



# **Fraud Prevention Policy**

Version 1.0

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### Document Control

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1.0	Initial Draft	Lakshmi Kanth Ch	01.11.2021	Risk & Compliance Dept

## **Fraud Prevention Policy**

### **PREAMBLE**

The corporate policy for Fraud Detection, Prevention & Management is established to facilitate the development of controls which will aid in the detection and prevention of fraud against IKF Home Finance Ltd.

### **POLICY OBJECTIVES**

The "Fraud Detection, Prevention & Management Policy" has been framed to provide a system for detection and prevention of fraud, reporting of any fraud that is detected or suspected and fair dealing of matters pertaining to fraud. The policy will ensure and provide for the following:

1. To ensure that management is aware of its responsibilities for detection and prevention of fraud and for establishing procedures for preventing fraud and/or detecting fraud when it occurs.
2. To provide a clear guidance to employees and others dealing with IKF Home Finance Ltd. forbidding them from involvement in any fraudulent activity and the action to be taken by them where they suspect any fraudulent activity.
3. To conduct investigations into fraudulent activities.
4. To provide assurances that all suspected fraudulent activity will be fully investigated.

### **SCOPE OF POLICY**

This policy applies to any fraud, or suspected fraud, involving employees as well as shareholders, consultants, vendors, lenders, borrowers, contractors, outside agencies doing business with IKF Home Finance Ltd., employees of such agencies, and/or any other parties with a business relationship with IKF Home Finance Ltd.

### **COMMITTEE (Fraud Detection, Prevention & Management Committee)**

The Committee will consist of 4 members,

- Managing Director
- Executive Director & CEO
- Business Head
- Head – Risk & Credit Compliance

### **CLASSIFICATION OF FRAUDS (based on the provisions of the Indian Penal Code)**

1. Misappropriation and criminal breach of trust
2. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property
3. Unauthorized credit facilities extended for reward or for illegal gratification.
4. Negligence and cash shortages
5. Cheating and forgery
6. Irregularities in foreign exchange transactions
7. Any other type of fraud not coming under the specific heads as above.
8. Ps: 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 suspected / proved, at the time of detection, will be treated as fraud and reported accordingly:

- Cases of cash shortages more than Rs.10,000/- and
- Cases of cash shortages more than Rs. 5000/- if detected by management / auditor/ inspecting officer and not reported on the occurrence by the persons handling cash.

#### **REPORTING OF FRAUDS (including cases of attempted fraud)**

(i) Fraud reports should be submitted in all cases of fraud of perpetrated through misrepresentation, breach of trust, manipulation of books of account, fabrication of documents like income tax return, salary slip/ balance sheet etc., loan amount disbursed by way of cheque/ demand drafts encased by third parties/ agents, title documents being forged- stamped documents forged by borrower/ customer/ builder, over valuation of property, multiple financing, cancellation of booking of flats/ property i.e. collusion between customer and builder, sale of property by loanee without clearing existing loan, mis-representation of end use of loan, sale of property by builder without clearing/ repaying construction funding loan availed by them from HFC, fraudulent encashment of FDRs, unauthorized handling of securities charged to the HFC, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc.

(ii) Frauds involving ₹ 1 lakh and above should be submitted in all cases of fraud of ₹ 1 lakh and above perpetrated through misrepresentation, breach of trust, manipulation of books of account, fraudulent encashment of FDRs, un authorised handling of securities charged to the applicable NBFC, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc.

(iii) 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 applicable NBFC falls.

(iv) 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 NBFC falls, within three weeks (21 days) from the date of detection of the fraud.

(v) case-wise quarterly progress reports on frauds involving ₹ 1 lakh and above in the format given in FMR – 3 to Regional Office of the RBI, Department of Non-Banking Supervision under whose jurisdiction the Registered Office of the NBFC falls within 15 days of the end of the quarter to which it relates.

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

(vii) Frauds committed by unscrupulous borrowers including companies, partnership firms/ proprietary concerns and/or their directors/ partners, Group of Associations, Trusts etc. by various methods including the following:

- a) Diversion of funds outside the borrowing units,
- b) Lack of interest or criminal neglect on the part of borrowers, their partners, etc.,
- c) Due to managerial failure leading to the unit becoming sick and due to laxity in effective supervision over the operations in borrower accounts on the part of the HFC functionaries rendering the advance difficult of recovery.

#### **FRAUDS: REVIEW BY AUDIT COMMITTEE**

All individual cases involving 05 lakh or more should be placed before the Audit Committee of HFC'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;

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

#### **FRAUDS: REVIEW BY BOARD OF DIRECTORS**

- Quarterly Review
  - Annual Review
- (i) The main aspects which shall be considered while making such a review may include the following:
- (a) Whether the systems in the HFC are adequate to detect frauds, once they have taken place, within the shortest possible time.
  - (b) Whether frauds are examined from staff angle.
  - (c) Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible.
  - (d) Whether 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.
  - (e) Whether frauds are reported to local Police for investigation.

#### **CLOSURE OF FRAUDS**

HFCs are permitted to close the fraud cases, as per directions vide circular, RBI/DNBS/2016-17/49 Master Direction DNBS. PPD.01/66.15.001/2016-17, September 29, 2016

#### **REPORTING OF FRAUDS TO RBI/NHB**

IKFHFL is required to report the fraud cases, as per directions vide circular, RBI/DNBS/2016-17/49 Master Direction DNBS. PPD.01/66.15.001/2016-17, September 29, 2016

#### **FRAUDS PREVENTION THROUGH AWARENESS**

The Policy recognizes that proper awareness is the main pillar of fraud prevention effort.

- i. IKF Home Finance Ltd. would endeavor to put systems in place for fraud prevention.
- ii. IKF Home Finance Ltd. would focus on continuously educating its employees/clients/ third parties on fraud prevention
- iii. For the benefit of all employees/clients/third parties etc., IKF Home Finance Ltd. shall appropriately include necessary caution in its Contracts/ Service Agreements/ relevant documents, duly highlighting the consequences of submitting false statements/ documents and/ or incomplete information.

- iv. This Anti-Fraud Policy document shall be published on the website of the Company

**REVIEW & INTERPRETATION: FRAUD DETECTION POLICY**

- The responsibility for the administration of this policy is vested on Head – Risk & Credit Compliance who will review it minimum once a year.
- The Executive Director & CEO is accorded the authority to issue directions and clarifications in furtherance of the implementation of this Policy.