

# **TIRUVALLA EAST CO-OPERATIVE BANK LTD.**

## **Fraud Risk Management Policy**

(Approved as per Resolution No. 13(1) of the BoD dated 18.03.2025)

### **1. Introduction**

This Fraud Risk Management Policy is framed by the Board of Directors (BoD) with a view to provide a framework to the Bank for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI) and matters connected therewith.

### **2. Governance Structure for Fraud Risk Management**

2.1 Issuance of a detailed Show Cause Notice (SCN) to the Persons, Entities and its Promoters against whom allegation of fraud is being examined. The SCN shall provide complete details of transactions/actions/events basis which declaration and reporting of a fraud is being contemplated under these Directions.

2.2 A reasonable time of not less than 21 days shall be provided to the Persons / Entities on whom the SCN was served to respond to the said SCN.

2.3 The Bank shall follow the well laid out system detailed in the policy for issuance of SCN and examination of the responses/submissions made by the Persons/Entities prior to declaring such Persons/Entities as fraudulent.

2.4 A reasoned Order shall be served on the Persons/Entities conveying the decision of the Bank regarding declaration/classification of the account as fraud or otherwise. Such Order(s) must contain relevant facts/circumstances relied upon, the submission made against the SCN and the reasons for classification as fraud or otherwise.

### **3. Special Committee of the Board for Monitoring and Follow-up of cases of Frauds:**

The Bank shall constitute a Committee of the BoD to be known as 'Special Committee of the Board for Monitoring and Follow-up of cases of Frauds' (SCBMF) with three members, consisting of two Directors and the Chief Executive Officer. The Committee shall be headed by one of the Directors.

SCBMF shall oversee the effectiveness of the fraud risk management in the Bank. SCBMF shall also review and monitor the cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimising the incidence of frauds. Such reviews shall be conducted quarterly or as and when felt necessary by the BoD. SCBMF shall meet at least quarterly or as required.

The Senior Management shall be responsible for implementation of the fraud risk management policy. A periodic review of incidents of fraud shall also be placed before BoD/ Audit Committee of Board (ACB), as appropriate, by the Senior Management of the Bank.

Bank shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases/suspicious activities in account(s) are examined and concluded appropriately.

Bank shall set-up an appropriate organisational structure for institutionalisation of fraud risk management within their overall risk management functions. A sufficiently senior official shall be entrusted for monitoring and reporting of frauds.

#### **4. Early Warning Signals for Detection of Frauds**

The Bank shall have a framework for Early Warning Signals (EWS) under the overall Fraud Risk Management Policy. A BoD Level Committee shall oversee the effectiveness of the framework for EWS. The Senior Management shall be responsible for implementation of a robust framework for EWS within the Bank.

The Bank shall identify appropriate early warning indicators for monitoring credit facilities/ loan accounts and other banking transactions. These indicators shall be reviewed periodically for their effectiveness. Suspicion of fraudulent activity thrown up by the presence of one or more EWS indicators shall alert/trigger deeper investigation from potential fraud angle and initiating preventive measures. The EWS framework shall be subject to suitable validation in accordance with the directions of the BoD Level Committee so as to ensure its integrity, robustness and consistency of the outcomes.

The EWS Framework shall provide for, among others:

- (i) A system of robust EWS which is integrated with Core Banking Solution (CBS) or other operational systems;
- (ii) Initiation of remedial action on triggers/alerts from EWS in a timely manner; and
- (iii) Periodic review of credit sanction and monitoring processes, internal controls and systems.

#### **5. EWS Framework for Credit Facilities/Loan Accounts**

The EWS shall be comprehensive and designed to include both the quantitative and qualitative indicators to make the framework robust and effective. The broad indicators which the EWS may illustratively capture could be based on the transactional data of accounts, financial performance of borrowers, market intelligence, conduct of the borrowers, etc. Generation of EWS alert(s)/trigger(s) shall necessitate examination whether the account needs to be investigated from potential fraud angle.

#### **6. EWS Framework for other banking/non-credit related transactions**

The Bank shall strengthen the EWS by identifying suitable indicators and parameterising them in the EWS for monitoring other banking/non-credit related transactions. The Bank shall strive to continuously upgrade the EWS for enhancing its integrity and robustness, monitor other banking/non-credit related transactions efficiently and prevent fraudulent activities through the banking channel. Further, the effectiveness of EWS system shall be tested periodically.

The design and specification of EWS shall be robust and resilient to ensure that integrity of system is maintained, personal and financial data of customers are secure and transaction monitoring for prevention/detection of potential fraud is on real-time basis. The Bank shall remain vigilant in monitoring transactions/unusual activities, specifically in the non-KYC

compliant and money mule accounts etc., so as to contain unauthorised/fraudulent transactions and to prevent misuse of banking/financial channel.

The dedicated MIS Unit or other Analytics Setup in Bank shall extensively monitor and analyse financial transactions, including transactions carried out through digital platforms/applications, in order to identify unusual patterns and activities which could alert the Bank in time for initiating appropriate measures towards prevention of fraudulent activities.

The Bank shall put in place/suitably upgrade the existing EWS in a time bound manner, but within six months from the date of issuance of the master directions on Fraud Risk Management by the RBI.

## **7. Credit/Loan account/other banking transactions and Indication of fraudulent activities**

The Bank shall monitor activities in credit facility/loan account/other banking transactions and remain alert on activities which could potentially turn out to be fraudulent.

7.1 In cases where there is a suspicion/indication of wrongdoing or fraudulent activity, the Bank shall use an external audit and or an internal audit for further investigation in such accounts.

7.2 The contractual agreement with the auditors shall, *inter alia*, contain suitable clauses on timeline for completion of the audit and submission of audit report to the Bank within three months' time limit.

7.3 The loan agreement with the borrower shall contain clauses for conduct of such audit. In cases where the audit report submitted remains inconclusive or is delayed due to non-cooperation by the borrower, the Bank shall conclude on status of the account as a fraud or otherwise based on the material available on their record and their own internal investigation/assessment in such cases.

7.4 The Bank shall ensure that the principles of natural justice are strictly adhered to before classifying / declaring an account as fraud.

7.5 In case an account is identified as a fraud by the Bank, the borrower accounts in other Urban Co-operative Banks (UCBs) shall be examined by the Bank from fraud angle.

7.6 In cases where LEAs have *suo moto* initiated investigation involving a borrower account, the Bank shall follow the process of classification of account as fraud in tune with the process as given above.

## **8. Staff Accountability**

8.1 The Bank shall initiate and complete the examination of staff accountability in all fraud cases in a time-bound manner in accordance with this policy.

8.2 In cases involving very senior executives of the Bank (MD/CEO/Executives of equivalent rank), the ACB shall initiate urgent examination of their accountability and place the details before the BoD.

## **9. Penal Measures**

Persons/Entities classified and reported as 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 other financial entities regulated by RBI, for a period of five years from the date of full repayment of the defrauded amount/settlement amount agreed upon in case of a compromise settlement. The Bank shall have the sole discretion to

entertain or decline such requests for credit facilities after the expiry of the mandatory cooling period as mentioned above.

## **10. Accounts under Resolution**

10.1 In case an entity classified as fraud has subsequently undergone a resolution either under Insolvency and Bankruptcy Code (IBC) or under the resolution framework of RBI resulting in a change in the management and control of the entity/business enterprise, the Bank shall examine whether the entity shall continue to remain classified as fraud or the classification as fraud could be removed after implementation of the Resolution Plan under IBC or aforesaid prudential framework. This would, however be, without prejudice to the continuance of criminal action against erstwhile persons who were in charge and responsible for the management of the affairs of the Bank.

10.2 The penal measures as detailed above shall not be applicable to entities/business enterprises after implementation of the resolution plan under IBC or aforesaid prudential framework.

10.3 The penal measures detailed above shall continue to apply to the erstwhile persons who were in charge and responsible for the management of the affairs of the entity/business enterprise.

## **11. Reporting of Frauds to LEAs**

The Bank shall immediately report the incidents of fraud to appropriate LEAs viz. State Police authorities, etc. subject to applicable laws. The Bank shall establish suitable nodal point(s) / designate officer(s) for reporting incidents of fraud to LEAs and for proper coordination to meet the requirements of the LEAs.

## **12. Reporting of Incidents of Fraud to RBI**

To ensure uniformity and consistency 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:

- i. Misappropriation of funds and criminal breach of trust;
- ii. Fraudulent encashment through forged instruments;
- iii. Manipulation of books of accounts or through fictitious accounts;
- iv. Cheating by concealment of facts with the intention to deceive any person and cheating by impersonation;
- v. Forgery with the intention to commit fraud by making any false documents/electronic records;
- vi. Wilful falsification, destruction, alteration, mutilations of any book, electronic record, paper, writing, valuable security or account with intent to defraud;
- vii. Fraudulent credit facilities extended for illegal gratification;
- viii. Cash shortages on account of frauds;
- ix. Fraudulent electronic banking/digital payment related transactions committed; and
- x. Other type of fraudulent activity not covered under any of the above.

## **13. Modalities of Reporting Incidents of Fraud to RBI**

13.1 The Bank shall furnish FMR in individual fraud cases, irrespective of the amount involved, immediately but not later than 14 days from the date of classification of an incident/ account as fraud.

13.2 The Bank shall adhere to the timeframe prescribed in the policy for reporting of fraud cases to RBI. The Bank must examine and fix staff accountability for delays in identification of fraud cases and in reporting to RBI.

13.3 While reporting frauds, the Bank shall ensure that persons/entities who/which are not involved/associated with the fraud are not reported in the FMR.

13.4 The Bank may, under exceptional circumstances, withdraw FMR/remove name(s) of perpetrator(s) from FMR. Such withdrawal/removal shall, however, be made with due justification and with the approval of an official at least in the rank of a director.

#### **14. Closure of Fraud Cases Reported to RBI**

14.1 The Bank shall close fraud cases using 'Closure Module' where the actions as stated below are complete:

- i. The fraud cases pending with LEAs/Court are disposed of; and
- ii. The examination of staff accountability has been completed.

14.2 In all closure cases of reported frauds, The Bank shall maintain details of such cases for examination by auditors.

#### **15. Cheque Related Frauds – Reporting to LEAs and RBI**

15.1 To ensure uniformity and avoid duplication, reporting of frauds involving forged instruments, including fake/forged instruments sent in clearing in respect of truncated instruments, shall continue to be done by the paying banker and not by the presenting banker. In such cases the presenting Bank shall immediately handover the underlying instrument to the drawee/paying Bank, as and when demanded, to enable them to inform LEAs for investigation and further action under law and to report the fraud to RBI.

15.2 However, in the case of presentment of an instrument which is genuine but payment has been made to a person who is not the true owner; or where the amount has been credited before realisation and subsequently the instrument is found to be fake/forged and returned by the paying Cooperative Bank, the presenting Cooperative Bank which is defrauded or is put to loss by paying the amount before realisation of the instrument shall file the fraud report with the RBI and inform the LEAs for investigation and further action under law.

#### **16. Legal Audit of Title Documents in respect of Large Value Loan Accounts**

The Bank shall subject the title deeds and other related title documents in respect of all credit facilities of ₹1 crore and above to periodic legal audit and re-verification, till the loan is fully repaid. The scope and periodicity of legal audit shall be in accordance with this policy.

#### **17. Role of Auditors**

17.1 During the course of the audit, auditors may come across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions 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 ACB of the Bank for appropriate action.

17.2 Internal Audit in The Bank shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, and also weaknesses observed in the critical processes in the fraud risk management framework of the Bank.

**18. 'Date of Occurrence', 'Date of Detection' and 'Date of Classification' of Fraud – for the purpose of reporting under FMR**

18.1 The 'date of occurrence' is the date when the actual misappropriation of funds has started taking place, or the event occurred, as evidenced/reported in the audit or other findings.

18.2 The 'date of detection' to be reported in FMR is the actual date when the fraud came to light in the concerned branch/audit/department, as the case may be, and not the date of approval by the competent authority of the Bank.

18.3 The 'date of classification' is the date when due approval from the competent authority has been obtained for such a classification, and the reasoned order is passed.

**19. Reporting Cases of Theft, Burglary, Dacoit and Robbery**

19.1 The Bank shall report instances of theft, burglary, dacoit and robbery (including attempted cases), to Fraud Monitoring Group (FMG), Department of Supervision, Central Office, RBI immediately, but not later than seven days from their occurrence.

19.2 The Bank shall also submit a quarterly Return (RBR) on theft, burglary, dacoit and robbery to RBI using online portal, covering all such cases during the quarter. This shall be submitted within 15 days from the end of the quarter to which it relates.

**20. Review of the Policy**

The Policy shall be reviewed by the BoD at least once in three years, or as and when felt necessary by the BoD.