# RED FLAGS AND HIDDEN TRAILS: FORENSIC ACCOUNTING AS THE PROTECTIVE UMBRELLA FOR BANKS AGAINST CREDIT FRAUDS

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**Abstract**

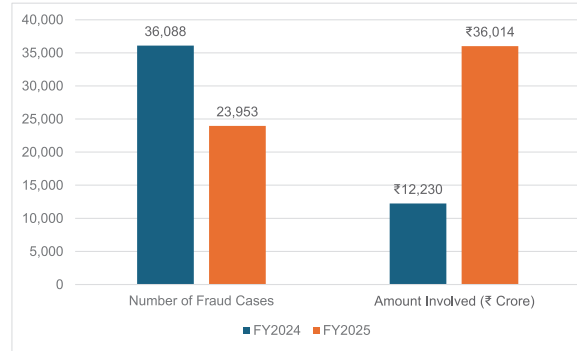
The escalating threat of sophisticated credit fraud poses a significant challenge to the stability and integrity of the banking and finance industry. Losses from credit frauds not only decrease profitability but can also significantly erode trust from the public and expose institutions to regulators. The field of forensic accounting has become integral to address each of these concerns in an accounting and investigative context. Forensic accounting has forensic technology, investigative tools and skills to address these financial crimes. This paper highlights the importance of asset tracing, one area of forensic accounting, in preventing and/or detecting credit fraud. The paper discusses basic techniques, including money trail analysis, financial analysis, data mining and public records and corporate filings, to find hidden assets. The general goal of the paper is to educate banks and finance practitioners on the principles of asset tracing and practical methods for applying asset tracing to their operational methods. This study serves to build a theoretical, practical and analytical contribution to fraud risk management in banks and the finance industry to build better asset tracing processes that can help protect institutional assets, improve recovery and protect institutional reputation.

***Keywords***: *Forensic Accounting, Credit Fraud, Asset Tracing, Fraud Prevention, Fraud Investigation, Banking and Finance.*

## Introduction

The Loan fraud is a challenging risk with specific and immediate potential for significant financial and reputational damage to our Banking system. Over the past five years, we have all seen an increase in the number and sophistication of credit fraud schemes, including manipulated loan applications, sophisticated corporate frauds involving siphoned funds and intended defaults. The Reserve Bank of India (RBI) and other global regulators continue to issue reports documenting the escalating amount of losses attributable to bank frauds. The reality of banking fraud remains a serious issue for the Indian financial sector. Graph 1 shows an analysis of the data from the Reserve Bank of India based on the years 2023-2024 to 2024-2025, as reported in late May 2025, the number of fraud incidents and all sums involved in fraud, both recent trends.

**Graph 1: Banking Frauds in India: Number of Cases vs. Amount Involved (FY24 and FY25)**




Source: Annual Report 2024-25, RBI[1]

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[1]https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT202425DA4AE08189C848C8846718B080F2A0A9.PDF

As described, while the number of known frauds decreased markedly in FY25 relative to FY24, the total value involved soared. This demonstrates the dynamic nature of financial crime that can change based on the higher value frauds occurring at a significant level, which can influence the total and in FY25 may in part be attributed by RBI reports to the reconciliation and new reporting of some earlier high value frauds. The impact of such frauds is not solely financial losses; it includes loss of shareholder value, loss of public trust, more regulatory scrutiny and considerable use of Management's time and effort to deal with litigation and recover losses.

In this difficult environment, forensic accounting has made the transition from a specialisation to an essential factor for financial institutions. Traditional auditing, while important, is more concerned with expressing an opinion on the truth and fairness of financial statements, while forensic accounting is strictly designed to catch, investigate and combat financial crime. Forensic accounting encompasses accounting, auditing and investigative skills to scrutinise financial records for the potential of legal action or the need to investigate fraud allegations. Forensic accounting serves two purposes: first, it can help identify systemic weaknesses and improve a financial institution's internal controls to help mitigate fraud and secondly, it provides the tools to investigate suspected frauds, calculate losses, identify the perpetrators and establish a foundation to commence legal action and obtain a recovery of assets.

Among the many facets of forensic accounting, asset tracing is a pivotal aspect of addressing the credit fraud. Credit frauds always involve the unlawful appropriation or diversion of missing funds. A researcher or investigator must understand that identifying the fraud element is only half the issue. Recovering the appropriated funds is essential in minimizing loss. Asset tracing represents the distilled process of systematically identifying and tracking these misappropriated or unlawfully diverted funds or assets to their ultimate destination or to the current form they take, albeit disguised. This paper will showcase a special emphasis on identifying the many ways in which asset tracing techniques contribute to the successful study of credit frauds and more importantly, their contribution in the often-ignored area of proactive approaches to fraud prevention.

The purpose of this study is to undertake an extensive study of forensic accounting (especially in today's growing asset tracing) role in combating and examining credit fraud. The article will provide banking and finance professionals with usable insights and a framework for improving their abilities in detecting seemingly unexplained and suspicious matters, tracing the flow of money involved in the fraud and recovering looted funds. The paper will start with a description of the most common types of credit fraud, followed by an orientation on forensic accounting principles that specifically support fraud management. Various methods of asset tracing include a money trail, data mining and using public records. In this article, preventive measures are included based on insight from asset tracking and give instructions for use in banking institutions.

This paper aims to provide useful and relevant information that can be used immediately by practitioners to help fortify their institutions against financial crime by providing an in-depth examination of forensic accounting and asset tracing from the perspective of credit fraud.

**Review of Literature**

Forensic accounting is regarded as a major aspect of combating financial crime. It encompasses accounting, auditing and investigative practices to identify financial fraud and present evidence in a legal proceeding (Akinbowale et al., 2023). From the literature reviewed, it is well established that forensic

accounting is one of the best practices for detecting and preventing fraud in organizations (Agboare, 2021). Empirical evidence and the reviewed studies have also demonstrated a positive relationship between the use of forensic accounting techniques and the detection of fraudulent activities.

An extensive body of literature supports the perspective of forensic accounting being proactive. Traditionally, auditing is retrospective, while forensic accounting is proactive. Forensic accounting proactively addresses financial discrepancies, errors, anomalies or questionable transactions in the financial reporting cycle before they result in fraud (Budianto & Dewi, 2023). This is particularly relevant in the banking industry, especially with the growing trend of Non-Performing Assets (NPAs) linked to financial fraud. The shortcomings of traditional auditing practices to avert large-scale corporate frauds have highlighted a need for more than just traditional auditing procedures; rather there is a requirement for forensic accountants specialized skills, knowledge and approach (Ahmed et al., 2021).

As technology has become intertwined with financial crimes, the use of data-supported fraud detection has increased (Sousa Torres et al., 2024). There is a growing body of research indicating the increasing importance of analytics, Artificial Intelligence (AI) and machine learning in conducting forensic investigations (Kalid et al., 2024). These technologies allow forensic accountants to process large populations of data to uncover trends, anomalies and red flags that point to fraud instead of the traditional method of sampling data.

Asset tracing is a specific sub-area of forensic accounting that focuses on following the money trail ultimately to recover lost dollar amounts associated with misappropriation (Mienye & Jere, 2024). This cannot be stated enough: it is important not just to provide the opportunity for recovery of loss, but to deter potential fraudsters by outlining their options to move to recover and their complexity in moving funds. This is an arduous process which requires many components of forensic accounting, the use of the courts and possibly elements of digital forensics to trace an asset through complex corporate structures and offshore accounts.

**Research Objectives**

The primary objectives of this paper are:

- To explain core principles of forensic accounting and the practical application of asset tracing methodologies in the context of credit fraud.
- To provide a comprehensive framework that integrates forensic accounting and asset tracing techniques across the credit lifecycle to proactively prevent, detect and investigate fraudulent activities.

**Research Methodology**

This paper utilizes a descriptive and analytical approach through synthesizing secondary data including reports and papers published by the Reserve Bank of India (RBI) and articles in academic journals. The paper will provide a reactive-description, identify trends and patterns of banking fraud in the data provided by the RBI to illustrate the nature and extent of the problem and will utilize a reactive-definition, literature review, data collection and interpretive analysis by reviewing the principles of forensic accounting and the methodology of asset tracing. The subsequent review of the literature and professional standards will yield conceptual models and tables which offer a structured reference point for banking professionals to appreciate the area of fraud exposure in tandem with the credit lifecycle and the proactive and detective controls available to deal with fraud. The goal of the paper is to take a grounding and contextual approach for banking professionals who may not be familiar with issues of fraud in a practical fashion, instead of taking a grounding and hypothesis-testing approach through empirical data collections.

**Understanding Credit Frauds in the Banking and Finance Industry**

Credit fraud is a broad term that encompasses any act of purposeful deception, misrepresentation or concealment that an individual or entity follows in order to illegally gain credit or money; or other benefits from a lender or bank; or fraudulently uses money or credit that has been obtained legitimately (Aboud & Robinson, 2020). All these actions are not simply "crimes of opportunity" but are often planned activities seeking to convince the financial institution that made the lending decision, which may only have a few days to review an application, that the applicant was fraudulent. Although these actions can take the form of an amateur scammer trying to gain money, often these are much more elaborate schemes that take careful planning to facilitate. Often, the deception is far-fetched and appears crazy to the investigator but it often involves layers of deception, making it even more difficult for banks and financial institutions to detect and investigate.

***Defining and Categorizing Credit Fraud***

Credit fraud comes in many forms and can affect a bank's different products and processes. The main types include loan application fraud, where false or misleading information may be submitted, such as via identity theft, misrepresentation of income or forged documents (Adejumo & Ogburie, 2025). Collateral fraud is also a major type where a borrower, submitting a loan application purposely overstates the value of the collateral pledged or pledges non-existent or encumbered assets, which may have involved third-party collusion. Corporate credit fraud, which is usually committed by the borrower insider, is basically when funds are siphoned using shell companies, fictitious invoices or not genuinely related party transactions (Reddy et al., 2024). In addition, working capital frauds are often comprised of varying levels of manipulation of current assets such as working receivables or inventory, ultimately to fraudulently increase borrowing capacity or misappropriate funds (Chukwuma et al., 2023). The area of international trade is subject to trade finance frauds, against which fraudsters use documentation such as fictitious transactions or forged documentation (Devan et al., 2023). Finally, credit card fraud and online lending fraud have increased over the last decade, with fraudsters either using credit cards unauthorised or circumventing the security of online web tools and websites (Elumilade et al., 2021).

When examining the composition of bank frauds, it is also possible to delineate distinct patterns concerning value. Graph 2 illustrates the contribution to the total fraud amount reported during the financial year 2024-25 from each of the various categories, from RBI data that was available as late as May 2025.

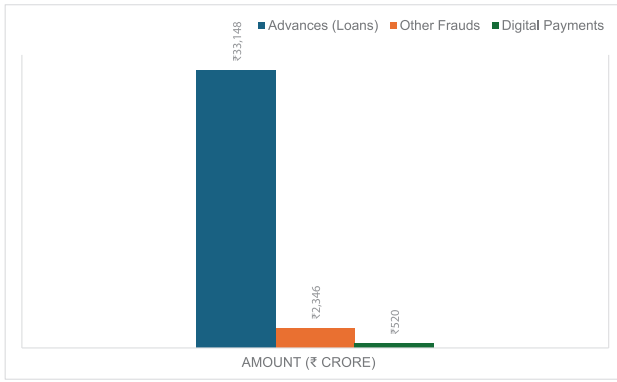
**Graph 2: Contribution to Total Fraud Amount by Category (FY25)**


Source: Annual Report 2024-25, RBI

Graph 2 shows that the fraud linked with advances (both loans and advances) made up the bulk of the total value, which must mark this area out for fraud prevention, investigation and asset tracing efforts. Frauds occurring during digital payments occurred frequently, but relative to the overall monetary value, only a small amount occurred in this period.

Different types of banking institutions also exhibit varying distributions of banking fraud. Graph 3 shows RBI data for the financial year 2024-25 (as filed in late May 2025), indicating that private sector banks reported a greater number of individual instances of fraud.

**Graph 3: Banking Frauds by Bank Type: Number of Cases vs. Amount Involved (FY25)**



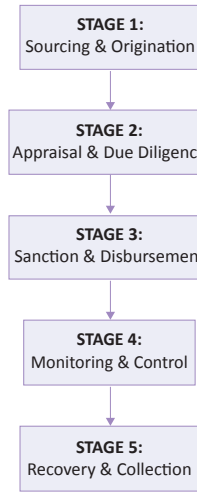

Source: Annual Report 2024-25, RBI

Yet, private sector banks held a higher total monetary value involved in fraud (see Graph 3), which suggests differences in the form and scale of fraud or differences in fraud reporting or detection between the bank sectors and reinforces a need for variance in risk management.

***The Credit Lifecycle and Vulnerabilities***

Credit fraud can happen at any stage of the credit lifecycle, so it is important to understand these vulnerabilities when developing controls. Based on sourcing to recovery, the credit lifecycle has several stages that introduce different points for fraud to occur. Figure 1 demonstrates the key sequential stages of the credit lifecycle.

**Figure 1: Key Stages of the Credit Lifecycle**




Source: Compiled by the author

Each of these stages including Sourcing & Origination, Appraisal & Due Diligence, Sanction & Disbursement, Monitoring & Control and finally, Recovery & Collection-has its vulnerabilities that could be exploited if strong controls and oversight are not put in place and maintained, as described in Table 1.

**Table 1: Fraud Vulnerabilities across the Credit Lifecycle**

| Lifecycle Stage | Key Vulnerabilities | Examples of Fraudulent activities |
|---|---|---|
| Sourcing & Origination, Weak KYC/ AML checks | Identity theft | Submission of forged documents, Use of synthetic IDs |
| Appraisal & Due Diligence, Inadequate verification of borrower credentials | Collusion with valuers/ auditors | Overlooking financial red flags, Inflated property valuations |
| Sanction & Disbursement, Unauthorised sanctioning | Non-adherence to sanctioned terms | Diversion of funds at the point of release, Loans sanctioned beyond delegated authority |
| Monitoring & Control, Lack of robust post-disbursement monitoring | Failure to track the end-use of funds | Weak early warning systems, Siphoning of funds for unstated purposes |
| Recovery & Collection, Concealment of assets by defaulters | Fraudulent bankruptcy filings | Collusion to undervalue assets for sale, Transfer of assets to relatives before default |

Source: Compiled by the author

### *Red Flags and Early Warning Signs of Credit Fraud*

Detecting red flags is important for quickly recognizing a problem. Red flags can come in many formats. Behavioral red flags may include things like the borrower appearing unduly nervous or evasive, reluctant to provide certain pieces of information, overly complicated or unreasonable explanations of the business structures involved, lifestyle inconsistent with claimed income or new lifestyle changes incompatible with stated income, pressure around processing credit on an urgent basis (Mohammad et al., 2024). Documentary red flag potential indicators may also be important to consider, such as documents that appear either altered or odd, financial statements that include strange trends or unexplained changes, missing or incomplete original documentation, many addresses reported on the documents or the potential related party transactions that were not disclosed (Novita & Anissa, 2022). Finally, transactional red flags would indicate potential fraud; these can include transactions that involve sudden large value movements, where proceeds of loans are used for other purposes inconsistent with the loan application or rapidly transferring of large amounts of money to several accounts (layering), multiple amendments to loans with no legitimate business purpose or odd bank statements with unusual concentrations of business with few entities (Ezechi et al., 2025).

### *Impact of Credit Frauds*

The effects of credit fraud are widespread and detrimental. First, institutions incur financial losses, reducing profitability through increased Non-Performing Assets (NPAs), provisions for loan losses and material costs associated with investigations and recoveries (Oguntibeju et al., 2024). The further ramifications are reputational loss, which may result in a loss of customers, investors and public trust and therefore, a loss of business (Patel, 2023). Fraud impacts institutions and will likely cause regulatory scrutiny and sanctions, which require investigations, fines, restrictions on operations and in the case of negligence or collusion, criminal charges against officials at the bank (Putra et al., 2022). Furthermore, fraud on such a large scale erodes trust in the financial system (Razaque et al., 2022). Internally, these events also create operational strain, taking management effort away from business-as-usual to deal with crisis management and protracted remediation (Saheed et al., 2022).

Recognizing these aspects of credit fraud is the first step toward creating an effective defence mechanism, of which forensic accounting and tracing of assets are important steps.

## Forensic Accounting: The First Line of Defense and Investigation

Forensic accounting is more than mere number crunching - it is a field of inquiry focused on finding financial truth, often in the context of litigation, disputes or accusations of fraud. Its application in the banking and finance industry is essential as the industry must avoid financial misconduct and react appropriately when it occurs (Shalhoob et al., 2024).

### *Principles and Objectives of Forensic Accounting in Fraud Management*

The application of forensic accounting practices includes several commonly accepted essential elements. These include objectivity and independence in arriving at conclusions based entirely on evidence, not outside influence. Consistency and relevance in outcomes are vital; professional scepticism is a vital part of forensic accounting to create a questioning mind and critically assess all the information. The investigation of the claim must use due diligence; thoroughness requires gathering potentially relevant evidence and is an important consideration. Confidentiality of sensitive information is often used in forensic accounting and is an ethical obligation. Legal and ethical standards are included for the duration of the engagement (Thakkar et al., 2025).

There are many goals of forensic accounting as part of credit fraud management. In terms of forensic accounting, the first goal is fraud detection. Fraud detection identifies the fraudulent activity that may have gone undetected in the audit process (Thakkar et al, 2025). Once fraud is suspected, the second goal of forensic accounting as part of credit fraud management is quantifying the fraud or how much was lost. Identifying the parties involved in the fraud is another goal of forensic accounting as part of credit fraud management or the perpetrators involved in the fraudulent scheme. With emphasis on asset recovery, forensic accounting is useful in providing details, information and evidence to trace and recover stolen assets (Thakkar et al, 2025). In terms of litigation support, forensic accounting plays a significant role in supporting legal counsel, providing expert witness testimony and providing financial exhibits. Based on the findings of the fraud investigation, forensic accountants will make recommendations for prevention and identify areas for improvement in internal control weaknesses to reduce or deter the occurrence of fraud.

***Forensic Accounting in Fraud Prevention***

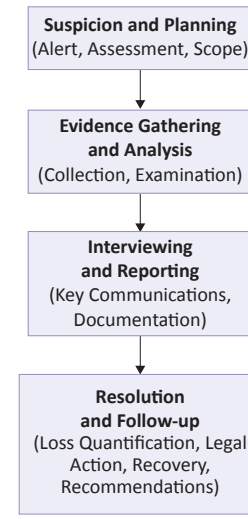
Proactive approaches are nearly always easier and cheaper than reactive ones. Forensic accountants play an important role in fraud prevention by carrying out several activities, for example, they conduct customised fraud risk assessments to point out the specific fraud risks of credit fraud present in the bank's operations, products and customer segments (Thakkar et al., 2024). This knowledge creates a path to strengthen internal controls, where forensic accountants design, implement and assess controls explicitly for credit fraud detection and prevention purposes, at specific points where the bank suffers its highest exposure and where control failures occur, e.g., at/above the entry point at the risk management policy and credit application and credit disbursement approvals.

Forensic accounting, likewise, encompasses proactive fraud detection methods. This could involve employing data analytics and continuous monitoring to analyse transactional data for anomalies and red flags, utilising approaches such as Benford's Law to assist in determining outliers or irregularities in broader financial datasets (Thakkar et al., 2024). Implementing sustainable Enhanced Due Diligence (EDD) requirements for high-risk customers and complicated transactions, as an example, may consider issues such as ultimate beneficial ownership and the source of funds, which is another opportunity. Additionally, forensic accountants can assist with preventative measures such as whistleblower measures and independent investigations of collateral allegations. Of course, we must remember that they can support employee training and education, raise awareness to explain fraud schemes, potential red flags and internal mechanisms to report fraud-whistleblowing and/or risk management and foster an anti-fraud organisational culture.

***Forensic Accounting in Fraud Investigation***

When fraud is suspected or detected, a systematic forensic investigation is initiated. Figure 2 illustrates the core phases of such an investigation.

**Figure 2: Core Phases of a Forensic Investigation**




Source: Compiled by the author

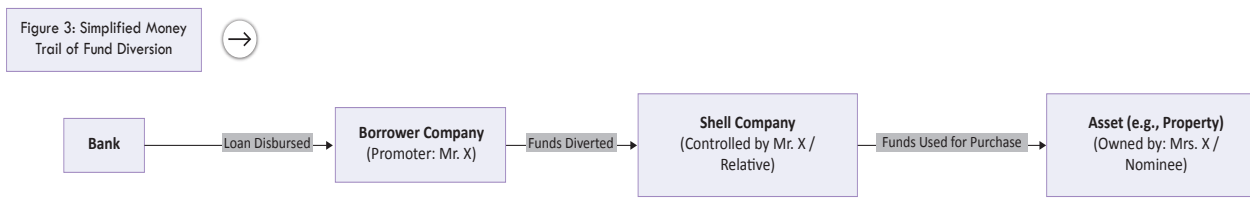
The general process starts at one end with a preliminary suspicion and scope-setting, moves through the collection of evidence and analysis, includes essential interview and reporting stages and ends with a resolution and follow-up, including assistance with asset recovery. There are several steps and techniques involved. The steps include engagement and planning, where scope, objectives, methods and legal framework are established (Udeh et al., 2024). The evidence collection stage systematically collects evidence. This may include documentary sources of evidence, like financial records and contracts, as well as electronic forms of evidence and testimonial evidence connected to interviews, which also should maintain the chain of evidence (Venigandla & Vemuri, 2022). The evidence is then the subject of careful evidence analysis, which may involve the analysis of financial statements and fund flows and linking analyses to present patterns and connections. Interviewing is an important technique involving structured engagements with witnesses, victims and potentially suspects, often using models. A very precise quantification of losses is then made to quantify the financial loss. Finally, these investigative steps must be formally documented in a forensic reporting stage, which ultimately is a detailed forensic report that sets out the engagement details, findings, evidence, conclusion and recommendations, which would help decision-making by management, things like regulatory reporting or for purposes of legal proceedings.

As such, forensic accounting provides a solid framework that is useful for understanding the depths of financial fraud and facilitating more effective and more resilient financial institutions. The focus on evidence, diligence and analysis makes forensic accounting a vital resource in today's banking environment.

**Asset Tracing: Following the Money Trail in Credit Frauds**

Asset tracing is a major aspect of forensic accounting, which involves systematically identifying and tracing the misused funds involved in credit fraud. This task is important because it increases the chance of recovering the stolen assets; collects vital evidence for court proceedings; identifies all persons who played a role in the fraud, either through participation or benefit; and aids in improving internal controls and risk assessment processes. The process of asset tracing is an analytical task in its entirety.

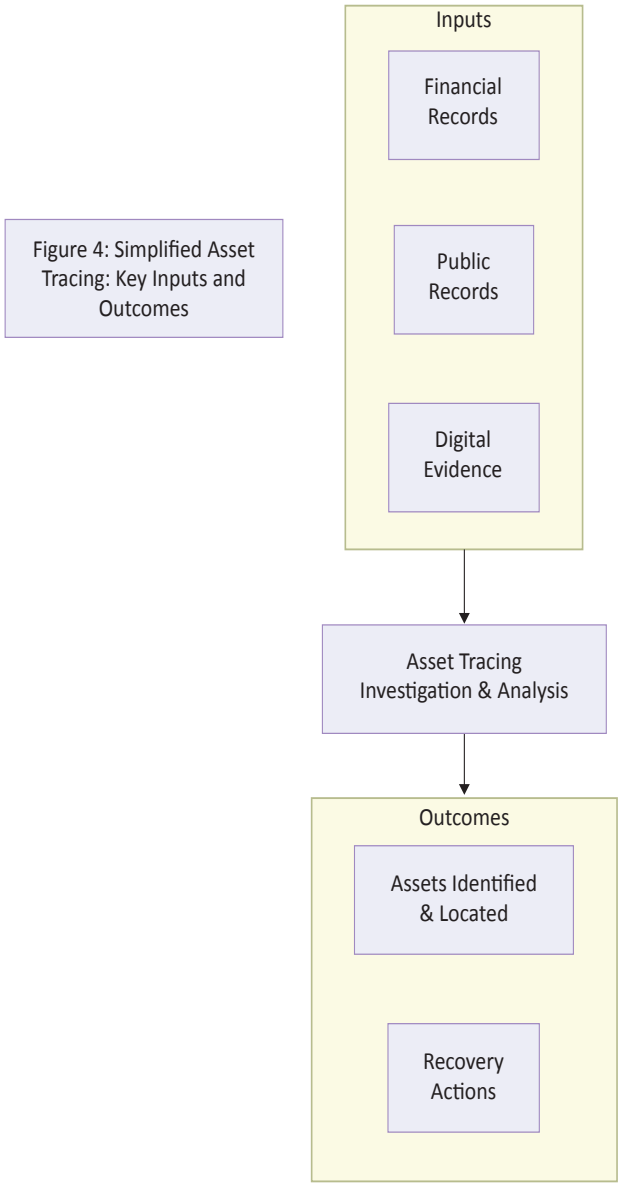
**Figure 3: Simplified Asset Tracing: Key Inputs and Outcomes**




Source: Compiled by the author

The common methodologies in asset tracing are extensive. The primary method involves a money trail where one can track the flow of funds from source to destination, often through third parties such as shell companies, by examining bank statements, wire transfers and loan documents.

**Figure 4: Simplified Money Trail of Fund Diversion**




Source: Compiled by the author

One additional core methodology is financial analysis and data mining. Forensic accountants analyse many exhibits of financial data to expose recurrent patterns, anomalies (structured deposits, funds transferred quickly by opening new accounts) or red flags for asset concealment schemes.

**Table 2: Red Flags from Financial Data Mining Indicative of Asset Concealment**

| Category | Red Flag/Pattern | Potential Implications for Asset Tracing |
|---|---|---|
| Transaction Size | Multiple cash deposits/ withdrawals just below reporting thresholds (Structuring). | An attempt to evade scrutiny, funds are being siphoned off in cash. |
| Transaction Velocity | Rapid movement of funds through newly opened accounts or dormant accounts. | Layering activity, attempt to break the money trail quickly. |
| Counterparties | Frequent transactions with entities in high-risk jurisdictions without a clear business rationale. | Potential use of offshore accounts/ companies for concealment. |
| | Payments to shell companies or entities with no apparent business activity. | Diversion of funds through fictitious invoices/ services. |
| Account Activity | Significant "pass-through" transactions where funds enter and exit an account quickly. | The account is being used as a conduit in a layering scheme. |
| | Unexplained large one-off payments or receipts. | Possible attempt to move or hide significant sums. |
| Investment Activity | Sudden unexplained investments in unrelated businesses or speculative assets by promoters/ guarantors. | Diversion of loan funds for personal gain. |
| Loan Utilization | Disbursement of loan proceeds directly to unrelated personal accounts of promoters/ directors. | Direct siphoning of funds. |

Source: Compiled by the author

Investigators also examine public and corporate filings, using publicly available information from property records, vehicle registrations, business incorporation filings and court records to study asset discovery and complex ownership. The connection between the information from these different sources establishes an asset profile.

**Table 3: Public Records and their Utility in Asset Tracing**

| Record Type | Information Obtainable | Relevance to Asset Tracing in Credit Fraud | Source Example (India) |
|---|---|---|---|
| Property/Land Records | Ownership details of real estate, location, size, transaction history and encumbrances. | Identifies immovable assets purchased with diverted funds; confirms collateral details. | State Land Revenue Departments |
| Vehicle Registration | Ownership of vehicles, chassis number, engine number and hypothecation details. | Traces movable assets; can indicate lifestyle or business operations. | Regional Transport Office (Vahan Portal) |
| Business/Corporate Filings | Director details, shareholder patterns, financial statements, charges on assets, related party disclosures and Ultimate Beneficial Owners (UBOs). | Uncovers shell companies, benami ownership, diversion of funds to group companies and financial health. | Ministry of Corporate Affairs Portal (ROC) |
| Tax Filings (Limited Access) | Declared income, assets, business turnover and major expenditures. | Discrepancies can indicate undisclosed income/assets (access is legally restricted). | Income Tax Department |
| Court Records/ Litigation Databases | Involvement in civil/criminal cases, bankruptcy petitions, judgments and decrees. | Reveals financial distress, prior misconduct, existing claims on assets and potential hidden liabilities/ assets. | eCourts, National Company Law Tribunal (NCLT) |
| Intellectual Property Records | Ownership of patents, trademarks and copyrights. | Identifies valuable intangible assets. | IPO India |
| News Archives/ Internet | Reports on business activities, lifestyle information and associations. | Provides background intelligence and identifies potential red flags or undisclosed connections/ assets. | Online search engines |

Source: Compiled by the author

Digital forensics involves recovering data from computers, handheld devices and servers to rescue unknown bank accounts, incriminating communications, cryptocurrency accounts or altered digital records. Human Intelligence (HUMINT) and source inquiries are discreet and compliant inquiries that request information from individuals who know a suspect's financial activities or known hidden assets such as former employees or whistleblowers. In cases that involve cross-border fund transfers, international asset tracing investigates differences in legal regimes, data privacy and bank secrecy, usually

using a Mutual Legal Assistance Treaty (MLAT) and cooperation-focused entities. Lifestyle audits and net worth analysis compare a suspect's observed lifestyle and net worth to their established income to find differences that point to hidden illicit assets.

The asset tracing process begins with a trigger event, which will subsequently involve assessment, planning and careful information gathering. This process includes tracing the original diversion of funds, identifying any intermediaries and layers in the transactions, following the funds through to end use, organising the evidence, valuing assets and identifying your options for a legal recovery strategy. Asset tracing carries its own set of challenges including the ever-increasing sophistication of fraudsters using corporate veils and offshore jurisdictions and cryptocurrencies; the complexities of differing legal, pro-banking secrecy laws, for other jurisdictions; legal and regulatory issues, such as the asset tracing process funders and their banks would have to navigate with data privacy regulations; the need to take fast actions, where assets may be dissipating quickly; potential high costs of complete investigations; and potentially, restrictions from wrongdoing in the form of incomplete or falsified records or institutional restrictions with resources. The chances of successful asset recovery heavily depend on having a good and tightly legal framework (e.g. Prevention of Money Laundering Act, 2002, the Insolvency and Bankruptcy Code, 2016 in India); the ability for evidence collected to be admissible, where forensic reports are at the forefront of reporting as an expert testimony.

**Prevention of Credit Frauds through Proactive Forensic Accounting and Asset Tracing Awareness**

Engaging with forensic accounting to develop an "asset tracing mindset" is about taking a preventative approach to credit fraud and embedding that approach within each part of the credit lifecycle. This originates from viewing every stage of the credit lifecycle with an asset tracing mindset, starting with pre-sanction due diligence. We may need to enhance our Know Your Customer (KYC) and Customer Due Diligence (CDD) processes and expand them from identity verification to understanding the Ultimate Beneficial Ownership (UBO), especially regarding convoluted corporate structures or offshore entities and exploring and verifying legitimate sources and intended uses of funds.

Observations from our previous efforts in asset tracing indicate invaluable lessons for strengthening internal controls. With insight into previous advances and how an organisation could circumvent controls to move funds or hide assets, stronger and more precise controls can be created. Suppose asset tracing shows that they funnelled funds through shell companies with fake invoices. In that case, we will want to have preventative measures in place, such as vendor due diligence and independent verification of service delivery.

**Table 4: Preventive Controls derived from Asset Tracing insights**

| Asset Tracing Insight (How assets are hidden/diverted) | Corresponding Preventive Control/Proactive Measure | Target Area in Bank |
|---|---|---|
| Funds were diverted to shell companies via fictitious invoices. | Enhanced vendor due diligence; Scrutiny of high-value/unusual invoices; Independent verification of service/goods delivery for large payments. | Payments, Credit Appraisal |
| Loan proceeds are routed through multiple layers to acquire benami assets. | Rigorous UBO identification; Scrutiny of complex ownership structures; Enhanced monitoring of transactions immediately post-disbursement. | KYC/CDD, Credit Monitoring |

| Asset Tracing Insight (How assets are hidden/diverted) | Corresponding Preventive Control/Proactive Measure | Target Area in Bank |
|---|---|---|
| Promoters are siphoning funds through undisclosed related party transactions. | Comprehensive mapping of related parties; Strictly scrutinises all related party transactions for arm's length and business rationale. | Credit Appraisal, Audit |
| Assets transferred to relatives/ associates just before anticipated default. | Periodic review of borrowers' financial position and asset declarations (where possible); Lifestyle checks for high-risk promoters. | Credit Monitoring, Recovery |
| Use of offshore accounts/ companies in tax havens for concealment. | Heightened due diligence for borrowers with significant offshore dealings; Understanding economic rationale for offshore structures. | International Banking, CDD |
| Overvaluation of collateral to obtain higher loan amounts. | Use of multiple independent valuers from an approved panel; Stringent review of valuation reports; Regular audits of valuers. | Collateral Management |

Source: Compiled by the author

Data analytics could also be used to help with the proactive identification of concealment patterns; banks can use analytical models and continuous monitoring to observe behaviour such as unusual payment patterns to high-risk jurisdictions or fund movement that is unique and rapid, that may exhibit an effort to conceal assets.

Training and awareness are key components that must be integrated into banking processes and standards. Credit and risk professionals involved in risk assessment and management will particularly benefit from diligence, considering how common it is for assets to be concealed. Recognising specific concealment methods and the potential red flags that represent the borrower's behaviour or documentation and transaction risk will be key in identifying risks and instilling a culture of professional scepticism.

Meaningful vendor and third-party risk management is also important, as fraud can involve modifications to documents or fraudulent activity through other parties, including valuers, consultants and vendors who may have colluded in the fraud or exploited it to commit fraud. Due diligence on other parties, including an ability to review and monitor their conduct and procedures, is also necessary regarding integrity and conflict of interest risks.

**Practical Implementation: A Guide for Banking and Finance Professionals**

Forensic accounting and asset tracing services are becoming increasingly important resources for many Banking and Finance professionals. Although institutions are assembling in-house teams to increase institutional transparency and turnaround, it can be an expensive and independence issue for an institution. Hiring an external expert may be streamlined, not to mention removing concerns of an independent team or staff. However, there can be data security concerns associated with external parties. A Hybrid model where external party resources support a core in-house team can provide a middle ground. Standardized methodologies and standard operating procedures are essential features of the asset tracing process offered by institutions. The asset tracing process improves with establishing and defining respective roles, performing risk-based assessments and searching public records. Establishing inter-departmental collaboration with Credit, Risk, Legal, Compliance, Audit and Forensic

units, with ongoing support from the fraud review committee of the institution, as well as a solid triage process, creates efficiencies in the investigation and good case management, once each unit understands its role in the process.

Technology will improve the efficiency of the asset tracing process, harnessing the capacity of data analytics, digital forensics and public record databases. However, the overall budget can reflect initial setup and investment costs. These situations suggest policies explaining how frontline staff can communicate with regulators and Law-Enforcement Agencies (LEAs), the timelines associated with mandated reporting to regulators and the information-sharing forums where industry can provide anonymous fraud intelligence to be used accordingly. The more one understands collaboration mechanisms such as Mutual Legal Assistance requests, by way of example, for international requests for searches, the better. A proactive and assured frontline workforce is pivotal to prevent losses and early intervention.

It is equally essential to ensure that these staff members have safe and protected means to talk to the organization's executive management team through the respective protocols, ask questions and disclose concerns that can be investigated and whether the organization has completed a pre-emptive asset profiling of potentially vulnerable and high-risk promoters, as asset tracing can provide priceless insight into finance.

**Challenges and Future Directions**

Both credit card fraud and asset tracing are still facing major issues due to modern fraud techniques, large quantities of data and multifaceted legal systems. International cooperation still poses a problem and the lack of professionals adds to the burden. Institutions must implement proactive measures, support continuous education and strengthen regional and international cooperation. Focusing on modern investigative methods and predictive approaches will increase productivity and efficiency. Prompt response to emerging risks, interdisciplinary collaboration and adaptable organizational structures will allow more effective detection, tracing and fraud prevention.

**Conclusion and Recommendations**

Many institutions use forensic accounting for credit fraud detection, asset tracing, financial data mining and public records investigation. The result shows that the next critical steps are developing forensic skills, strengthening KYC/CDD, using analytics and training and giving the frontline more decision-making power. A fraud risk culture focusing on prevention increases compliance, loss recovery, efficiency and institutional integrity. With the help of forensic accounting techniques, loan default cases can be investigated promptly. This can lead to timely asset tracing, which may reduce bank loan default cases.

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