FRAUD RISK MANAGEMENT

Standard Operating Procedure (SOP) - V1.1

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FRAUD RISK MANAGEEMENT

FOREWORD

In SWARA, we believe that the provision of financial services to the underserved addresses four forms of financial exclusion: lack of access to financial services, reliance on alternative forms of credit, lack of key financial products and financial illiteracy.

With institutional growth comes several challenges, the most predominant one being staff indiscipline, that is non-compliance with guidelines and processes, or perpetrated fraud instigated by employees or outsiders. While this challenge may not result in pecuniary loss, it can contribute to the loss of business through reputational risk if corrective action is not taken. We must ensure that we maintain the confidence of customers in the institution and not have to face regulatory action.

It is imperative that indiscipline is prevented, and our employees are aware of the circumstances that may lead to fraud. Despite the fraud awareness initiatives run by our Operational Risk, Training, Communication and HR teams, instances of indiscipline still occur. In order to provide a structured approach for the FRM and Internal risk team to investigate such matters, this Fraud Risk Management (FRM) SOP has been put together.

The functionaries in the FRM vertical have contributed greatly in putting together this SOP by collating information from various sources. We are certain the field investigators will use this information to protect the interests of our organization. We invite suggestions and comments for further improvement to the content in this SOP.

1. BACKGROUND

The Fraud Risk Management team is dedicated in the detection and prevention of fraud against Swara Fincare Limited. It is the intent of Swara Fincare Limited to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conduct of investigations.

Keeping in mind the ongoing and future challenges, SWARA has decided to put in place **Standard Operating Procedure (SOP)** for Fraud Risk Management (FRM) to deal with the matter of financial frauds.

2. OBJECTIVES

- Establish the single platform for all the stakeholders for ease in resolutions of fraud cases.
- Reduce the time log for sharing and caring of fraud cases for speedy resolutions.
- Identification of case's nature and roll out the process effectively.
- Identify the fraud nature and marked the employee those are involved these type cases.
- Intimation to Management for approvals.
- Timely identify the cases to the concerned team within a time frame.
- Timely intimation to the concerned team with the checking of legal aspects.
- Timely capturing the record in Accounts Section
- Effectively Controls on the process via stakeholders

3. ACTIONS CONSTITUTING FRAUD

The terms defalcation, misappropriation, and other fiscal irregularities refer to, but are not limited to:

- Any dishonest or fraudulent act, cheating or forgery
- Misappropriation of funds, securities, foreign exchange supplies, or other assets
- Impropriety in the handling or reporting of money or financial Transactions. Negligence and Cash Shortages.
- Profiteering as a result of insider knowledge of company activities
- Disclosing confidential and proprietary information to outside Parties
- Disclosing to other persons securities activities engaged in or contemplated by the company
- Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment; and/or
- Fraudulent encashment through forged instruments, manipulation of books of accounts or through fictitious accounts and conversion of property.
- Bribery (when a person requests, receives, accepts, offers, pays, seeks or accepts an offer or an improper advantage or reward in connection with his or her position, office or assignment or accepting or seeking anything of material value from customers, contractors, vendors, or persons providing services/materials to the Company.
- Extortion – the direct or indirect utilization of one's power, position or knowledge to demand unmerited cooperation or compensation as a result of coercive threats.
- Facilitation payments – direct or indirect unofficial payments made to secure or expedite the performance of a routine or necessary action to which the payer of the facilitation payment has legal or other entitlement.
- Nepotism and cronyism – favoritism based on familiar and acquaintances relationships where someone in an official position exploits his or her power and authority to provide a job or favour to a family member or friend, even though he or she may not be qualified or deserving.
- Political contributions – this includes contributions made in cash or in services, e.g., gifts of property or services, advertising or promotional activities or endorsing a political party.
- Any similar or related irregularity

4. INCIDENT REPORTING:

This SOP is applicable to all the employees irrespective of the hierarchy or position or the location of the branch/office, whether working in Branch/Circle, Head office of SWARA.

An employee who detects or knows of any instance of fraud, suspected fraud or cases of attempted fraud in relation to the business operations, obligated to report such instances immediately addressing to the ID frm@swarafincare.com manually with supporting evidences. It also includes cash snatching, theft, burglary, dacoity within 24 hours from the time of incident, to facilitate FRM investigation and submit a report to the Head of FRM/Credit & Risk Head (CRH) for corrective action.

Fraud reports should be immediately submitted in all cases of fraud perpetrated through misrepresentation, breach of trust, manipulation of books of account, fraudulent encashment, unauthorized handling of properties/cash, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, bribery, extortion, facilitation payments, nepotism and cronyism, political contributions and irregularities etc.

5. PERIODICITY OF REPORTING

Any instances of fraud noticed by any employee shall be reported immediately to the next higher authority in the company, be it in a Branch/Cluster Head/Regional Head. Any frauds in the field shall be reported to the operation functionaries (BH, RH, CBH, RBH-Ops, COO and CMD), HR, Insurance, Legal and the FRM team.

In case of frauds involving more than Rs. 1 lakh, the same shall be sent within two days to the FRM Head/CRH at the Head Office.

In any case, all the information with regard to the fraud along with documents required for statutory reporting and insurance claims should be sent to Insurance Team - Head Office, within 15 days from the date of detection of fraud. However, the reporting to RBI should be done within 21 days from the date of detection (More than 1 lakh cases).

In all the above incident reporting structure, wherever there is a need for police complaint/FIR to be filed, the same shall be done as per procedure by the business team with the help of HR/Risk/Legal team.

6. INVESTIGATION RESPONSIBILITIES

The Fraud Risk Management team under the Head of FRM/CRH has the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy. The Head of FRM/CRH may also take the need- based support from the internal audit team to conduct the investigation.

7. POST INVESTIGATION ACTION

The FRM team will conduct the investigation in the normal course of business. Not all issues reported will be Serious in Nature. Many issues reported could be minor or major in Nature. If an investigation results in a recommendation to terminate an individual, the recommendation will be reviewed for approval by the designated representatives from Human Resources and the Legal Department and, if necessary, by outside counsel, before any such action is taken. The FRM function does not have the authority to terminate an employee. The final decision and action are to be taken by the competent authority mentioned in the Disciplinary Action – Escalation Matrix 8.4. The FRM function believes the management decision. In case of inappropriate action for the facts presented, the facts will be presented to the next level of escalation/executive level management for a decision.

8. *DISCIPLINARY PROCESS:*

8.1 Misconduct: Misconduct means improper conduct and/or any wrongful behavior.

Any behavior / act which is non-conformant to the social standards, violating the code of conduct of the company and not in conformation with the rules, regulations and policies of the company from time to time shall constitute misconduct. It shall include all acts of omission and/or commission and any such offensive acts, which in the opinion of the company is highly undesirable and unbecoming of an employee of the company.

All misconduct to be categorized into *three* categories:

- **Minor:** All cases of misconduct which are on account of act of omission, breach/ failure to perform well on duty or small process lapses which do not have any financial impact on the company but however leads to delays on deliverables or have its negative impact on the business or impact on employee relations etc.
- **Major:** All cases of misconduct which are on account of act of willful suppression/mis-representation of facts or acts of process lapses with/without an intention of financial loss to the company or even acts which involves in severe impact of reputation of the company or its employees.
- **Serious:** All cases of misconduct which are intentional in nature and lead to financial losses for the company or has severe impact on the company's reputation risk can be tagged under this category.

8.2 Degree of Classification and Disciplinary Action Matrix:
The degree of classification of disciplinary action matrix is as follows:

Degree of Classification - Disciplinary Action Matrix	Fraudulent Act	Alleged Wrongful Conduct	Punitive Action
Minor	Process violation	Unintentional act or negligence for which no direct motive is attributable, and the impact of the Alleged Wrongful Conduct does not have any material impact with regard to financial, reputation, customer satisfaction, legal etc.	Counselling /Advisory /Cautionary Note (Show Cause Notice – SCN) by the HR department with information to the competent authority concerned. Post action the information should be mailed to all the concerned that the process has been complied and the copy of the relevant documents to be kept in personal file and noting to be made in the HRMIS and Incident Management Module (Employee Recovery Module) for future reference.

Major	Intentional Subversion of policy(s) / process/ established practices/ procedural activities not aimed at deriving monetary benefit for self or monetary loss of the organization.	Intentional Subversion of policy, procedure to show better performance or unintentional act or negligence, consequences of which has material impact with regard to financial, reputation, customer satisfaction, legal etc.	A warning letter in writing shall be issued by HR Dept. However, person(s) having delegation authority by VP/Head HR can issue letters on their behalf. A copy of the same shall be held in the employees file at HR and noting shall be made in the HRMIS and Incident Management Module (Employee Recovery Module). Such employee will not be eligible for promotion in the next appraisal cycle.
		Any second instance of minor Wrongful Conduct within 6 months will be considered as Major Alleged Wrongful Conduct.	
Serious	Intentional act aimed at deriving pecuniary benefit for self or channel partner.	Intentional Wrongful Conduct / process violation aimed to gain pecuniary benefit(s) or gross negligence of work consequences of which has material impact with regard to financial, reputation, customer satisfaction, legal etc.	Initiating actions to make the accused employee exit from the system.
	Misappropriation of cash/funds of the company, customer, service provider.	Any second instance of unexplained major Wrongful Conduct within 6 months will also be considered as serious Wrongful Conduct.	In case it involves monetary loss, the company can go for Criminal proceedings.

8.3 Disciplinary Action on Fraudulent Act and Misconduct

Severity	Fraudulent Act	Action	Employment
Minor Penalties	Collected EMI deposited spontaneously in the very next day due to genuine issues with prior intimation	No action	Continuation of Employment subject to decision of the Management
	a) Pocketing/Misappropriation of 1 EMI deposited by the employee on 3rd day onwards b) Process Violation/Negligence or other misconducts with no material impact to financial, reputation, customer satisfaction, legal etc. *Gist of minor fraudulent activities & misconduct are highlighted in point no.8.7*	Show Cause Notice (SCN)	
		100% Recovery	
		Confession/Apology Letter	
Major Penalties	a) 2nd Instances of pocketing/misappropriation b) Fake travel claim c) Third party/ring leader/centre leader takes commission where staff is aware about the issue d) Intentional Subversion of policy, procedure to show better performance or negligence with impact financial, reputation, customer satisfaction, legal etc. e) Any second instance of minor Wrongful Conduct within 6 months will be considered as Major Alleged Wrongful Conduct. *Gist of major fraudulent activities & misconduct are highlighted in point no.8.7*	Zero Tolerance: • Written Warning Letter (WL) • Recovery from the staff • Recovery & Legal Notice • No promotion & Increment for the year	Continuation of Employment subject to decision of the Management
		Ask To Go	Employment to be ceased
		Termination	
	Fraud amount below 10k	Above disciplinary Action	Continuation of Employment subject to decision of the Management

Serious Penalties	a) Collected EMI deposited post identification of the incident by any of the functions b) Fake disbursement done by the staff with the collusion with customer/third party/other staff c) Involvement of the staff along with the third party/ring leader/Centre leader to take commission from other customers d) Employee absconded with collection amount etc. e) Any second instance of unexplained major Wrongful Conduct within 6 months will also be considered as serious Wrongful Conduct. *Gist of serious fraudulent activities and misconduct are highlighted in point no.8.6*	Police Complaint/FIR along with disciplinary action (SCN/WL/Termination/ Adjustment of pay-outs & F&F) and Recovery & Legal notice	Employment to be ceased
	Fraud amount =>10K and less than 50k		
	Fraud amount= >50K	Disciplinary action & Recovery Notice Legal Notice Publish in internal communication - HR/Ops Risk & local newspaper- if possible	Employment to be ceased

8.4 Disciplinary Action – Escalation Matrix

Disciplinary action on misconduct, fraudulent act and detrimental activities shall be taken by the competent authority mentioned in the Disciplinary Action – Escalation Matrix 8.4.

Disciplinary Action - Escalation Matrix			
Severity	**Level 1**	**Level 2**	**Level 3**
Minor/Major	(RH/CBH/CRH/Business Head), Risk Manager, HR Manager (Circle Committee)	CRH/HR-Head/Business Head	MD
Serious	CBH/ (CRH-FRM/Business Head/Hr. Manager)	CRH/Business Head/Head-HR	MD
TAT – 7 Days for each level of escalation The frequency of the Circle committee to be held within 7 to 15 days or before post submissions of the investigation report and based on the number of minor and major cases are lying in the committee buckets. HR, Risk and Ops team will co-ordinate with operations to schedule the circle committee meeting. The decision of the Circle committee shall be shared with HO HR/Risk team by HR/Risk team within 24 hours post the meeting is			

8.5 Important Points:

a) **Portfolio Verification:** The supervisory level RH and above shall instruct the ACM/BH to complete the verification of the portfolio of the suspected staff. The portfolio scanning shall be completed by the Branch Manager/ACM along with BEs within 30 days from the date of detection of the fraud. Once it is done, Ops team will submit the report to the risk team immediately for further process along with change in the summary of fraud amount if any. During portfolio verification, the suspected staff will be kept under Suspension or without any assignment that decision will be taken by the RH and above functionaries from Operations. If the staff is found to be guilty, no subsistence allowance will be paid and if not guilty, staff will be paid full salary.

b) **Fraud amount =>10K and less than 50k** – Police Complaint to be registered. We may also go for FIR if we get support from the local police. If the police official neither provide the acknowledgement of the complaint nor entertain to accept the complaint within 2-3 days, the RH/Risk team need to send the complaint letter to the SP/SSP/ACP/DCP office through Registered post with AD and also email the soft copy of the complaint to the concerned offices with the help of HR and Legal team.

c) ***Fraud amount =>50K – Lodging FIR, Recovery Notice and Legal Notice is compulsory.***

Both Police Complaint/FIR has to be registered/lodged by the complainant, RH. In the absence of ACM, BH will become the complainant. In case police officer denies to lodge FIR, it should be done with the help of Legal team. HR/Risk/Legal team will facilitate in registering the police complaint/lodging the FIR. Fraud Risk team will ensure the dispatch of the complaint via postal service/email if it is not accepted by the local police station.

Lodge FIR with the Help of Court: After 15 days, in case we do still do not get any support from them also, we need to move to the court for directing the Police to lodge an FIR under section 156(3) of CRPC with the help of local legal consultant/Legal team.

d) HR team should hold the salary/incentive/R&R/leave encashment/F&F amount of the staff as soon they receive the fraud intimation mail/investigation report from the Operations/Risk/Audit/Process/other team.

e) Fraud amount to be adjusted through the pay-outs first and balance to be recovered through recovery/police complaint/FIR/Recovery Notice/Legal Notice etc.

f) All fraudulent staff details must be shared with the credit bureau (Equifax, Hi-Mark, Experion etc.) and to be added to the Internal Employment Negative List.

g) **Recovery Notice:** In case fraud amount is less Rs.50000 and the staff is inactive then HR department need to send recovery notice to the concerned staff within 7 days from the date of intimation to the HR by the Fraud Risk team. If they don't get any response after 30 days from the date of issue of the recovery notice, then they will forward those details to the Legal team to issue legal notice to the employee.

h) **Legal Notice:** Recovery and Legal notice of Rs.50000 and above cases will be directly handled by the legal team and send the notice to the concerned staff within 7 days from the date of intimation to the Legal team by the Fraud Risk team. In case staff is ready to repay the amount, Ops team need to collect the amount and ACM/RH need to punch in LMS post consulting Risk/HR/Accounts team.

i) **Fraud Recovery:** If staff is active then Risk team need to advise Ops team to recover all amount and simultaneously advise HR to freeze all amounts payable to the employee till the complete recovery is done. HR

j) **Fraud Recovery:** If staff is active then Risk team need to advise Ops team to recover all amount and simultaneously advise HR to freeze all amounts payable to the employee till the complete recovery is done. HR team will intimate to HO Accounts team on the adjustment of advance and recovery on the responsible employee ledger.

k) Fraud through Whistle-Blower and its reward: - Any employee who reports fraudulent incidents directly to whistleblower@swarafincare.com mail ID and if the incident is proved as fraud, then the employee shall be rewarded. If the fraud amount is less than Rs.10000, the employee will get 10% of the fraud amount and the employee will get Rs.2000 if the fraud amount is greater than equal to Rs.10000.

8.6 TURN AROUND TIME (TAT)

Particulars	**Time scales (Calendar days – not working days)**
BH with the help of RM need to scan all portfolio of the culprit staff. Ops team should submit the report to the Risk team.	**30 days**
Fraud Risk team (Risk Mgr.) will complete the investigation of all reported cases and submit the investigation report to the Circle/HO team to stakeholders (Ops, HR, Insurance, Legal, Accounts, Process)	**7-10 days**
Final action should be decided by the committee/FRM Head/HR Head and communicated to the HR team post completion of the investigation. (Please refer to the Escalation matrix)	7 - 15 days or before
1- Date of issue brought to the notice of HR Department depending on the	**3 - 30 days**
1.1- Issuance of SCN/Warning Letter from the date of receipt	3 days
1.2- Explanation, Reminder SCN and explanation - from the date of SCN	5 days
1.3- Issuance of Notice of enquiry (NOE), Reminder NOE and conducting of enquiry – from the date of SCN (NOE and enquiry is necessary only in case the explanation submitted by delinquent employee is assessed as unsatisfactory	12 days
1.4- Preparation of enquiry report by enquiry officer and recommendation of quantum of punishment by recommending authority – from date of SCN	18 days
1.5- Queries and final sign off by disciplinary authority – from date of SCN	25 days
1.6- Serving office order – from the date of SCN	on or before 30th day

Absconding Process	**TAT**	**Communication**
Absconding Letter-1	After 6 working days from the date of absconding	Home address of the staff available in employment records by registered post with Acknowledgement.
Absconding Letter-2	on 11th day from the date of absconding (after 5 working days from the date of issuance of 1st Letter), If an employee does not resume office or did not reply on 1st letter issued to him/her	
Letter of Loss of Lien (Cessation of Employment letter)	In case the employee fails to resume or reply with proper justification to the notices issued to him, Organization will move ahead Terminating his employment on the grounds of Loss of Lien.	

8.7 Gist of Detrimental activities and Misconduct

The gist of detrimental activities and misconduct are mere updated below and highlighted under point no.8.3 are indicative in nature, it is not exhaustive. Any other act or conduct which is against the Company's values or Principles shall be treated as misconduct depending on the nature and seriousness and will be dealt with appropriately.

Sl. No.	Gist of Detrimental Activities and Misconduct	Severity
1	Fraud (e.g., Embezzlement of cash, misappropriation, pocketing etc.), involvement in Theft, Robbery, Snatching, and any other corrupt activity etc.	Serious
2	Employee soliciting commission, bribe or any monetary/or in kind of favours from clients / members for giving or recovery of loans and for performing any other official responsibilities, borrowing money from clients / members for personal or any other use and fake disbursement done by the staff with the	Serious
3	Taking a decision which has a financial implication favoring that employee itself (Submission and reimbursement of fake travel claim and unethical	Serious
4	Kill, rape, commit serious bodily harm etc. which attracts punishment under	Serious
5	Indulging into illegal activities, which hampers or affects the Company's Day to day business and also	Serious
6	Intentionally Damaging company property, assets, misuse of office, goodwill	Serious
7	Harassment of all kinds against clients / members and sexual harassment	Serious
8	Leakage of company information, divulging customer / member related information to outsiders, in any form with an ulterior intention	Serious
9	Legal case / enquiry against employee which has a detrimental impact on	Serious
10	Any kind of intoxication (alcoholic drink or drug) while on duty, and causing damage to company's goodwill or reputation and Gambling, drinking, consumption of drugs (not medically prescribed) etc. within office	Serious
11	Furnishing false information intentionally regarding name, age, father's name, qualifications, ability or previous service or any other matter relevant in the employment at the time of employment or during the course of employment, falsifying signatures of other employees and/or clients/members	Serious
12	Passing wrong information resulting in company bearing financial loss (e.g., insurance related details; if sent wrongly where company pays for claim) and serious disorderliness of company data (e.g., wrong data entry in	Serious
13	Coercive collection practices and deviation to set collection practice.	Serious
14	Intention to defame (lewd / improper comments in email or other communication channel), if proved	Serious
15	Repeated negligence in performing duties, even after the counselling, two warnings in writing supported with the Corrective Action Plans at each	Serious
16	Engaging in any other trade/ business/employment while in the employment of Company, without prior written permission	Major
17	Failure to update member passbooks and registers at centers with collection, disbursals and other key information as prescribed in the process	Major
18	Obstructing the clients / members from dealing with Company or obstructing other employees from discharging their job responsibilities	Major
19	Discriminating members on the basis of caste and religion	Major

20	Improper handling of Loan documents and causing damage to loan documents and member related documents	Major
21	Violation of any other security norms of the company, including IT security (use of other employees’	Major
22	Police custody for personal conflicts and involvements	Major
23	Instigating employee(s) against other employees / management or intimidating the management or intimidating by the reporting authority to the subordinates or harassing them unnecessarily, which is likely to hamper the business in due course or has direct implication on the performance of	Major
24	Disrespecting members, colleagues and superiors and showing an unreasonably negative attitude to the management and fellow employee and any physical assault on any other employee or client or vendors	Major
25	Repeated failure in timely completion of work	Major
26	Repeatedly leaving workplace within working hour, without permission	Major
27	Failure to communicate pricing information to members resulting in member lodging complaint – in writing, over toll free-number or to Company officials	Minor
28	Damage / misuse of company resources, including without any intent to	Minor
29	Credit Bureau check violation and other process/policy violation which has no financial loss and reputational risk	Minor
30	Suppression and misrepresentation of facts	Minor
31	Misbehavior with colleagues / reporting authority / subordinates (where there is no evil intent or depraved motive or intention to cause harm), any activity / behavior forming a case of moral turpitude and insubordination	Minor
32	Refusal to attend a nominated training program in normal circumstances and refusing a reasonable request to moderate changes in responsibilities, where	Minor
33	Failure to act in spite of having knowledge of wrong thing being practiced in	Minor
34	Employee Incompetency / Performance related issues	Minor
35	Not following the prescribed dress code repeatedly	Minor

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