

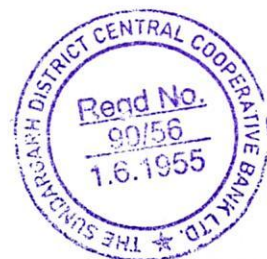
FRAUD RISK MANAGEMENT POLICY



The Sundargarh District Central Co-operative Bank Ltd.,

AT – REGENT MARKET, PO/DIST. – SUNDARGARH

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The Sundargarh District Central Co-operative Bank Ltd.,

SUNDARGARH – 770 001

Regd. No. 90/ SG / Dt.1.6.1955

RESOLUTION BY CIRCULATION OF THE PROCEEDINGS OF THE COMMITTEE OF MANAGEMENT MEETING OF THE SUNDARGARH DISTRICT CENTRAL COOPERATIVE BANK LTD., SUNDARGARH HELD ON DTD 08.07.2025.

Venue : Office Chamber

Date: 08.07.2025

Agenda No 3

To consider approval of the draft policy of

- 1.Management Policy
- 2.Fraud Risk Management Policy
- 3.Loan Policy
- 4.Branch Management & Operation Policy
- 5.Deposit Policy
- 6.Internal Checks & Control Policy
- 7.Capital Management Policy
- 8.Customer Compensation Policy
- 9.Customer Acceptance Policy
- 10.Customer Service Policy as per prescribed guidelines of RBI/ NABARD / RCS (O).

Resolution

Discussed and approved the following draft policies as per prescribed guidelines of RBI/ NABARD/ RCS (O) for execution.

- 1.Management Policy
- 2.Fraud Risk Management Policy
- 3.Loan Policy
- 4.Branch Management & Operation Policy
- 5.Deposit Policy
- 6.Internal Checks & Control Policy
- 7.Capital Management Policy
- 8.Customer Compensation Policy
- 9.Customer Acceptance Policy
- 10.Customer Service Policy


Chief Executive Officer
Sundargarh DCC Bank Ltd.


PRESIDENT
Sundargarh DCC Bank Ltd.

Copy circulated to all members of the Committee of Management of the Bank for information and necessary action.


Chief Executive Officer



**THE SUNDARGARH DISTRICT CENTRAL COOPERATIVE BANK LTD.,
SUNDARGARH**

FRAUD RISK MANAGEMENT POLICY

1. INTRODUCTION

It is concerned for RBI and NABARD that the evidence of frauds are increasing in Banks. To arrest the incidence and safeguards the interest of the Bank, the Bank will ensure to take necessary preventing measures, identifying fraud prone areas and adopt appropriate internal checks and control measures.

2. OBJECTIVES

- i. To provide focused attention to prevent frauds in the Bank.
- ii. To own Fraud Risk Management, fraud monitoring and fraud investigation function of the Bank.
- iii. To set a governance standards for functions and accountability in frauds.
- iv. To take appropriate measures for fraud reporting system of the bank.

3. CLASSIFICATION OF FRAUDS BY THE BANK

The Bank will take appropriate steps to identify and uniformity in reporting and classify in terms of the provisions of the "Bharatitya Nyaya Sanhita" (BNS) December, 2023.

- i. Misappropriation & criminal breach of trust
- ii. Fraudulent encashment through forged instruments, manipulation of books of accounts or through fictitious accounts and conversion of property.
- iii. Unauthorized credit facilities for reward or for illegal transactions.
- iv. Negligence and cash shortage
- v. Cheating & Forgery
- vi. Irregularities in foreign exchange transactions
- vii. Any other types of frauds not coming under the specific heads as above.

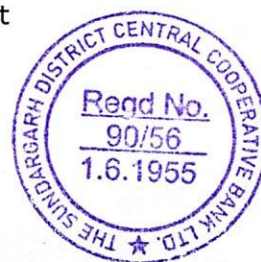
In case of negligence and cash shortage as mentioned above and irregularities in foreign exchange transactions are to be considered as fraud by the Bank if intention to cheat, defraud is suspected / proved at the time of detection, bank will treat as fraud and report accordingly.

- a) Cases of cash shortage more than ₹ 10000/- (Including ATM)
- b) Cases of cash shortage more than ₹ 5000/- if detected by management / auditor / inspecting officer and the day occurrence by the persons handling cash.

4. NATURE & TYPES OF FRAUDS

The Bank will classify the nature and type of fraud as systematic or human failures or a combination of both in following categories.

- i. Frauds committed by the insiders
- ii. Frauds committed by insider in collusion with outsiders
- iii. Frauds committed by outsiders with insider support / involvement
- iv. Frauds committed by outsiders



5. PROCEDURE TO BE LAID DOWN FOR DETECTION OF FRAUDS

The Bank is laying down following procedure for detection of frauds

- i. Complain received from the customer / alert from the investigating agencies.
- ii. Electronic / Print media / Other outside source
- iii. Customer details through centralized data base
- iv. Reconciliation of inter office accounts
- v. Control visits
- vi. Audit / Inspections both by inside and outside agencies
- vii. Periodicals changes of incumbencies
- viii. Anonyms / Pseudonymous complaints with variable facts
- ix. Information given by whistle blowers

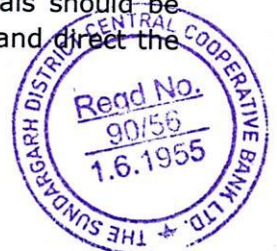
6. PROCEDURE FOR ASCERTAINING OF SUSPECTED / ACTUAL FRAUD

- i. Based on the prima-facie view the Chief Executive Officer of the Bank would take action on whether there has been and incidence of fraud / suspected fraudulent activity.
- ii. The Chief Executive Officer will immediately order for an investigation by a competent official of sufficient seniority.
 - a) To establish fraud angle
 - b) To examine staff accountability

7. PROCEDURE FOR REPORTING OF FRAUDS TO POLICE / CBI

Cases to be referred to local Police by the Bank will follow guidelines for reporting frauds such as unauthorized credit facilities extended by the bank for illegal gratification, negligence and cash shortage, cheating and forgery etc. to local Police immediately on detection.

- a) In dealing with cases of fraud embezzlement, the Bank will not merely be motivated by the necessity of recovering expeditiously the amount involved, but should also be motivated by the public interest and the need for ensuring that the guilty persons do not go unpunished.
- b) As a general rule, Bank will invariably referred to the state Police in following cases. The complaint lodge by the bank should be properly drafted and vetted by the legal officer / law officer.
 - i) Cases of financial fraud involving an amount of ₹ 1.00 lakh and above, committed by the outsider on their own / or with connivance of the bank staff / officers should be reported by the CEO of the state CID / Economic offence wings of the state concerned.
 - ii) Cases of financial frauds committed by bank employees, when it involves bank's fund exceeding ₹ 10000/- should be reported to the local Police by the bank branch concerned.
 - iii) All fraud cases of value below ₹ 10000/- involving bank officials should be referred to the H.O. of the Bank, who will scrutinize each case and direct the



bank branch concerned on whether it should be reported to the Police station for further legal action.

8. CASES TO BE REFERRED TO CBI

If the fraud amount involving ₹ 3.00 Crore and above, bank will ensure to report to CBI in following ways

- i) In case of ₹ 3.00 Crore and up to ₹ 15.00 Crore, where staff involvement is prima-facie evident – CBI (Anti-Corruption Branch) where staff involvement is prima-facie not evident – CBI (Economic Offense Wing)
- ii) All cases involving more than ₹ 15.00 Crore – Banking Security and Fraud Cell of the respective centre, which is specialized cell of the Economic Offense Wing of CBI.

9. CHEQUE RELATED FRAUD REPORT TO POLICE – PROCEDURE

The Bank will ensure to follow due diligence at the time of handling or processing the cheque and monitor newly opened account. The Bank will also take following preventive measures while handing and processing the cheque.

- i) Ensuring the use of 100% CTS complaint cheque
- ii) Strengthening the infrastructure at the cheque handling service branches bestowing special attention on quality of equipment and personnel posted CTS based clearing, so that it is not merely mechanical process.
- iii) Ensuring that the beneficiary is KYC compliant
- iv) Examination under UV LAMPCS for all cheques beyond a threshold of Rs. 2.00 lakh.
- v) Checking multilevel of cheque above threshold of Rs.5.00 lakh.
- vi) Close monitoring of credit and debit in newly opened transaction account based on the risk management.
- vii) Sending SMS alert to payer / drawer when cheques are received in clearing.
- viii) The threshold limit indicated above may be increase on the volume of cheques handed by banks and its risk appetite.
- ix) Fraud involving forged instruments sent in clearing, the presenting bank will lodge FIR with the Police authorities.
- x) The original cheques were in the custody of the customer but cheque with same series had been presented and encashed by fraudster, in that case bank will take following precaution measure before payment to avoid fraud happenings.
 - a) Customer Name
 - b) Account Number
 - c) Signature
 - d) Cheque serial Number

The Bank will also ensure the other related information are neither compromised nor misused either from the Bank or from the Vendor (Printer / Courier etc.). The Bank will further ensure due care and secure handling in the



movement of cheque from the time they are tendered over the counters or dropped box by customers.

- xi) In the case of collection of instruments which is genuine but the amount is collected fraudulently by a person who is not true owner or where amount is credited before realization and subsequently the instrument is found to be fake / forged and returned by the paying bank, the collecting bank, which is defrauded or is loss by paying the amount before realization of the instrument, will have to file FIR with Police as fraud.
- xii) In case of collection of altered / fake cheque involving two or more branches of the same bank, the branch where the altered / fake cheques have been encashed / paid to be reported to the Police. Similarly, in the event of an altered / fake cheque having been paid / encashed involving two or more branches of a bank under Core Banking Solution (CBS) the branch which has released the payment should report the fraud to Police.
- xiii) In addition to the above bank will consider the following preventive measures for dealing with suspicious or large value cheque.
 - a) Alerting customer by phone calls and getting the confirmation from the payer / drawer.
 - b) Contacting base branch in case of non-home branch.

10. FRAUD OCCURRED RELATED TO LOAN

- a) The Bank will devise a mechanism for prevention, early detection and prompt reporting to RBI & NABARD also to investigating agencies. The Bank will also ensure to take timely action on staff accountability. The normal conduct of business of the Bank and risk taking ability is not adversely impacted, no now and onerous responsibilities are placed on it.
- b) The Bank will determine timeline / stage wise action in the loan life cycle and to compress the total time taken to identify a fraud and more effective action by the law enforcement agencies. The Bank will also ensure to devise a mechanism for early detection of fraud and take corrective action for reducing quantum of loss.

11. ATM-cum-DEBIT CARD FRAUD

- i) The Bank will ensure that any ATM-cum-Debit Card used for fraudulent transaction / skimming / phishing to be hot listed immediately.
- ii) Each case of ATM-cum-Debit card fraud will be dealt with individually in consultation with technology Service Provider, Other bank card manager.



12.DEALING WITH READ FLAGGED ACCOUNTS

- i) To deal with and to control loan fraud in the bank, a system of early warning signal and Red flag to be put in place.
- ii) The Bank dealing with large account, a detail study of annual report of the business entity to be undertaken. The Bank will not be confined to study financial aspect also to analysis it management and non-financial aspects; the bank will ensure the officers / employees involved in the fraudulent activities dealing with loan account to be held responsibilities.

The Bank will made accountable to the officer for non-reporting or delay in reporting.

13.REPORTING SYSTEM OF ATTEMPTED FRAUD

- i) Attempted fraud irrespective of the amount are to be reported by the branch to H.O.
- ii) Attempt to fraud cases not to be reported RBI / NABARD.
- iii) The Bank will place individual case of attempted fraud before the Audit Committee of the Board.
- iv) The Bank will cover following aspects for reporting to Audit Committee
 - a) The Modus operandi of attempted fraud
 - b) How the attempt not materialized into fraud /
 - c) The corrective measures taken by the Bank to strengthen the existing system.
 - d) New system and controls put in place in the area where fraud was attempted.

14.ROLE OF AUDITOR

During the course of audit, if auditor come across instances where the transactions in the account or the documents points to be possibility of fraudulent transactions in the account, in such a situation, the auditor may immediately bring it to the notice of the CEO, or if felt necessary to the Audit Committee of the Board for appropriate action.

15.LEGAL AUDIT OF TITAL DEEDS OF DOCUMENTS IN RESPECT OF LARGE VALUE LOAN ACCOUNTS

- i) During title deeds and other documents in respect of all credit exposure of ₹ 1.00 Crore and above shall be subject to periodical legal audit.
- ii) Reverification of title deeds shall be carried out by the Bank and should be part of audit exercise till loan is fully repaid.
- iii) The review note of the audit to be submitted to the Audit Committee of the Board at quarterly interval giving information in respect of such legal audit covering followings.
 - a) No. of 1000 accounts due for legal audit for the quarter
 - b) Ye Number of account covered



- c) List of deficiencies observed by the auditor
- d) Steps taken by the bank to rectify the deficiencies
- e) No. of accounts where rectification could not take place
- f) Course of action to safeguard the interest of the Bank

16. PROCEDURE FOR TAKING ACTION AGAINST FRAUDS COMMITTED BY UNSCRUPULOUS BORROWER

(Companies, Partnership Firm, Proprietary Firm concern or director or partner by adopting various method are categorized by the Bank as unscrupulous borrowers. The method may adopt for fraudulent activities are as under.

- i) Fraudulent discount of instrument or kite flying in clear effect
- ii) Fraudulent removal of pledge stock / disposing of hypothecated stock without bank's knowledge / inflating value of stock in the stock statement for drawing excess finance from bank.
- iii) Diversion of fund outside the borrowing units.
- iv) Loan Department of the Bank is required to exercise extra due diligence while appraising credit need of the borrowers who have defrauded the bank in past.
- v) If a perpetrator of a fraud is a customer / borrower having other relationship or credit facilities with the bank due review of such relationship / credit facilities / securities available to the bank should be undertaken.
- vi) If the borrower is a part of promoter group, then review of other constituents of the promoter group may also be contemplated for arriving at the total picture of fraud committed.
- vii) Third Party opinion service provider such as Advocate, Valuer, Architect, Engineer, Chartered Accountant, Builder, Warehouse, Cold Storage owner, motor vehicle dealer, Tractor dealer and Travel Agent etc. are also to be improper credit sanction / disbursement or facilitate preparation of frauds.
- viii) The professionals who are direct or indirect involvement, malafied or professional impropriety leading to preparation / abetting frauds is established they should be de-listed / debarred forthwith and matter should be taken up with the respective professional bodies (Institute of Chartered Account of India), Bar Council, Institute of valuer etc. with which they are requested. Evidence should also be made available by the Bank to these institutions.

17. LENDING UNDER CONSORTIUM BANKING ARRANGEMENTS

- i) The Bank must conduct its own due diligence before taking up any credit exposure and also independently monitor the end use of fund.
- ii) Monitoring of Escrow Accounts, the details may be worked out by the consortium and duly documented so that accountability can be fixed at later stage.
- iii) Fraud prospective noticed at the time of annual reviews or through tracking of early warning signals should be shared with the consortium.



18.ADPTION OF PENAL PROVISION BY THE BANK FOR FRAUDULENT BORROWER

- i) Borrower who have defrauded and have committed a fraud in the account would be debarred from availing bank finance (All Banks, Financial Institution etc.)
- ii) The Bank may take a call on whether to finance such borrower after 5 years.
- iii) No compromise settlement involving a fraudulent borrower will be allowed by the Bank.

19.PROCEDURE FOR FIXING STAFF ACCOUNTABILITY BY THE BANK

- i) In the case of accounts categorized as NPAs, the bank must initiate and complete a staff accountability exercise within six months from the date of classification as fraud.
- ii) The role of sanction authority / officials will also be covered under the exercise, the completion of staff accountability exercise for fraud and action taken shall be placed by the Bank before Special Committee of the Board of fraud and intimate to NABARD / RBI at quarterly interval.
- iii) Bank will bifurcate all fraud cases in Vigilance & Non-Vigilance. Only vigilance cases to be referred to Investigating agencies. Non-vigilance cases to be deal by the bank itself within a period of six months.
- iv) If involvement of fraud by a senior officer of the bank including CEO, the Board/Audit Committee of Board will initiate the process of fixing of staff accountability.
- v) The bank will not held up the staff accountability in account of case being filed law with Law Enforcement Agencies. Both the Criminal and Domestic inquiry should be conducted simultaneously.

20.RECOVERY OF AMOUNT INVOLVED IN FRAUD BY THE BANK

- i) Money trail should be traced by the bank so as to identify the asset created out of defrauded money to ensure recovery of amount.
- ii) Bank will trace other assets, If any, available with the fraudster.
- iii) Bank will take urgent & effective steps for enforcing criminal security available.
- iv) Civil suit will be filed against the fraudster by the bank.
- v) Bank will make close follow up with Bank's Advocate for prompt & logical conclusion of the case.
- vi) Bank will take coordinated approach with collecting banks in respect of fraud involving forged instruments paid through clearing.
- vii) Recourse to arbitration/legal action may be considered if the expected co-operation is not forth coming from the counter party bank.



21.WRITE OFF THE FRAUD AMOUNT

- i) If bank has exhausted all avenues available for recovery & staff accountability exercise has been completed, the bank will arrange for writing off the likely loss as per delegated.
- ii) The Bank will ensure all relevant aspects are given focused attention before write off loss in fraud case. The process of seeking administrative clearance for the proposed write off will be followed (RCS & Board for administrative clearance).
- iii) Civil/Criminal case & recovery proceeding and other issues if pending will be followed up for their logical conclusion.

22.SYSTEM & CONTROLS FOR PREVENTION OF FRAUDS

- i) Loan against Fake Title Deeds/ Fabricated Land Record
Bank will take adequate measures and ensuring all relevant aspects while creating mortgage/Creating charges against the loan sanctioned.
- ii) Personal Banking Loan
Bank will ensure to take verification of antecedents of loan applications of all personal loan to be mandatorily done from Credit Information Companies.
- iii) Adherence to all safeguards suggested in personal loan policy/manual.
- iv) Adequate precautions and safeguards to be taken for transaction/payment of fake/forged negotiable instruments.
- v) Frauds committed by staffs – Periodical inspections/Audit of the branches and departments transaction to be undertaken. Staff of the branches and HO departments to be transferred as per policy. So that occurrence of fraud can be avoided.
- vi) Hand books or Pre-sanction credit process, post sanction credit process and due diligence in advances with comprehensive check list on the part of loan manual should be place in vogue by the Bank.
- vii) Bank should not allow sanction of loan Bank's own TDR at non-home Branch.
- viii) Bank will make mandatory condition for registration of mobile numbers for newly opened account and get it registered mobile number of old account wherever possible.
- ix) Branch will not carry out any financial transaction requested by the customer through email and request scanned letter attached.
- x) Branches should follow scrupulously KYC norms to avoid impersonation



23.CYBER FRAUD PREVENTION MEASURE BY THE BANK

- i) The bank will ensure confidential information & data available with bank secured adequately for preventing fraudster to access transaction.
- ii) The Bank's system will be adequately secured to ensure no un-authorized person carries out any system modification/change.
- iii) Appropriate verification procedure will be incorporated at all channels to ensure that only genuine transactions are put through.
- iv) The Bank will ensure continuous surveillance and regular updating on the nature of emerging cyber fraud is needed. The adequacy of and adherence to cyber resilience frame work need to be developed. Through development of indicators.
- v) Fraud vulnerability assessment shall be undertaken. These assessments will cover all channels of the bank such as branches, Internet, ATM and phone banking. During the course of vulnerability assessment at the process will be assessed based on fraud risk.
- vi) Transaction monitoring will be in conjunction with the data warehousing and analytic team within bank for data extraction filtering and sanitization for transaction analysis for determining fraud trends.
- vii) The bank will use mystery shopping to detect system flaws and also identify unscrupulous employees/vendor.
- viii) Root cause analysis will be undertaken by the bank for all actual fraud case where unique modus operandi is involved after a series of such frauds are detected. The finding will be used to redesign the product, process and remove the gap to avoid further occurrence.

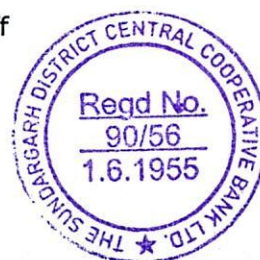
24.REPORTING SYSTEM OF FRAUDS

Each case of fraud bank will report to Board of Directors and the Audit Committee of Board and appraise of the investigation into each case of fraud from time to time. Reports will contain modus operandi, system failure of any on the part of branch/ H.O., remedial measure taken and status on disciplinary action against staff considered responsible for fraud. Cases involving below ₹1.00 lakh will be reported to consolidation basis to the Board. Besides Bank will also report incidence of frauds to NABARD through DOS-FMS in ENSURE portal at quarterly basis.

25.CLOSURE OF FRAUD CASES

The bank will take following aspects while considering for final closure of the fraud case also seek prior approval from NABARD/RBI in respect of fraud amount involves of ₹1.00 lakh & above.

- i) Cases pending with vigilance/CBI are finally disposed-off.
- ii) Examination of staff accountability has been completed.
- iii) The amount involved in fraud has been recovered/write-off
- iv) Insurance claim wherever applicable has been settled



- v) Bank has reviewed the system and procedure, identified, the causative factor and plugged the lacuna, which has been certified by the Board/Audit committee.
- vi) Bank will also pursue vigorously with CBI/Vigilance for final disposal of pending fraud cases where the staff side action has been completed.
- vii) The Bank will vigorously follow up with Police Authority & Court for final disposal of cases.
- viii) Fraud cases below ₹ 1.00 lakh will be closed by the Chief Executive Officer / President of the Bank ensuring all the above aspects are completed.

26.REVIEW OF POLICY

The Policy will be reviewed by the Board every year or as and when considered necessary.


Chief Executive Officer

