

## A Study on Financial Scams of the Financial Market in India

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### Abstract

Financial scams are intentional deceptions involving financial transactions aimed at personal gain. These scams can constitute criminal activity as well as civil law violations. Many scams are characterized by complex financial transactions executed by professionals with malicious intent.

### What are Financial Scams?

An unethical investment broker might present an investment opportunity in non-existent valuable repositories. The broker's credibility can mislead clients into investing substantial amounts, only to receive fraudulent documentation in return. If the broker knowingly accepts payments for worthless bonds, they can be sued for scams. Scammers may approach victims through various means including face-to-face interactions, mail, phone calls, SMS, or emails. The anonymity of the internet and the ease with which scammers can create fake websites and steal personal information contribute to the growing number of online scams.

"Get-Rich-Quick" schemes promise high returns for minimal investment and effort. Often advertised through spam or unsolicited calls, these schemes are generally too good to be true, and potential investors are advised to verify their legitimacy.

### 1.1 Types of Financial Scams

Banking and Online Account Scams

Stock Market Scams

Lottery Scam

## Objectives

To understand scams that have impacted the Indian economy

To examine the effects of scams

To educate people about frauds and scammers

To provide recommendations on avoiding scams

## Notable Scams in India Pre-2005

Jeep Scandal (1948)

Mundhra Scandal (1956)

Bofors Scam (1980-90s)

Harshad Mehta Securities Scam (1992)

Ketan Parekh Securities Scam/UTI Scam (2001)

Fodder Scam (1985-2014)

## Scams from 2005 to 2014

### Hasan Ali Black Money Controversy (2008)

Hasan Ali Khan, an Indian businessman, was investigated for money laundering in 2007. He reportedly had a Swiss bank account with \$8 billion. Khan allegedly moved billions to Swiss accounts with the help of associates using the hawala system.

### Satyam Computer Services Scandal (2009)

The Satyam scandal involved the falsification of company accounts by chairman Ramalinga Raju, who resigned and confessed to the fraud. The scandal resulted in significant financial misreporting and regulatory actions against Satyam's auditors, PricewaterhouseCoopers.

### Coal Block Allocation Scam (2012)

The scam involved arbitrary allocation of coal blocks to companies, resulting in a substantial loss to the Indian exchequer. The CAG report highlighted the lack of competitive bidding, which led to windfall gains for the allocatees.

### Tatra Truck Scam (2011)

Top officials of Bharat Earth Movers Ltd (BEML) and the defense ministry were implicated in a bribery and commission scandal involving the purchase of truck components at inflated prices from middlemen rather than the original equipment manufacturer.

### 2G Spectrum Scam (2010)

The 2G scam involved the undercharging of telecom companies for frequency allocation licenses, resulting in a significant loss to the exchequer. The Supreme Court of India later quashed the allocation of licenses, citing arbitrary actions by the then communications minister.

## Who Investigates Such Scams?

### Joint Parliamentary Committee (JPC)

Joint Parliamentary Committee is a type of ad-hoc Parliamentary Committee constituted by the Indian parliament. It includes members from both Lok Sabha and Rajya Sabha. A JPC can gather evidence from experts, public bodies, associations, individuals, or interested parties. If a witness fails to appear before a JPC, it constitutes contempt of the House.

### Serious Fraud Investigation Office (SFIO)

Serious Fraud Investigation Office (SFIO) is a multidisciplinary organization tasked with investigating serious financial frauds. It includes experts from the financial sector, capital market, accountancy, forensic audit, taxation, law, information technology, company law, customs, and investigation.

### Central Bureau of Investigation (CBI)

The Central Bureau of Investigation (CBI) is India's primary criminal investigation body. Established on April 1, 1963, it evolved from the Special Police Establishment founded in 1941. Its motto is "Industry, Impartiality, Integrity".

### Case Study: Abdul Karim Telgi

Abdul Karim Telgi was involved in a large-scale counterfeit stamp paper scam. He employed numerous agents to distribute fake stamp papers, implicating many police officers and government employees in the process.

### Limitations

Data accuracy may be affected by untrusted sources.

New developments in cases may not be updated in available information.

Involvement of influential individuals could result in missing or altered investigation files.

Government authorities may be reluctant to provide information.

### Recommendations

Avoid responding to emails requesting personal financial information.

Visit bank websites by typing the URL directly.

Regularly monitor your accounts.

Exercise caution with emails and personal data.

Report suspicious activities.

Be cautious when making cash transactions in person.

### Conclusion

Despite advancements in fraud prevention, further research is needed to effectively combat financial fraud. Establishing interdisciplinary connections can facilitate real-world improvements in the study and prevention of financial fraud.

### **Lokpal Bill**

The Jan Lokpal Bill proposes the creation of an independent body to investigate and prosecute corruption cases within a year, with trials completed in the subsequent year.

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