

History of Scams, Corruptions, and Low Financial Literacy in Indian Stock, Capital, and Money Markets

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ABSTRACT

This paper presents a review of scams, frauds, misappropriations and other instances of cheating in the Indian money, stock, and capital markets. The authors also examine the role of low levels of financial literacy in India as it relates to the environment surrounding scams and corruption in the Indian marketplace.

(Keywords: India, national economy, money market, capital market, stock market, fraud, scam, corruption)

INTRODUCTION

Mishra (2014) states that the Indian money market, stock market, and capital market are full of scams, frauds, misappropriation of funds, and cheating. Even after many regulations for operations of the capital, money, and stock markets in India, there is hardly any implementation due to lack of political will, red-tapism, restrictive policies, bureaucracy, and a high level of corruption.

According to the ex-chief justice of India Justice Thakur, courts in India already have an increased workload. Moreover, the decision of a case is taking so many years of life due to overburdened courts. By the time there is a decision, many witnesses and interested parties are already gone. There are many factors responsible for this, such as lower judicial recruitments and unfilled many judicial vacancies. That is true that justice delayed is justice denied, especially in the case of the Indian legal system. Therefore, a more efficient justice system is the need of the hour in India. L C Gupta (1992) indicated that there is a direct impact of this failure on the Indian money, stock, and capital market.

Furthermore, according to Kuvalekar (2007), Indian corporate houses are also world-famous for poor corporate governance, window dressings of the balance sheet and income statement, and fraudulent auditing practices. That is another reason why small investor should always remain highly vigilant while dealing with Indian stock, money, and capital market.

Thomas (2005) explains the financial sector reforms in India are with less success and with more failure. It means so far economic sector reforms in India are unsuccessful. In India, the financial literacy level is so low. According to the S&P survey, more than 70% of Indians fare poorly in financial literacy. Moreover, the financial literacy level is so low in this research study, geographical areas (i.e., Delhi and Haryana).

HISTORY OF SCAMS IN INDIAN STOCK, CAPITAL AND MONEY MARKETS

Table 1 shows the top 8 Indian stock market scams. The amount is very high in each fraud. These scams are famous in the Indian and world stock and financial markets. In all the above scams, the modus operandi used indicates how fraudsters can rip off the hard-earned money of the small investors.

From the years 1992 to 2013, a massive amount of cash was duped by the scamsters for their welfare and benefits. Although justice was given to those scamsters, still money has not recovered in many cases, and ultimate sufferers are the small investors as their hard-earned money vanished and drained.

Table 1: Most Famous Scams that Rattled the Indian Stock Market.

Name	Estimated Size * Crores Rupees	Central Figure	Year
1. Harshad Mehta Scam	Rupees 4000 crores	Harshad Mehta	1992
Modus operandi – He used money from banks to make personal gains via investment in shares)			
2. CRB Scam	Rupees 1200 crores	CR Bhansali	1996
(Modus operandi – Raised public funds through FDs, MFs, and debentures via non-existent firms and invested them in stocks for personal gains.			
3. Ketan Parekh Scam	Rupees 800 crores	Ketan Parekh	2001
Modus Operandi – Circular trading in selected stocks via borrowed money from banks to manipulate share prices.)			
4. Satyam Scam	Rupees 14162 crores	Ramalinga Raju	2009
Modus Operandi – The top management of the software company cooked up accounts to show fake artificial shares prices, inflated sales, profits, and margins from 2003 to 2008.)			
5. Sahara Housing Bonds	Rupees 24029 crores	Subrata Ray	2010
Modus Operandi – Bonds issued to 29.6 million small investors without following Sebi regulations and investor protection measures mentioned therein.			
6. Speak Asia	Rupees 2200 crores	Ram Sumiran Pal	2012
Modus Operandi – Investors were asked to subscribe to an e-magazine for a certain sum, after which they became eligible to answer surveys and got paid for each study.			
7. Sardha Scam	Rupees 10000 crores	Sudipta Sen	2013
Modus Operandi – Ran multiple investment schemes collecting money from nearly 1.4 million small investors in West Bengal and Odisha.			
8. NSEL Scam	Rupees 5600 crores	Jignesh Shah	2013
Modus Operandi – small Investors were wooed by offering fixed returns on paired contracts with Agri and industrial commodities as underlying the stocks were missing, and money allegedly siphoned by so-called borrowers			

Source: Mishra, M. (2014, July 30). Eight scams that rattled the Indian stock markets. *Rediff Business*. Retrieved from <http://www.rediff.com/business/slide-show/slide-show-1-special-8-scams-that-rattled-the-Indian-stock-markets/20140730.htm>

The table further shows that despite regulations, the scams are continuously happening. It indicates that there is an element of corruption, red-tapism, bureaucratic hurdles, the corrupt political establishment, and less effective judicial system as courts are overburdened with the high volume of cases. These are the significant scams, and there are also thousands of small level scams in the Indian stock, money, and capital markets in India, which are hard to quote.

The Indian stock, money, and capital market are full of massive scams. One would realize that almost zero percent of protection is available to small investors due to rampant corruption, ignorance, insider tracings, and red-tapism bureaucracy in India. This present research the study is highly relevant for the future protection of small investors by giving them research findings knowledge so that there should be wise investment analysis in their brains before making any investment decisions in the capital, money, and the stock market.

In recent years so many major scandals involving high-level public officials have shaken the Indian civil services. These scandals suggest corruption has become a pervasive aspect of the Indian political and bureaucratic system. Some of the significant scams are following:

1. Coal Allotment Scam (Cost – 186000 Crores)
2. G. Spectrum Scam (Cost – 176000 Crores)
3. Commonwealth Games (CWG) Scam (Cost – 70000 Crores)
4. Mega black money laundering Scam (Cost – 70000 Crores)
5. Adarsh Housing Scam (Cost – 18978 Crores)
6. Stamp Paper Scam (Cost – 20000 Crores)
7. Boforce Scam (Cost – 400 Million)
8. Fodder Scam (Cost – 950 Crores)
9. Hawala Scam (Cost – 8000 Crores)
10. Madhu Koda Scam (Cost – 4000 Crores)

Therefore, corruption is an intractable problem in India; it is like diabetes, which can only be controlled but not eliminated. It may not be possible to root out corruption completely at all levels, but it is possible to contain it within tolerable limits. Honest and dedicated persons in public life, control over discretionary expenses, could be some of the essential prescriptions to combat corruption (Rajak., 2013).

Table 2: Corruption Rank by G 20 Country.

Country	Last	Previous	Highest	Lowest	Frequency
Switzerland	5.00	7	12	5	Yearly
Netherlands	8.00	5	11	5	Yearly
Canada	9.00	9	14	5	Yearly
Germany	10.00	10	20	10	Yearly
United Kingdom	10.00	10	20	10	Yearly
Australia	13.00	13	13	7	Yearly
United States	18.00	16	24	14	Yearly
Japan	20.00	18	25	14	Yearly
France	23.00	23	26	18	Yearly
Spain	41.00	36	41	20	Yearly
South Korea	52.00	37	52	27	Yearly
Italy	60.00	61	72	29	Yearly
Turkey	75.00	66	77	29	Yearly
Brazil	79.00	76	80	36	Yearly
China	79.00	83	100	40	Yearly
India	79.00	76	95	35	Yearly (12/06)
Indonesia	90.00	88	143	41	Yearly
Mexico	123.00	95	123	32	Yearly
Russia	131.00	119	154	47	Yearly

Source: India Corruption Rank. (1995-2017). Trading Economics. Retrieved from [https://tradingeconomics.com/india/corruption-rank.](https://tradingeconomics.com/india/corruption-rank)

Table 2 clearly shows G 20 corruptions rank at 79 in December 2016. It is an indication of how much corrupt a country is? This rank is highly alarming for a developing economy like India. The corruption in financial markets generated so many scams in the recent past.

Figure 1: India's Corruption Rank,



Source: India Corruption Rank(1995-2017). Trading Economics. Retrieved from [https://tradingeconomics.com/india/corruption-rank.](https://tradingeconomics.com/india/corruption-rank)

India Corruption Rank 1995-2017

Figure 1 and Table 2 indicate that India is the 79th most corrupt nation out of 175 countries, according to the 2016 Corruption Perceptions Index reported by Transparency International. Corruption Rank in India averaged 75.32 from 1995 until 2016, reaching an all-time high of 95 in 2011 and a record low of 35 in 1995 (*India Corruption Rank, 2018*).

S&P Survey: More than 70% of Indians Fare Poorly in Financial Literacy

Close to 76% of Indian adults do not adequately understand key financial concepts, as found in a global survey conducted by Standard & Poor's Financial Services LLC. The S&P's Ratings Services Global Financial Literacy Survey found that this number is lower than the worldwide average for financial literacy, it is roughly in line

with other BRICS (Brazil, Russia, India, China, and South Africa) and South Asian nations.

According to the survey, three-quarters of Asian adults and two-thirds of adults worldwide are not financially literate. Countries with the highest financial literacy rates include Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden, and the UK, where about 65% or more of adults are financially literate. South Asia is home to countries with some of the lowest financial literacy scores, where only a quarter of adults—or fewer—are economically literate. Singapore has the highest percentage of financially literate adults (59%) in Asia.

The survey was conducted in 2014 by Gallup (an American research-based, global performance-management consulting company) as part of the Gallup World Poll while researchers at the World Bank provided the analytical support the Global Financial Literacy Excellence Center at the George Washington University. For the survey, interviews of more than 150,000 adults across over 140 countries were conducted. Individuals were tested on their knowledge of four basic financial concepts: numeracy, risk diversification, inflation, and compound interest (savings and debt). A person was defined as financially literate when she correctly answered at least three out of the four concepts (S&P Survey, 2014).

Table 3: State-Wise Level of Financial Literacy in India (2015).

Name of State	General Literacy %	Financial Literacy %
JAMMU AND KASHMIR	N/A	N/A
JHARKHAND	56	15
KARNATAKA	67	25
KERALA	84	36
MADHYA PRADESH	59	23
MAHARASHTRA	73	17
MANIPUR	69	36
MEGHALAYA	60	24
MIZORAM	77	6
NAGALAND	68	8
ODISHA	64	9
PUNJAB	67	13
RAJASTHAN	56	20
SIKKIM	73	8
TAMIL NADU	72	22
TRIPURA	67	21
UTTAR PRADESH	57	10
UTTARAKHAND	68	23
WEST BENGAL	67	21

Source- Data Compiled from the National Centre for Financial Education Report, 2015 [11]

Table 3 shows the state-wise level of financial literacy in India (2015). In this present research study, a geographical area also is the State of Haryana. Accordingly, the financial literacy level in the State of Haryana is 21%, only. This is an indication of how the poorly State of Haryana is performing in the financial literacy benchmarks. Besides financial literacy, the general literacy level is also abysmal in the State of Haryana, which stands at 65%.

Table 4: Union-Territories-Wise Level of Financial Literacy In 2015

Name of Union-Territory	General Literacy %	Financial Literacy %
ANDAMAN AND NICOBAR	82.43	14
CHANDIGARH	81.19	38
DAMAN AND DIU	79.55	29
DADRA AND NAGAR HAVELI	64.32	31
DELHI	80.76	32
PUDUCHERRY	80.67	21
LAKSHADWEEP	87.95	22

Source- Data Compiled from the National Centre for Financial Education Report [11], (National Centre for Financial Education (2014). Report on Financial Literacy in India. Retrieved from <http://www.nfceindia.org/national-survey>).

In Table 4, it is quite clear that Delhi NCR's financial literacy rate is also at a superficial level, i.e., 32%. The general literacy is 80.76 a little bit better than the State of Haryana. Conclusively, financial literacy has a direct impact on the small investor's investments as no knowledge, no return principle applied to those situations.

30 MILLION PENDING CASES: FIXING INDIA'S OVERBURDENED JUDICIARY

Is India's judiciary on the cusp of a crisis? Listening to Tirath Singh Thakur, the chief justice of the Indian Supreme Court, speaking on the subject, it appears so.. Thakur delivered a passionate and emotional appeal, directed at Indian Prime Minister Narendra Modi, suggesting that India's apex court was woefully under-equipped to address the number of cases it had pending adequately. Thakur was addressing the Annual Chief Ministers and Chief Justices Conference. The emotional nature of his speech—Thakur broke into tears several times during his 30-minute speech—has captured headlines in India, highlighting a long-standing problem.

Indeed, the problem has been well-known for some time. India's last government

acknowledged that the country had the world's most substantial backlog of pending court cases. While Thakur primarily spoke for his court, the Supreme Court, the broader problem of an overburdened judiciary, extends across India's national court system. A stunning report in 2009 by New Delhi's high court noted that at the rate things were going, the existing backlog of cases would take 466 years to clear. Estimates as of 2013 indicated that around 30 million cases were pending in Indian courts—some of these cases have been pending since India adopted its constitution and became a Republic in 1950.

"I feel that if nothing else has helped justice, an emotional appeal might," Thakur told his audience on Sunday, according to The Hindu. "Therefore, not only in the name of the litigant... the poor litigant is languishing in jail but also in the name of the country and progress, I beseech you to realize that it is not enough to criticize the judiciary, you cannot shift the entire burden to the judiciary," he added.

Thakur laid bare the scale of the statistical challenge facing the Indian judiciary in plain terms: the average Indian judge dealt with 2,600 cases a year while the average judge in the United States handled just 81. (Panda., 2016).

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SUGGESTED CITATION

Sharma, N.K., D. Capogrossi, H. Mendon, and N. Ray. 2020. "History of Scams, Corruptions, and Low Financial Literacy in Indian Stock, Capital, and Money Markets". *Pacific Journal of Science and Technology*. 21(1):170-178.

