

उत्तर प्रदेश ग्रामीण बैंक  
Uttar Pradesh Gramin Bank

Ref No. : HO/01/VIGILANCE/2025-26/Circular/51

Date: 09.05.2025

**CIRCULAR TO ALL BRANCHES/OFFICES OF THE BANK**

Dear Sir/Madam,

**Re: Circulation of “Fraud Risk Management Policy” of Uttar Pradesh Gramin Bank**

You are aware that in exercise of the powers conferred by Section 23A (1) of the Regional Rural Banks Act, 1976, the Government of India, vide Gazette Notification No. CG-DL-E-07042025-262329 dated 07.04.2025, has amalgamated the three Regional Rural Banks operating in the State of Uttar Pradesh viz., Baroda U.P. Bank, Aryavart Bank and Prathama U.P. Gramin Bank, into a single entity—"Uttar Pradesh Gramin Bank", effective from 01.05.2025.

Prior to the amalgamation, each of the erstwhile Banks had its own Board Approved Fraud Risk Management Policy. Subsequent to the amalgamation of three RRBs (Baroda U P Bank, Aryavart Bank and Prathma UP Gramin Bank) to meet the requirement for uniformity in Fraud Risk Management, the Hon'ble Board of the Bank in its meeting held on 07.05.2025, has approved **“Fraud Risk Management Policy”** of Uttar Pradesh Gramin Bank, effective from 01.05.2025.

All the Branches and Offices are hereby advised to thoroughly acquaint themselves with the provisions of the Fraud Risk Management Policy approved by the Hon'ble Board of the Bank, a copy of which is enclosed herewith for your reference.

Accordingly, all the Branches and Offices are advised to familiarize themselves with the provisions of the Fraud Risk Management Policy of the Bank and implement it in letter and spirit to effectively manage the risk of fraud at their respective locations to safeguard the Bank.

Please bring the contents of this circular to the knowledge of all staff members.

Yours faithfully,

(Mohan Kumar Singh)

**General Manager**

Encl.: “Fraud Risk Management Policy” of Uttar Pradesh Gramin Bank (Page no. 1 to 33)



**UTTAR PRADESH GRAMIN BANK**  
**Head Office : Lucknow**

**POLICY  
ON  
FRAUD RISK MANAGEMENT**

*Vigilance Department  
Uttar Pradesh Gramin Bank,  
Head Office, Lucknow*

## Contents

<b>Fraud Risk Management Policy</b>	
1. Introduction:.....	4
2. Scope of the document:.....	4
3. Definition of Fraud: .....	4
4. Classification of Fraud: .....	4
4.1 Guidance on classification of an incident as “Fraud”: .....	5
4.2 Guidelines on escalation of incident/ suspicious behavior in the account:.....	5
4.3 Recognition of Fraud Loss: .....	5
5. Guidance on cases of Attempted Fraud:.....	6
6. Structure of Fraud Risk Management (FRM) Department:.....	6
6.1 Organization Structure – Fraud Risk Management:.....	6
6.2 Governance of Fraud Risk Management:.....	6
6.2.1 Special Committee of Board for Monitoring and Follow-up of Fraud cases:.....	6
6.2.2 Audit Committee to the Board: .....	7
6.2.3 Top Management (ED/ MD & CEO Risk Management): .....	8
6.2.4 Fraud Risk Group :.....	8
6.2.5 Head – Risk Management: .....	8
6.2.6 Head/ In-charge – FRM: .....	9
6.2.7 Fraud Control Unit (FCU): .....	9
6.2.8 Quick Response Team(QRT) :.....	9
7. Referral of suspected fraud cases by Bank staff: .....	11
8. Staff empowerment:.....	11
9. Fraud Risk Management Strategy: .....	11
9.1 Prevention:.....	11
9.2 Detection of Fraud & Classification of Fraud .....	12
9.3 Recovery: .....	12
9.4 Deterrence:.....	12
10. Staff accountability: .....	12
11. Fraud Loss Provisioning, Write-off, Restoration, Recovery & Closure of Fraud cases: .....	13
11.1 Provisioning .....	13
11.2 Insurance .....	13



11.3 Write-off: .....	13
11.4 Restoration: .....	13
11.5 Recovery in Fraud Cases:.....	13
11.6 Closure of Fraud Cases:.....	13
12. Guidelines for Reporting of Frauds to Law enforcing agencies i.e. Police.....	14
12.1 Cases to be referred to the local police:.....	14
12.2 Cases to be referred to CBI:.....	15
13. Cheque Related Frauds, Precautions to be taken and reporting to NABARD and the police.....	15
14. Loan Frauds – New Framework.....	16
15. 14.1. Loan Frauds – New Framework:.....	17
16. 14.2. Objectives of the Framework:.....	17
17. 14.3. Early Warning Signals (EWS) and Red Flagged Accounts (RFA):.....	17
18. 14.4 Early Detection and Reporting:.....	18
19. 14.5 Staff empowerment:.....	18
20. 14.6 Role of Auditors:.....	19
21. 14.7. Provisioning:.....	19
22. 14.8. Bank as a sole lender:.....	19
23. 14.9. Lending under Consortium or Multiple Banking Arrangements:.....	19
24. 14.10. Filing Complaints with Law Enforcement Agencies:.....	20
25. 14.11. Penal measures for fraudulent borrowers:.....	21
26. 14.12 Independent confirmation from third –party.....	21
27. 15. Reporting Cases of Theft, Burglary, Dacoity and Bank Robberies .....	21
28. 16. Legal Audit of Title Documents in respect of Large Value Loan Accounts:.....	21
29. 17. Training & Education:.....	21
30. 18. Reporting of Frauds to NABARD.....	22
31. 19. Quarterly Returns.....	22
Delays in Reporting of Frauds.....	22
32. 21. Reports to the Board.....	23
33. 22. Review of FRM Policy:.....	24
34. Annexure-I-Early warning signals:.....	25
35. Annexure –II Excerpt of the Dr. N.L. Mitra Committee Report:.....	26
36. Annexure-III Compendium of Abbreviations.....	31
37. Annexure-IV Procedural Guidelines while issuing SCN & Reasoned Order.....	32



## Fraud Risk Management Policy

### 1. Introduction:

In the wake of rising financial fraud risks to the banks, need for a strong anti-fraud stance and proactive, comprehensive approach to combating fraud is required. While the primary responsibility of preventing frauds lies with banks themselves, Reserve Bank of India (RBI) and NABARD have been advising the banks from time to time about the major fraud prone areas and the safeguards necessary for prevention of frauds.

The Fraud Governance Policy establishes the Fraud Risk Management Framework and Bank's strategy to contain the fraud risks and to create a proactive environment in addressing the occurrence of frauds in the bank covering early detection, prevention, investigation, reporting, monitoring, recovery and follow-up of frauds.

This Policy set forth herein must be read in conjunction with the guidelines issued by RBI, NABARD, IBA, Mitra Committee Recommendations on Prevention of Frauds (excerpts attached as Annexure I I), or guidelines by any other regulatory body governing the Bank on fraud risk management from time to time and the Procedural Policy document on Fraud Risk Management.

### 2. Scope of the document:

- The provisions of this document apply to all the units under Uttar Pradesh Gramin Bank including its branches/ offices.
- The requirements of this Fraud Risk Management Policy are applicable to all types of frauds in any area of operations of the Bank.

### 3. Definition of Fraud:

As per the Indian Penal Code (IPC), a fraud is inferred as: "Any behavior by which one person intends to gain a dishonest advantage over another".

The definition of fraud as per RBI guidelines is as under:

*"Fraud is a deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank."*

This definition has been recommended as per para 9.1 of the Report of the Study Group on Large Value Bank Frauds set up by the Reserve Bank of India in 1997.

### 4. Classification of Fraud:

4.a. In order to have uniformity in reporting, frauds have been classified as under, based mainly on the provisions of the Indian Penal Code (IPC):

- a) Misappropriation and criminal breach of trust.
- b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
- c) Unauthorised credit facilities extended for reward or for illegal gratification.
- d) Negligence and cash shortages.
- e) Cheating and forgery.
- f) Irregularities in foreign exchange transactions.
- g) Any other type of fraud not coming under the specific heads mentioned as above.



- 4.b.** Cases of 'negligence and cash shortages' and irregularities in foreign exchange transactions referred to in item (d) & (f) above are to be reported as fraud if the intention to cheat / defraud is suspected / proved. However, in the following cases where fraudulent intention is not suspected / proved at the time of detection, same will be treated as fraud and reported accordingly.
- Cases of cash shortages of more than Rs.10,000 (including ATMs) and
  - Cases of cash shortages of more than Rs 5,000 if detected by Management / Auditor / Inspecting Officer and not reported on the day of occurrence by the persons handling cash.
- 4.c.** To ensure uniformity and to avoid duplication, frauds involving forged negotiable instruments may be reported only by the paying banker and not by the collecting banker. However, in the case of collection of an instrument which is genuine but the amount is collected fraudulently by a person who is not true owner, the collecting bank, which is defrauded, will have to file fraud report with NABARD.
- 4.d.** Cases of theft, burglary, dacoity and robbery should not be reported as fraud. Such cases may be reported separately

#### **4.1 Guidance on classification of an incident as “Fraud”:**

- An incident may be classified as “Fraud” if it involves an intentional act of deception, misrepresentation or impersonation by an applicant, customer, employee or any third party involving financial transactions for the purpose of personal gain and thereby defrauding the Bank.
- Frauds may or may not result in losses. Frauds may be successfully committed or attempted. However, losses arising from erroneous operational failure shall not be defined as Frauds.
- Frauds may be committed by employees (internal) or other parties such as customer, outsider (who may or may not be customer of the Bank) or any other third party (external).

#### **4.2 Guidelines on escalation of incident / suspicious behavior in the account:**

On reporting of suspected fraud cases by Branch/concurrent auditor / Internal Auditor / Complainant, Region to appoint investigating officer who shall investigate the suspicious case and escalate the same to Head Office when concluded as a Fraud Case. After going through the various stages involved from Identification to Confirmation, Region to report the fraud cases in FMS-I format to Head Office for onward submission of data of fraud cases to NABARD in ENSURE portal by Vigilance Department at Head Office.

#### **4.3 Recognition of Fraud Loss:**

Following instances may be classified and reported as “Fraud” by the chairman after considering the findings of the investigation report and comments received from respective Regional Office:

- Fraud perpetrated through misrepresentation, breach of trust, manipulation of books of account, fraudulent encashment of instruments like cheques, drafts and bills of exchange, unauthorized handling of securities charged to the bank, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc.
- Instances of removal of pledged stocks, disposing of hypothecated stocks without the bank's knowledge/Inflating the value of stocks in the stock statements and drawing excess bank finance.
- Diversion of funds outside the borrowing units without prior approval of the Bank, lack of interest or criminal neglect on the part of borrowers, their partners, etc. leading to the unit becoming sick as also due to laxity in effective supervision over the operations in borrowal accounts on the part of the bank functionaries rendering the advance, difficult to recover.

## 5. Guidance on cases of Attempted Fraud:

For an incident to qualify as an “**Attempted Fraud**”, following conditions must be satisfied:

- A ‘deliberate act/ omission’
- Such act/ omission did ‘not’ result in ‘wrongful gain’ to any person

The moment ‘wrongful gain’ is established to any person (even for a temporary period and with or without the Bank suffering a loss), the act ceases to be an ‘attempted fraud’ and falls into the category of ‘fraud’.

Wrongful acts committed by staff member and without any misappropriation of funds for personal use, the wrongful gain so derived from committing such acts cannot be clearly quantified and hence such instances would be treated as attempted fraud.

Prevented frauds also fall under the category of attempted frauds. Prevented frauds are frauds prevented by the employee due to the alertness and extra vigilance over and above the existing processes and systems controls. There may not be any loss to the Bank in such an instance however the incident shall be classified as “Attempted Fraud”.

## 6. Structure of Fraud Risk Management (FRM) Department

The Fraud Risk Management function in the Bank shall be owned by the Bank's Chairman, Audit Committee of the Board and the Special Committee of Board for Monitoring and Follow-up of Fraud Cases (SCBMF).

The Head or In-charge of Vigilance department at Head Office shall be responsible for classification and onward reporting of fraud to NABARD with concurrence of General Manager/ Chairman of the bank.

### 6.1 Organizational Structure – Fraud Risk Management:

1. Board
2. Special Committee of Board For Monitoring and Follow-up of Fraud Cases.  
(SCBMF)
3. Audit Committee to Board (ACB)
4. GM/Chairman
5. Fraud Risk Group Committee
6. In charge, Vigilance Department at Head Office.
7. QRT Committee.
8. Regional Office.

### 6.2 Governance of Fraud Risk Management:

#### 6.2.1 Special Committee of Board For Monitoring and Follow-up of Fraud Cases :

While Audit Committee of the Board (ACB) shall monitor all the cases of frauds in general, bank is required to constitute a Special Committee of the Board for Monitoring and Follow-up of fraud cases (SCBMF) involving amounts of Rs.20.00 lakh and above exclusively. SCBMF shall oversee the effectiveness of the fraud risk management in the bank. The SBCMF shall review and monitor cases of frauds, including root cause analysis, and suggest mitigating measures for strengthening the internal controls, risk management framework and minimizing the incidence of frauds. The coverage and periodicity of such reviews shall be decided by the Board of the bank.



The Special Committee of the Board for Monitoring and Follow-up of Fraud cases (SCBMF) shall be constituted with a minimum of three members of the Board, consisting of a whole-time director and a minimum of two independent directors / non-executive directors. The Committee shall be headed by one of the independent directors / non-executive directors.

#### 6.2.1. A. Functions of Special Committee:

The major functions of the Special Committee would be to:

- a) Identify the systemic lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;
- b) Identify the reasons for delay in detection, if any, and reporting to top management of the bank and NABARD.
- c) Monitor progress of Police Investigation, and recovery position and;
- d) Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time.
- e) Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as, strengthening of internal controls.
- f) Put in place other measures considered relevant to strengthen preventive measures against frauds.

#### 6.2.1. B. Meetings-Periodicity:-Quarterly

Quorum of the Committee: Presence of any three members.

#### 6.2.1. C. Review of the functioning of the Special Committee

The functioning of the Special Committee of the Board may be reviewed on a half yearly basis and the reviews may be put up before the Board of Directors.

#### 6.2.1. D. The bank shall delineate in a policy document the processes for implementation of the Committee's directions and enable a dedicated outfit of the bank to implement the directions in this regard.

#### 6.2.2. Audit Committee of the Board:

- Audit Committee of the Board (ACB) shall monitor all the cases of frauds irrespective of the value involved.
- Information relating to frauds for the quarters ending June, September and December shall be placed before the Audit Committee of the Board of Directors during the month following the quarter to which it pertains in addition to the annual reporting of frauds to ACB. These should be accompanied by supplementary material analyzing statistical information and details of each fraud so that the Audit Committee of the Board would have adequate material to contribute effectively in regard to the punitive or preventive aspects of frauds.
- The Vigilance Department at HO shall also place the report on individual cases of attempted fraud

involving an amount of INR 20.00 lacs and above before the Audit Committee of its Board. The report shall cover the following:

- The modus operandi of the attempted fraud.
- How the attempt did not materialize into fraud or how the attempt failed/ was foiled.
- The measures taken by the bank to strengthen the existing systems and controls.
- New systems and controls put in place in the area where fraud was attempted.

#### **6.2.3. Top Management (Chairman/General Manager):**

The Top Management of bank shall focus on the "Fraud Prevention and Management Function" to enable, among others, effective investigation of fraud cases and prompt as well as accurate reporting to appropriate regulatory and law enforcement authorities including NABARD / Reserve Bank of India.

Top management is responsible to put in place, process, procedure and effective controls in such a manner to proactively prevent, detect and report frauds across various products and process of the Bank and also implement strategies for Fraud Recovery.

#### **6.2.4. Fraud Risk Group:**

##### **Objective/ Purpose**

The Fraud Risk Group Committee (FRG Committee) shall consider, agree and concur or review the decision of QRT Committee at Regions and decide, detect and classify any case of suspected fraud, including fraud cases having involved amount of Rs. 1.0 crore & above, under fraud category.

The Meeting of the Fraud Risk Group will be held at the Head Office to review the pending fraud cases more critically and identify the areas of the loopholes and suggest measures for plugging the same. The group would also identify the reasons for pendency of fraud cases and suggest appropriate steps for early closure of the same to Top Management. Any officer of Vigilance Department at H.O. will be nominated as secretary to the group, who will give the required inputs to the group for deliberations so as to enable the group to take suitable view/decision for submission to the Top Management.

##### **a. Members of the committee:**

1. In charge of Recovery Department at HO -Member
2. In charge of Operations Department at HO -Member
3. In charge of Credit Department at HO -Member
4. In charge of Inspection Department at HO -Member

##### **b. Quorum**

Presence of any three members

##### **c. Periodicity of the meeting**

Quarterly or as and when required

The Fraud Risk Group will look after all the actual / attempted incidents of fraud. Fraud Risk group will also review the recommendation of QRT as the same is being handled at HO level.

#### **6.2.5. Head – Risk Management:**

The General Manager, being the Nodal Officer for the overall Risk Management function in the Bank, shall ensure compliance of the requirements advised by the top management and will overall monitor smooth functioning of the FRM department under Vigilance Department at Head Office. The General Manager shall also supervise the process of fraud loss accounting and provisioning.

#### **6.2.6. Head / In-charge – Fraud Risk Management (FRM)**

The Head / In-charge - FRM within the Vigilance Department at HO shall monitor the day to day



# उत्तर प्रदेश ग्रामीण बैंक

## Uttar Pradesh Gramin Bank

activities of the FRM department. The Head/ In-charge of FRM department within Vigilance Department at HO shall monitor the activities conducted by Vigilance departments at RO

The Head / In-charge of FRM shall communicate the directions of the committee to respective teams or concerned operating staff and report confirmation of compliance of directions to the committee.

The Head / In-charge – FRM shall manage the training and development needs of the bank staff pertaining to Fraud Risk Management.

The Head/ In-charge – FRM shall monitor compliance of the directions given by the ACB or Special Committee on the basis of fraud cases presented.

### 6.2.7. Fraud Control Unit (FCU):

The FCU within vigilance Department at HO shall be responsible for monitoring the overall fraud management and investigation function in the Bank and prompt reporting of fraud cases to various regulatory bodies.

### 6.2.8. Quick Response Team (QRT):

Hon'ble Board of Directors in their meeting held on 8<sup>th</sup> May, 2020 has accorded approval for constitution of one Quick Response Team at each Regional Office of the Bank. The Quick Response Team (QRT) at each Regional Office of the Bank will look after all the actual/attempted incidents of fraud involving amount of below Rs.1.00 Crore.

#### Objective

- To reduce the time gap between the date of detection and the date of reporting of fraud to regulatory body and to our Higher Management.
- To explore the possibilities of implementation of faster recovery actions. To expedite the legal actions against perpetrator(s).
- To review existing system and procedures and inform Higher management about gaps therein and suggest corrective measures to plug-in those gaps.
- In order to reduce the Turn Around Time (TAT), the following team/ committee is formed at Regional Level, The structure of the QRT will be as under:

Quick Response Team				
Leader	Operations	Credit	Legal	A & I
RH/DRM*	CM/SM*	CM/SM*	CM/ SM *	CM/SM*
It may be especially ensured that in case any committee member has been associated with the account in question, he/she will refrain himself/herself from deliberations on that specific case.				

Where CM/SM operations, Credit, Legal, A& I are not available or not posted at the RO, Officer In Charge of respective department shall be deemed member of QRT and shall be responsible for discharge of duties as member of QRT Committee on behalf of the respective department.

The minimum quorum of QRT will be of 3 (three) members with presence of RH/DRM will be must.



**Scope of QRT:**

- a. The team itself can investigate into the matter or identify and assign the job of investigation to a competent officer immediately after receiving information about the incident.
- b. To discuss the investigation report and to take decision whether the incident should be declared fraud or not.
- c. To prepare FMS-1 irrespective of the amount involved and send to respective RO within 7 days from the date of taking decision to report the incident as fraud either by QRT.
- d. Any fraud of Rs.1.00 crore and above is to be treated as High Value Fraud. A Flash Report is to be sent to Head Office within 2 days from the date of reporting / detection for their further probing and information. Following points should be narrated in the Flash Report:
  - i. Case details/back ground.
  - ii. Synopsis of the Fraud with Calendar of events.
  - iii. Modus Operandi.
  - iv. Estimated loss Bank may suffer.
  - v. Breaches (control & process) - Type of Fraud.
  - vi. Key Highlights of the Investigation.
  - vii. Steps already taken by branch/RO/ZO and suggestive steps to be taken to safe guard bank's interests.

**Procedure:**

- a. As soon as any incident of fraud is noticed at any branch/office, the matter will be reported to RO immediately on the same day through mail/Fax, besides informing RH (Regional Head) / DRM over phone.
- b. On receipt of the information from Branch/CBO/RBO/alerts generated/monitoring team/RBIA/whistle blowers or any other source, if the amount involved is below Rs.1.00 crore, the QRT will arrange to investigate into the matter from possible angle of fraud by themselves or assign the matter to a competent officer singly or jointly depending upon the severity of the case.
- c. The Investigating officer/s will submit the report to the RM or the convener of the QRT within 10 working days from the date of assignment of the investigation in the matter.
- d. QRT will discuss on the investigation report and will take the decision whether the incident should be declared as fraud or not within two working days after receipt of the investigation report.
- e. If the decision of the QRT is positive, they will prepare FMS-1 within 2 working days and submit the same to the Head Office with the investigation report and other relevant enclosures with their findings/recommendations about the incident for doing their needful action and further reporting.
- f. QRT will ensure that all efforts of recovery should start soon after the incident occurred. But reporting/investigation process will not be held up for the outcome /result of recovery measures.
- g. If the amount involved is above Rs.1.0 crore, the matter will be referred to HO in detail as mentioned in point 'd' of scope of QRT within two working days from the date of information received.

h. The QRT Committee will detect and classify any case of suspected fraud, including fraud cases having involved amount below Rs. 1.0 crore, under fraud category. Before classifying any incident/ account under category of fraud, the QRT committee will ensure strict compliance of Principles of Natural Justice (PNJ). The Regional Head, being leader of the committee, before classifying such incident /account under category of fraud, shall issue a detailed Show Cause Notice (SCN) to the Persons (Including Third Party Service Providers and Professionals such as architects, valuers, chartered accountants, advocates, etc), Entities and its Promoters / Whole-time and Executive Directors against whom allegation of fraud is being examined.

(in case of credit related frauds as well as non-credit related frauds}

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.

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.

Details procedural guidelines are attached in Annexure no-IV

In dealing with the cases of fraud/embezzlement, Region shall not merely be actuated by necessity of recovering expeditiously the amount involved, but shall also be motivated by public interest and need for ensuring that the cases shall invariably be referred to different law enforcement agencies as per the limit criteria fixed by NABARD.

## 7. Referral of suspected fraud cases by Bank staff

Bank staff of any function/ business shall be responsible for reporting such suspected fraud cases to Regional Office identified on the basis of customer complaints, media reports, regulatory advice, adverse remarks in internal audit/ periodic reviews, inspection of assets, etc. The incidents shall be reported by the Bank staff to Regional Office.

## 8. Staff empowerment:

“Employees should be encouraged to report fraudulent activity in an account, along with the reasons in support of their views, to the appropriately constituted authority, under the Whistle Blower Policy of the bank, who may institute a scrutiny. The appropriate authority may ‘hear’ the concerned employee in order to obtain necessary clarifications. Protection should be available to such employees under the whistle blower policy of the bank so that the fear of victimization does not act as a deterrent.”  
Regions to encourage Branch staff members to escalate the issues, if noticed at Branch level, pertaining to any sort of deficiency with regard to compliance of Bank’s guidelines, to respective Regional offices.

## 9. Fraud Risk Management Strategy:

Bank’s Fraud Risk Management Strategy shall be four fold and shall include Prevention, Detection, Recovery and Deterrence by means of employing an automated system to strengthen the fraud management function.

### 9.1 Prevention:

Prevention controls are designed to keep the fraud from occurring. The Bank must employ strong internal controls keeping in view of Mitra Committee Recommendations such as following:

- Strong and well defined policies and procedures
- Monitoring Early Warning signals of potential fraud

- Employee Fraud Awareness Training
- Strong Intelligence team
- Educating customers
- Internal Blacklist
- Segregation of duties
- Easy and approachable helpline numbers for reporting suspicious accounts/ transactions.
- Root Cause Analysis assigned to respective Departmental Heads at HO.

#### **9.2. Detection of fraud:**

Detection controls are designed to detect fraud by implementing following mechanism:

- Robust fraud risk management system
- Strong whistle-blower/ tip-off mechanism
- Audits and Investigation
- Monitoring Early Warning signals of potential fraud
- Annual/ periodic reviews of accounts
- Strong Intelligence team
- EOD Reconciliation
- Periodic MIS

#### **9.3 Recovery**

Formulating recovery strategies is of utmost importance as it not only helps reduce the cost but also maximize resources. Following approach may be adopted:

- Pursuing cases to recover losses from fraud perpetrators
- Urgent and effective steps for enforcing security available including filing civil suits against fraudsters
- Initiating insurance claim
- Recourse to arbitration/ legal action

#### **9.4 Deterrence:**

Implementing a Fraud deterrence strategy which shall help in attacking the root causes and enablers of frauds. This approach may also help in revealing potential fraud risk in the process. The deterrence activities may include:

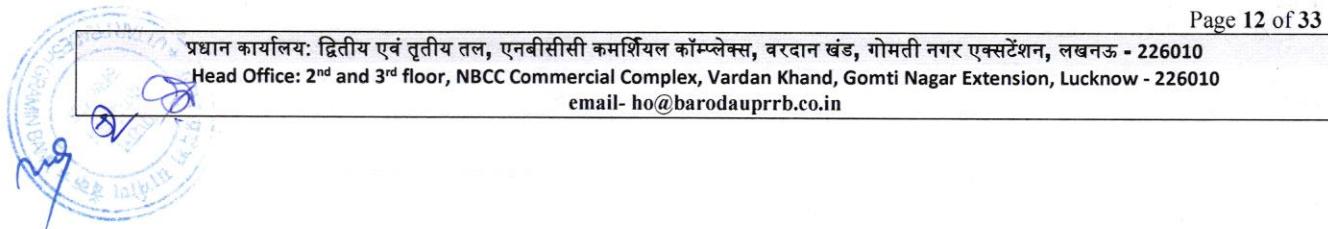
- Fraud assessment process
- Periodic evaluation of fraud risks for each product/ process

### **10. Staff accountability:**

10.1. As in the case of accounts categorised as NPAs, bank must initiate and complete a staff accountability exercise within six months from the date of classification as a Fraud. Wherever felt necessary or warranted, the role of sanctioning official(s) may also be covered under this exercise. The completion of the staff accountability exercise for frauds and the action taken may be placed before the chairman and intimated to NABARD at quarterly intervals in FMS.

10.2. Bank may bifurcate all fraud cases into vigilance and non-vigilance. Only vigilance cases should be referred to the investigative authorities. Non-vigilance cases may be investigated and dealt with at the bank level within a period of six months. It is emphasized that bank should strive to complete the staff accountability exercise within six months as cleaning the air on the staff members concerned in a shorter time frame is appropriate and desirable.

10.3. In cases involving very senior executives of the bank, the Board may initiate the process of fixing



staff accountability.

10.4. Staff accountability should not be held up on account of the case being filed with law enforcement agencies. Both the criminal and domestic enquiry should be conducted simultaneously.

## **11 Fraud Loss Provisioning, Write-off, Restoration, Recovery & Closure of Fraud cases:**

### **11.1 Provisioning:**

In case of accounts classified as ‘fraud’, Bank shall be required to make provisions to the full extent immediately, irrespective of the value of security.

Provisioning should be looked after by Planning Department at Head Office level in case of other than advances accounts. In case of advances accounts, it is being looked after by respective Branches under the guidance of RO / Recovery Department looking after Classification of Loan & Advances as per IRAC norms on provisioning.

### **11.2 Insurance:**

The decision to adopt an appropriate risk treatment measure including insurance policy shall be primary responsibility of respective Regional Office. However, the respective Regional Office shall, from time to time, provide an update to the FRM Head / In-charge within Vigilance Department at Head Office regarding the progress of insurance claims.

### **11.3 Write-off:**

When all avenues available for recovery are exhausted, Bank will arrange for writing off the likely loss with the approval of the appropriate authority. With a view to ensuring that all relevant aspects are given focused attention before writing off of loss in a fraud case, the process of seeking administrative clearance for the proposed write off shall be followed. Civil/criminal cases and recovery proceedings and other issues, if pending, would be followed up for their logical conclusion.

### **11.4 Restoration:**

Due to increasing number of frauds, misappropriation, fraudulent debit / credit to accounts, there are number of requests emerging for restoration of amount fraudulently withdrawn from the account of the customer. Any delay in restoration, is creating customer grievance and tarnishing bank’s image. Restoration process will be done in consultation with Top Management at Head Office.

Bank has adopted Restoration Policy for financial loss occurred due to misappropriation and Fraud.

### **11.5 Recovery in Fraud Cases:**

Although day-to-day recovery process in fraud cases will be continued to be managed by the Vigilance Department at Regional Office, the FCU team within vigilance Department at Head Office shall also be accountable for timely recovery in fraud cases. Hence, the FCU team along with the Vigilance Department at Regional Office shall be responsible to review the account and monitor the progress in the recovery of fraud cases.

Bank has adopted Recovery Policy (duly approved by Hon’ble Board of Directors in their meeting dated 07.05.2025) to deal with issues related to Recovery in loan accounts.

### **11.6 Closure of Fraud Cases:**



उत्तर प्रदेश ग्रामीण बैंक  
Uttar Pradesh Gramin Bank

- 11.6.1** Bank will report to NABARD through "ENSURE", the details of the fraud cases closed along with reasons for the closure where no further action was called for.
- 11.6.2** Fraud cases closed during the quarter are required to be reported quarterly through FMS 3 return and cross checked with relevant column in FMS 2 return before sending to NABARD.
- 11.6.3** Bank should report only such cases as closed where the actions as stated below are complete and prior approval is obtained from the respective Regional Offices of NABARD.
- a) The fraud cases pending with Police/Court are finally disposed of.
  - b) The examination of staff accountability has been completed
  - c) The amount of fraud has been recovered or written off.
  - d) Insurance claim wherever applicable has been settled.
  - e) The bank has reviewed the systems and procedures, identified as the causative factors and plugged the lacunae and the fact of which has been certified by the appropriate authority (Board / Audit Committee of the Board)
- 11.6.4** Bank should also pursue vigorously with Police for final disposal of pending fraud cases especially where the bank have completed staff side action. Similarly, bank may vigorously follow up with the police authorities and/or court for final disposal of fraud cases.
- 11.6.5** Bank is allowed, for limited statistical / reporting purposes, to close those fraud cases involving amounts up to Rs. 1.00 lakh, where:
- a) The investigation is on or challan/ charge sheet has not been filed in the Court for more than three years from the date of filing of First Information Report (FIR) by the Police or
  - b) The trial in the courts, after filing of charge sheet/challan by Police, has not started or is in progress.
- 11.6.6** The bank is required to follow the guidelines relating to seeking prior approval for closure of such cases from the NABARD and follow up of such cases after closure as mentioned below.
- 11.6.7** The bank shall have to submit it's proposals, case wise, for closure to the NABARD. The cases may be closed after getting the approval of NABARD. The banks should maintain the record of details of such cases in a separate ledger. Even after closure of the fraud cases for limited statistical purposes, banks should vigorously follow up with the investigating agencies (Police) to ensure that the investigation process is taken to its logical conclusion. Similarly, the banks should continue to ensure that they are regularly and appropriately represented in the court proceedings as and when required. All the relevant records pertaining to such cases must be preserved till the cases are finally disposed of by Police or Courts, as the case may be.
- 11.6.8** The bank shall, with the approval of Board, frame its own internal policy for closure of fraud cases, incorporating the above norms and other internal procedures / controls as deemed necessary.
- Notwithstanding the fact that banks may close cases of fraud even when Police investigation is in progress or cases are pending in the court of law, they should complete, within the prescribed time frame, the process of examination of staff accountability or conclude staff side actions. The said proposal for closure of fraud should be duly recommended by Fraud Risk Group Committee at HO and approved by General Manager /Chairman of the Bank.

**12 Guidelines for Reporting of Frauds to Law enforcement agencies i.e. Police**

**12.1 Cases to be referred to Local Police**

Bank should follow the following guidelines for reporting of frauds such as unauthorized credit

Page 14 of 33

प्रधान कार्यालय: द्वितीय एवं तृतीय तल, एनबीसीसी कमर्शियल कॉम्प्लेक्स, वरदान खंड, गोमती नगर एक्सटेंशन, लखनऊ - 226010  
Head Office: 2<sup>nd</sup> and 3<sup>rd</sup> floor, NBCC Commercial Complex, Vardan Khand, Gomti Nagar Extension, Lucknow - 226010  
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facilities extended by the bank for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities :

- In dealing with cases of fraud / embezzlement, bank should not merely be motivated by the necessity of recovering expeditiously the amount involved, but should also be motivated by public interest and the need for ensuring that the guilty persons do not go unpunished.
- Therefore, as a general rule, the following cases should invariably be referred to the State Police:
  - Cases of financial fraud involving an amount of Rs.1 lakh and above, committed by outsiders on their own and / or with the connivance of bank staff / officers should be reported by the Regional Head of the bank concerned to a senior officer of the State CID/Economic Offenses Wing of the State concerned.
  - Cases of financial fraud committed by bank employees, when it involves bank's funds exceeding Rs. 10,000/- should be reported to the local police station by the bank branch concerned.
  - All fraud cases of value below Rs 10000 involving bank officials, should be referred to the Head office of the bank, who would scrutinize each case and direct the bank branch concerned on whether it should be reported to the local police station for further legal action.

## 12.2 Cases referred to CBI

Banks shall immediately report the incidents of fraud to Law Enforcement Agencies (LEAs), subject to applicable laws, as indicated below:

Amount involved in the fraud	LEA to whom complaint should be lodged
Below Rs. 6 crore	State/UT Police
Rs. 6 Crore & above	Central Bureau of Investigation (CBI)

In case of consortium lending, each of the consortium member may file separate complaints, if separate offences have been committed in respect of each of them and if the fraud so committed is not part of the same fraudulent act / transaction. In other cases of such lending, only one member may file a complaint and all the other members may extend necessary support to the said member and the LEAs in investigation of the fraud, including by way of providing all necessary information, documents etc. Banks may take a decision in this regard depending on the facts and circumstances that may be relevant in a given case and the applicable laws.

Complaint should be filed by Regional Head of the Bank. The Chairman has full power to authorize someone else to file complaint with CBI/ ACB/EOW and other agencies as required.

Complaint must be filed after Vetting of Complaint from Legal Department at HO.

## 13 Cheque Related Frauds, Precautions to be taken and reporting to NABARD and the Police

13.1.1 The rise in the number of cheque related fraud cases is a matter of serious concern. It is evident that many of such frauds could have been avoided had due diligence been observed at the time of handling and/or processing the cheques and monitoring newly opened accounts. Regions are, therefore, advised to review and strengthen the controls in the cheque presenting / passing and account monitoring processes and to ensure that all procedural guidelines including preventive measures are followed meticulously by the dealing staff/officials. Given below are some of the preventive measures banks may follow in this regard. The list is only indicative.

- Ensuring the use of 100% "CTS – 2010" compliant cheques.
- Strengthening the infrastructure at the cheque handling Service Branches and bestowing special

उत्तर प्रदेश ग्रामीण बैंक  
Uttar Pradesh Gramin Bank

attention on the quality of equipment and personnel posted for CTS based clearing, so that it is not merely a mechanical process.

- c) Ensuring that the beneficiary is KYC compliant so that the bank has recourse to him/her as long as he/she remains a customer of the bank.
  - d) Examination under UV lamp for all cheques beyond a threshold of say, Rs.10000/-.
  - e) Checking at multiple levels, of cheques above a threshold of say, Rs. 10000/-.
  - f) Close monitoring of credits and debits in newly opened transaction accounts based on risk categorization.
  - g) Sending an SMS alert to payer/drawer when cheques are received in clearing.
  - h) The threshold limits mentioned above can be reduced or increased at a later stage with the approval of the Board depending on the volume of cheques handled by the banks or its risk appetite.
- 13.1.2 In addition to the above, banks may consider the following preventive measures for dealing with suspicious or large value cheques (in relation to an account's normal level of operations):
- a) Alerting the customer by a phone call and getting the confirmation from the payer/drawer.
  - b) Contacting base branch in case of non-home cheques.
- The above may be resorted to selectively if not found feasible to be implemented systematically.
- 13.1.3 It has been reported that in some cases even though the original cheques were in the custody of the customer, cheques with the same series had been presented and en-cashed by fraudsters. In this connection, bank is advised to take appropriate precautionary measures to ensure that the confidential information viz., customer name / account number / signature, cheque serial numbers and other related information are neither compromised nor misused either from the bank or from the vendors' (printers, couriers etc.) side. Due care and secure handling is also to be exercised in the movement of cheques from the time they are tendered over the counters or dropped in the collection boxes by customers.
- 13.1.4 To ensure uniformity and to avoid duplication, reporting of frauds involving forged instruments including fake / forged instruments sent in clearing in respect of truncated instruments will continue to be done by the paying banker and not by the collecting banker. In such cases the presenting bank will be required to immediately hand over the underlying instrument to drawee / paying bank as and when demanded to enable it to file an FIR with the police authorities and report the fraud to NABARD. It is the paying banker who has to file the police complaint and not the collecting banker.
- 13.1.5 However, in the case of collection of an instrument which is genuine but the amount is collected fraudulently by 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 bank, the collecting bank, which is defrauded or is at loss by paying the amount before realisation of the instrument, will have to file both the fraud report with the NABARD and complaint with the police.
- 13.1.6 In case of collection of altered/fake cheque involving two or more branches of the same bank, the branch where the altered/fake cheque has been en-cashed, should report the fraud to its Head Office. Similarly in the event of an altered/fake cheque having been paid/en-cashed 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 the Head Office. Thereafter, Head Office of the bank will file the fraud report with NABARD and also file the Police complaint.



**14 LOAN FRAUDS – NEW FRAMEWORK**

- 14.1 The increasing incidence of frauds in general and in loan portfolios is a matter of serious concern. There is a need for implementing a framework for fraud risk management in bank.
- 14.2 The objective of the framework is to direct the focus of bank on the aspects relating to prevention, early detection, prompt reporting to NABARD (for system level aggregation, monitoring & dissemination) and the investigative agencies (for instituting criminal proceedings against the fraudulent borrowers) and timely initiation of the staff accountability proceedings (for determining negligence or connivance, if any) while ensuring that the normal conduct of business of the bank and their risk taking ability is not adversely impacted and no new and onerous responsibilities are placed on the bank. In order to achieve this objective, the framework has stipulated time lines with the action incumbent on a bank. The time lines / stage wise actions in the loan life-cycle are expected to compress the total time taken by the bank to identify a fraud and aid more effective action by the law enforcement agencies. The early detection of Fraud and the necessary corrective action are important to reduce the quantum of loss which the continuance of the Fraud may entail.
- 14.3 Early Warning Signals (EWS) and Red Flagged Accounts (RFA)**
- 14.3.1 A Red Flagged Account (RFA) is one where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS). These signals in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent. A bank cannot afford to ignore such EWS but must instead use them as a trigger to launch a detailed investigation into a RFA.
- 14.3.2 An illustrative list of some EWS is given for the guidance of banks in **Annexure I** of this circular. Bank may choose to adopt or adapt the relevant signals from this list and also include other alerts/signals based on their experience, client profile and business models. The EWS so compiled by a bank would form the basis for classifying an account as a RFA.
- 14.3.3 The threshold for **EWS and RFA is an exposure of Rs.20.00 lakh or more** at the level of a bank irrespective of the lending arrangement (whether solo banking, multiple banking or consortium).
- 14.3.4 The modalities for monitoring of loan frauds below **Rs 20.00 lakh** threshold is left to the discretion of bank. However, bank may continue to report all identified accounts to CFMC, NABARD as per the existing cut-offs.
- 14.3.5 The tracking of EWS in loan accounts should not be seen as an additional task but must be integrated with the credit monitoring process in the bank so that it becomes a continuous activity and also acts as a trigger for any possible credit impairment in the loan accounts, given the interplay between credit risks and fraud risks. In respect of large accounts it is necessary that bank undertake a detailed study of the Annual Report as a whole and not merely of the financial statements, noting particularly the Board Report and the Managements' Discussion and Analysis Statement as also the details of related party transactions in the notes to accounts. The officer responsible for the operations in the account, by whatever designation called, should be sensitised to observe and report any manifestation of the EWS promptly to the Fraud Monitoring Group (FMG) or any other group constituted by the bank for the purpose immediately. To ensure that the exercise remains meaningful, such officers may be held responsible for non-reporting or delays in reporting.
- 14.3.6 The FMG should report the details of loan accounts of **Rs 20.00 lakh** and above in which EWS are observed, together with the decision to classify them as RFAs or otherwise to the Chairman of the bank every month.
- 14.3.7 A report on the RFA accounts may be put up to the Board for monitoring and follow-up of Frauds, a synopsis of the remedial action taken together with their current status.

उत्तर प्रदेश ग्रामीण बैंक  
Uttar Pradesh Gramin Bank

- 14.3.8 Once an account has been red-flagged, the entire process of classification of the account as fraud or removal of red-flagged status shall ordinarily be completed within 180 days from the date of first reporting of the account as red-flagged. Cases remaining in red-flagged status beyond 180 days shall be reported to the SCBMF for review with adequate reasoning / justification thereof.
- 14.3.9 The bank (in case of sole lending) or the individual banks (in case of multiple banking arrangement or consortium lending) shall ensure that the principles of natural justice are strictly adhered to before classifying / declaring an account as fraud.
- 14.3.10 In cases where Law Enforcement Agencies (LEAs) have *suo moto* initiated investigation involving a borrower account, bank/s shall immediately red-flag the account and follow the usual process for classification of account as fraud and complete the same within the stipulated period as specified at Para 14.3.8 above.
- 14.3.11 The Risk Management Committee of the Board (RMCB) shall oversee the effectiveness of the framework for EWS and RFA.

#### 14.4 Early Detection and Reporting

- 14.4.1 Delay in detection of frauds was observed in recent past when bank exhaust the chances of further recovery. Among other things, delays in reporting of frauds also delays the alerting of other banks about the modus operandi through various measures that may result in similar frauds being perpetrated elsewhere. More importantly, it delays action against the unscrupulous borrowers by the law enforcement agencies which impact the recoverability aspects to a great degree and also increases the loss arising out of the fraud.
- 14.4.1 The most effective way of preventing frauds in loan accounts is for bank to have a robust appraisal and an effective credit monitoring mechanism during the entire lifecycle of the loan account. Any weakness that may have escaped attention at the appraisal stage can often be mitigated in case the post disbursement monitoring remains effective. In order to strengthen the monitoring processes, based on an analysis of the collective experience of the banks, inclusion of the following checks / investigations during the different stages of the loan life-cycle shall be carried out:
- a) **Pre-sanction:** As part of the credit process, the checks being applied during the stage of pre-sanction may consist of the Risk Management Group (RMG) or any other appropriate group of the bank collecting independent information and market intelligence on the potential borrowers which could be used as an input by the sanctioning authority. Bank may keep the record of such pre-sanction checks as part of the sanction documentation.
  - b) **Disbursement:** Checks by RMG during the disbursement stage shall focus on the adherence to the terms and conditions of sanction, rationale for allowing dilution of these terms and conditions, level at which such dilutions were allowed, etc. The dilutions should strictly conform to the broad framework laid down by the Board in this regard. As a matter of good practice, the sanctioning authority may specify certain terms and conditions as 'core' which should not be diluted. The RMG may immediately flag the non-adherence of core stipulations to the sanctioning authority.
  - c) **Annual review:** While the continuous monitoring of an account through the tracking of EWS is important, bank also need to be vigilant from the fraud perspective at the time of annual review of accounts. Among other things, the aspects of diversion of funds in an account, adequacy of stock vis-a-vis stock statements, stress in group accounts, etc., must also be commented upon at the time of review. Besides, the RMG should have capability to track market developments relating to the major clients of the bank and provide inputs to the credit officers. This would involve collecting information from the grapevine, following up stock market movements, subscribing to a press clipping service, monitoring databases on a continuous basis and not confining the exercise only to the borrowing entity but to the group as a whole.



**14.5 Staff empowerment:**

Employees should be encouraged to report fraudulent activity in an account, along with the reasons in support of their views, to the appropriately constituted authority, under the Whistle Blower Policy of the bank, who may institute a scrutiny through the FMG. The FMG may ‘hear’

the concerned employee in order to obtain necessary clarifications. Protection should be available to such employees under the whistle blower policy of the bank so that the fear of victimisation does not act as a deterrent.

**14.6 Role of Auditors:**

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 may immediately bring it to the notice of the top management and if necessary to the Audit Committee of the Board (ACB) for appropriate action.

**14.7 Provisioning:**

In case of accounts classified as ‘fraud’, bank is required to make provisions to the full extent of amount involved in the fraud, irrespective of the value of security.

**14.8 Bank as a sole lender**

In cases where the bank is the sole lender, the FMG will take a call on whether an account in which EWS are observed should be classified as a RFA or not. This exercise should be completed as soon as possible and in any case within a month of the EWS being noticed. In case the account is classified as a RFA, the FMG will stipulate the nature and level of further investigations or remedial measures necessary to protect the bank’s interest within a stipulated time which cannot exceed six months.

**14.8.2** The bank may use external auditors, including forensic experts or an internal team for investigations before taking a final view on the RFA. At the end of this time line, which cannot be more than six months, bank would either lift the RFA status or classify the account as a fraud.

**14.8.3** A report on the RFA accounts may be put up to the Board with the observations/decision of the FMG. The report may list the EWS/irregularities observed in the account and provide a synopsis of the investigations ordered / remedial action proposed by the FMG together with their current status.

**14.9 Lending under Consortium or Multiple Banking Arrangements**

**14.9.1** Certain unscrupulous borrowers enjoying credit facilities under “multiple banking arrangement (MBA)” after defrauding one of the financing banks, continue to enjoy the facilities with other financing banks and in some cases avail even higher limits at those banks.

In certain cases the borrowers use the accounts maintained at other financing banks to siphon off funds by diverting from the bank on which the fraud is being perpetrated. This is due to lack of a formal arrangement for exchange of information among various lending banks/FIs.

In some of the fraud cases, the securities offered by the borrowers to different banks are the same.

**14.9.2** In view of this, all the banks which have financed a borrower under 'multiple banking' arrangement should take coordinated action, based on commonly agreed strategy, for legal / criminal actions, follow up for recovery, exchange of details on modus operandi, achieving consistency in data / information on frauds reported to Reserve Bank of India. Therefore, bank which detects a fraud is required to immediately share the details with all other banks in the multiple banking arrangements.

**14.9.3** In case of consortium arrangements, individual banks must conduct their own due diligence before taking any credit exposure and also independently monitor the end use of funds rather than depend fully on the consortium leader. However, as regards monitoring of Escrow Accounts, the details may be worked out by the consortium and duly documented so that accountability can be

fixed easily at a later stage. Besides, any major concerns from the fraud perspective noticed at the time of annual reviews or through the tracking of early warning signals should be shared with other consortium / multiple banking lenders immediately as hitherto.

- 14.9.4 The initial decision to classify any standard or NPA account as RFA or Fraud will be at the individual bank level and it would be the responsibility of this bank to report the RFA or Fraud status of the account to alert the other banks. Thereafter, within 15 days, the bank which has red flagged the account or detected the fraud would ask the consortium leader or the largest lender under MBA to convene a meeting of the Joint Leaders Forum (JLF) to discuss the issue. The meeting of the JLF so requisitioned must be convened within 15 days of such a request being received. In case there is a broad agreement, the account would be classified as a fraud; else based on the majority rule of agreement amongst banks with at least 60% share in the total lending, the account would be red flagged by all the banks and subjected to a forensic audit commissioned or initiated by the consortium leader or the largest lender under MBA. All banks, as part of the consortium or multiple banking arrangements, would share the costs and provide the necessary support for such an investigation.
- 14.9.5 The forensic audit must be completed within a maximum period of three months from the date of the JLF meeting authorizing the audit. Within 15 days of the completion of the forensic audit, the JLF will reconvene and decide on the status of the account, either by consensus or the majority rule as specified above. In case the decision is to classify the account as a fraud, the RFA status would change to Fraud in all banks and reported to NABARD within a week of the said decision. Besides, within 15 days of the NABARD reporting, the bank commissioning/ initiating the forensic audit would lodge a complaint with the Police on behalf of all banks in the consortium/MBA.
- 14.9.6 It may be noted that the overall time allowed for the entire exercise to be completed is six months from the date when the first member bank reported the account as RFA or Fraud.

#### 14.10 Filing Complaints with Law Enforcement Agencies

- 14.10.1 Bank is required to lodge the complaint with the law enforcement agencies immediately on detection of fraud. There should ideally not be any delay in filing of the complaints with the law enforcement agencies since delays may result in the loss of relevant 'relied upon' documents, on availability of witnesses, absconding of borrowers and also the money trail getting cold in addition to asset stripping by the fraudulent borrower.
- 14.10.2 It is observed that banks do not have a focal point for filing Police complaints. This results in a non-uniform approach to complaint filing by banks and the investigative agency has to deal with dispersed levels of authorities in banks. This is among the most important reasons for delay in conversion of complaints to FIRs. It is, therefore, enjoined on banks to establish a nodal point / officer for filing all complaints with the Police on behalf of the bank and serve as the single point for coordination and redressal of infirmities in the complaints.
- 14.10.3 The complaint lodged by the bank with the law enforcement agencies should be drafted properly and invariably be vetted by a legal officer. It is also observed that banks sometimes file complaints with Police on the grounds of cheating, misappropriation of funds, diversion of funds etc., by borrowers without classifying the accounts as fraud and/or reporting the accounts as fraud to NABARD. Since such grounds automatically constitute the basis for classifying an account as a fraudulent one, bank may invariably classify such accounts as frauds and report the same to NABARD.

#### 14.11 Penal measures for fraudulent borrowers

- 14.11.1 In general, the penal provisions as applicable to wilful defaulters would apply to the fraudulent

borrower including the promoter director(s) and other whole time directors of the company insofar as raising of funds from the banking system or from the capital markets by companies with which they are associated is concerned, etc. In particular, borrowers who have defaulted and have also committed a fraud in the account would be debarred from availing bank finance from Scheduled Commercial Banks, Development Financial Institutions, Government owned NBFCs, Investment Institutions, etc., for a period of five years from the date of full payment of the defrauded amount. After this period, it is for individual institutions to take a call on whether to lend to such a borrower. The penal provisions would apply to non-whole time directors (like nominee directors and independent directors) only in rarest of cases based on conclusive proof of their complicity.

- 14.11.2 No restructuring or grant of additional facilities may be made in the case of RFA or fraud accounts.
- 14.11.3 No compromise settlement involving a fraudulent borrower is allowed unless the conditions stipulate that the criminal complaint will be continued.

#### **15-Reporting Cases of Theft, Burglary, Dacoity and Bank Robberies**

- 15.1 Bank should report instances of bank robberies, dacoities, thefts and burglaries immediately, , on their occurrence to NABARD through “ENSURE” portal, in the format given in DoS – FMS-4a. The report should include details of modus operandi and other information as at columns 1 to 11 of DoS-FMS - 4.
- 15.2 Bank should also submit a **quarterly** consolidated statement in the format given in DoS-FMS-4 in “ENSURE” covering all cases pertaining to the quarter. This may be submitted within 30 days of the end of the quarter to which it relates.
- 15.3 Bank, if do not have any instances of theft, burglary, dacoity and / or robbery to report during the quarter, may submit a nil report.

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

- 16.1 Bank should subject the title deeds and other documents in respect of all credit exposures of Rs 1.00 crore and above to periodic legal audit and re- verification of title deeds with relevant authorities as part of regular audit exercise till the loan stands fully repaid.
- 16.2 Bank shall furnish a review note to it's Board / Audit Committee of the Board at quarterly intervals on an on-going basis giving therein the information in respect of such legal audits which should cover aspects, inter alia, like number of loan accounts due for legal audit for the quarter, how many accounts covered, list of deficiencies observed by the auditors, steps taken to rectify the deficiencies, number of accounts in which the rectification could not take place, course of action to safeguard the interest of bank in such cases, action taken on issues pending from earlier quarters.

#### **17 Training & Education:**

Making employees aware of their obligations concerning fraud controls begins with practical communication and training. Like any other compliance effort, effective fraud control means educating employees to understand the critical role they play in preventing, detecting and deterring fraud. Employees at all levels need to be aware of antifraud activities, have a clear understanding of what is expected of them, know that the organization takes the threat of fraud seriously, and know where to seek assistance and advice.

As a part of on-going development, the Head / In-charge – Vigilance Department shall issue circulars on modus operandi of actual / attempted fraud cases to the branches and to take remedial measures as

preventive vigilance and also to review the system and procedures, if needed.

The Vigilance department shall monitor the need for training and education pertaining to anti-fraud controls on periodic basis and provide inputs / suggestions to the General Manager in case of any changes to the scope of fraud awareness training program provided to employees.

## 18 Reporting of Frauds to NABARD

### 18.1 Frauds involving amounts of less than Rs 1.00 lakh

The cases of individual frauds involving amounts of less than Rs.1.00 lakh are not to be reported individually to NABARD. Statistical data in respect of such frauds should, however, be submitted to NABARD in a quarterly statement. as detailed in para 18.2.

### 18.2 Frauds involving amounts of Rs. 1.00 lakh and above

The cases of individual frauds involving amounts of Rs. 1.00 lakh and above should be reported to NABARD through “ENSURE” portal, in the format given in DoS-FMS-1\_immediately but not later than 14 days from the “date of classification of an incident /account as Fraud”.

#### 18.2.1 Date of Occurrence’, ‘Date of Detection’ and ‘Date of Classification’ of Fraud

##### - for the purpose of reporting under FMS returns

- a)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.
- b)The ‘date of detection’ to be reported in FMS 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.
- c) The ‘date of classification’ is the date when due approval from the competent authority has been obtained for such classification, and the reasoned order is passed.

18.3 In respect of frauds in borrower accounts involving an amount of Rs. 20.00 lakh and above, additional information as prescribed under Part B of DoS-FMS-1 may also be furnished. As the complete particulars on frauds perpetrated in the bank are vital for monitoring and supervisory purposes and issue of caution advices, bank should ensure that the data furnished are complete/accurate and up-to-date. Incidentally, if no data is to be provided in respect of any of the items, or if details of any of the items are not available at the time of reporting of DoS-FMS-1 return, the bank may indicate as “no particulars to be reported” or “details not available at present” etc. In such a situation, the bank has to collect the data and report the details invariably through DoS-FMS-3 return on quarterly basis.

18.4 Fraud reports should also be submitted in cases where central investigating agencies have initiated criminal proceedings suo-moto and/or where the NABARD / Reserve Bank of India has directed that such cases be reported as frauds.

## 19 Quarterly Returns

### 19.1 Report on Frauds Outstanding (DoS-FMS-2)

19.1.1 Bank should upload a copy each of the Quarterly Report on Frauds Outstanding in the format given in DoS-FMS-2 in “ENSURE” within 30 days of the end of the quarter to which it relates. If Bank is not having any fraud outstanding as at the end of a quarter should submit a nil report.

19.1.2 Part - A of the report covers details of frauds outstanding as at the end of the quarter. Part B of the report give category-wise and perpetrator-wise details of frauds reported during the quarter respectively. The total number and amount of fraud cases reported during the quarter as shown in Part B should tally with the totals of columns 5 and 6 in Part - A of the report.

उत्तर प्रदेश ग्रामीण बैंक  
Uttar Pradesh Gramin Bank

- 19.1.3 Bank should furnish a certificate, as part of the above report, to the effect that all individual fraud cases of Rs.1.00 lakh and above reported to NABARD in DoS FMS - 1 during the quarter have also been put up to the bank's Board and have been incorporated in Part - A (columns 5 and 6) and Part B of DoS-FMS - 2.

### 19.2 Progress Report on Frauds (DoS-FMS-3)

- 19.2.1 Bank should upload case-wise quarterly progress reports on frauds involving Rs.1.00 lakh and above in the format given in DoS FMS-3 in "ENSURE" within 30 days of the end of the quarter to which it relates.
- 19.2.2 In case of frauds where there are no developments during a quarter, a list of such cases with brief description including name of branch and date of reporting may be furnished in Part-B of DoS-FMS - 3.
- 19.2.3 If there are no fraud cases involving Rs.1.00 lakh and above outstanding, bank may submit a nil report.

## 20 Delays in Reporting of Frauds

- 20.1 Bank should ensure that the reporting system is suitably streamlined so that delays in reporting of frauds, submission of delayed and incomplete fraud reports are avoided. Bank must fix staff accountability in respect of delays in reporting of fraud cases to NABARD.
- 20.2 Delay in reporting of frauds by bank and the consequent delay in alerting other banks about the modus operandi by way of issue of caution advices against unscrupulous borrowers could result in similar frauds being perpetrated elsewhere. Bank may, therefore, strictly adhere to the time-frame fixed in this circular for reporting fraud cases to NABARD failing which bank would be liable for penal action as prescribed under Section 47(A) of the Banking Regulation Act, 1949.

## 21 Reports to the Board

### 21.1 Reporting of Frauds

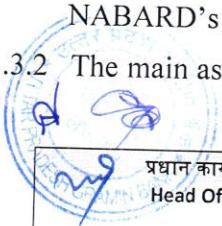
Bank should ensure that all frauds of Rs.1.00 lakh and above are reported to its Boards promptly on their detection. Such reports should, among other things, take note of the failure on the part of the concerned branch officials and controlling authorities, and give details of action initiated against the officials responsible for the fraud.

### 21.2 Quarterly Review of Frauds

- 21.2.1 Information relating to frauds for the quarters ending June, September and December may be placed before the Board of Directors during the month following the quarter to which it pertains.
- 21.2.2 These should be accompanied by supplementary material analysing statistical information and details of each fraud so that the Board would have adequate material to contribute effectively in regard to the punitive or preventive aspects of frauds.
- 21.2.3 A separate review for the quarter ending March is not required in view of the Annual Review for the year-ending March prescribed at para 21.3 below.

### 21.3 Annual Review of Frauds

- 21.3.1 Bank should conduct an annual review of the frauds and place a note before the Board of Directors for information. The reviews for the year-ended March shall be placed before the Board by the end of June of the following year. Such reviews may be presented for verification by NABARD's Inspecting Officers.
- 21.3.2 The main aspects which may be taken into account while making such a review shall include the



following:

- a) Whether the systems in the bank are adequate to detect frauds, once the incidences have taken place, within the shortest possible time.
- b) Whether frauds are examined from staff angle and, wherever necessary, the staff side action is taken without undue delay.
- c) Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible without undue delay.
- d) Whether frauds have taken place because of laxity in following the systems and procedures or loopholes in the system and, if so, whether effective action has been taken to ensure that the systems and procedures are scrupulously followed by the staff concerned or the loopholes are plugged.
- e) Whether frauds are reported to the local Police for investigation.

**The annual reviews should also, among other things, include the following details:**

- a) Total number of frauds detected during the year and the amount involved as compared to the previous two years.
- b) Analysis of frauds according to different categories detailed and also the different business areas indicated in Paragraphs 2.1 to 2.3 above.
- c) Modus operandi of major frauds reported during the year along with their present position.
- d) Detailed analysis of frauds of Rs. 1.00 lakh and above.
- e) Estimated loss to the bank during the year on account of frauds, amount recovered and provisions made.
- f) Number of cases (with amounts) where staff are involved and the action taken against staff.
- g) Region-wise breakup of frauds and amount involved.
- h) Time taken to detect frauds (number of cases detected within three months, six months, one year, more than one year of their taking place).
- i) Position with regard to frauds reported to the Police.
- j) Number of frauds where final action has been taken by the bank and cases disposed of.
- k) Preventive / punitive steps taken by the bank during the year to reduce / minimise the incidence of frauds. Whether systems and procedures have been examined to ensure that weaknesses are addressed.

## 22. Review of FRM policy:

The FRM Policy will be effective from the date of approval by the Board and shall be effective till 31.12.2025 or till review / renewal of the policy . Any circular / guidelines issued on frauds by NABARD /Reserve Bank of India/ Government of India will automatically be a part of this policy with immediate effect.



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Page 24 of 33

**ANNEXURE I**

**Early Warning Signals**

Some Early Warning signals which should alert the bank officials about some wrong doings in the loan accounts which may turn out to be fraudulent:

1. Default in payment to the banks / sundry debtors and other statutory bodies, etc., bouncing of the high value cheques
2. Under insured or over insured inventory
3. Invoices devoid of TAN and other details
4. Dispute on title of the collateral securities
5. Funds coming from other banks to liquidate the outstanding loan amount
6. Request received from the borrower to postpone the inspection of the godown for flimsy reasons
7. Financing the unit far away from the branch
8. Frequent invocation of BGs and devolvement of LCs
9. Funding of the interest by sanctioning additional facilities
10. Same collateral charged to a number of lenders.
11. Concealment of certain vital documents like master agreement, insurance coverage.
12. Large number of transactions with inter-connected companies and large outstanding from such companies.
13. Significant movements in inventory, disproportionately higher than the growth in turnover.
14. Significant movements in receivables, disproportionately higher than the growth in turnover and I or increase in ageing of the receivables.
15. Disproportionate increase in other current assets.
16. Significant increase in working capital borrowing as percentage of turnover.
17. Critical issues highlighted in the stock audit report.
18. Increase in Fixed Assets, without corresponding increase in turnover (when project is implemented).
19. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
20. Substantial related party transactions.
21. Poor disclosure of materially adverse information and no qualification by the statutory auditors.
22. Frequent change in accounting period and I or accounting policies.
23. Frequent request for general purpose loans.
24. Movement of an account from one bank to another.
25. Frequent ad hoc sanctions.
26. Non-routing of sales proceeds through bank
27. LCs issued for local trade I related party transactions
28. High value RTGS payment to unrelated parties.
29. Heavy cash withdrawal in loan accounts.
30. Non submission of original bills.



**Annexure II - Excerpt of the “Dr. N. L. Mitra Committee Report” dated September 16, 2001.**

CHAPTER 3 - ANATOMY OF FRAUD AND GUIDELINE FOR PREVENTION - Dr. N. L.

Mitra Committee Report

**A few illustrations of financial fraud:**

- (1) The office bearer of a Stock Exchange having some confidential and price sensitive information about a company passes on the information to one broker to take his position in the market causing a sharp fall in the price of shares. This is a financial fraud by way of insider trading.
- (2) A company having raised its capital by public issue has not commenced business and is not traceable for any response to the shareholders. This is a financial fraud by a vanishing company.
- (3) A person took project finance from a Bank creating a security interest by hypothecating its plant and machinery. The company afterwards transfers the plant without the permission of the Bank. This is a financial fraud by suppression of fact.
- (4) A person having taken credit from a bank on the security interest of charge being created on inventories, described as sealed tins containing mustard oil, replaced the goods with ‘tins with Ganga water’. This is a financial fraud by misstatement.
- (5) A person floats a scheme for tripling money and raises public fund and vanishes with the amount. This is a financial fraud by cheating.
- (6) A person opens a letter of credit on goods on transit by ship and transfers the goods on the way and taken the consideration without the information being communicated to the banker. This is a financial fraud by suppression of fact.
- (7) A person opens a FCNR account with a power of attorney from an NRI and uses the same as the security interest on his overdraft borrowing. Money is removed from the overdraft account to another bank. This is a financial fraud by way of suppression of fact and misstatement.
- (8) A person in debt intentionally doing an act for making the creditor unable to realize his credit, is a financial fraud by a fraudulent act.
- (9) A plantation company collecting contributions from public with a promise that after twenty years a contributor of rupees one thousand would be paid rupees one lakh being the value of the contributor’s teak plant allocated against his contribution, not found doing any plantation work at all or doing a sham work for a show, is a financial fraud by a false promise without having intention to perform.
- (10) A company promising a time sharing resort and raising public fund without taking any step for the project implementation within a reasonable time and not informing the participants as to the cause of delay or not having any intention to perform the promise, is a financial fraud by fraudulent intention.
- (11) A banker violating the guideline of the bank or of the Reserve Bank without acting prudently and sanctioning the loan with an intention of making a wrongful gain or providing an opportunity for gaining wrongfully by the debtor or causing a wrongful loss to the bank commits a financial fraud by fraudulent action.
- (12) Any act of price rigging in the Stock Market is an act of financial fraud by a fraudulent act.
- (13) A debtor creating security interest on stocks and shares at the market value and thereafter playing with the intention of reducing the value of those shares in the share market commits a financial fraud by fraudulent actions.
- (14) An act, which in the event of insolvency or bankruptcy may be considered as fraudulent preference, is a financial fraud.
- (15) A person transferring any fund from one account to another account by means of electronically operated system without proper authority, commits a financial fraud by fraudulent means.



- (16) One or more interlinked Overseas Corporate Bodies (OCBs) from any foreign land especially through Mauritius (tax haven) route generating foreign investments for the purposes of playing in the stock market through a broker without any disclosure in order to rig prices, is a financial fraud because of *malafide* fraudulent intention.

The above are some illustrations of financial fraud. No one can imagine and prepare an exhaustive list of financial fraud. It depends upon human ingenuity and therefore methods and manners may take complicated route based upon the intelligence of the people who do it. Unscrupulous but intelligent financial giants resort new devices for committing financial fraud and siphoning money at the cost of the people. They take all the facilities of a soft state having uncertain legal process and a lenient or corrupt government. The illustrations above are only few instances taken from various case studies and reports just to explain the varieties in the methodology of committing financial fraud. The essential conditions are not very different. These are, (a) misstatements, non-disclosures, suppression of fact, using asymmetry of information as a method of wrongful gain;

- (b) a fraudulent intention of wrongful gain inflicting wrongful loss; (c) siphoning of public money like government funds, investors' funds or public deposits.

#### **Prevention of fraud**

Bank frauds have been a cause for concern for the financial sector of many countries. The Reserve Bank of India, in exercise of its supervisory powers vested with it, has been focusing on the bank frauds perpetrated by staff and outsiders. The Reserve Bank of India has identified the following as fraud-prone areas.

- (1) Deposit Accounts
- (2) Issue/Payment of Demand Drafts and other Transfer Instruments
- (3) Discounting/Purchase of Telegraphic Transfers
- (4) Letters of Credit/Guarantees and Co-acceptances
- (5) Investments
- (6) Credit Portfolio
- (7) Other Common Frauds.

The majority of frauds committed are through deposit accounts like Savings Bank, Current and Overdraft/Cash Credit, wherein there is a facility to withdraw cash either by cheques or withdrawal slips. The frauds are most likely to be perpetrated through:

- (i) Opening of accounts in fictitious names and then withdrawing therefrom the proceeds of cheques, drafts, etc. deposited therein. Moreover, some people open fixed deposit accounts in several fictitious names or in names of persons not liable to pay income tax and arrange of loans or overdrafts against the security of such deposits;
- (ii) Fraudulent withdrawals from properly opened accounts; and
- (iii) Manipulations in accounts.

**The Reserve Bank of India has suggested some safeguards to prevent these kinds of frauds. These are specified below.**

- (1) Opening of accounts and monitoring of new accounts – the opening of accounts should be personally monitored by the Branch Manager or the Officer-in-charge (in bigger branches).

Due importance should be given to procedure of introduction in preventing the opening of accounts by undesirable persons. There must be a gap of at least 6 months between the time an introducer opens his account and introduces another prospective account-holder to the bank.

- (2) Joint Accounts – banks should examine every request for opening of joint accounts very carefully. The internal control and vigilance machinery should cover the opening of joint accounts.
- (3) Accounts of Bank Employees – the accounts of the employees should be maintained in separate ledgers. All

transactions relating to employees, by way of deposits, advances, collection of proceeds, etc. should be subjected to strict scrutiny, taking into account the cadre of the employee as also the volume and size of transactions.

- (4) Dormant accounts – the deposit accounts which have not been operated upon over a period, of say two years, should be segregated and maintained in separate ledgers.
- (5) Operation of Accounts – there are two areas in the operation of accounts where caution is to be exercised.

- (i) payment of cheques: due caution must be exercised in the verification of drawers' signature, custody of specimen signature cards, supervision over issuer of cheque books and control over blank cheque books/leaves. The banks should also consider fixing suitable ceilings beyond which no cash withdrawal should ordinarily be allowed, unless the account holder himself is personally present to withdraw the money.
- (ii) Balancing of ledgers: the system of balancing ledgers periodically by persons other than the ledger keepers and the exercise of appropriate supervision will go a long way in prevention of unauthorized entries in customers' accounts.
- (6) Cheques, drafts and other instruments sent for clearing/collection

#### **The types of frauds in this category are:**

- (i) Collection of an instrument in the accounts of a party other than its payee.
- (ii) Withdrawal of full amount before realization of proceeds and subsequent failure of the party to make good the amount of the instrument is received back dishonored.
- (iii) Failure to send the instrument to the drawee branch.
- (iv) Destruction of the instrument while in transit or at the drawee branch.
- (v) Availing the 'withdrawal against clearing' facility against instruments known to have been drawn without funds.
- (vi) One party and its associate or two different parties having accounts in two branches indulging in transactions mentioned in (v).
- (vii) Unused cheques returned to banker shall be destroyed.
- (7) Monitoring of Deposit Accounts – the fraud here involves cash withdrawals for large amounts.
- (8) Precautions in respect of opening of accounts and issue of cheque leaves to customers/ employees.
- (9) Irregularities in NRE/FCNR deposits
- (10) Deposit accounts in benami or fictitious names
- (11) Benami transactions by branch manager of a bank
- (12) Misuse of banking channels for violation of fiscal laws and evasion of taxes.

Instances of the payment of forged or altered drafts and mail transfers continue to be high and a matter of concern.

**The precautionary measures, which should be taken to prevent losses on account of fraudulent issue of these instruments, are indicated below:**

- (i) Blank demand draft and mail transfer forms should be treated as security items and branches should take adequate safeguards against their pilferage.
- (ii) Banks should exercise abundant care and caution in the design, printing etc of the draft forms.
- (iii) Banks should supply all their branches with devices like pin point typewriters or protective cheque writers.

#### **Other preventive measures for frauds:**

1. Administrative measures for prevention of frauds
  - (a) Recruitment of officers should be carefully verified;
  - (b) All employees handling various duties should be made aware of the essential safeguards, which should be observed in the discharge of those duties;
  - (c) The duties and responsibilities of employees should be clearly laid down;
  - (d) The principles of dual custody and not allowing any voucher, register, ledger to remain unchecked by a higher authority should be observed at all times;

- (e) Banks should take steps to transfer their officials at reasonable intervals and insist on their going on leave periodically. The retention of official continuously at the same branch in charge of the same portfolio had been a contributory factor in the perpetration of frauds;
- (f) Checking on the life style of employees;
- (g) Disciplinary actions;
- (h) Maintenance of security items, records, etc;
- (i) Educating the public; and
- (j) Strengthening the machinery of internal controls.

**Additional measure of internal control for safeguarding bank's interests in the following cases:**

1. Balancing of transactions relating to clearing of cheques, drafts, etc;
2. Books of instructions;
3. Material alterations in a cheque – if the bank is convinced that fraud has been committed by its staff towards any constituent, it should at once acknowledge its liability and pay the just claim instead of unnecessary litigation;
4. Prompt communication of contents of Reserve Bank's circular to branches and other offices;
5. Furnishing of opinion reports on borrowers;
6. Safe custody of specimen signatures of officers;
7. Regulation of the issue of blank cheques by banks;
8. Grant of advances against third party deposits;
9. Fraudulent encashment of foreign currency;
10. Periodical balancing of books;
11. Setting up of audit committee of board of directors;
12. Frauds in FCNR / NRI accounts;
13. Fraud by parties promising to arrange for large deposits;
14. Credit monitoring system; and
15. Grant of advances to a Group of concerns by several banks.

**Classification of frauds**

Frauds can be classified into the following:

- (1) Misappropriation of cash tendered by a bank's constituents and misappropriation of cash in remittances.
- (2) Withdrawal from deposit accounts through forged instruments.
- (3) Fraudulent encashment of negotiable instruments by opening an account in fictitious name.
- (4) Misappropriation through manipulation of books of accounts.
- (5) Perpetration of frauds through clearing instruments.
- (6) Frauds in demand drafts – issue and encashment.
- (7) Misutilization/overstepping of lending / discretionary powers and non-observance of prescribed norms/ procedures in credit dispensation.
- (8) Opening/ issue of LCs, bank guarantees, co-acceptance of bills without proper authority and consideration.
- (9) Frauds in foreign exchange transactions through non adherence of RBI's prescribed norms and procedures.

**Modus operandi**

The modus adopted for perpetrating bank frauds continued to be

- (a) opening of new fictitious deposits accounts by persons not properly identified by the bank followed by deposit of fake/ stolen/ forged instruments in such accounts and immediate withdrawals of the proceeds,
- (b) submission of false stock/financial statements to avail of finance,
- (c) clandestine removal of goods hypothecated and siphoning of sale proceeds,
- (d) acceptance of deposits both Resident and Non- Resident through middlemen and thereafter allowing/availing of



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overdraft against fraudulent discharge of these deposits receipts by forgoing power of attorney and loan documents of third parties who were also not properly identified,

- (e) raising of accommodation bills,
- (f) kite flying,35
- (g) manipulation in outward/inward clearing,
- (h) raising unauthorized debits on nominal heads of account,
  
- (i) manipulating and tampering with the books of accounts by passing unauthorised entries,
- (j) sanction of one time ad hoc credit facility to non-clients,
- (k) issue of letter of Credit, Bank Guarantees without recording in the branch books,
- (l) issue of pay orders/demand drafts without consideration,
- (m) fake documentation, etc.

#### **Detection of frauds**

The existing format of reporting does not contain the information as to how the fraud is detected. Some frauds get detected during the course of reconciliation of outstanding entries in nominal heads of accounts or impersonal accounts. Others surface on account of depositors lodging a complaint for non-receipt of deposit receipts. The frauds perpetrated by means of forged security documents were noticed only when the security was enforced for recovery of outstanding amount. In most cases, the knowledge of fraud is due to an anonymous complaint of change in incumbency.

#### **Investigation and staff side action**

Investigations concentrate mainly on fixing staff accountability and were more in the nature of initiating staff side action. Investigations lacked objectivity, fairness and critical analysis. With respect of staff side action, it is evident that in the case of fraud, the members of staff were placed under suspension immediately after the bank reached to the conclusion of their involvement in the commission occurrence of fraud. Often there is a delay in lodging FIR before the police or filing complaints before the courts. There is also a delay in disposal of bank fraud cases. The cases of fraud, involving dishonesty, misappropriation, criminal breach of trust, cheating, forgery etc. are covered under sections 403 to 409, 417 to 420 and 465 to 477 A of the Indian Penal Code and these offences are triable by the Court of Magistrate. Normally it takes more than 5 to 10 years before the case comes for hearing.

#### **Circumstances which facilitate the perpetration of fraud**

The following factors facilitate the perpetration of fraud:

- (1) Wrong persons got introduced both in deposit and borrowing accounts without detailed enquiry/ scrutiny and thus were given access to banking services.
- (2) Certain persons acting as Middlemen/brokers without proper identification were entertained as agents of so called depositors/ borrowers.
- (3) Large credit, debit and cash transaction in newly opened accounts did not arouse the suspicion of the staff and no attempt was made to verify the genuineness of the transactions with reference to the business of the account holder.
- (4) Reconciliation of inter-branch accounts, clearing adjustment account, follow-up of large outstanding entries in the nominal heads of accounts remained pending for a long time.
- (5) The role of controlling office particularly in regard to receipt and scrutiny of control returns and house-keeping was far from being effective.
- (6) There were huge arrears in the areas of balancing of books.
- (7) The bank's critical stationery, its stock on hand, indent, custody, issue, movement, loss etc., was not properly monitored.



Page 30 of 33

उत्तर प्रदेश ग्रामीण बैंक  
Uttar Pradesh Gramin Bank

- (8) Appraisal and review of borrowing accounts were carried out as a matter of routine and early warning signals were not acted upon.
- (9) Inordinate delay in completion of investigation of detected frauds by Investigating Agencies and also delay in completion of departmental action not only failed to send a clear and strong message to the errant staff but also demoralized honest staff who because of the case being treated as composite e one, came within the purview of investigation.
- (10) Unlimited computer access was provided to vendors and staff not related to the bookkeeping and supervision.
- (11) The system of concurrent audit as operative in the bank failed to achieve its objectives in as much as the early signals of gross irregularities were not timely reported and acted upon.

**Annexure-III**

**Compendium of Abbreviation**

Sr.No.	Abbreviation	Full Form
01	NABARD	National Bank for Agriculture & Rural Development
02	FRM	Fraud Risk Management
03	SCBMF	Special Committee of Board for Monitoring & follow-up of Fraud cases
04	ACB	Audit Committee of Board
05	QRT	Quick Response Team
06	GM	General Manager
07	RH/RM	Regional Head/ Regional Manager
08	DRM	Deputy Regional Manager
09	CM	Chief Manager
10	SM	Senior Manager
11	FCU	Fraud Control Unit
12	A& I	Audit & Inspection
13	RO/ZO/HO	Regional Office/Zonal Office/Head Office
14	CBO/RBO	City Back Office /Regional Back office
15	RFA/EWS	Red Flag Account /Early Warning Signals
16	EOD	End of day
17	MIS	Management Information System
18	IRAC Norms	Income Recognition & Assets Classification Norms
19	RC /OTS	Recovery Certificate /One time Settlement
20	RBIA	Risk Based Internal Audit
21	NPA	Non Performing Assets
22	CBI	Central Bureau of Investigation
23	CBI-ACB	Central Bureau of Investigation-Anti Corruption Wing
24	EOW	Economic Offence Wing
25	KYC	Know Your Customers
26	CTS	Cheque Truncation System
27	UV-Lamp	Ultra Violet Lamp
28	CFMC	Central Fraud Management Committee
29	FMG/FRG/RMG	Fraud Management Group/Fraud Risk Group/Risk Management Group
30	JLF	Joint leaders Forum
31	NBFCs	Non-Banking Finance Companies
32	"ENSURE"	NABARD's portal for submission of periodical returns.

प्रधान कार्यालय: द्वितीय एवं तृतीय तल, एनबीसीसी कमरिंगल कॉम्प्लेक्स, वरदान खंड, गोमती नगर एक्सटेंशन, लखनऊ - 226010

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email- ho@barodauprrb.co.in

33	DoS	Department of Supervision
34	BG/LCs	Bank Guarantee /Letter of Credit
35	FCNR A/c	Foreign Currency Non Resident Account
36	NRE/NRI	Non Resident External / Non Resident Indian

**Annex IV Procedural guidelines while issuing Show Cause Notice (SCN) and Reasoned Order**

**Show Cause Notice**

- ✓ Show Cause Notice (SCN) shall be issued to the Persons, Entities and its Promoters/ Whole-time and Executive Directors against whom allegation of fraud is being examined (in case of credit related frauds as well as non-credit related frauds).
- ✓ The SCN shall provide complete details of transactions/ actions/ events basis which declaration and reporting of a fraud is being contemplated.
- ✓ Draft of SCN shall be vetted by the Law Officer of the Region. In accounts involving an amount of Rs. 01 crore & above, Region may take the assistance/ legal advice of reputed legal counsel.
- ✓ SCN to be issued by the Regional Head/Leader of QRT on the Bank's letter head and sent by registered/ speed post. Acknowledgement of receipt to be kept on record.
- ✓ The SCN shall be sent at his/ her registered address with a request to submit his/ her response if any, within -21- days from the date of receipt of SCN.
- ✓ Acknowledgement of service of SCN should be preserved/ kept on record.
- ✓ The convener of the QRT to ensure the issuance of SCN.
- ✓ Status of serving of SCN to be informed to QRT
- ✓ In cases where response is received within permitted timelines, point-wise comments on such response shall be placed before the QRT for taking a decision on fraud or otherwise within 7 days from the date of receipt of such response.
- ✓ If no response is received from the Persons, Entities and their Promoters/ Whole-time and Executive Directors within -21- days from the date of receipt of SCN, the committee may proceed ex-parte in the matter.
- ✓ In exceptional circumstances, Regional Head/Leader of the QRT may permit extension of time for submission of reply on case-to-case basis depending upon the extent of finance, nature of irregularity, etc. duly recording the reasons for the same in writing.
- ✓ If SCN is not delivered (due to Persons, Entities and its Promoters/ Whole-time and Executive Directors not residing/ operating from the registered address) or Persons, Entities and its Promoters/ Whole-time and Executive Directors refuses to accept it, the same needs to be kept on record. This may serve as evidence of offering principles of natural justice through which an opportunity of hearing has been provided to the borrower.

**Reasoned Order**

A reasoned order shall be served on the Persons/ Entities conveying the decision of the Bank



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regarding declaration/ classification of the account as fraud or otherwise. Such orders must contain relevant facts/ circumstances relied upon, the submission made against the SCN and the reasons for classification of fraud or otherwise.

- ✓ Reasoned order to be issued by the Regional Head/Leader on the Bank's letter head and sent by registered/ speed post. Acknowledgement of receipt and service to be kept on record.
- ✓ Date of reasoned order shall normally be the date of classification of the incident as QRT, but not prior to the date of classification.



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