supervised. Effective risk governance and compliance functions facilitate continuous monitoring and evaluation of risk assessment methodologies adopted, as well as an assessment of potential impacts from scenarios completed with relevant risk mitigation mediated plans. It identifies, assesses and reduces the fraud risks using systematic oversight and evaluation with respect to adequacy in the application of bank specific risk management policies and internal controls and preventatives. Effective risk governance and compliance functions enable continuous risk assessment, scenario analysis, and execution of risk mitigation strategies. [5]. The risk governance framework and compliance functions help in mitigating the opportunity element by strong control, transparency and ethical practices.



Fig. 1. Corporate Governance Mechanism, Source: [4]

H. Internal Control Systems

The internal control system ensures that the operations align with objectives while minimizing the risk of fraudulent activity. It refers to the systems, policies and procedures implemented by the bank to mitigate fraud, ensure accuracy of financial records. It helps in mitigating the opportunity component of fraud triangle theory. It ensures robust internal oversight with regular internal audits which helps identify lack in control, identifying process gaps and potential fraud indicators. If there is proper segregation of duties, proper authorization it ensures stronger internal control implementation in the banks and enhances transparency, prevention of unauthorized access and increases the detection of fraud [5]. The COSO internal control framework is the golden standard for fraud prevention as it helps organisations align their internal controls with their objectives which indirectly ensure effective risk management and financial reporting. It emphasizes controlling the environment, helps in risk assessment, oversight on information sharing and continuous monitoring. Thus an effective internal control system aligned with the COSO framework helps banks to prevent financial manipulation.

I. Research Gap

There are a number of studies present on governance and fraud separately; some also focus on relation between fraud triangle components, fraud diamond components and governance mechanisms in the banking sector.

Limited research exists that theoretically and empirically connects corporate governance to each element of the fraud triangle theory, Individually both corporate governance and fraud triangle theory are well explained in various research.

Many studies are very common in the context of non-financial firms generally which means sector specific studies are not present that particularly throws light on the role of governance in banks to mitigate fraud risk.

While numerous researches have investigated this by focusing on the developed economies, there remains a

research gap in understanding how corporate governance mechanisms operate within developing nations such as India.

III. Research Methodology

This research combines a structured, statistically driven approach including both qualitative and quantitative approach to examine how corporate governance impact fraud risk in Indian banks.

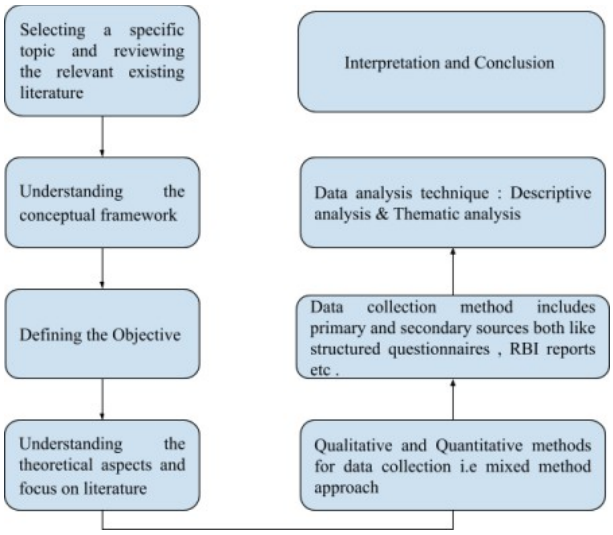


Fig. 2. Research Design

A. Quantitative Approach

It includes analysis of data in terms of frequency, scale to understand the role of corporate government mechanisms and have insight about the frauds in banks.

B. Qualitative Approach

Having insights on secondary data such as RBI annual reports, case studies of major frauds like PNB case, Nirav Modi case and other fraud incident reports to identify governance failures.

This research includes application of thematic analysis, case study analysis to understand the gap in governance practices and how they can be tackled with the fraud triangle elements.

IV. Findings

A. Key Findings

The findings reflect the importance of corporate governance as with help of the questionnaire it is clear that governance systems that have strong audit committees and internal audit control systems in their mechanism are more effective because they have a direct role in monitoring and controlling the activities to ensure that no fraudulent activity is committed. Additionally there is a need for whistleblower protection policies which makes the governance system much stronger with all the other mechanisms as it helps in increasing the chances of having prior knowledge about any fraud taking place and also leads to improvement in the governance system.

Pressure is the fraud driver which leads to fraudulent activities. The findings reflect that around 65 % people agree that due to performance pressure and 45 % agree that due to financial pressure the fraudulent activities increase. In case of rationalization 50% (10 respondents) encountered employees justifying minor fraud occasionally or more, and 20 % (4 respondents) viewed such justification as “right,” revealing ethical challenges.

The findings also reflect the agreement of 80 % of respondents that weak internal controls lead to occurrence of opportunity elements for fraud and throw light on the importance of strong internal control which helps in reducing the opportunity to commit any fraud.

Based on the opinions of individuals working in banks on corporate governance, this implies that proper governance systems and mechanisms are essential in banks, as they mitigate fraud risk through effective control systems, policies and frameworks that reduce the chances of fraud occurring.

B. Contribution of the Study

From the findings it can be analyzed how important an effective governance system is to mitigate the fraudulent elements of the fraud triangle theory which will help in reducing the risk factor in the banks. The implications from this study are as follows:

Besides effective control systems, cultural intervention should also be present, meaning governance frameworks should focus on creating ethical surroundings. Providing incentives to always work ethically without any fraudulent motive, and providing information about the consequences that can arise from fraudulent behaviour through clear policies, will help address and mitigate the rationalization element.

Focus on strengthening policies of the governance system and strong enforcement of the policies on a regular basis, Banks should prioritise on the implementation of the whistleblower policies which will directly address in reducing the insider opportunities.

Also there should be proper resource allocation for the governance system that will help in making it more effective to reduce risk through investing in technologies like automated control systems which will reduce the burden of keeping oversight manually and chances of biases. Thus it will help in monitoring all the activities in the banks and mitigate the opportunity element which arises in case of using digital platforms and high volume transactions.

Taken together, these contributions show that ethical culture, stronger policy enforcement, and investment in technology-driven controls reinforce one another, giving banks a more complete way to reduce fraud risk.

V. Conclusion

The study aims to research the role of corporate governance in fraud risk mitigation in the banking sector measured against fraud triangle theory. It includes theoretical understanding from various already existing theories other than fraud triangle theories like agency theory,

stewardship theory and research articles. The quantitative analysis is done by conducting surveys and then analysing them and forming interpretation with alignment to the research objective. The key findings include:

The pressure element of the fraud triangle theory is the main aspect which leads to motivation in the bank employees to commit fraud. It can be stated as the key contributor for fraudulent behaviour. The pressure element can be in the form of performance pressure or personal financial pressure which can lead to fraudulent behaviour in the employees.

Corporate governance mechanisms will include the study of board of directors, audit committees, internal audit department, and whistleblowing mechanisms. All these mechanisms play a vital role for an effective governance system in banks in terms of reducing fraud risk by eliminating the opportunity element of the fraud triangle theory because if there will be loopholes in the governance mechanism it will lead to employees seeking an opportunity to conduct fraudulent activity.

The research also targeted the importance of the whistleblowing mechanism because as per the survey conducted according to respondents there is inconsistency in the presence and awareness of whistleblowing mechanisms. The negligence that whistleblowing mechanisms face in the governance system affects the prior detection of large frauds because employees do not feel confident in reporting unethical practices. Simultaneously it also leads to inefficiency of the governance system in mitigating the rationalization element of the fraud triangle theory which occurs due to weak corporate governance mechanisms.

The findings also highlight the challenges faced by governance systems like weak enforcement of policies, resource constraint and delay in latest technological adoption, lack of ethical training leads to weak corporate governance systems as the fraud triangle elements (pressure, opportunity and rationalization) raises risk of fraudulent activity.

The research helps in application of the three elements by linking it to the corporate governance system which helps in reducing the fraud risk and with proper understanding of fraud triangle elements the banks can make necessary changes in the governance system and policies to reduce the risk of fraud.

A. Scope for Further Research

1) Comparative Analysis: This research targets the banking sector in general. Future research comparison of private sector, public sector and foreign banks in India can lead to more sector specific comparison and help in understanding their practices.

2) Inclusion of Behavioral and Cultural factor: Future research can explore how other fraud triangle theory elements, culture and employees behaviour lead to fraud risk and how corporate governance mechanisms help in mitigating these factors.

3) Inclusion of Qualitative Interviews: This research is conducted only on the basis of surveys in future research interviews with senior bank managers; compliance and audit officers can be integrated to have more knowledge about the governance system in banks and more knowledgeable insights.

4) Understanding post fraud effect and recovery by the governance system: In future research it can be explored how banks rebuild the governance system after a collapse caused by fraud and what measures they take to come back with a more efficient corporate governance system after a major setback.

Lastly, this research shows how corporate governance is not just for the sake of regulatory obligation but works as an efficient mechanism to combat fraudulent activities and how it evolves with time and changing fraud patterns and evolution in the banking sector. It addresses the pressure, opportunity and rationalization elements of the fraud triangle stating how a corporate governance helps in mitigating these elements and reducing fraud risk. It shows how a strong governance culture incorporated with transparency, accountability and ethical leadership leads to sustainability of banks with less fraudulent activity and also ensuring public trust is maintained.

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