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## Fraud Risk Management Policy

Indian banks constantly operate with an impending risk of frauds lurking behind every transaction. Financial institutions are under immense pressure to ensure security and protection, as they have to pay steep price for negligence. Co-operative banks, on the other hand are especially vulnerable due to their weak security infrastructure, limited resources and out dated system. To close security loop holes, prevent frauds, strengthen financial stability and enhance governance and accountability, the RBI has revised its regulation of Fraud Risk management for co-operative banks. The policy is called Fraud Risk Management Policy of The LIC of India Staff Co-operative Urban Bank Ltd.3314 approved by the Board in its meeting on 15/03/2025 vide Resolution No.IV The policy specialize the bank's approach to handling Fraud Detection, Investigation, Reporting and prevention.

This curated policy should be regularly reviewed and revamped every 3 years or sooner if necessary.

### Issuance of Show cause Notices

The policy also states that once an anomalous Activity is detected from the bank that might be potentially fraudulent the following procedures to be followed.

1. Prior to declaring someone fraudulent, the bank must issue a show cause notice (SCNS) and allow them to respond to accusation - showing complete details of transaction/actions/events basis which declaration and reporting of a fraud is being contemplated under these Direction.
2. A reasonable time of not less than 21 days shall be provided to the person/entity on whom the SCN was served to respond to the SCN.
3. The bank must provided a fair chance for the suspected entity/person to defend itself before labeled as fraudulent.

### Special committee of the Board for monitoring Fraud Cases (SCBMFCS)

In the bank this is a special committee of the Board for monitoring Fraud Cases (SCBMFCS) consisting of 3 members – ie. The CEO / Managing Director and 2 Board members.

The committee shall oversee the Fraud Risk Management in the bank. The SCBMFCS shall review and monitor the cases frauds, including root cause analyse and suggest mitigating measures for strengthening internal controls by encouraging whistle blower policy to safe guard employees and personnel who report fraud. The coverage and periodicity shall be at least once 3 months.

Effective fraud management policy implementation for oversight by senior management of the bank.

Aligning overall organizational structure to best monitor risk, privet fraud and report incidents.



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**Early Warning Signals In Fraud Management**

Just by following the governance frame work co-operative cannot completely stop fraud in their tracks. In order to do so, the bank should integrate a technology- first approach that facilitates early warning sign to notify authorities for swift interventions. That aids extensively in prevention process. The role of EWS for fraud management may be

1. The EWS assist the bank in identifying early signs of fraud. It act as a warning system that alert Bank authorities of potential risk which without proper intervention can be detrimental.
2. To expound on the key features of an EWS, the system will crack transaction and spot unusual behavior that indicate fraud. With its warning indication like transaction pattern account behavior and other data, Banks can further investigated fraud and resolve with before it escalates.
3. The regulate also demands a robust EWS integrate with CBS to validate each transactions real time. It requires the integration of intelligent technology based solution that provide true real time transactions monitoring and behavioral analyses which support banks with seamless risk management and compliance.
4. The guidelines insist co-operative banks to take swift reliable action once the fraud is alerted by EWS.

Credit facility/Loan account/Other banking transactions-indication of fraudulent activities.

Bank shall also monitor activities in Credit facility/Loan account/Other banking transactions and remain alert on activities which could potentially turn to the fraudulent.

In case where there is a suspicious/indication of wrong doing or fraudulent activities, the bank shall use an external audit or an internal audit-for further investigation in such accounts.

All these should be in accordance with the principle of natural justice ie. Before classifying/declaring an account as fraud – sufficient time should be given to the accused.

The bank shall also opt a third party service to investigate fraud then the bank should implement strict term and condition to hold them accountable. This is to curl willful negligence and mal practice that can lead to a causative factor for fraud.

**Staff accountability**

If fraud happens due to the bank's oversight, then the employees are to be held responsible. Action should be taken in time bound manner in all fraud cases in accordance with the internal policy.

In cases involving very senior officers like MD/CEO etc. the ACV of the bank shall examine the staff accountability place it before the board.

**Penal measures**

Person of entities classified and reported are fraud by the bank and also entities and persons associated with such entities shall be debarred from raising of funds and or seeking additional credit facilities from financial entities regulator by the RBI for a period 5 years



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from the date of full repayment of the debarred amount/settlement amount agreed upon in case of compromise settlement.

After 5 years, the decision to operate with such individual of entity is the sole discretion of the bank.

**Treatment of accounts under Resolution**

In case an entity classified as fraud has subsequently undergone resolution under IBC or under the resolution frame work of RB resulting in a change in the management of control of the entity or business enterprise, the Bank shall examine whether the entity shall continue to remain classified as fraud or classification of fraud could be removed after the implementation of the resolution frame work under IBC or prudential frame work.

The penal measures as detailed above shall not be applicable to the entities/business enterprises after implementation of the resolution plan under IBC or prudential frame work as the case may be. However erstwhile promoters/directors or persons who were in charge were held responsible and penal measures shall continue to apply on them,

**Reporting of fraud to the Law Enforcement Agencies (LEA)**

The Bank shall immediately report the incidents of fraud to the appropriate LEAs viz state police authorities etc. subject to applicable laws.

Whenever an incident of fraud occurred the concerned branches should report the same to the nodal officer at Head Office for reporting incidents of fraud to LEAs and for proper coordination to meet the requirements of the LEAs.

**Reporting of incidents of fraud to Reserve Bank of India**

Detection and prevention of frauds are not the end of the story. To ensure infirmity and consistence while reporting incidents of fraud to RBI through Fraud Monitoring Returns (FMRs) using online portal. The bank shall choose the most appropriate category from any one of the following:

1. Misappropriation of fraud and criminal breach of trust.
2. Fraudulent encashment through forged instrument.
3. Manipulation of books of accounts or through fictitious accounts and conversion of property.
4. Cheating by concealment of fact with the intention to deceive any person and cheating by impersonation.
5. Forgery with the intention to commit fraud by making any false documents/electronic records
6. Willful falsification, destruction, alternation, mutilation, of any book, electronic record, paper, writing, securing or account with intent to declared.
7. Fraudulent credit facilities extended to illegal gratification.
8. Cash shortages on account of fraud.
9. Fraudulent transaction, involving foreign exchange.
10. Fraudulent electronic banking / digital payments related transactions committed in the bank.
11. Any other types of fraudulent activity not covered above.



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As soon as the bank detects a fraud it should report to RBI immediately ie. With in 14 days from the date of identifying fraud.

The bank may under exceptional circumstances withdraw FMR/remove names of perpetrator from FMR. Such withdrawal/removal however we made with due justification and with the approval of an official at least in the rank of a director.

**Closure of Fraud Cases Reported to RBI**

The bank shall close fraud cases using closure module, where the action as stated below are complete.

- a) The fraud cases ending LEAs/court are disposable.
- b) The examination of staff accountability has been completed.

The bank shall maintaining details of fraud cases reported and closed,for examination by auditors.

**Role of Auditor**

During the course of audit, auditors may come across instances where the transaction in the account or documents point to the possibility of fraudulent transaction in the account. In such a situation, the auditor should immediately bring it to the notice of the senior management and if necessary to the Audit Committee of the Board (ACB)