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The Karad Urban Co-Operative Bank Ltd., Karad

(Scheduled Bank)

Head Office: 516/2, Shaniwar Peth, Karad – 415 110.

Vigilance & Risk Management Department



FRAUD RISK MANAGEMENT POLICY 2025- 2026

1. Purpose

The Reserve Bank of India (RBI), through its notification dated 15th July 2024, issued guidelines to provide a framework for Co-operative Banks to prevent, detect, and report incidents of fraud. These guidelines mandate that each bank's Board of Directors approves a fraud risk management policy, which delineates the roles and responsibilities of the Board, Board Committees, and Senior Management. The policy must include measures for prevention, detection, investigation, staff accountability, monitoring, recovery, and reporting of frauds.

2. Objectives

The primary objectives of this policy are:

- a) Establishing a governance structure for fraud risk management.
- b) Defining the roles and responsibilities within the fraud risk management mechanism.
- c) Creating a framework for early warning signals to detect frauds.
- d) Ensuring staff accountability.
- e) Clarifying the roles and responsibilities of auditors.
- f) Reporting frauds and theft incidents to law enforcement agencies (LEAs) and the RBI.
- g) Strengthening internal controls and enhancing fraud awareness across the organization.

3. Definition of Fraud:

- a) Fraud is defined as the intentional deception of another individual or entity for unlawful or unfair financial gain. It encompasses activities such as theft, corruption, embezzlement, money laundering, bribery, and extortion.



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- b) "Attempted fraud" refers to an action where someone deliberately tries to deceive another person with the intention of gaining something of value, like money or property, but the attempt is not successful; essentially, it's when someone takes concrete steps to commit fraud but is prevented from fully carrying it out before the intended victim is harmed. Eg. Fake KYC provided for account opening or fake documents provided while loan application.
- c) Digital Frauds: Digital fraud is the use of digital technologies to commit fraudulent activities. It's also known as cybercrime. Some examples of digital fraud are;
- Phishing scams: Fraudulent emails, texts, phone calls, or online messages that trick people into sharing sensitive information.
 - Identity theft: Using someone's personal information to access their financial accounts.
 - Investment scams: Promises unrealistic returns
 - Payment card fraud: Using someone's payment card to make unauthorized purchases

This policy shall encompass all these above 3 types & shall be construed as "fraud" for investigation & reporting purposes.

4. Scope

This policy is issued with a view to providing a framework to Banks for prevention, early detection and timely reporting of incidents of fraud (hereinafter digital frauds will be also be included) to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI) and dissemination of information by RBI and matters connected therewith or incidental thereto.

This policy applies to all employees, management, customers, third parties, and stakeholders associated with the Co-operative Bank. It covers all banking activities, products, processes, and transactions.



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5. Governance Framework:

Fraud Risk Management Committee/Special Committee/Risk Management Committee

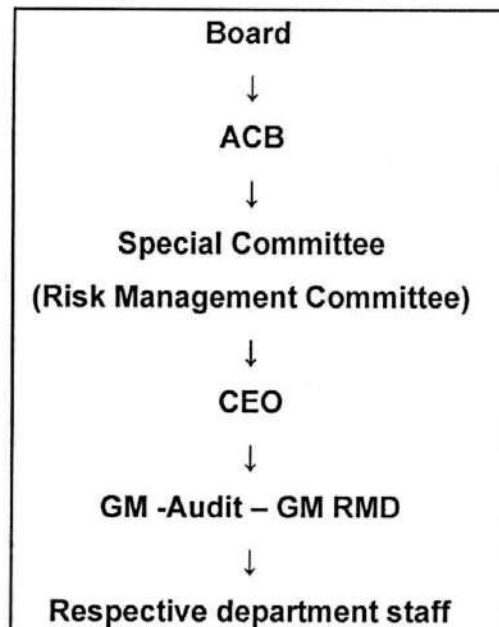
a) Bank has formed a Risk Management Committee consisting following member-

Sr. No.	Name	Designation	Committee Designation
1.	C.S. Mr. Swanand Pathak	Director	Chairman
2.	Dr. Rahul Phase	Director	Member
3.	Mr. Shrikant Shankarrao Patil	Director	Member
4.	Mr. Shrirang Ganesh Dnyansagar	Director	Member
5.	CA. Dilip M. Gurav	CEO	Member
6.	Dr. Amol Koparkar	GM (VRMD)	Secretary

b) Roles & responsibilities of Committee

- Verifies the implementation of preventive controls.
- Review and monitor the cases of fraud at least once in a quarter and placed to ACB and Board.
- Root cause analysis of Fraud
- Mitigation measure for strengthening the internal control
- Recommends remedial actions to prevent recurrence of frauds.
- Set-Up organisational structure for risk management.
- Coordinates with external agencies to address large-scale or systemic frauds.

Organizational Structure





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Senior Management:

- a) Implements the Fraud Risk Management Policy.
- b) Ensures a quarterly review of fraud incidents is submitted to the Board or Audit Committee.
- c) Examines whistle-blower complaints per the bank's Whistle-Blower Policy.
- d) Promotes a culture of integrity and vigilance throughout the organization.

6. Early Warning Signal and Major instances of Fraud in banks:

Illustrative list of instances / examples of fraud incidents is given below-

- a) Cash shortage.
- b) Fraudulent encashment of drafts/ cheques/ dividend warrants etc.
- c) Opening bogus bank accounts in the name of non-existing person.
- d) Collection of fake instruments with or without connivance of bank staff.
- e) Siphoning off funds through fake transfers, un-authorized debits of impersonal account or concealment of unauthorized transaction by manipulating entries in the books of account.
- f) Sudden disappearance of stocks as compared to figures shown in previous statement or fraudulent removal of pledged stocks/ disposing of hypothecated stocks without the bank's knowledge / inflating the value of stocks in the stock statement and drawing excess bank finance.
- g) Fudging of financial statements.
- h) Issuance of letter of credit, bank guarantee of any type without recording liability in the books of accounts.
- i) Creation of fixed deposits, credit balances and issuance of drafts, pay orders, transfer of funds through NEFT/RTGS etc. without any consideration.
- j) Discounting forged trade documents or documents without underlying trade transactions or kite flying in clearing effects.
- k) Transgression of the delegated authority and its concealment from the Competent Authority resulting in loss to the bank.
- l) Misuse of system passwords and breach of computer security.



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- m) Diversion of funds outside the borrowing units, Lack of interest or criminal neglect on the part of the borrowers, their part of the borrowers, their partners etc. and also due to managerial failure leading the unit to become sick.
- n) Fraudulent transfer of funds through internet banking.
- o) Fraudulent withdrawals through ATM/Debit/Credit Cards.
- p) Use of login-id and password of another person. (with or without permission)
- q) Misuse of digital signature.

7. Fraud Risk Management Strategy

a) Preventive Controls

- i. Implement robust internal controls.
- ii. Restrict CBS access to staff on a "need-to-know" and "need-to-do" basis.
- iii. Conduct due diligence for employee recruitment and vendor selection.
- iv. Ensure thorough loan appraisals and monitor end-use of loans.
- v. Use UV-enabled scanners to prevent cheque fraud.
- vi. Conduct periodic audits (e.g., concurrent, RBIA, credit portfolio). Concurrent audit conducted in monthly/quarterly basis. Other types of audits are conducted once in a year.
- vii. Implement transaction monitoring systems.
- viii. Conduct regular fraud risk assessments to identify potential vulnerabilities.
- ix. Enhance staff training on fraud detection and prevention techniques.
- x. Data Analytics and AI tool shall be used for better preventive measures.

b) Detective Controls

- i. Monitor transactions and review reports.
- ii. Reconcile office accounts periodically.
- iii. Investigate customer complaints and audit findings.
- iv. Examine whistle-blower reports and media publications.
- v. Conduct surprise checks on cash and securities.
- vi. Leverage data analytics and artificial intelligence to identify unusual transaction patterns.



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8. Procedure After Detection of Fraud

- a) Issue detailed show-cause notices to involved individuals/entities. The SCN shall provide complete details of transactions, action and events
- b) The individual/ entities allowed a reasonable response period (minimum 21 days).
- c) After receiving the response from the person/entity give the opportunity to heard before special committee.
- d) Special committee shall examine the response given by person/entity and obtain expert advice if required.
- e) The decision of committee served to the person/entities conveying the decision of bank regarding classification of account/transactions as a fraud. The order must contain the relevant facts/circumstances relied upon and reason for classification of account/transaction as a fraud.
- f) The fraud shall be reviewed once in a quarter.
- g) Maintain comprehensive records of all communications and evidence.
- h) Engage legal counsel to ensure compliance with laws.
- i) Communicate findings transparently to all stakeholders, where necessary.
- j) The committee examine the staff accountability in the fraud cases, if the same is identified the same will be placed before board for further action.

Note: Cases of whistleblower complaints shall not form a part of this Policy & shall continue to be covered by Risk Management Policy.

9. Investigation and Analysis

- a) Fraud investigations may originate from internal audits, inspections, or customer complaints.
- b) A dedicated vigilance department analyses and proposes actions ranging from warnings to dismissals, depending on case severity.
- c) Investigation teams must document all steps, findings, and recommendations systematically.



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10. Reporting to RBI and LEAs

a) Reporting to RBI:

The incident wise reporting to the appropriate legal and/or RBI authorities after such a fraud event occurs at the earliest shall be done by the Audit Dept as under;

- For cases of digital frauds, ad-hoc reporting in DAKSH portal as and when such an incident occurs within the stipulated time as defined shall be done.
- Fraud Monitoring Return (FMR) shall be submitted by Audit department of bank for individual fraud cases, irrespective of the amount involved, immediately but not later than 14 days from the date of classification of an incident / account as fraud on online portal of RBI.
- Include key details in FMRs such as date of occurrence, detection, and classification; modus operandi; amount involved; and remedial actions.
- Submit quarterly Progress Reports (FMR-3) for frauds involving Rs. 1 lakh and above, highlighting updates on recovery, legal proceedings, and corrective measures.
- Provide an Annual Fraud Review to the Board summarizing all fraud incidents, trends, and actions taken.

b) Reporting to Law Enforcement Agencies (LEAs):

- Report incidents of theft, burglary, dacoity, and robbery to local police authorities within seven days of occurrence.
- Appoint nodal officers to coordinate with LEAs for fraud investigations and support them with necessary documentation.
- Escalate cases involving significant losses or systemic impact to central agencies such as the CBI or ED, as applicable.

c) Internal Reporting Mechanisms:

- Establish a centralized fraud reporting system to log, monitor, and analyse all fraud cases.
- Share monthly fraud updates with senior management and the Audit Committee for timely intervention.



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- Encourage whistle-blower reporting and ensure confidentiality and protection for whistle-blowers.

11. Documentation and Record-Keeping:

- a) Maintain detailed records of all fraud cases, including evidence, investigation reports, and correspondence, for a minimum of 10 years.
- b) Ensure all reports submitted to RBI and LEAs are documented and auditable.
- c) Periodically review and update reporting formats to align with regulatory changes.

12. Provisioning for Fraud Accounts:


- a) Fully provision fraudulent accounts within four quarters of detection.
- b) Expedite provisioning if there is a delay in reporting fraud to the RBI.
- c) Establish reserves for potential fraud-related losses.

13. Penal Measures:

- a) Debar individuals/entities involved in fraud from accessing financial services for five years post-settlement.
- b) Collaborate with industry peers to share information on fraudsters and their methods.

14. Review:

The Fraud Risk Management Policy shall be reviewed annually by the Board of Directors, with updates reflecting emerging risks, regulatory changes, and technological advancements.


Dy. General Manager
(Vigilance & Risk Management Dept.)


General Manager
(Vigilance & Risk Management Dept.)


Chief Executive Officer