



GS Mahanagar Co-op Bank Ltd., Mumbai

(Scheduled Bank)

Vigilance Policy - 2026-2027.

Chapter-1.

INTRODUCTION

1. **GS MAHANAGAR CO-OPERATIVE BANK LTD.,** a Co-operative Bank, duly registered under the provisions of the Maharashtra Co-operative Societies Act, 1960, bearing Registration No. BOM/BNK /128 of 1973, and having its registered office at Hiramani Super Market, Basement, Dr. B.A. Road, Lalbaug, Mumbai – 400 012, hereinafter called the “the said bank”.
2. Considering the existing position and safety of the said bank, the said bank, bank have prepared Vigilance policy 2023-2024 hereinafter called the “Vigilance policy 2023-2024”.
3. To inculcate a sense of Alertness and Awareness and widespread compliance with systems and procedures in the daily functions of organization and acting as a catalyst for eliminating system weaknesses.
4. To generate a passion for achieving the highest ethical and professional standards.

FUNCTIONS OF VIGILANCE DEPARTMENT - As - Preventive - Surveillance Detection - Punitive. Attainment of high levels of systems integrity by creating awareness and developing commitment and probity at all levels and activities contributing forwards an organization with world class standards of efficiency and professionalism.

Meaning of the word Vigilance - Vigilance is generally looked with negative connotation because it is linked with fraud.

Accountability and punishment - In reality of vigilance is an inseparable part of management. Vigilance gives strong support to management by raising red signals regarding consequence of non- adherence of systems and procedures, placing red signals in the activities concerned for achieving objectives and by elimination of fraudulent practices.

The approach to vigilance is based on changing and developing orientation of employees towards honesty carefulness and protecting the interest of the bank as well as of the employees in general, as in every fraud even it is committed by an outsider, the employee is affected due to his accountability.

The dimension of vigilance is inversely proportional to the internal supervision and control. More the supervision and control in the Bank, lesser the frauds and irregularities will take place. Whereas if there is lack of supervision and control, the number of frauds and irregularities will be on rise. To avoid vigilance cases said bank should have full supervision, control and inspection however such situation is seldom in bank. As said bank is a commercial organization, engaged in selling financial services in market, instances of vigilance cases, mistakes and irregularities are possible.

Chapter-2.

VIGILANCE IN BANKS

The liberalization, privatization and globalization have brought in fast development in modern banking services. The number of branches has been increased in urban and metro centers which are prone to frauds. New products in funds transfer and other areas are being offered by bank. The growing competition, speed of mechanization and awareness of customers has increased their expectations, especially about the speed of services. Accurate, fast and safe service at low cost is the need of the day. We being providers of these services in a competitive market have to cater to all these expectations of the customer, stay safe and have to remain in the market. Bank cannot offer to lose share of business in the market in the fear of fraud. We at GS MAHANAGAR Bank have to welcome, receive and serve the growing business and sell the accurate safe and fast service, remaining guarded against the attacks of fraud. Protecting the interest of bank as well as of the customer is the prime aim while discharging the day to day functions at all levels. Our Vigilance policy is framed taking in to consideration of all these aspects.

Why more vigilance is required ?

Bank, being dealing in money in the form of cash and funds in accounts, since historical time, are a preferred place for fraud by the miscreants. With the increasing magnitude and complexities and the requirements of the delivery of fast services, the chances of occurrence of frauds and irregularities in the banks are increased. Banking fraud is a white -collar crime. They are committed many times by a person having social status. All white- collar crimes are violation of criminal law of the country and are punishable. These acts are much more serious than not observing the terms and conditions of the loan.

Role of Vigilance –

Our Bank has framed systems and procedure and set of rules to be followed for its effective and safe functioning and to guard against pilferage of money and property. Although these rules have inbuilt safety and security measures, there is possibility of pilferage of the property of the bank by some scrupulous persons who may be from within the bank or an outsider. Some fraudsters are ahead of said bank. They overcome the banks safety measures and commit frauds. At times there may be system failure.

The task of guarding the organization from the frauds in our bank is allocated to the Vigilance Department set up at Head Office, Lalbaug Headed by General Manager and Head of the Department. **The foremost objective of vigilance department is to take steps to prevent occurrences of frauds in bank. The extent of malpractices cannot be judged by the number of vigilance cases.** It can't be said that the vigilance is functioning well because there are less vigilance cases.

Preventive Function of Vigilance –

Vigilance is basically a controlling function. When supervision and control functions are effective there is little scope for fraud. The controllers are expected to make use of information and data through the medium of control return and reporting system for taking preventive measures. Bank has therefore established a very effective reporting and controlling system and is making modifications in from time to time to suit the safety requirements. The Vigilance department at Head Office examines from time to time the present systems and procedures from the angle of preventive vigilance and suggests changes and safety measures. The department will analyses the reasons of fraud and find out the factors which facilitated the fraud. It will find out the common lapses on the part of employees. It will report these aspects to the management. The management in turn issues precautionary instructions to the branches and controlling offices. The department will also examine if there is any system flaw which gives opportunity for irregularities and fraud, and suggest modifications in them, keeping in view the banks safety. In all its operations the department will keep in mind the customer service aspect and business aspect of bank. This includes analyzing the rules and regulations of bank, identification of sensitive areas, identification of employees of dubious character, regular surprise checks etc.

Training in Preventive Vigilance –

With a view of bringing awareness on preventive measures it is necessary to impart training on preventive vigilance to the employees. Every fraud is a learning point for the operational functionaries. The analysis of the cases brings out the modus operandi of the fraud. It shows which acts of omission and commission on the part of the functionaries has facilitated the fraud, what measures could have helped in avoiding the fraud. The work force should be educated to take lessons from such cases and to identify the red signals. The case studies based on live cases and their consequences can be discussed in such training program. The mistakes, lapses which facilitated the occurrence of the fraud are to be discussed with the working staff, so that they will not be recurred by them. in future. This can be done by arranging training programs on "Preventive Vigilance".

Penalty Proceedings :

This area includes the implementation of the discipline and rules. Various steps include are :

01. Verification and collection of evidence with digital evidence.
02. Issue of charge sheet.
03. Holding of inquiry wherever necessary.
04. Consideration of the inquiry report.
05. Passing of the final order.

The GM, HOD will coordinate the functions described from 2 to 5 on receipt of Investigation report and put up to Managing Director for further action in the case.

Surveillance Function –

This is the job of keeping the constant watch and monitoring. This can be done by constant monitoring of the functioning of the branches and offices follow up of the inspection reports, ensuring of the internal housekeeping, scrutiny of the control returns etc. Bank has adopted reporting and monitoring system, different types of inspections and audits, surprise visits to the branches etc. These activities will discharge the surveillance function. This includes foreseeing the activity prejudicial to the interest of the bank and suggesting corrective measures.

Detective Function –

This is the work of fact finding which is done after receiving the report on happening of the fraud. This is post mortem function. On receiving the information of fraud the case is investigated by the vigilance department through the skilled, experienced and knowledgeable officer. It will be probed to find out what has happened and how it had happened. This fact finding mission is expected to bring to light the errors and/ or mistakes, lapses, irregularities and maladies, if any, which have facilitated the perpetration of the fraud. The banks property can be traced out and recovered if proper and meaningful investigation is done within time. For this a pool of experienced investigating officer need to be created which will be available for any emergency investigation and only few officers will not overburdened. Detail Investigation to be done by Vigilance officer of the Bank by deputing skilled and experienced officers / staff from Vigilance Dept.

Punitive Function –

After completing investigation and then analyzing the investigation report next step is to complete the penalty proceedings. Stern and deterrent action need to be taken against the concerned person with a view that such acts should not be repeated by him and others in future. This is a crucial process. This involves carrying accountability exercise, calling of explanations, issue of charge sheet, appointing presenting officer and enquiry authority, conducting inquiries and awarding of appropriate punishment. Deciding the appropriate punishment is a very critical exercise. After investigation report is submitted by the Vigilance dept. the further processing will be done by Human Resource Co-op Management (HRM) Department. GM, HRM Dept will put up his note to Staff Sub-Committee through CEO of the Bank.

THE FRAUD AND IRREGULARITIES –

As a HOD we have define :- Definition of fraud , types of Frauds, why a person commits Fraud, Essential Elements of Fraud, The Fraud Triangle, Consequences of Fraud, Three Principles of Fraud etc. for our interpretation in bank. The frauds can be defined as " **Any behavior with an intention to receive dishonest benefit over the other is a fraud** ". Fraud in bank is a deliberate act of omission and commission on the part of an employee while

discharging his duty which may result in passing benefit to him to which he is otherwise not entitled. This definition covers not only successful cases of fraud but an unsuccessful attempt is also included. Misrepresentation of facts with an intention to deprive others of property, embezzlement and misappropriation of funds, claiming false bills are few examples. Dishonesty malady is present in these cases. The culprit may be an outsider Or insider or both with conspiracy. Types of Fraud.

Frauds can be classified as under -

01. Misappropriation and criminal breach of trust.
02. Fraudulent encashment through forged instruments, manipulation of books of accounts or through fictitious accounts and conversion of property.
03. Unauthorized credit facilities extended for reward or for illegal gratification.
04. Negligence and cash shortages.
05. Cheating and forgery.
06. Irregularities in Foreign Exchange transactions.
07. Any other type of fraud not coming under the specific heads as above.

Negligence -

The functionary is having careless attitude towards the work. He is casual in discharging his duties. Neglect towards the work procedure, neglect in verifying the signature on cheque and match with the system signature, not updating the important information's of the customers, perfunctory checking and scrutiny of vouchers, not verifying the hypothecated stock with stock statement are some examples of negligence.

Non adherence of the systems and procedures –

Bank has drafted and circulated the systems and procedures which have inbuilt security and safety measures. There are inbuilt checks, counter checks and tallies. The rules and procedures are framed so as to take care of safety requirements. However, it is observed in many fraud cases that some or the other procedure is violated or not adhered to. It is seen that the functionary either does not know the system and procedure or he just neglects to follow it. The reasons may be that he is hard pressed by heavy work or he is lazy or hasty or he is in anxiety to complete the work fast or he may be working under some mental tension.

Complacency -

The functionary who is entrusted with the work of supervision remains complacent about the work coming before him. Accepting the work coming before him which is not done as per banks requirements, accepting incomplete papers in loan cases, vague narration on vouchers, while opening new account, not insisting proper address proof are few instances of complacency. Inputting wrong information's in the systems This happens due to absence of

assertiveness in the functionary. The person is shy in telling the subordinates, borrowers, customers what is needed. He is not insisting the correctness and accuracy. When others know that this person accepts work as presented with deficiencies, they may take undue advantage of his way of functioning.

Permissiveness -

This is allowing wrong practices, not objecting to the irregularities but allowing them to be continued. An employee not objecting the entry of an outsider in cash department, not objecting to the cashiers leaving the cash cabin without locking it, and leaving the cash on counter, no one in the branch stopping a person entering inside opening the gate by his hand, are few instances which have resulted into cash theft and frauds in accounts department.

General at the atmosphere of lethargy branch -

General health of the branch is indicative. The history shows that fraud is more likely to be perpetrated at the branches where there are arrears of work, no proper housekeeping; no proper maintenance of records and existence of bad industrial relations. The culprit feels that the fraud will not be detected soon and even it is detected, branch will not get records for investigation.

Justification: This is criminal justification of doing a misdemeanor. The fraudster justifies his act to himself. He rationalizes his desire to cheat, to steal, to do an illegal act by putting following arguments to himself.

- All are doing, why I should not ?
- If pointed out, I will refund the amount.
- If caught, I have justification ready.
- If I do not take someone is going to take it, then why I should not ?
- Who is going to see? Where the bank has time to see these things ?

The Fraud Triangle -

The above three ingredients can be well explained by the Fraud Triangle.

“Need/greed” “Opportunity Criminal mind” and “Justification”

When a need arises or greed is created in a criminal mind, it justifies the proposed wrong action and remains in searching the opportunity. When the opportunity appears, the act of fraud is completed. When all the lines of the triangle starting from need through justification reach the opportunity, the fraud triangle is completed.

Consequences of Fraud -

The after effects of the fraud are ;

- Financial loss to the Bank. The amount defrauded is the clear loss to the Bank which will be a drain on the profit of the Bank.
- Heavy expenses are required in the process of investigation conduct of enquiry etc.
- Loss of man days on account of suspension of the employee, loss of working days in carrying investigation and conducting disciplinary proceedings.
- Damage to the image of the bank as the news of the fraud affects the confidence of the customers about the Bank.
- Mental agony to the person who attempted the perpetration of fraud.
- Stigma on the career of the employee. A sword of insecurity and punishment hangs on the employee till the case is finally decided upon which takes a long time.

Three principles regarding bank frauds -

There are three common but important rules regarding fraud. They are :

- Each fraud comes to light on some day or the other. No fraud remains suppressed forever.
- The defrauder does not go alone. He takes undue advantage of the mistakes of the other innocent employees. These employees are also charge sheeted by the bank for their procedural lapses.
- There is Natures Law of Punishment. If one defrauds others, harasses others, causes loss to others he will have to make amends during his life today or tomorrow. One who is not punished by law is punished by the nature. This is the principle of "Natural Justice" accepted in legal theories. There may be punishment given by the God, by way of mental, physical or pecuniary suffering. This is not a consolation statement. There are number of live examples about this in surrounding. This is agonized curse of the victims which is termed in local language as" Taltalat"

Irregularities (Lapses) -

These are acts of omission and commission on the part of an employee. Bank has drafted and circulated rules systems and procedures for various operations and conduct of banks business. Every employee is bound to adhere to these systems and procedures while discharging his duties (in exigencies, some deviation with approval from higher authority is an exception). These procedures and systems are framed to take care of safety of Banks assets

and funds with Bank. When an employee deviates from these systems and procedures the procedural irregularity is committed. In such cases though the employee did not have dishonest intention, he is accountable. The irregularities may be treated as "Major" or "Minor" by the Bank, depending upon the seriousness of the lapses and amount involved in the case.

At some branches irregular practices or short cuts are continued. When a fraud takes place these lapses come to light and an employee otherwise sincere and honest is proceeded against. Fraudsters are observing the working of the branches and of the employees at the branch before deciding to commit fraud. They select the branch which is permissive. They will avoid the branch which observes all the systems and procedures and insists on completion of all the formalities before releasing payment, opening of the account or sanctioning of a loan and which is a vigilant. It is therefore required that every branch should depict that it never deviates from the system and procedure. It is argued at some corners that customer service is affected if we insist on procedures. But this is not true. No honest customer will insist violation of systems.

GS MAHANAGAR CO OP BANK

Chapter-3.

ROLE AND FUNCTIONS OF VIGILANCE DEPT. & VIGILANCE OFFICER

Vigilance Department set up -

The Central Vigilance Commission has issued guidelines on the appointment of Chief Vigilance Officer (CVO) in all public sector Banks. The purpose of doing this is to ensure that all the internal vigilance functions in the public sector banks are addressed through a set of predetermined and structured procedures to ensure comprehensive treatment and transparency. (RBI Master Circular No.DCB.CO.FrMC.BC.No.2/23.04.001 /2011-12 dated July 01, 2011 and No. DBS.FrMC.BC.No.1/23.04.001/2012-13 dated July 02, 2012) There are no separate guidelines for Urban Co-operative Banks and or circular issued by UBD, RBI. RBI has also issued various circulars for the prevention of frauds and malpractices in banks, on the basis of recommendations of different groups and committees on strengthening of the Internal Vigilance machinery in Banks & Financial Institutions.

SET UP OF VIGILANCE DEPARTMENT -

Head of the Vigilance Dept is designated as **Vigilance Officer** and Head of the Department (Vigilance officer) reporting to **General manager** and **Managing Director**.

It is proposed to have following staff for Vigilance set up.

1. General Manager
2. Vigilance Officer,
3. One Sr. Manager,
4. One Clerk cum Typist.

Role and Functions of Vigilance Officer -

Vigilance Officer who will head the Internal Vigilance Department of the bank assisted by General Manager and One Clerk. The vigilance functions to be performed by Vigilance Officer would be wide ranging and include collecting intelligence about the malpractices committed, or likely to be committed by the employees of bank investigating or causing an investigation to be made in to verifiable allegations reported to him; processing investigation reports for further consideration of the Staff Sub-Committee referring and advising the matters to the MD of the bank; taking steps to prevent commission of improper practices/misconducts etc.

Preventive Vigilance by Vigilance Officer -

The Vigilance officer may take the following measures on preventive vigilance.

- i) Undertake a study of existing procedures and practices prevailing in his organization with a view to modifying those procedures or practices which provide a scope for illegal gratification and also to find out the causes of delay, the points

at which it occurs and devise suitable steps to minimize delays at different stages

- ii) Undertake a review of the regulatory functions with a view to see whether all of them are strictly necessary and whether the manner of discharge of those functions and exercise of powers of control are capable of improvement;
- iii) Devise adequate methods of control over exercise of discretion so as to ensure that discretionary powers are not exercised arbitrarily but in a transparent and fair manner;
- iv) Identify the areas in his organization which are prone to illegal gratification and to ensure that the officers of proven integrity only are posted in those areas;

Association of Vigilance Officer with Sensitive Matters

The vigilance functionaries should not be a party to processing and decision-making processes or be involved in other administrative functions of such nature, which are likely to have clear vigilance sensitivity. While it may not be difficult for full-time vigilance functionaries to comply with this requirement, the compliance of these instructions could be achieved in respect of part-time vigilance functionaries by confining their duties, other than those connected with vigilance work, as far as possible, to such items of work that are either free from vigilance angle or preferably serve as input to vigilance activities such as inspection, audit, etc.

Submission of Reports and Returns- Review.

Vigilance Officer should invariably review all pending matters, such as investigation reports, disciplinary cases and other vigilance complaints/cases in the first week of every month and take necessary steps for expediting action on those matters. The Vigilance Officer would arrange periodic meetings to be taken by the Chief Executive for reviewing the vigilance work done by the organization. Vigilance Officer would also be required to furnish a report on the vigilance activities in the bank to the CEO/ Board on a periodical basis.

The Vigilance Officer may devise and adopt appropriate methods to collect information about any malpractices and misconduct among the employees. Anonymous/ pseudonymous complaints received by the Vigilance Officer may be dealt with on merit. As soon as a decision is taken to investigate the allegations in a complaint it will be necessary to be decided by the Vigilance Officer in consultation with General Manager and Managing Director of the Bank, whether the allegations should be investigated departmentally or a police investigation is necessary.

Vigilance Officer should establish a close liaison with the Law Enforcement Authorities and Administrative Authorities like Police Authorities. Vigilance Officer should take action against a person making false complaint against an employee. If the complaint against an employee is found to be malicious vexatious or unfounded, it should be considered seriously and action should be taken against such complainants.

(Reference RBI Cir.No. RBI/2010-11/554.DBS.CO.FrMC.BC.No.9/23.04.001/2010-11 Dated May 26, 2011)

VIGILANCE COMMITTEES (VC)

Vigilance Committee should be constituted and the following members shall consist of the VC at Head Office level.

- Managing Director, General Manager, Vigilance Officer.
- Chairman or Vice Chairman with four members of the board

This committee shall end empower to bring awareness on preventive vigilance matters at branches and HO Departments. The committee will observe the systems and procedure followed at the Branches and will point out the deficiencies if any. The meetings of the VC should be held quarterly. However the committees can meet and discuss on Vigilance issues formally / informally at any time. The minutes of the meetings should be sent to the Vigilance department. Further all the staff members working at Branches and Controlling Offices to be involved in task of preventive vigilance.

Reporting of Fraud by Branch Manager –

A detailed letter should be forwarded to the controlling authority, narrating therein the various stages resulting in to occurrence of the fraud with copy to Chief Vigilance Officer, Vigilance Department.

Action by the controlling Authority and reporting to Vigilance Department.

On receipt of the information of fraud the controller should immediate arrange to get details from the branch manager. If required he should arrange for a preliminary investigation of the case (this is not preliminary enquiry as commonly termed wrongly) through a capable officer.

On receipt of preliminary investigation report at controlling office

- a) In case it is fraud in deposit account no innocent customer should suffer on account of fraud/mistake on the part of Bank employee. In case the customer is innocent and is not involved in fraud efforts should be made to replenish the customer's money fast. If this is delayed it will affect Banks image in market adversely. It should be noted that the customer can approach civil court, criminal court, consumer courts and press. This will create more damage to bank.
- b) In case large amounts are involved, team of officers should be engaged to ascertain the quantum.
- c) In case the report brings to light pilferages of banks money/ property, immediate steps should be taken for recovering it. Help of the banks Central Law Dept and valued constituents may be taken if required. It should be noted that Bank can trace its claim to the property purchased from defrauded amount.
- d) The preliminary investigation report should be forwarded along with controllers comments to vigilance department in Initial Reference Format (IRF).

Action at Vigilance Department

- i) At vigilance department on receipt of the preliminary investigation report, the **General Manager/ Officer On Special Duty, Vigilance Dept.** will analyses the report. In case he opines that the matter is not complicated and the preliminary investigation report is sufficient he can proceed further to determine the case as vigilance or non vigilance by putting the report before Staff Sub-Committee.
- ii) In case further investigation is not necessary he will forward the case to HR department (both vigilance and non vigilance cases) for further processing as per extant procedure.
- iii) In case the feels that detailed investigation is required he will arrange to carry out the detailed investigation through officers at vigilance department
- iv) In case the Managing Director feels that detailed investigation is required he will arrange to carry out the detailed investigation through officers at vigilance department.

Reporting of the Fraud to Reserve Bank of India

The Vigilance Officer in Head Office will report the fraud to RBI as per the instructions.

Steps to be taken in case of cash shortages –

- The branch manager should immediately arrange for checking and counting of entire cash and cash registers.
- Discuss with the Head Cashier and senior cashiers as to how it has happened /what could have happened. Their guess may give some clue.
- Advise controlling authority immediately on mobile and send report through email.
- With consultation of Central Law Dept, lodge police complaint. Fast investigation by police may result in getting the cash back.
- Advise the cashier concerned to replenish the cash immediately. Ask for his explanation. In case he makes good the shortage, and the amount is large, the source from which he raised cash should be verified.
- In case the employee is not in a position to make good the loss amount should be debited to Sundry Debtor/ Frauds & Misappropriation account after consulting the controlling authority.

Chapter-4.

THE INVESTIGATION

Process of Investigation. Planning the Investigation. Steps on reaching the Spot. Involvement of Insider, Outsider or Both. Banks Vigilance Officer. Power of Vigilance Officer (VO). Responsibilities of VO. Submission of Investigation Report. Contents of Investigation Report Dos and Don'ts.

When the allegations in the complaint are verifiable, the controlling authorities should arrange for the preliminary investigation. The report of the preliminary investigation should be forwarded to vigilance department at head office. If there is need, the vigilance department may carry further investigation.

The process of Investigation and Planning the Investigation

In order to ensure that the investigation is carried out systematically, the VO should proceed in a planned manner.

- He should make homework on the complaint.
- Should read the complaint/audit report thoroughly.
- Think what may have happened? He should not come to conclusion immediately.
- He should make a list of documents required to be verified/collected.
- He should make a list of persons from whom he has to collect information and what details can be collected from them.
- The VO should get the banks relevant circulars, instructions to be referred and study them if he is not expert in that area.
- He should have detailed discussion about the case with the authority who has assigned the investigation to him.
- He should contact the complainant to get more details about the incidence from him. By this he can find out the intention of the complainant. Whether he has any personal grudge against the employee complained against or has a genuine grievance.
- VO should contact the suspect employee to understand his version of the case and to know actual happening in the case.
- VO should make a sequence of spots/places to be visited to ascertain the information and persons to be contacted there at.
- VO should not become nervous in case he is not getting evidence. He should not feel that when bank has given the investigation to him, he should establish the fraud. The fraud may not have occurred.
- VO should be a logical thinker. At the same time he may be a lateral thinker. In case there is nothing to establish fraud, he can think that fraud may not have been there

and proceed accordingly. There are cases where the auditors wrote an aggravating report because of the differences with the branch manager and investigation was initiated by the vigilance department.

On reaching the spot

- The documents which are required to be verified are segregated and kept with the branch manager. He should verify all original documents and records. Only copies certified by the branch manager should be taken by him and a certificate that originals are kept with him in his personal custody after entering into Branch Document Register should be obtained from the branch manager. IO should avoid taking possession of original documents as there is risk of damages in transit.
- Call the employees concerned and get information from them. For this, he already has listed the questions to be asked to these employees. Sometimes the questions may be framed on the spot depending upon the situation. It is necessary to record the individual statements of these employees. The statement should be recorded in question answer forms to avoid the recording of irrelevant information. Questions to get clarification of answers, statements should be asked. The IO should take help of some employee of the branch to record the statements. This will help to protect IO from allegation that IO has fabricated the statements and brought pressure on the witnesses to make the statements. The questions should be asked in the language understood by the witnesses. After completion, the recorded statement should be read out to the employee by the writer. At the end a declaration from the deposer to the effect that he has given the deposition voluntarily and no pressure was brought on him should be recorded. The deposition should be signed by the deposer, the writer and one witness.
- IO must record the version of deposer in detail. He should allow him to tell all the facts. He should not refuse to record any statement which is relevant. He should not say that deposer should only say into "yes" or "no" like in court. It is possible that after analyzing the version of an employee, bank may drop action against him. This will save the further work of calling for explanation, charge sheet, inquiry etc.
- Sometimes it is observed that the IO does not record or neglect the employee's version. This will require in calling up the explanation from the employee to get his version. If this version is already recorded in deposition by IO, further action will be saved and it will not be necessary to issue the charge sheet and carry the enquiry. The IO should confirm in his report that statement/version of all the employee's concerned are obtained. In case it is not obtained from any employee he should mention specific reason, circumstances for that. Any laxity in this regard on the part of IO should not be tolerated. IO is dealing with human assets of the bank and due care of these assets must be taken by him.
- Before asking questions to the deposer the IO should show him relevant records/voucher. This will bring factual things on record. The statement, to the effect that relevant original record was shown to the deposer should be included in the deposition.

- In case of investigation for loan accounts if IO feels that there are mistakes in appraising the proposal, projections etc., he should make specific comments as to the reasons why he considers these lapses have resulted into causing the present loss. It is observed sometimes that IO passes remark on the historical appraisal and sanction which are not cause for the account becoming NPA today. This will result in issuing charge sheet to the old functionaries although they are not accountable. This should be avoided.
- If the case warrants the IO can record the statement of an outsider. But an outsider cannot be compelled to give statement. Same procedure as described above should be followed while recording the statements.

Involvement of Insider / Outsider or Both

In a vigilance case, there may be involvement of

- I) Bank employees only or
- II) Outsider only or
- III) Both in connivance.

The term involvement is many times misinterpreted to charge the employee of the Bank. In fact when an employee is party to the fraud he can be said to have been involved in the fraud. But when the employee is not party to the fraud and he is liable only for procedural lapses, then in true sense he cannot be said as involved in fraudulent act. IO can investigate in the actions/ lapses of insider only. When involvement of the outsider is observed with/without the connivance of bank employees, the IO should submit special report pointing out the acts of omission and commission and the modus operandi of the fraud, acts committed by the outsider in detail, pointing out the loss to the bank. Bank will after analyzing the IO's report take a decision whether to file a criminal case against the outsider or employee or against both.

Power of Vigilance Officer

- He can verify, seize, and take copies of all records, documents, reports regarding the case from the branch or office.
- He can ask questions, record depositions and seek reply from any employee of the bank.
- He can inspect, visit and collect information from the borrower as a bank's representative.
- He can record statement of an outsider in case it is necessary and relevant for the collection of the information.
- He can point out other irregularities which he notices during his investigation, by way of a separate note.

Responsibilities of the Vigilance Officer

- Should carry out meaningful investigation.
- Should submit factual report. He is a fact finding authority.
- He should as far as possible find out the truth.
- Should not accept any type of hospitality from anyone connected with the case.
- Should collect information by his skill.
- He should not use any force during investigation.
- Should not give threat or any assurance of relinquishing any person. He is not police inspector.
- He should be a total impartial person.
- He should not aggravate and colour the facts. He should not make vague statements.
- He should collect the necessary evidence for the lapses he has pointed out in his report.

Submission of Investigation Report

The VO should submit the report to the authority who has assigned him the investigation. He should restrict to the terms of reference or the complaint. If he finds other shortcomings he should bring them to the knowledge of the controlling authority. The investigation report is base for the further action and for the accountability exercise on the employee. This accountability exercise is very vital for the career of the employee. Therefore more than ordinary care should be taken by the VO in preparing the report. Statements in the report should be definite and clear. He should not use word like 'I guess',' I doubt',' I feel',' it may be'. His findings should be firm. Findings should not be influenced by subjective assumptions and personal value judgments. Report should be unadulterated truth and should relate to the actual facts and instructions at the material time.

Contents of the Investigation Report - The report should contain :

1. The terms of reference.
2. The allegations made.
3. Description of the events/transactions.
4. Particulars of evidences/witnesses and statements of such witnesses and the complaint(s) (if any)
5. The concerned officers / employees version of case.
6. Examination of the available evidences / witnesses / statements and versions of the officials/ employees.
7. Should specify against each document, statement of the witness that, what event/ allegation would stand established and what each witness will depose in inquiry.
8. Allegations considered substantiated / not substantiated, with reasons thereof.

9. Whether any mala fides are discernible, along with the evidences/ lapses / reasons leading to such a conclusion
10. Any peculiar or extenuating circumstances prevailing at the branch / office observed by the IO.
11. The certificate that original document / evidences are held in the custody of the branch manager and certified copies are enclosed with report.
12. Wherever deviations from the extant instructions are observed, the IO should mention such original instructions, the extent to which they have been deviated, by whom, under what circumstances, and the consequence(s) arising out of such deviation.
13. In case there are deviations but they are not the reasons of the fraud or loss, the IO should specify this in his report.
14. The report should state the extent of monetary loss anticipated on account of lapses, and also the process by which the loss has been arrived at. As far as feasible, the loss attributable to each individual official / employee on the account of their lapses should be indicated.
15. List of officers indicating lapses attributable to each of them and particulars of document witnesses / evidence leading to the substantiation of the lapses should be included as an annexure to the report.
16. No language or adjectives prorogating
17. The Disciplinary Authority (DA) or Controlling Authority against any employee should be used in the report.

Chapter-5.

ACTION AFTER RECEIPT OF THE INVESTIGATION REPORT

On receipt of investigation report the HR department will, considering the facts appearing in the report, take either of the following decisions,

- Dropping of the allegation against the employee
- Issue of warning or caution to the employee
- Initiate regular departmental proceedings

In following types of cases regular departmental proceedings are warranted

- The acts of the employee reflect on his integrity and good faith or devotion of the duty.
- Prima facie evidence is available to show recklessness or misconduct or negligence.
- He has acted in a manner unbecoming of a bank employee/officer.
- Showed undue favour to any party.
- Failure to observe KYC norms resulting in to opening of a fictitious account.
- Recurrent occasions of allowing overdraft, overdrawing, exceeding discretionary powers, not reporting to Controlling Authority the sanctioning of loans.
- Repeated occasions of granting accommodation to party violating norms.

In case there is no evidence to establish a prima facie case, the HR may close the case or take other action. It should be noted here that in case of the departmental enquiries the standard of proof required is different than it is required in criminal cases. The standard of proof required is based on the principle of "Preponderance of Probability", meaning that, in case some linkages are proved then there is probability of happenings of the other linking events. It is not necessary to prove the allegations beyond doubt. The DA is required to take uniform and unbiased view on the investigation report. He is the authority who is legally required to issue a letter calling explanation, issue charge sheet order enquiry and decide on the punishment. He is required to apply his mind independently and take all decisions himself. He should not act on the recommendations instructions of other persons. However he can seek expertise or guidance of others before applying his mind and taking his own decision. He can take required Vigilance support for his work.

Support from the Vigilance Department

The DA is regular bank executive and may not have the required expertise and skills required in dealing with vigilance matters. The vigilance department is expected to give support and guidance to the DA. The DA should always consult the vigilance department on vigilance matters. Therefore the DA should always get a tentative view from the vigilance department and then take a final decision. This is required to ensure the justice and to avoid

injustice on any employee. This is not intervention in the functioning of the DA nor an encroachment on his independence. The vigilance department will support the DA from initiation till the disposal of the vigilance case. After considering the lapses brought out in the investigation report the DA should take a decision on initiation of minor penalty proceedings or major penalty proceedings. He is required to consult the Chief of Internal Vigilance in each matter. Normally the DA will concur with the views of VO. In case the DA disagrees it should be referred to the MD of the bank.

Minor penalty proceedings

If the lapses are minor then minor penalty proceedings should be initiated in which case normally no charge sheet is issued and no enquiry ordered. Only when the employee insists for, the charge sheet will be issued and enquiry will be ordered, if DA is convinced for this. In minor penalty proceedings instead of charge sheet a Statement of Imputation of Lapses is issued.

The employee should be given opportunity to submit his version to the charge sheet by way of defense statement. For this he may be permitted to visit the respective branch/ office and verify documents, vouchers, papers required by him.

On examination of the defense statement DA may delete all or some charges or may amend them. He can make amendment in charge sheet if required for the justice or if new evidence is forthcoming. Further opportunity to submit defense statement and list of documents is required to be given to the charged employee on amendment of the charge sheet.

The processes after receipt of investigation report involving the issue of charge sheet, appointment of Enquiry Officer, Presenting Officer, conduct of the enquiry, award and implementation of punishment and other relative matters are being handled by the Human Resources Management Department at Head Office.

Chapter-6.

R.B.I. GUIDELINES ON CLASSIFICATION AND REPORTING OF FRAUDS

INTRODUCTION

Classification of Frauds. Reporting of Frauds to RBI. Provisioning Pertaining to Fraud Accounts. Quarterly Returns. Reports to the Board. Guidelines for Reporting of Frauds to Police. Closure of Fraud Cases. Reporting Cases of Thefts, Burglary Dacoity and Bank Robberies.

Reserve Bank of India has expressed concern over the increasing number of Frauds in Banks. Time to time it is advising the banks about the frauds taken place at banks so that the other banks could introduce preventive measures to avoid similar fraud in their branches. The detailed guidelines on classification of frauds and their reporting have been issued by RBI in their master circular No.DCB.CO.FrMC.BC.No.2/23.04.001/2011-12 dated July 01, 2011 which is reproduced in this chapter and No. RBI/2015-16/1-DCBR.CO.BPD.MC.1/12.05.001/15-16 dated July 01, 2015. On 19.05.2016 RBI issued circular reference no. RBI/2015-16/399/DCBS.CO.CIR.NO.001/12.17.001/2015-16 to all primary UCBS for "Frauds in UCBS: Changes in Monitoring and Reporting mechanism.

- 1.1 Incidents of frauds, dacoities, robberies etc. in banks is a matter of grave concern. We are advising branches from time to time about the major fraud prone areas and the safeguards necessary for prevention of frauds. It has been emphasized time and again that the primary responsibility of preventing frauds lies with branches.
- 1.2 It has been observed that frauds are, at times, detected long after their perpetration. Many a time, fraud reports are submitted to us with considerable delay and without the required information. Branches should therefore ensure that frauds are reported without any delay and there is strict adherence to the timeline fixed for reporting to Head Office through respective Zonal Offices. No fraud should be suppressed. Failure to file reports on frauds within the prescribed timeline with inclusion therein of all the necessary information will be viewed seriously and shall render the branches and the staff concerned liable and accountable.
- 1.3 The official in charge of the Vigilance Dept. has been made responsible for submitting quarterly and occasional (such as FMR-III relating only to developments) returns on frauds and also monthly certification to RBI. All the frauds involving amounts of Rs. 1000/- and above are to be reported to RBI, as and when they are detected, in FMR-1 within three weeks of their detection. In case of non-adherence to the timeline, Bank is liable for penal action by RBI as prescribed under section 47(A) of the Banking Regulation Act 1949 as applicable to cooperative banks.
- 1.4 The report on fraud in FMR-1 should be transmitted through e-mail, as RBI has done away with filing of non-statutory returns in hard copies. The detailed submission by Branch and the separate note from General Manager, which are required to accompany the FMR-1, shall likewise be transmitted by email to the addressees named in relative paragraphs hereinafter.

2. CLASSIFICATION OF FRAUDS

2.1 In order to have uniformity in reporting, frauds have been classified as under, based mainly on the provisions of the Indian Penal Code:

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

2.2 Branches should note that all cases of actual/attempted frauds irrespective of amount involved should be reported to Head Office and Vigilance Department on their detection through their respective Zonal Offices. Branches should also note that all cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions' referred to in item iv. and vi. above are to be reported to Head Office and Vigilance Department as fraud through their respective Zonal Offices. However, Vigilance Dept., Head Office, should note that only those cases irrespective of amount involved where the intention to cheat/defraud is suspected / proved and the following cases where fraudulent intention is not suspected/proved and the following cases where fraudulent intention is not suspected/proved at the time of detection will be treated as fraud and reported to RBI accordingly :

i. Those cases of cash shortages if detected by management/auditor/inspecting officer and not reported on the day of occurrence by the persons handling cash.

2.3 i. To ensure uniformity and avoid duplication, frauds involving forged / fake/ materially altered instruments may be reported only by paying branches and not by collecting branches.

ii. However, in the case of collection of an instrument which is genuine but the amount thereof is collected fraudulently by a person (through a fictitious account) who is not the true owner, the collecting branch, which is defrauded, will have to file the fraud report to Head Office and through its Head Office will in turn file the same to RBI.

iii. In the case of collection of an instrument where the amount has been credited and withdrawn before realization, and subsequently the instrument is found to be fake/forged and returned by the paying bank's branch, the collecting Bank's branch has to file the FMR-1, as it is at loss due to parting of the amount before realization of the instrument. In our Bank, such collecting branch will file the report with Head Office through its branches.

Instructions as above are tabulated below.

SR.NO	TYPES OF FRAUD	REPORTING BY
A	FORGED INSTRUMENT	PAYING BANKER
B	FAKE INSTRUMENT	PAYING BANKER
C	MATERIALLY ALTERED INSTRUMENTS PAID	PAYING BANKER
D	GENUINE CHEQUE MISSED BY OPENING FICTITIOUS ACCOUNT	COLLECTING BANKER
E	COLLECTING BANK MAKES PAYMENT OF FAKE / FORGED INSTRUMENT BEFORE REALISATION	COLLECTING BANKER

2.4 Encashment of altered/fake cheques involving two or more branches of our Bank

2.4.1 In case of collection of an altered/fake/forged cheque involving two or more branches of our bank, the branch where the altered/fake cheque has been encashed, should report the fraud to Head Office through its branches. Thereafter, Head Office will file the fraud report with RBI.

2.4.2 If the incident of an altered/fake cheque being paid / encashed involves two or more branches of our bank, there may arise a possibility of dispute / difference of opinion as to whether the branch where the drawer of the cheque maintains the account should report the matter as fraud to Head Office or the branch where the encashment has taken place should do the same. Instructions in such cases are that the branch which has released the payment against an altered / fake cheque should report the fraud to Head Office and Vigilance Department through its branches. Thereafter, Head Office will file the fraud report with RBI.

2.5 Branches should note that cases of theft, burglary, dacoity and robbery should not be reported as fraud to Head Office. Such cases may be reported, immediately upon their occurrence, separately in FMR-4 as detailed hereunder in paragraph 8, by branches to Vigilance Dept. at Head Office through their respective branches.

ii. Steps to be taken in case of cash shortages:

- a) Branch In Charge should immediately arrange for checking and counting of entire cash and cash registers.
- b) Discussion should be held with staff to ascertain as to how did or could the shortage occur. Their guess may provide some clue.
- c) GM and Head of Vigilance department should be immediately informed over mobile phone. It should be followed by report through email.
- d) A police complaint may be lodged in consultation with Central Law Dept. Fast investigation by police may result in getting the cash back.

- e) Cashier concerned should be advised to replenish the cash immediately. His explanation should be called up. In case he makes good the shortage but the amount is large, the source from which he raised cash should be verified.
- f) In case the employee is not in a position to make good the shortage, the amount should be debited to Frauds & Misappropriation account after consulting General Manager/ Vigilance officer.
- iii. It is often observed that the information furnished in FMR-1 is sketchy and not elaborate. This results in avoidable exchange of correspondence between the branches for gathering further information, which results in delays in submission of the report to RBI. Branches are therefore advised to ensure that the information furnished is complete and elaborate.
- iv. All records of vouchers and other documents relating to the fraud should be separated and kept in the custody of the Branch In Charge after entering in Fraud Register.
- v. In case of cash-lifting, burglary, dacoity and forgery, an FIR is to be lodged with the local police station in consultation with the General Manager; help of Bank's advocate/Central Law Dept. should be taken in the matter. Branches should note that in all the cases of frauds.
- vi. Reporting of fraud to police is compulsory. If, in some case, a police complaint cannot be lodged immediately, the same must, in any case, be lodged within a week of the detection of the fraud. (In this regard, please refer the instructions contained in Para 6 hereinafter).
- vii. Branches should report all the cases of fraud upon their detection, irrespective of amount involved therein, to respective branches in the FMR-1 format (enclosed) by email. While reporting in the FMR-1 format, branches should also file a detailed submission containing all the details regarding modus operandi and history of the case with dates of events leading to and constituting the fraud. The submission should also include the information (in brief) as provided in FMR-1. Copies thereof should be sent to the In charge, Vigilance Department and Vigilance Department.

3.2 Action by GM and reporting to Vigilance Department.

- i. On receipt of a duly filled-in FMR-1 from branch, Gen. Manager, should examine the details furnished by the branch therein. If any lacuna is found, additional details should be sought from the Branch In Charge and the FMR should be got corrected from the branch. If considered necessary, he should arrange for preliminary investigation of the case through a special officer. It may be noted that this is not a preliminary enquiry as is erroneously understood sometimes.
- ii. General Manager or branch manager should not, however wait for the preliminary investigation, if any ordered, to be completed. He shall prepare, forthwith, his

separate note commenting on various aspects of the fraud including the aspect of staff-side action proposed to be initiated. General Manager/Branch in charge shall submit the FMR-1, along with branch submission and note prepared by him to vigilance Department. The Branch shall maintain a detailed record of fraud cases (individual mirror files) of all branches under its control.

- iii. **Since there is a strict time-line for reporting frauds to RBI, branches must ensure that in all cases of fraud irrespective of the amount, the information in FMR-1 is sent to their respective vigilance dept. within 3 days from the date of detection; branches shall, in turn, forward the same with their observations within 7 days counted from the date of detection of the fraud. These are the outermost limits for reporting; ideally, reporting should be done by email on the same day. This will enable Vigilance Dept. in Head office to adhere to the timeline prescribed by RBI. It should be noted that RBI views delay in reporting of frauds seriously, and hence the need to strictly adhere to the time-line by branches as well as HO, both.**
- iv. Parallely, on receipt of preliminary investigation report at branch, GM should see to it in case of a fraud in deposit account that no innocent customer suffers on account of fraud/mistake on the part of Bank employee. In case the customer is innocent and is not involved in fraud, efforts should be made to replenish the customer's money fast. If this is delayed, it will affect Bank's image in market. Officials and executives concerned need to be aware that the customer can resort to legal remedies through civil and criminal courts as also consumer forum. Adverse publicity in press is a distinct risk. All of these will cause more damage to bank.
- v. In case large amount is involved, team of officers should be engaged to ascertain the quantum.
- vi. If the report brings to light pilferages of Bank's money/ property, immediate steps should be taken for recovering it. Help of the Bank's Law Dept and valued constituents may be taken if required. It should be noted that Bank can trace its claim to the property purchased out of defrauded amount.
- vii. The preliminary investigation report should be forwarded along with the comments of the General Manager/ OSD, Vigilance to the Managing Director through Vigilance Department in Initial Reference Format (IRF). Managing Director instruct Vigilance Department to report it as fraud to RBI through FMR-1.

3.3 Action at Vigilance Department in respect of a new fraud

- i. Upon receipt of the preliminary investigation report in Vigilance Department, the In-charge, Vigilance Department shall analyze the report. In case detect the fraud, then vigilance officer can proceed further to determine the case, as to whether vigilance

or non-vigilance, by putting the report before the General Manager (Operations & Compliance) and Managing Director.

ii. Detailed investigation and Investigation report

- a) In case the In-charge, Vigilance Dept. forms an opinion that detailed investigation is required, he will arrange to carry out a detailed investigation through officers in Vigilance department. Procedure in respect of a detailed investigation is given in the Vigilance policy.
- b) The detailed investigation involve determination of involvement of insider, outsider or both.
- c) Investigation report will be submitted to the General Manager (Operations & Compliance) and Managing Director. The Investigation report shall be the base for further action and for the staff / officer accountability examination exercise.

3.4 Action at Vigilance Department in Head Office in respect of new fraud

3.4.1 Reporting of fraud to RBI

All the new frauds (above Rs. 1000/-, see point no. a. immediately below), are to be individually reported and not clubbed. They are to be submitted in soft (XBRL) version in FMR-1 format on RBI XBRL platform.

- a. **Frauds involving amounts of Rs. 1000/- and above but below Rs. 1.00 Crore**
Vigilance Dept, Head Office, shall report the cases of individual frauds involving amounts of Rs. 1000/- and above but below Rs. 1.00 Crore to the Head Office of Department of Co-operative Bank Supervision (DCBS) of Reserve Bank of India within three weeks from the date of detection of fraud.
- b. **Frauds involving amounts of Rs. 1.00 Crore and above**
Vigilance Dept., shall report the cases of individual frauds involving amounts of Rs. 1.00 Crore and above to Central Frauds Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, 10/3/8, Nruputhungo Road, P. B. No. 5467, Bengaluru-560 001 within three weeks from the date of detection. Separate FMR-1 should be furnished in respect of each case without clubbing. A copy of FMR-1 should also be submitted to the Regional Office of Department of Co-operative Bank Supervision (DCBS) of Reserve Bank of India.
- c. **D.O. letter in respect all frauds involving amount of Rs.1.00 Crore and above**
In addition to the requirement of reporting as sub-Para b. above, vigilance Dept. shall also report the fraud by means of D.O. letter addressed to the Principal Chief General Manager, Department of Banking Supervision, Reserve Bank of India, Central Office, within a week of such fraud coming to the notice of Head Office.

The letter may contain brief particulars of the fraud such as amount involved, nature of fraud, modus operandi in brief, name of the branch/office, names of parties involved (if they are proprietorship/partnership concerns or private

limited companies, the names of proprietors, partners and directors), names of officials involved and whether the complaint has been lodged with the Police. In view of the above, it becomes all the more necessary for Branch/Zonal Office concerned to furnish the information as stated above to Vigilance Dept., Head Office, within a maximum period of 3 days from the date of detection of the fraud. A copy of the D.O. letter shall be endorsed to the Regional Office of Department of Co-operative Bank Supervision (DCBS) of Reserve Bank of India.

d. Monthly certificate to RBI of having submitted FMR-1 in respect of all the frauds of Rs. 1000/- and above.

It may be recalled that submission of hard copies of non-statutory returns has been discontinued by RBI. Therefore, FMR-1 should be submitted in soft copy through e-mail as per reporting mechanism advised hereinabove. However, Bank needs to submit a monthly certificate to the effect that FMR-1 in respect of all the frauds of Rs.1000/- and above, required to be reported to RBI during the month, have been uploaded on XBRL platform. Vigilance department at Head Office shall submit such certificate to CFMC, Bengaluru with a copy to the Regional office of Department of Co-operative Supervision (DCBS), RBI, Mumbai (under whose jurisdiction our Head Office falls) within seven days from the end of the month. Format of the same is given in Annexure - I.

3.5 Action at HRM Department

- i. On receipt of instructions from the Managing Director, General Manager HR department shall take necessary action within 45 days of date detection of fraud against those staff/ officials whose involvement / accountability is identified by concerned General Manager and Vigilance Department in their investigation reports.
- ii. Whenever and wherever such action is initiated against staff/officials executives in respect of a fraud, HRM department shall keep Vigilance Department in loop.

3.6 Frauds committed by unscrupulous borrowers

It is observed that a large number of frauds are committed by unscrupulous borrowers including companies, partnership firms/proprietary concerns and/or their directors/partners by various methods including the following:

- i. Fraudulent discounting of instruments or kite-flying in clearing effects / transactions,
- ii. Fraudulent removal of pledged stocks/disposing of hypothecated stocks without bank's knowledge / inflating the value of stocks in the stock statement and drawing excess bank finance,
- iii. Diversion of funds, lack of interest or criminal neglect on the part of borrowers, partners etc. in adhering to financial discipline and managerial failure with mala fide intent leading to the unit becoming sick, and,

- iv. Laxity in effective supervision over the operations in borrowed accounts on the part of bank functionaries rendering the advance difficult of recovery and resulting in financial loss to the bank.

In respect of frauds in borrowal accounts, additional information as prescribed under Part B of FMR - 1 should be furnished.

3.7 Attempted frauds

- i. Branches should report on Quarterly basis, all cases of attempted frauds to Vigilance Department through their respective branches by way of IDC along with the information in format as per Annexure. Full details of the attempted fraud, including the modus operandi and exercise of vigilance by Staff/Officers at the branch which averted the fraud, should be reported in IDC. Vigilance Dept., shall forward all such reports of attempted frauds to Inspection Dept., for placing the same before the Audit Committee of the Board.
- ii. In addition, yearly consolidated review as on March 31 of every year of all the cases detected during that year, containing information such as areas of operation under which such attempts fell, effectiveness of new processes and procedures put in place during the year, trend of such cases during the last three years, need for further change in processes and procedures, if any, etc., may be placed by Inspection Dept., before the Audit Committee of the Board within three months from the end of the relative year.

4. Progress (and/or developments) Report on Frauds (FMR-3).

4.1 Earlier, FMR-3 was a quarterly return. Now, RBI has changed the system of submitting FMR-3 as instructed through its emails dated 30th August, 2018 and 13th June, 2019. Accordingly, only progress and/or developments if any in respect of a fraud previously reported should be reported as and when they (progress and/or developments) take place. Needless to record that this is the responsibility of Vigilance department.

4.1.1 In this behalf, attention of branches/Departments is invited to the instructions contained in the IDC ref.no.MD 106/ 2019-20 dated 9th May, 2019 together with its annexure issued by Vigilance dept.

4.1.2 Branches are advised in terms of the said IDC mentioned in Para 4.1.1 above to furnish case-wise fortnightly progress report on frauds involving Rs. 1000 and above in the FMR-3 format to Vigilance Dept, through their respective branches **within 7 days of the end of the fortnight.**

4.1.3 Role of Recovery Dept., Recovery Department shall fortnightly consolidate report progress/developments of:

- 1) All existing fraud cases at Recovery Department including those pertaining to outstation branches/R.Os.

- 2) All fraud cases transferred from Branches to Recovery department along with new Account numbers.
- 3) Newly written off accounts involved in frauds if any

Above report is to be submitted to Vigilance Department within five days after the end of the fortnight as mentioned in the Annexure attached to the IDC mentioned above.

4.1.4 Role of Central Law Dept. -

- 1) Central Law department shall maintain mirror files of all the fraud cases.
- 2) It shall follow instructions contained in Circular OC No. 807 dated 19th January, 2019 and consolidate data from branches and departments regarding staff attending civil/criminal cases relating to frauds. Further, it shall maintain record of all the court cases relating to frauds such as court of hearing, stage, dates, 62 person(s) attending etc. Such consolidated information shall be furnished by Central Law department to Vigilance department on monthly basis.

4.1.5 Vigilance Department shall consolidate the reports received from branches. Such consolidated report on progress and/or developments in FMR-3 (XBRL) format shall be uploaded by Vigilance department in FMR-3 format on RBI XBRI platform at least at fortnightly intervals.

5 Reports to the Board

5.1 Reporting of Frauds

- i. Vigilance Dept., should ensure that all fraud cases are reported to the Board promptly upon their detection and after receiving the information from the branches concerned.
- ii. Such reports should, among other things, take note of the failure on the part of the branch staff/officials and controlling authorities concerned in preventing the frauds and consider initiation of appropriate action against the officials/staff responsible for the fraud.

5.2 Quarterly Review of Frauds

5.2.1 Information relating to frauds for the quarters ending June, September and December may be placed before the Audit Committee of the Board of Directors during the month following the quarter to which they pertain, irrespective of whether or not these are required to be placed before the Board/Management Committee in terms of the Calendar of Reviews prescribed by Reserve Bank of India.

5.2.2 Submission of information as above should be accompanied by supplementary material analyzing statistical information and details of each fraud so that the Audit Committee of the Board may have adequate material to contribute effectively in regard to the punitive or preventive aspects of frauds.

5.2.3 A separate review for the quarter ending March is not required in view of the Annual Review (Financial Year) prescribed below.

5.3 Annual Review of Frauds

- 5.3.1 Vigilance Dept. at Head office shall compile an annual review of frauds and place a note thereon before the Board of Directors for information. The review for any Financial Year (ending in March) shall be placed before the Board by the end of June of the financial year.
- 5.3.2 Main aspects to be taken into account while compiling such a review should include the following:
- I. Whether the systems in the Bank are adequate to detect frauds, after they take place, within the shortest possible time.
 - ii. Whether frauds are examined from staff angle and, wherever considered necessary, the staff-side action is taken without undue delay.
 - iii. Whether deterrent punishment is meted out without undue delay, wherever warranted, to the persons found responsible.
 - iv. 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.
 - V. Whether frauds are reported to the local Police for investigation.

5.3.3 The annual review should also, among other things, include the following details

- i. Total number of frauds detected during the year and the amount involved, as compared to the previous two years.
- ii. Modus operandi of major frauds reported during the year along with their present position.
- iii. Detailed analysis of frauds of Rs. 1000 and above.
- iv. Estimated loss to the bank during the year on account of frauds, amount recovered and provisions made.
- v. Number of cases (with amounts) where staff are involved and the action taken against staff.
- vi. Time taken to detect frauds (i. e. break-up of number of cases detected within three months, six months, one year and more than one year of their taking place).
- vii. Position with regard to frauds reported to the Police.
- viii. Number of frauds where final action has been taken by the bank and cases disposed of.
- ix. Preventive/punitive steps taken by the bank during the year to reduce / minimize incidence of frauds. Whether systems and procedures have been examined to ensure that weaknesses are addressed.

5.3.4 The Annual Review shall be discussed and deliberated upon in the Board meeting in detail. Officials of Vigilance, Vigilance, IT, Inspection & Audit, Accounts and HR Departments should be involved in the deliberations.

5.4 Special Committee of Board for Monitoring High Value Frauds

- i. As delay in action pertaining to various aspects of frauds such as detection, their reporting to regulatory and enforcement agencies and legal and / or

administrative action against the perpetrators of the frauds had been causing concern, a need was perceived for paying focused attention to monitoring of frauds at the highest level. As a result, thereof, a subcommittee of the Board dedicated to the monitoring of frauds has been constituted. This Special Committee monitors and follows up cases of frauds involving amounts of Rs.1 crore and above exclusively, while ACB continues to monitor all the cases of frauds in general.

- ii. The broad guidelines regarding constitution and functions of the Special Committee of the Board are as follows:

a) Constitution of the Special Committee - The Special Committee is constituted with five members of the Board of Directors including Chairman, two members from ACB, and two other members from the Board.

b) Functions of Special Committee - Special Committee monitors and reviews all the frauds of Rs.1 Crore and above so as to; Identify systemic lacunae if any that facilitated perpetration of the fraud and put in place measures to plug the same;

- Identify reasons for delay if any in detection and reporting, to top management of the Bank and RBI; Monitor progress of CBI / Police Investigation, and recovery position;
 - 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;
 - Review efficacy of remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls.
 - Put in place such other measures as may be considered relevant to strengthening preventive measures against frauds.
- iii. Meetings of the Special Committee shall be held at least half yearly. However, the Committee must meet and take review upon occurrence of a fraud involving an amount of Rs.1 crore and above as soon as it comes to light.
 - iv. Review of functioning of Special Committee Functioning of Special Committee of the Board may be reviewed by the Board of Directors on half yearly basis.

6. Guidelines for reporting of frauds to Police:-

6.1 Following guidelines are issued to branches for reporting of frauds, such as unauthorized credit facilities extended for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities:

- i. In dealing with cases of fraud/embezzlement, Management/Board should not be motivated only by the necessity of recovering expeditiously the amount involved, but also by public interest and the need for ensuring that the guilty persons do not go unpunished.

- ii. While right motivation for dealing with frauds should be as above, Branch-in-Charge is generally more worried about and motivated for securing expeditious recovery of the amount involved. Therefore, there is a tendency towards postponing the decision of filing a police complaint; the apprehension being that once the police complaint is lodged, possibility of recovery becomes less. It is therefore being advised that Branch-in-charge may permit a maximum of one week's time to the culprit to pay up the amount involved in the fraud. Branch-in-charge should persuade and try to convince the culprit that when full/major portion of the amount involved in the fraud is recovered, gravity of the incident may reduce in the eyes of the Police. Under any circumstances, on completion of such one week's period, Police complaint should invariably be lodged in the following cases. Cases of fraud involving an amount of Rs. 1.00 lakh and above, committed by outsiders on their own and/or with the connivance of branch staff/officers. Cases of fraud committed by bank employees, when it involves banks' funds exceeding Rs.10,000/-. Cases of frauds involving less than Rs.1.00 lakh committed by outsiders on their own and/or with the connivance of branch staff/officers may be referred to the State Police depending upon the severity of the crime and if Board decides so.

6.2 Filing of Police complaint in case of fraudulent encashment of DDs/TTs/Pay Orders/Cheques/Dividend Warrants, etc. (Rules prescribed for this are analogous to those under 2.3 and 2.4. in respect of reporting of frauds)

- 6.2.1 In case of frauds involving forged instruments, the paying bank's branch has to file the police complaint (FIR) and not the collecting bank's branch.
- 6.2.2 However, in case of collection of an instrument which is genuine but the amount thereof is collected fraudulently by a person who is not the owner, the collecting branch which is defrauded has to file the police complaint (FIR).
- 6.2.3 In case of collection of an instrument where the amount has been credited before realization and the instrument is subsequently found to be fake/forged and returned by the paying Bank's branch, it is the co bank which has to file a police complaint as it is at loss by paying the amount before realization of the instrument.
- 6.2.4 In cases of collection of altered/fake cheque involving two or more branches of our bank, the branch where the altered/fake instrument has been encashed, should file a Police complaint (FIR).
- 6.2.5 In the event of an altered / fake cheque having been paid / encashed involving two or more branches of our bank, the branch which has released the payment against a fraudulent withdrawal, should file a Police complaint.

7. CLOSURE OF FRAUD CASES

Branches will report to Head Office through their respective Zonal Offices the details of the fraud cases closed/to be closed along with reasons for closure. The cases should be such that no further action should be called for. Branches should report only those cases of frauds as closed where the actions as stipulated below are complete:

- i. Cases pending with Police/Courts are finally disposed of.
- ii. Examination of staff accountability has been completed.
- iii. The amount of fraud has been recovered or written off.
- iv. Insurance claim, wherever applicable, has been settled.
- v. The gaps in systems and procedures, identified as causative factors, have been filled in, the lacunae are plugged and these facts are certified by the Board. Respective branches should also pursue pending cases vigorously with the Police/Court for final disposal especially where the disciplinary Authority concerned /HRM has completed staff-side action. Such cases, duly recommended for closure, will be placed before the Fraud and Mis-appropriation Review Committee meeting for scrutiny and thereafter the same will be placed before the Board for approval. Once approved, Vigilance Dept. will report the cases thus closed to RBI in FMR-3 format and communicate the same to Accounts Dept. and Vigilance for necessary action.

8. **Procedure to be followed by Branches/Depts.**

- i. Branch shall report all cases of frauds including fraud in Borrowed Account(s) in FMR-1 to Vigilance Dept., Head Office through the respective Zonal Office within the prescribed time-line as stated in para 3.2(iii). It is reiterated that the submission should be through email. Any delay in this regard shall be viewed seriously-For reporting all cases of frauds Vigilance Dept. shall be the nodal office and this fact should not be mixed with other incidental reporting to various Depts.
- ii. Further, attention of branches/Zones/Departments is invited to the instructions contained in the IDC ref. no.MD 106/ 2019-20 dated 09.05.2019 together with its annexure issued by Vigilance Dept. Also, refer instructions as stated in para 4.1 to 4.1.2. **Many a time, it is observed that branches are reporting incidents of frauds to Vigilance Dept., and not to admin Dept., Head Office. Branches should ensure that all the incidents of frauds/attempted frauds are reported to admin Dept., Head Office, to place the reports in the Board meeting wherever necessary. It does not need emphasizing that reporting of frauds to RBI is a regulatory obligation which the Admin Department shall fulfill.**
- iii. Cases where negligence/irregularities/involvement of staff is observed and/or there is a need for plugging loophole(s) in the system. In such cases, following procedures shall be adopted after submission of FMR-1
 - a) The Branch Manager / Manager Dept. In Charge concerned shall fix staff accountability wherever and whenever the negligence / irregularities / involvement of staff has been observed. A detailed report on this should be sent to General Manager for further action.
 - b) General Manager may call for further investigation through the Vigilance Dept., if required and after offering his comments forward it to Managing Director for his information.

- c) Vigilance Department will place the fraud report before the Board for its information and decision.
- d) Board's decision will be communicated to the Branch/Dept. concerned by Admin Dept.
- e) Branch/ Dept. will comply with the Board's decision such as staff-side action etc.,
- iv. Branch will also forward a copy of the fraud report and action taken report to the Insurance Dept., wherever applicable. In all applicable cases, branches/Insurance Dept. should submit insurance claims to Insurance company.
- v. Insurance Dept. shall follow-up each case for settlement of the claim and keep the branch concerned informed of the settlement, or otherwise.
- vi. Where an insurance claim is received, the same should be sent to Branch/Accounts Dept., for passing necessary accounting entries.
- vii. All fraud cases pertaining to loans and advances should be transferred to Recovery Dept for recovery action after following due procedure
- viii. In case of frauds in loans and advances, the authorities, for fixing staff accountability/responsibility and recommending punishment with detailed note for justification, will be as under: -
 - a) **Respective GM:** For proposals sanctioned by the authorities below the rank of GM i.e. by Jr. Manager, Sr. Manager, Loan Manager, General Manager at branches.
 - b) Such cases will be submitted in staff sub-committee, recommending the punishment for final decision and order, within one month from the date of report received from the General Manager.
 - c) **Chairman:** For proposals sanctioned by GM & Managing Director. These cases will be scrutinized by an external auditor to be appointed by the Chairman for the purpose and his report shall be submitted to the Board recommending punishment and for final decision and order within one month from the date of report. The Chairman and the external auditor will be assisted by the GM (Operations & Compliance) in determining the action/punishment.
- vii. Wherever Staff/Official is directly or indirectly involved in the fraud, the necessary submission will be put up by HRM Dept. to staff sub-committee for their decision, along with the supportive report from the GM concerned. The decision thus made will be informed to Admin and Vigilance Dept.
- viii. Wherever staff accountability has been fixed, HRM Dept., will take necessary action. Amount, if any recovered from staff, should be transferred to Branch/Accounts Dept., for passing necessary accounting entries and also for keeping the branch informed. Information in this regard will be given to Admin & Vigilance Dept.

- viii. In case of Staff accountability, and recovery from the staff of amount involved in the fraud, a clear distinction has to be made where staff involvement is mala fide and where staff involvement is only to the extent of procedural irregularities/lapses with no mala fides. The treatment to be given to these two types of cases should be different. Where there are no mala fides on the part of staff, and where the amount involved in the fraud has been recovered from the customer, amount if any recovered from the staff for his/her procedural irregularities/lapses may be refunded to the staff upon Staff Committee's/Board's approval Admin Dept. should do the needful in the matter by placing the case in the Staff Sub-Committee/Board. When there is no recovery from the customer and recovery is made only from the staff, and if there are no mala fides on the part of staff, the interest on the amount by which Bank is put to loss should be waived.
- ix. Under frauds relating to loans and advances, only the principal outstanding should be shown in FMR -1, FMR-3. The interest/charges amount should not be added in the fortnightly progress report by branches/dept.
- x. All cases of frauds in the portfolio of Loans and Advances should be treated, with the approval of Board, as doubtful and loss assets and 100% provision should be made thereon.
- xi. Branches shall preserve, in respect of each outstanding fraud case, a detailed report along with details of modus operandi and all the documents/papers/ correspondence in a separate file. All such files must be kept in the custody of Branch In-charge and on his transfer, these files should be handed over to the new incumbent. The fact should be noted in the 'Report on Handing Over/Taking over the Charge of the Branch'.
- xii. Each Vigilance Department will maintain record of all the outstanding fraud cases pertaining to branches under itself. Constant follow-up should be made by the General Manager, in respect of each fraud case.
- xiii. Vigilance Dept., will send copy of the quarterly report on frauds to Inspection Audit Dept., Accounts Dept., and Recovery Dept. after placing the same before the Board for review.
- xiv. Fraud cases which are outstanding for considerably long time, say more than 5 years, and where there is no progress or when no further action is either possible or called for, should be represented by branches for closure/write off with reasons, through respective Recovery Zonal Offices for placing Some important points to be remembered by Branches and Zonal Offices:-

FMR – 1 :

As and when the fraud is detected, irrespective of the amount, the branch shall report the same to Zonal Offices by email with all the details in FMR-1. It should be accompanied by detailed submission containing all the details regarding modus operandi and history of the case with dates of events leading to and constituting the fraud. The letter should include the information (in brief) as provided in FMR-1. If the FMR-1 cannot be filled up completely on the day of surfacing of the fraud, it must in any case be sent within three days of the incident, needless to say by email. Copies thereof should be sent to the In charge, Vigilance

Department and Admin Department, again by email. The format enclosed with this circular. branches in turn will submit the FMR-1 with a note by GM incorporating his comments to Vigilance Dept., Head Office within 7 days from the date of detection. All the communications must first be undertaken by email followed by hard copies. Branch concerned, both, should hold full record of every fraud case and record should be preserved in a separate file.

FMR 2 : It may be noted that FMR-2 has been discontinued.

FMR – 3 :

This return is to be filed with RBI only in respect of some development/progress in any individual case as and when it occurs. Thus, there is no periodicity for this return. It is observed that branches/zones are not furnishing case-wise details on fortnightly basis, in respect of cases where there is any progress. A serious view will be taken if updates regarding developments or progress if any are not reported fortnightly.

FMR - 4 :

All Zonal offices shall consolidate data regarding cases of theft, burglary, dacoity and bank robberies and send the report to Vigilance Department on quarterly basis. Vigilance Department will in return file FMR-4 on RBI XBRL platform. When there are no cases, NIL report will be sent by Zonal office to Vigilance Department.

9. All the concerned are advised to take note of the forgoing instructions and ensure strict compliance.

Chapter - 7.

SURPRISE VISIT TO BRANCHES

The vigilance system is supposed to have a surveillance system as a part of its function. To discharge this responsibility an important tool is surprise visit to branches by the vigilance department functionary and checking the areas prone to fraud. This will bring to light any irregular activity being carried at the branch. This will have a preventive effect also in the sense that as the branches do not know when the surprise visit is being conducted, they will have to continue always to adhere to the systems and procedure and follow correct practices. The irregularity if any noticed can be stopped on the spot. In case the Vigilance Department has not sufficient staff, the job can be assigned to some other suitable officer from Head Office. The visit should be completed in one full day. The format of surprise visit is enclosed as Annexure-I.

The visiting officer should reporting to the branch at branch opening time and should hand over to the branch manager the list of statements, registers figures required for verification and request him to take them out. This should be done to save the wastage of time in searching the records in afternoon and delaying the period of surprise visit.

The report should be submitted to the Vigilance Officer immediate who will put his observations on the report and send the copy to the controller for compliance. In case any irregularity is observed which requires further investigation, the investigation should be carried out by the Vigilance Department after putting the report to Managing Director. The controlling officer should submit the compliance report within fifteen days, to the Vigilance Department. It should be ensured that the surprise visit should not disturb the branch work. The visit should be arranged on days where there is not heavy work.

For Example the first week of the month, Mondays and days after extended holidays should be avoided, as these are heavy working days to the branches. The nature of the visit should be kept as surprise to avoid any window dressing by the branches. It should be kept in mind that this is not a process of finding fault with the branches but to point out the loopholes in the observance of the systems and procedure at the branches. The role of the person carrying this visit is that of a friend and guide to the branch manager and not a fault finder. He should discuss openly the deficiencies observed by him in branch functioning. If time permits the Branch can arrange a meeting of all the staff members of the branch to appraise them on some of the grey areas of the surprise visit. It is suggested that this opportunity may be used to arrange the Preventive Vigilance Committee Meeting of the branch in case the committee is formed at the branch.

Mumbai.
31st July 2026

(S. L. Abhang)
Dy.Managing Director