Ilkogretim Online - Elementary Education Online, 2021; Vol 20 (Issue 4): pp.4346-4351
http://ilkogretim-online.org
doi: 10.17051/ilkonline.2021.04.468

Financial Illiteracy As Catalyst To Promote Financial Frauds In The Unorganized Sector- A Review Of Frauds In The State Of Uttarakhand

[1]Dr. N S Bohra , [2] Mahak Sethi , Smitha Kothari[3]

[1]Professor, Graphic Era Deemed to be University

[2] Assistant Professor, Graphic Era Deemed to be University

3 Assistant Professor, School of Management Graphic Era Hill University, Dehradun

ABSTRACT
The ideology suggests that financial literacy is the need of the hour, but, the reality portrays that the residents are not even aware about the rudimentary concepts concerning savings and investments. This ultimately leads to residents being trapped in bogus Ponzi schemes of operators offering lucrative returns. Hence, the researchers would like to address with this study the far-reaching effects of Financial Illiteracy i.e., how financial unawareness leads the general public to fall in trap of misleading unregulated schemes offered by unauthorized bodies. Thus, this research has been contributory in reviewing the unorganized frauds in the financial sector done by operators of bogus Ponzi schemes in the state of Uttarakhand.

Key words: Financial Literacy, Ponzi schemes, Financial Illiteracy, Unorganized frauds, Uttarakhand.

1. INTRODUCTION

Academicians have encapsulated financial knowledge as a necessary cure to rising intricacies in management of finances and consumers' financial decision making. Possession of skills and knowledge in the area of management of day-to-day pecuniary matters is an indispensable part in the era of high cost of living. The real world, however, delineates that financial illiteracy is widespread. Where the ideology suggests that financial literacy is the need of the hour, there, the reality portrays that the residents are not even aware about the rudimentary concepts concerning savings and investments. The unawareness and financial illiteracy therefore pose serious threat to fundamental decisions of investment, retirement, savings, mortgage, etc. Therefore, regulators and policymakers stand in the need for increasing financial awareness among residents **(Lusardi, & Mitchelli, , 2007)** Nonetheless, the deeper issue that has piqued the interest of researchers over the past is the predominance of financial illiteracy. A fair number of studies focused attention on the general public's level of financial sophistication. Sophistication, or the lack thereof, is reflected in both knowledge and choices **(Bernheim,1998).** Hence, the researcher would like to address with this study the far-reaching effects of Financial Illiteracy i.e., how financial unawareness leads the general public to fall in trap of misleading unregulated schemes offered by unauthorized bodies such as Kitty associations in Uttarakhand. Thus, this research has been contributory in reviewing the unorganized frauds in the financial sector done by operators of bogus Ponzi schemes.

1.1 Objectives of the Study:

- To establish a link between financial unawareness and investment in unregulated schemes.
- To review cases of unorganized financial frauds in Uttarakhand

2. LITERATURE REVIEW

The existing repository contemplates financial literacy from different dimensions. The Organization for Economic Cooperation and Development (**OECD**) defines financial literacy as "A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing." In other words, it can be conferred as an individual's capability to take care of his/her personal financial decisions to secure his/her material welfare **(Chen & Volpe, 1998). Emmons, (2005)** correlated the term financial literacy with the ability to manage cash flows and taking care of financial needs such as health and life insurance, it also covers an individual's knowledge on securing credit and opening a current account to obtain formal banking services. Financial Literacy is not just limited to information about financial needs and financial advice, rather it's an amalgamation of an individual's skills, attitude and knowledge about his/her financial decisions which comprises of efficiently and effectively utilizing financial resources to upgrade the economic welfare of the individual and his family **(Sekar & Gowri, 2015).** In the same realm on the basis of review of 2000 studies, **Remund (2010)** crystallized the definitions of financial literacy into five main dimensions. These categories inculcated a clear-cut meaning of financial literacy and its components that the researchers and academicians have been focusing on since 2000. The classification done by Remund has been portrayed in figure 1.

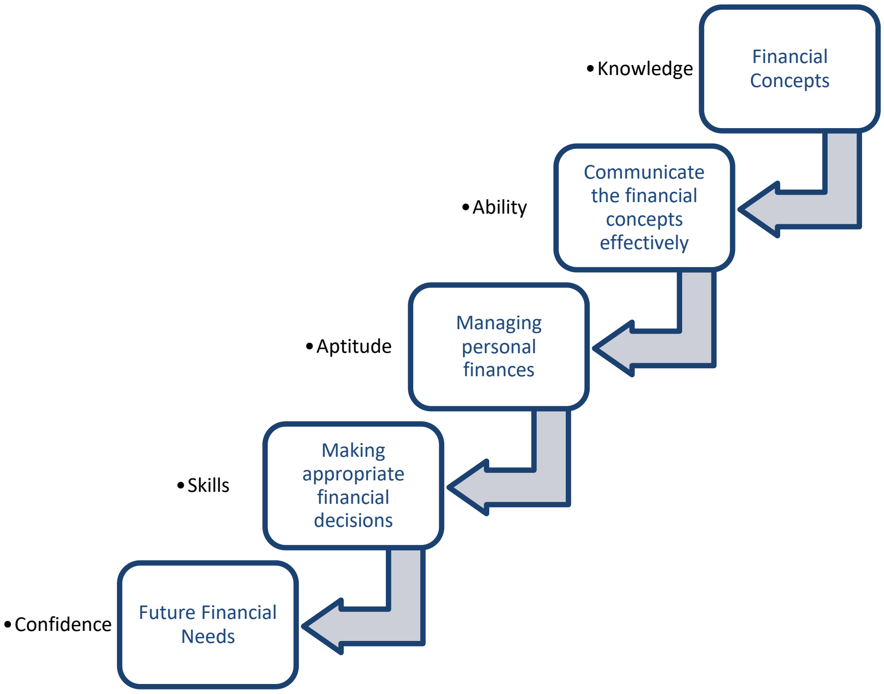

Figure 1- Components of Financial Literacy by Remund (2010)

Working with the literature is appears that there exist a positive and direct correlation between an individual's financial literacy and his wellbeing. This wellbeing is associated with his current financial decisions and future financial plans in terms of retirement, children's education and wealth accumulation. The everchanging demographics makes is imperative for today's generation to focus much more on financial planning, especially when it comes to retirement. One reason accounting for this need is that the baby boomers have fewer children than their parents comparatively, so when these baby boomers will retire, they will ultimately be having a smaller number of workers to cater the needs of greater number of retirees. Therefore, they should be focusing more on planning for savings and retirement (**Orton 2007).** The financial frauds in the economy have taken a center stage due to innumerable cases being highlighted in the recent past. The same has been at the peak and have damaged the image of financial institutions and the economy at large **(Gupta & Gupta, 2015).** In the last decade, the economy has witnessed a large number of financial frauds concerning banks and other financial institutions. This has led to increasing number of regulations imposed by government and regulatory authorities to prevent such frauds, still finding ways to detect and prevent such frauds has become a key area of deliberation **(Sood & Bhushan, 2020).** Researchers, Academicians and professionals have been trying to identify the loopholes that are leading increasing number of corporate frauds in the developed and developing economies. Every financial scam paves the way for a more strengthened regulatory system. The Indian economy has encountered similar frauds and Ponzi schemes in the recent past **(Gupta & Gupta, 2015).** Ponzi schemes can be inferred as a fraudulent scheme where the investment made by new investors are used to pay interest to earlier investors **(Basu, 2014).**

3. METHODOLY

This paper adopts qualitative approach using secondary data obtained from reputed newspapers. The literature review is conducted using the literature available on Google scholar. A thorough analysis of the available literature is conducted to analyze the concept of financial literacy, its interconnection with financial planning and how financial unawareness leads to investment in unregulated schemes.

4. ANALYSIS OF UNORGANISED FRAUDS IN UTTARAKHAND

I Sudha Aggarwal & Ritu Aggarwal Kitty Fraud case: As reported by Hindi Dainik Amar Ujala, the case dates back to 22nd November, 2019 when a lawsuit was filed against the latter for defrauding people for Rs. Nine Lakh. It is alleged that the mother and daughter operated kitty in a hotel at Darshani Gate, where on payment of the kitty amount cards were signed by the operators as a symbol of successful payment. Victim investors have claimed that the mother-daughter passed threatening statements on asking for repayment of invested amount.

II Thapar couple Kitty Fraud case: Mr. and Mrs Preeti Thapar resident of Dehradun, Uttarakhand has been organizing Kitties since the year 2017. A victim investor who got defrauded earlier professed that the couple delivered the promised benefits for a year but started making delays in 2018. As reported by Hindi Dainik Amar Ujala, the couple went missing after January 14th 2020 and disabled all routes of contacting them. Only a few of the victim investors came up with filing a lawsuit under the Chit Fund Act, where the estimated amount was reported to be Rupees 4.5 Lakh.

III Gurukripa Kitty Fraud Case: More than 200 victim investors lodged a common complaint against GMS Road, Dehradun resident Mr. & Mrs Sehgal. The Sehgal couple had been cheating people in the black business of kitty for many years by the name of Gurukripa Kitty. The couple called for kitty parties in the luxurious hotels of Dehradun city. One of the prominent strategies of Sehgal's to build a good market repo was to update his social media handles with pictures alongside renowned Indian Television Celebrities. The deluxe life of Sehgal couple portrayed in their pictures of India and abroad was one of the foremost factor that made people believe in them. The couple claimed to the members of the scheme that they have been generating returns by investing the Kitty Corpus in a Dance Academy. But in reality, they were using the money of innocent members to live their affluent life. However, their deceptive lifestyle was unveiled that drowned away crores of rupees as reported by inext. Another source Dainik Jagran reported that the accused have grabbed about one Crore rupees deposited in the name of kitty. Sooner, the couple sold their property worth Rupees 1.5 Crores and handed over the proceeds to their henchmen & surrounded to the Police officials of Dehradun.

IV Om Sai Ram Kitty Fraud Case: More than a thousand people from Doon and surrounding districts filed a lawsuit against the couple and their two daughters, accused of cheating crores of rupees. The accused had been running the kitty along with the boutique since the year 2016. The police have registered a case against the four accused Mrs Bhavana Sharma wife of Mr. Ajay Sharma. A large number of people joined Kitty from Dehradun as well as surrounding districts. It is alleged that her daughter Vanshita and Ishita used to deal with people along with Mr. Ajay to lure members to their deceptive schemes. The accused kitty operator used to organise kitty at renowned restaurants of the city at the time of the kitty's revelations. The accused, after taking people for 3 years into the trust, took the money and got absconded on April 24 2019.

V Fraud in the name of The Oriflame group: Jagdamba and her sister Kamlesh has been operating kitties since last five (5) years in the central area of Haridwar, Uttarakhand. On September 2nd 2019 a Hindi Dainik Amar Ujala reported that the operators were reluctant to pay the amount since last one year. The functioning of Kitty was such that the members had to pay Rs 1000/month for twenty (20) months which makes a sum of Rs 20,000 per member. The operators promised to refund Rs 21,000 after 20 months i.e. a benefit of Rs 1000. Apart from that a lucky draw in the middle of 20 months was also one of the exclusive benefits of the scheme, where on winning the draw the member in question was not obliged to pay further instalments.

VI Government worker Kitty Fraud case: Ms Shivangi Tripathi a member of one of the eminent government parties of India duped people of Haridwar, Uttarakhand with a scam worth Rs. 5 Crore. The concerned party members and officials were unaware of her involvement in such a double-dealing act, Times of India reported. She was booked under section (u/s) 420 (cheating) and other relevant sections of the Indian penal code. In an interview with Times of India, District president of the concerned party stated that she was just a party worker and does not hold any position in the party.

5. FINDINGS & DISCUSSIONS

Financial illiteracy is widespread and this is the reason why people are falling prey to unorganized schemes which are not under the supervision of regulatory authorities. The older generation is being put at more risk of being trapped in such bogus and falsified schemes because of lack of financial knowledge (Lusardi, 2012). The financial unawareness, lack of cognitive abilities and lower involvement in financial planning is paving the way financial frauds in the unorganized sector (James et al., 2014). The bogus schemes get flourished because operators promise lucrative returns to their investors. These schemes work on the basis on pyramid marketing strategy, where every member who chain another member gets a promising amount in the form of commission. Also, word of mouth marketing serves as the best promotional strategy for such schemes, the investors who get their returns, attract other investors through word of mouth. The element of trust via word of mouth, thus add more people to the chain. These schemes get busted only when the operator is not able to repay the benefits to prior investors. The vicious circle thus goes on and when the new investors stop getting added to the chain, the schemes emerge as a Ponzi scheme. Thus, it becomes imperative for investors to realize that any schemes that is not recognized by the regulatory authorities should be considered as a Ponzi schemes, and therefore, no investment shall be made in such schemes.

REFERENCES

[1] Lusardi, A., & Mitchelli, O. S. (2007). Financial literacy and retirement preparedness: Evidence and implications for financial education. Business economics, 42(1), 35-44. https://doi.org/10.2145/200701040
[2] Chen, H., & Volpe, R. P. (1998). An analysis of personal financial literacy among college students. Financial services review, 7(2), 107-128. https://doi.org/10.1016/S1057-0810(99)80006-7
[3] Emmons, W. R. (2005). Consumer-finance myths and other obstacles to financial literacy. . Louis U. Pub. L. Rev., 24, 335.
[4] Sekar, M., & Gowri, M. (2015). A study on financial literacy and its determinants among generation Y employees in Coimbatore city. Great Lakes Herald, 9(1), 35-45.
[5] Remund, D. L. (2010). Financial literacy explicated: The case for a clearer definition in an increasingly complex economy. Journal of consumer affairs, 44(2), 276-295. https://doi.org/10.1111/j.1745-6606.2010.01169.x
[6] Orton, L. (2007). Financial literacy: Lessons from international experience. Canadian Policy Research Networks, Incorporated.
[7] Bernheim, D. (1998). Financial illiteracy, education and retirement saving. Living with defined contribution pensions, 3868.
[8] Gupta, P. K., & Gupta, S. (2015). Corporate frauds in India: perceptions and emerging issues. Journal of Financial Crime, 22(1), 79–103.
[9] Sood, P., & Bhushan, P. (2020). A structured review and theme analysis of financial frauds in the banking industry. Asian Journal of Business Ethics, 9(2), 305-321.
[10] Basu, K. (2014). Ponzis: the science and mystique of a class of financial frauds. World Bank Policy Research Working Paper, (6967).
[11] Lusardi, A. (2012). Financial literacy and financial decision-making in older adults. Generations, 36(2), 25-32.
[12] James, B. D., Boyle, P. A., & Bennett, D. A. (2014). Correlates of susceptibility to scams in older adults without dementia. Journal of elder abuse & neglect, 26(2), 107-122.