



Fraud Risk Management System in banks – Role of Chairmen / Chief Executive Officers

Board of Supervision has felt that the Chief Executive Officers (CEOs) of the banks must provide singular focus on the "Fraud Prevention and Management Function" to enable, among others, effective investigation in fraud cases and prompt as well as accurate reporting of fraud cases to appropriate regulatory and law enforcement authorities including NABARD. The Board has observed that in terms of higher governance standards, the fraud risk management and fraud investigation function must be owned by the bank's CEO, its Audit Committee of the Board and the Special Committee of the Board, at least in respect of high value frauds. And accordingly, they should own responsibility for systemic failure of controls or absence of key controls or severe weaknesses in existing controls which facilitate exceptionally large value frauds and sharp rises in frauds in specific business segments leading to large losses for the bank.

2. In view of the above observations made by the BoS, banks are advised to initiate necessary action at their end at the earliest. Banks may, with the approval of their respective Boards, frame internal policy for fraud risk management and fraud investigation function, based on the above governance standard relating to the ownership of the function and accountability for malfunctioning of the fraud risk management process in their banks.

From the operational point of view, banks may take certain measures as detailed below in order to ensure effective quick investigation, monitoring and follow up of frauds:

(i) The above operating unit should own specialized fraud monitoring, investigation and follow up function for large value frauds or frauds which occur across the bank. The function will have to be, therefore, discharged in a centralized manner instead of leaving it to the Regional Office where such specialization may not be available.

(ii) Fraud investigation requires competence in 'forensic audit' and also technical /transactional expertise. In this regard, banks may take immediate steps to identify staff with proper aptitude and provide necessary training to them in forensic audit so that only such skilled staff are deployed for investigation of large value frauds.

(iii) The banks may build up a data / information pool of large value frauds and analyse them periodically which may act as knowledge repository for policy responses.

(iv) Banks may set up dedicated and well organized "Special Surveillance and Investigation Function", which would, on continuous basis, exercise surveillance over potentially fraud prone areas and investigate into large value frauds with the help of skilled manpower for internal punitive action against the staff and external legal prosecution of the fraudsters and their abettors.

(Ref.No.NB.DoS.HO.POL.CFMC/ 3662 /P. 78/2009-10 dated 10 November 2009. Circular No. 189 /DoS. 40 /2009)

Prudential norms on Income Recognition, Asset classification and provisioning - Regional Rural Banks

The instructions contained in para 3.2.1. and 3.2.2. of the Master Circular No.DBOD.BP.BC.17 /21.04.048/2009-10 dated 1 July 2009 issued by the RBI to the Commercial Banks would be applicable to RRBs also. (relevant paragraphs are reproduced below)

(i) If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, the entire interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also.

(ii) In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

(Ref.No.NB.DoS.HO.Pol/ 3572 / J-1 /2009-10 dated 06 November, 2009.Circular No. 183 / DoS- 3 /2009)

Compliance with Section 22(3)(a) and Section 22(3)(b) of the B.R. Act 1949, (AACS)

RPCD, RBI, CO had further relaxed the norms governing the grant of licences to SCBs and DCCBs as under :

(i) The bank should have CRAR of 4% and above as per the last inspection report of NABARD;

(ii) The bank should have complied with the CRR and SLR requirements during the last one year and

(iii) Default in CRR/SLR requirement upto two occasions during the last one year may be ignored for the purpose.

(NB.DoS.HO.POL./ 3574 /J.1/2009-10 dated 06 November 2009.Circular No. 184 /DOS- 36 / 2009)

Scheme for financial assistance to banks for rating of Micro Finance Institutions

The revised terms and conditions of the scheme are outlined hereunder:

I. The purpose of the scheme:

The basic purposes of the scheme are to facilitate the banks to identify appropriate MFIs for providing funds on the one hand and at the same time, to encourage proper standards, systems and safeguards, efficiency and transparency in MFIs on the other hand.

II. Rating agencies:

Banks can avail the services of credit rating agencies viz., CRISIL, M-CRIL, ICRA, CARE and Planet Finance or any other agency approved by NABARD from time to time, for rating of MFIs.

III. Eligible Grant Assistance:

The banks can avail of 100% reimbursement of expenses towards cost of rating of MFIs upto Rs. 3 lakh by way of grant only for first rating of MFI. MFIs with the minimum loan outstanding of Rs. 50.00 lakh and maximum loan outstanding of Rs.10.00 crore would be eligible for support under the scheme. The grant assistance for meeting the cost of rating of MFIs would be only for professional fee of the rating agency subject to a ceiling of Rs.3 lakh.

IV. Submission of Rating Report:

Banks/MFIs may furnish a copy of the rating report to NABARD and NABARD would have the right to publish the information, if it desires to do so.

V. Procedure for claiming grant assistance:

Bank may submit claim to concerned Regional Office of NABARD, in the enclosed format, for reimbursement of the cost of rating of MFI within three months of receipt of the rating report from the agency. The claim may include of the followings documents/particulars:

- (a) The rating report of the MFI duly signed by Credit Rating Agency,
- (b) The total cost of rating of MFI and the amount of NABARD's support required, and
- (c) The details of the bank credit sought by the MFI, if any.

Regional Office of NABARD would be sanctioning and releasing grant assistance under the scheme.

VI. Operation of the Scheme:

The scheme of grant assistance to banks for rating of MFIs will be operational, on an ongoing basis.

(Ref.No.NB.mCID.986 / mFIs / 2009-10 dated 20 November 2009.Circular No.193 / mCID -5 - 07 / 2009)

Scheme for rating / grading of Micro Finance Institutions seeking Capital /Equity support and/or Revolving Fund Assistance (RFA) under MFDEF from NABARD

The scheme of assistance to MFIs for rating by the approved Credit Rating Agencies has been revised as under :

- (i) Rating assistance scheme will continue beyond November 2009 and be operational as a regular scheme, on an ongoing basis.
- (ii) 100% re-imburement for rating of MFIs only for 'professional fee' of the Credit Rating Agency (CRA) subject to a ceiling of Rs.3 lakh. All other costs, would be borne by MFI concerned.
- (iii) The MFI which had been provided with Capital/Equity/RFA by NABARD under MFDEF will be eligible for assistance for the second rating on a sharing basis during the period of Capital / Equity/RFA availed.
- (iv) Since financial assistance to Commercial Banks, Regional Rural Banks and Co-operative Banks by way of grant for availing the services of accredited rating agencies for rating of the MFIs has been increased to Rs.3 lakh, such agencies seeking Capital/Equity/RFA, after getting rating assistance through banks will not be eligible for assistance under the scheme. However, the agencies will be considered for grant support for the second rating, during the support period.
- (v) The upper ceiling of loan amount outstanding for the MFIs has been relaxed and increased from the existing level of Rs.5.00 crore to Rs.10.00 crore loan outstanding for extending support to MFIs under MFDEF.

(Ref.No.NB.mCID. 1006 / mFIs-rating / 2009-10 24 November 2009. Circular No. 195 / mCID -08 / 2009)

General guidelines for scrutiny of Annual Returns and applications received from officers for acquiring/disposal of Immovable /Movable Property

The Vigilance Cell has to investigate complaints/allegations in respect of any employee of the Bank which, in the opinion of the Chief Vigilance Officer has a vigilance angle.

What is Vigilance Angle

1. Demanding/accepting illegal gratification
2. Obtaining things in kind without consideration/with inadequate consideration
3. Possession of assets disproportionate to known sources of income
4. Cases of misappropriation, forgery or cheating or other similar criminal offences
5. Furnishing false information for monetary gain

6. Riotous behaviour leading to damage of property
7. Acting in a manner prejudicial to the interest of the Bank
8. Infringement of the rules and regulations
9. Any other matter, which in the opinion of Chief Vigilance Officer has a vigilance angle.

The provisions of National Bank Staff Rules, 1982 prohibit any employee to solicit or accept any gift from a constituent of the Bank or any subordinate employee or to engage in any commercial business either in his own account or as an agent for others or for the purpose of formation, management of joint stock company, speculation in stocks, shares securities or commodities other than for the purpose of bonafide investment and also places restrictions on the borrowing and making investment which are likely to embarrass or involve the employee in the discharge of official duties.

In order to ensure that the officers of the Bank do not indulge in illegal transactions or ostensible transfers and acquisition to create assets illegally earned, the Competent Authority should before granting permission for acquiring/disposing immovable property, satisfy himself / herself of the genuineness of the transaction as also the bonafides of the sources of transactions and the frequency thereof, with a view to discourage them from engaging in trading of immovable property. However, it should be ensured that there is no unnecessary restraint imposed on the officers of the Bank or their dependants or harassment caused to them in acquiring/disposing the immovable property.

(For full details please refer to NB.CVC/ 582 / 08/2009-10 dated 13 November 2009 Circular No. 190 /CVC-01/2009)

Leave Travel Concession Facility - Package Tours - Clarification

If the staff opts for Package Tour, the incidental expenses are not admissible. Hence, in cases where the staff avails the LTC by combining the package and non-package tours within the overall eligibility, employees will not be entitled for incidental expenses. However, after availing the Package Tour, if any balance amount is available (i.e. total eligibility minus amount claimed under package tours), the same can be reimbursed for travelling to other than the places covered under such package tours against production of journey tickets or satisfactory documentary evidence thereof.

(Ref.No.NB.HRMD.PPD/ C-62 / LTC /2009-10 dated 13 November 2009.Circular No. 191 /PPD - 28 /2009)

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