



**POLICY FOR MONITORING  
OF FRAUDS  
STAR HOUSING FINANCE LIMITED**

<b>Prepared By</b>	<b>Chief Operating Officer &amp; Team</b>
<b>Reviewed by</b>	<b>Risk Management Committee &amp; Board of Directors</b>
<b>Review Date</b>	<b>17.01.2024</b>

The policy was last approved by the Board of Directors at its meeting held on 26.03.2022. The proposed version is a review of the policy with minor amendment as under:

Page No.	Existing Provision	Revised Provision	Rationale
5 (Responsibility)	The Chief Financial Officer of SHFL shall be the Fraud Risk Officer for the purpose of this Policy. (instead Chief Risk Officer or Legal Officer or any other senior level officer other than CFO to avoid the conflicting role)	The Chief Operating Officer of SHFL shall be the Fraud Risk Officer for the purpose of this policy	At the time of framing the policy last time there was no position of Chief Operating Officer in the Company. Since the position has been created and Fraud monitoring pertains to the operations of the company, the Chief Operating officer is in a better position for monitoring and reporting of frauds as and when it takes place.

## SHFL Policy For Monitoring Of Frauds

<b>Rationale</b>	<p>RBI vide their circular DNBS.PPD.01/66.15.001/2016-17 dated September 29, 2016 has issued Master Direction on Monitoring of Frauds in NBFCs containing guidelines on classification of frauds, approach towards monitoring of and reporting system for frauds for NBFCs.</p> <p>In terms of Master Directions Non Banking Finance Company (Reserve Bank) Housing Finance Company 2021, the guidelines contained in this master direction is applicable to all HFCs irrespective of asset size. In view of the foregoing, SHFL is required to follow the said guidelines.</p>
<b>Objectives</b>	<p>The Policy on monitoring of Fraud has been framed to provide a system for detection and prevention of frauds, reporting of frauds that is detected or suspected and fair dealing of matters pertaining to frauds. This policy will ensure and provide for the following :-</p> <ul style="list-style-type: none"> <li>i. To establish procedures for detection and timely reporting of frauds to senior management for review and necessary action.</li> <li>ii. To develop and evolve of system for detection and prevention of fraud and for establishment of procedures for preventing fraud.</li> <li>iii. To provide clear guidance to employees on the process for dealing with matters related frauds.</li> <li>iv. To facilitate in conduct of investigation into fraudulent act or frauds detected.</li> </ul>
<b>Scope</b>	<p>This policy will be applicable to any fraud or suspected fraud involving the associates, customers, employees as well as other parties involved in frauds</p>
<b>Definition of fraud</b>	<p>The definition of fraud is as per the RBI Master Direction - Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016 which is based mainly on the provisions of the Indian Penal Code includes -</p> <ul style="list-style-type: none"> <li>a) Misappropriation and criminal breach of trust;</li> <li>b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property;</li> <li>c) Unauthorized credit facilities extended for reward or for illegal gratification;</li> <li>d) Negligence and cash shortages (includes intention to cheat/defraud is suspected/ proved);</li> <li>e) Cheating and forgery;</li> <li>f) Irregularities in foreign exchange transactions (includes intention to</li> </ul>

cheat/defraud is suspected/ proved); and  
g) Any other type of fraud not coming under the specific heads as above;

Cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions' referred to in items (d) and (f) above are to be reported as fraud, if the intention to cheat / defraud is suspected / proved.

However, the following cases where fraudulent intention is not proved, at the time of detection, will be treated as fraud and reported accordingly:

- (a) cases of cash shortages more than Rs.10,000/- and
- (b) cases of cash shortages more than Rs.5,000/- if detected by management / auditor / inspecting officer and not reported on the occurrence by the persons handling cash

**Reporting of  
Frauds to  
Reserve Bank of  
India**

**1. Frauds involving ₹ 1 lakh and above**

(i) Fraud reports should be submitted in all cases of fraud of ₹ 1 lakh and above perpetrated through misrepresentation, breach of trust, manipulation of books of account, unauthorised handling of securities charged to the company, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc.

(ii) Fraud reports should also be submitted in cases where central investigating agencies have initiated criminal proceedings suo moto and/or where the Bank has directed that they be reported as frauds.

(iii) The Company should also report frauds perpetrated in their subsidiaries and affiliates/joint ventures. Such frauds should, however, not be included in the report on outstanding frauds and the quarterly progress reports referred to in Paragraph (vi) below

(iv) Where the amount involved in fraud is ₹ 1 crore and above, the reports in the prescribed format shall be sent within three weeks from the date of detection of the fraud to: Central

Fraud Monitoring Cell  
Department of Banking Supervision,  
Reserve Bank of India,  
10/3/8, Nrupathunga Road,  
P.B.No.5467 Bengaluru  
– 560001

and to the Regional Office of the Department of Non Banking Supervision of the Bank under whose jurisdiction the Registered Office of the company falls.

(v) Where the amount involved in fraud is less than ₹ 1 crore, reports in the format given in FMR – 1 shall be sent to the Regional Office of the Department of Non Banking Supervision of the Bank under whose jurisdiction the Registered Office of the company falls, within three weeks (21 days) from the date of detection of the fraud.

(vi) The company shall furnish case-wise quarterly progress reports on frauds involving ₹ 1 lakh and above in the format given in FMR – 3 only to Regional Office of the Bank, Department of Non-Banking Supervision under whose



jurisdiction the Registered Office of the company falls within 15 days of the end of the quarter to which it relates.

(vii) The fraud cases would be permitted to close only where the actions are complete and prior approval is obtained from the respective Regional Offices of DNBS. The action would be considered complete when

the fraud cases pending with CBI/Police/Court are finally disposed of; the examination of staff accountability has been completed; the amount of fraud has been recovered or written off; insurance claim wherever applicable has been settled; and the company has reviewed the systems and procedures, identified as the causative factors and plugged the lacunae; and

the fact of which has been certified by the Board / Audit Committee of the Board.

(viii) The company would pursue vigorously with CBI for final disposal of pending fraud cases especially where they have completed staff side action. All possible assistance should be extended by the company to the Police/CBI/Court for investigation/trial and vigorous follow up with the police authorities and / or court for final disposal of fraud cases shall be undertaken by the company.

For limited statistical / reporting purposes, the company would close those fraud cases involving amounts upto ₹ 25.00 lakh, where:

(a) the investigation is on or challan / charge sheet not filed in the Court for more than three years from the date of filing of First Information Report (FIR) by the CBI / Police; or

(b) the trial in the courts, after filing of charge sheet / challan by CBI / Police, has not started, or is in progress.

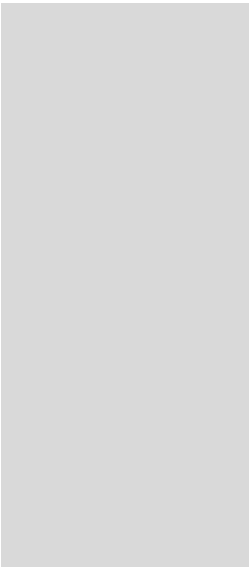
## **2. Frauds involving ₹ 1 crore and above**

In respect of frauds involving ₹ 1 crore and above, in addition to the requirements given above, applicable NBFCs shall report the fraud by means of a D.O. letter addressed to the Chief General Manager-in-charge of the Department of Banking Supervision, Reserve Bank of India, Frauds Monitoring Cell, Central Office Bengaluru and a copy endorsed to the Chief General Manager-in-charge of the Department of Non-Banking Supervision, Reserve Bank of India, Central Office within a week of such frauds coming to the notice of the applicable NBFC. The letter shall 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. A copy of the D.O. letter should be endorsed to the Regional Office of the Bank, Department of Non-Banking Supervision under whose jurisdiction the Registered Office of the applicable NBFC is functioning.

## **3. Cases of attempted fraud**

<b>Guidelines for reporting frauds to Police</b>	<p>SHFL is required to follow the following guidelines for reporting of frauds such as investment in securities for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities. As a general rule, the following cases should invariably be referred to the State Police:</p> <p>a) Cases of fraud involving an amount of Rs. 1 lakh and above, committed by outsiders on their own and/or with the connivance of SHFL staff/officers; and</p> <p>b) Cases of fraud committed by SHFL employees, when it involves SHFL funds exceeding Rs. 10,000/-</p>
<b>Related Documents</b>	<p>RBI circular DNBS.PPD.01/66.15.001/2016-17 dated September 29, 2016 has issued Master Direction on Monitoring of Frauds in NBFCs containing guidelines on classification of frauds, approach towards monitoring of and reporting system for frauds for NBFCs.</p> <p>Master Directions Non Banking Finance Company (Reserve Bank) -Housing Finance Company 2021.</p>
<b>Document Retention</b>	<p>All information, documents along with the results of Investigation relating thereto, shall be retained by the respective Business Unit / Fraud Risk Officer for a minimum period of 5 (five) years or for such number of years as required under the applicable laws, if any.</p>
<b>Approved by</b>	<p>SHFL Board of Directors.</p>
<b>Policy Owner</b>	<p>The Fraud Risk Officer shall be the Designated Officer for the purpose of this Policy.</p> <p>Terms of reference for implementation of policy is provided in <b>Annexure B</b></p>

(a) All individual cases involving ₹ 10 lakh or more should be continued to be placed before the Audit Committee of applicable NBFC's Board. The report containing attempted frauds which is to be placed before the Audit Committee of the Board should cover inter alia the following viz;





	<ul style="list-style-type: none"> <li>• The modus operandi of the attempted fraud;</li> <li>• How the attempt did not materialize in the fraud or how the attempt failed / was foiled;</li> <li>• The measures taken by the Company to strengthen the existing systems and controls;</li> <li>• New systems and controls put in place in the area where fraud was attempted;</li> <li>• In addition to the above, yearly consolidated review of such cases detected during the year containing information regarding area of operations where such attempts were made, effectiveness of new process and procedures put in place during the year, trend of such cases during the last three years, need for further change in process and procedures, if any, etc. as on March 31 every year within three months of the end of the relative year.</li> </ul>	
<b>Regulatory Reporting</b>	A reporting system for frauds is prescribed by RBI as per <b>Annexure A</b> It may be noted that SHFL is not required to submit 'Nil' reports to Frauds Monitoring Cell / Regional Offices of Department of Non-Banking Supervision.	
<b>Annual Report Disclosure</b>	SHFL shall disclose the amount related to fraud, reported for the year in its balance sheets	
<b>Management Committee</b>	The Management Committee comprises of Chief Operating Officer, Chief Financial Officer, Chief Executive Officer/Managing Director and Chief Risk Officer if any	
<b>Reporting &amp; Review by Board</b>	<u>Detected Frauds:</u> <ul style="list-style-type: none"> <li>➤ All frauds of Rs. 1 lakh and above shall be reported to the Board promptly on their detection.</li> <li>➤ Information relating to frauds shall be furnished on quarterly basis, if any</li> <li>➤ Undertake and update the Board on the annual review of the frauds</li> </ul>	
<b>Reporting, monitoring and review by ACB</b>	<u>Detected Frauds:</u> <ul style="list-style-type: none"> <li>➤ All frauds of Rs. 10 lakh and above shall be reviewed by the ACB promptly on their detection</li> <li>➤ All frauds of Rs. 10 lakh and above shall be monitored and reviewed by the ACB on a quarterly basis</li> </ul> <u>Attempted Frauds:</u> <ul style="list-style-type: none"> <li>➤ All attempted frauds of Rs. 10 lakh and above shall be reported to the ACB</li> <li>➤ Annual consolidated review of all attempted frauds of Rs. 10 lakh and above within three months of end of the financial year</li> </ul>	

<b>Responsibility</b>	Fraud Risk Officer is responsible for policy implementation. The Management Committee shall be responsible for monitoring and review of Frauds and shall report to Audit committee The Chief Operating Officer of SHFL shall be the Fraud Risk Officer for the purpose of this Policy.
<b>Dispensation</b>	Any dispensation requires approval from Audit Committee on the recommendation of Fraud Risk Officer
<b>Amendment</b>	This Policy may be amended from time to time by the Audit Committee on the recommendation of the Management Committee. Changes required due to business exigencies or due to regulatory / audit requirements, would be approved by Fraud Risk Officer, appointed under this Policy.

### ANNEXURE – A

#### Reporting of Frauds to RBI

Particulars	Reporting to	Form	Time-line	Additional Requirements
Amount involved above Rs. 1 lakh and below Rs. 1 Crore	Regional Office, DNBS, RBI	<a href="#">FMR – 1</a>	Within three weeks from the date of detection.	
Amount involved Rs. 1 Crore and above	(i) Regional Office, DNBS, RBI and (ii) Fraud Monitoring Cell (FMC), DBS, Central Office, RBI	<a href="#">FMR – 1</a>	Within three weeks from the date of detection.	Fraud in borrower account involving an amount of Rs 1 Lakh and above additional info in Part B of FMR-1 to be provided
Quarterly reports on frauds outstanding (All amounts)	Regional Office, DNBS, RBI	<a href="#">FMR – 2</a>	Within 15 days of the end of the quarter	Certificate as part of the FMR-2 report that all individual fraud cases of Rs. 1 lakh and above reported to RBI in FMR-1 during the quarter have also been put up to the Board and have been incorporated in Part – A (columns 4 and 5) and Parts B and C of FMR- 2.
Case wise quarterly progress report on frauds involving Rs. 1 Crore and above	Fraud Monitoring Cell (FMC), DBS, Central Office, RBI	<a href="#">FMR – 3</a>	Within 15 days of the end of the quarter	
Case wise quarterly progress report on frauds involved less than Rs 1 Crore	Regional Office, DNBS, RBI	<a href="#">FMR – 3</a>	Within 15 days of the end of the quarter	
D.O. letter on frauds of Rs. 1 Crore and above	CGM - In Charge, DBS, FMC, Central Office, RBI and <u>copy to:</u> (i) CGM – In Charge, DNBS, Central Office, RBI (ii) Regional Office, DNBS, RBI	It should be a D.O. letter, however no format prescribed	Within a week of fraud coming to the notice	



## Annexure B - Terms of Reference

- a) To ensure that adequate systems are in place to detect frauds, once they have taken place, within the shortest possible time.
- b) To ensure that adequate process and policies are in place dealing with frauds detected and course of action to be undertaken.
- c) All frauds (including attempted Frauds) would be required to be reported to the Fraud Risk Officer who shall expeditiously deal with the matter in terms of process laid down
- d) All the frauds involving an amount of Rs 10 lakh and above would be monitored and reviewed by the Management Committee and provide their report to Audit Committee of the Board (ACB) for their review. This would also include undertaking periodic review of frauds.
- e) The periodicity of the meetings of the Management Committee and ACB may be decided according to the number of cases involved.

However, the Management Committee should meet and review as and when a fraud involving an amount of Rs 10 lakh and above comes to light and provide a report to ACB for their review

- f) ACB shall have right to outline a detailed procedure for an investigation and may delegate such powers and authorities, as it may deem fit to any other committee and/or officer(s) of SHFL for carrying out any investigation
- g) To ensure that deterrent punishment is meted out, wherever warranted, to the persons found responsible.
- h) To continuously review if frauds have taken place because of laxity in following the systems and procedures and, if so, whether effective action has been taken to ensure that the systems and procedures are scrupulously followed by the staff concerned.
- i) To assess if the frauds detected are reported to local Police, as the case may be, for investigation
- j) In respect of implementation of policy, ACB may perform all such acts as it may deem fit at its sole discretion, including, the following functions:
  - to obtain legal or expert view in relation to Fraud or attempted Fraud;
  - appoint external agency to assist in investigation;
  - seek assistance of Internal Auditor;
  - request any officer(s) of the company to provide adequate financial or other resources for carrying out investigation
  - to call for any information /document and explanation from any employee of SHFL or other person(s) as they may deem appropriate for the purpose of conducting investigation.
  - seek explanation or solicit submission or give reasonable opportunity to respond to concerned personnel on material findings contained in investigation report.