

# **SHRIRAM CREDIT COMPANY LIMITED**

## **POLICY ON FRAUD RISK MANAGEMENT**

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## Policy on Fraud Risk Management

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Author of Policy	Risk Department
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Approved by	Board of Directors of SCCL
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Applicability	All employees/Directors and Clients/Consultants/Interns/Vendors
Reference	Master Direction by RBI - Fraud Risk Management in NBFCs
In Compliance to	Directive of 2024 vide RBI/DOS/2024-25/120, DOS.CO.FMG.SEC. No.7/23.04.001/2024-25

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## 1. Background:

Shriram Credit Company Limited (SCCL) is a non-Deposit taking systemically Important NBFC registered with RBI. In compliance to the guidelines issued by RBI on Master Direction - Fraud Risk Management in NBFCs Directions 2024, doc vide RBI/DOS/2024-25/120 DOS.CO.FMG.SEC.No.7/23.04.001/2024-25, the Fraud Risk & Prevention Policy has been made with the aim of setting up a framework for preventing, detecting, investigating, and reporting fraud incidents within Shriram Credit Company Limited (referred to as "SCCL" or "the Company").

## 2. Scope of the Policy:

This policy is applicable to any instances of fraud, whether confirmed or suspected, involving employees, external agencies, clients - individuals or corporates having a business relationship with Shriram Credit Company Limited.

## 3. Objectives of the Policy:

This policy aims at formulating and implementing a process driven proactive approach within the company for detecting, analysing, preventing and managing the risk of fraud. The company will maintain a zero-tolerance stance toward fraud across all levels and will implement measures to prevent fraud.

The Policy is designed to achieve the following objectives:

- Establishing procedures and controls that facilitate fraud detection and prevention and timely reporting.
- Providing guidance to the Company employees on fraud prevention, identification, and detection.
- Developing internal controls.
- Promptly documenting and reporting fraud incidents.
- Offering essential training to the Company's staff to enhance their awareness and capabilities in fraud prevention.

## 4. Actions constituting Fraud:

Fraud is defined as a deliberate act carried out by an individual through deception, suppression, cheating, or any other illegal means, leading to wrongful gain for oneself or others and causing wrongful loss to others. Examples of fraudulent activities include:

- Criminal breach of trust and Misappropriation of funds or assets.
- Submission of forged or doctored documents to avail credit/loan or other benefits.
- Soliciting or accepting material benefits from customers or service providers.
- Fraudulent cashing of forged instruments, manipulation of financial records, or using fictitious accounts.
- Unauthorized extension of credit for illicit gains.
- Negligence of duty leading to frauds.
- Cheating by concealment of facts with the intention to deceive any person and cheating by impersonation.
- Wilful falsification, destruction, alteration, mutilation of any book, electronic record, paper, writing, valuable security or account with intent to defraud.
- Fraudulent electronic banking / digital payment related transactions committed on NBFCs; and
- Any other fraudulent activities not covered by the above categories.

Cases involving "negligence and cash shortages" or "irregularities" shall be treated as fraud if there's suspicion or proof of fraudulent intent.

## 5. Fraud Detection & Control :

Fraud detection involves identifying actual or potential instances of fraud. This can be accomplished through inspections of processes, employees, documents, or by recognizing early warning signals (EWS).

A Committee of Executives (CoE) shall review the EWS framework for its suitable validation in accordance with its directions.

The framework shall cover the below mentioned:

- EWS triggers and monitoring of the same,
- Remedial actions for the triggers
- Periodic review of portfolio and control mechanisms

The early warning indicators can be from

- I. Risk based calling: Carried out by Internal Customer Service Team.
- II. Pre-disbursement : In person verification of KYC and other documents of customer by physical visits or video conference by Relationship Manager in loans exceeding INR Ten lakh..
- III. Post Disbursement trigger-based customer visits by Credit & Risk team.
- IV. Customer Complaints: Complaints from customers alleging fraudulent practices
- V. Credit Monitoring: Unusual Portfolio Behaviour indicating potential fraud.
- VI. Whistle-blowers: Employees or insiders who notice suspicious activities can report them
- VII. Audits: Regular audits can help detect irregularities or frauds

The frauds can be prevented by taking control measures as below:

- I. Performing thorough background checks and KYC of customers, and relations with other business associates / subsidiaries of SCCL.
- II. Periodic training programs for all employees on real life scenarios, recent fraud cases and Fraud Detection & Prevention
- III. Implementing preventive internal controls through appropriate process changes

## 6. Fraud Monitoring:

SCCL shall set-up an appropriate organizational structure for institutionalization of fraud risk management within its overall risk management functions.

The Risk Team on periodic basis, shall share Fraud reports, if any and dashboards with the Committee of Executives (CoE). All potential fraud/suspected reports will be reported to the Internal Audit team

### (a) Reporting to the Board:

In addition to the actions set out by the policy above, the risk team shall also notify the Risk Management Committee of the Board of Directors of the Company as follows:

1. Information relating to frauds for the quarters ending March, June and September shall be placed before the Board of Directors during the subsequent meetings of the following quarter.
2. Irrespective of the quantum, all instances of Fraud will be reported to the Managing Director / Executive Committee.
3. Where the quantum of the fraud exceeds INR Ten Lakh, the fraud shall be promptly reported to the Managing Director and Board after the same are proved in the preliminary investigation.

4. It is to be ensured that information relating to all the attempted frauds involving INR 25 lakhs or more shall be placed before the Audit Committee of the Board (with details of fraud).
5. In addition to the above, CoE shall conduct an annual review of the frauds and place a note before the Board.

**(b) Reporting to RBI on Centralized Information Management System (CIMS) portal**

- i. FMR -I for reporting new frauds of ₹1 lakh and above within three weeks (21 days) from the date of detection
- ii. FMR-III for reporting the developments in respect of frauds already reported (as and when basis)
- iii. FMR-IV (Quarterly Reporting of Theft, Robbery, Dacoit and Burglary): If there no incidents to report 'Nil' submission to be done in the CIMS
- iv. Paper based Monthly Certificate to be submitted by 7th of every month in the prescribed format

In addition, the Company shall disclose the amount related to fraud reported in their financial statements as notes to accounts.

**(c) Reporting under Legal Governance:**

COE shall immediately report the incidents of fraud to appropriate LEAs, viz. State Police authorities, etc., subject to applicable laws.

1. Cases of fraud committed by outsiders on their own and/or with the connivance of staff/officers;
2. Cases of fraud committed by employees, when it involves the SCCL's funds.

The said activity would be taken up by internal/external Legal Counsel for further processes and updates through Disciplinary Committee.

**7. Staff Accountability:**

In all fraud cases, staff accountability will be mandatorily explored. It is required to

- (a) confirm whether there was any lapse / mala-fide on part of employee which led to fraud and
- (b) if so then to take action against the staff concerned.

SCCL shall put in place a transparent mechanism to ensure that Whistle Blower complaints on possible fraud cases / suspicious activities in accounts(s) are examined and concluded appropriately under Whistle Blower Policy

**8. Compliance to Principles of Natural Justice**

CoE shall ensure compliance with principles of natural justice in a time-bound manner which shall include Issuance of a detailed Show Cause Notice (SCN) to the Persons, Entities and its Promoters / whole-time Directors against whom allegation of fraud is being examined. The SCN shall provide complete details of transactions / actions / events which form basis of suspicion of fraud.

2. A reasonable time of not less than 21 days shall be provided to the Persons / Entities on whom the SCN was served to respond to the said SCN.
3. The Risk Manager shall examine the responses / submissions made by the Persons/Entities prior to recommending to COE for declaring such Persons / Entities as fraudulent.

## 9. Role of Auditors

A. During the course of the audit, auditors may come across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions in the account. In such a situation, the auditor should immediately bring it to the notice of the senior management and if necessary, to the Audit Committee of the Board for appropriate action.

B. Scope of Internal Audit shall cover controls and processes involved in prevention, detection, classification, monitoring, reporting, closure and withdrawal of fraud cases, and also weaknesses observed in the critical processes.

## 10. Special Committee of the Board for Monitoring and Follow-up of cases of Frauds:

A Special Committee to Monitor and Follow-up (SCMF) shall be formed in line with regulatory guidelines, Middle layer NBFCs shall constitute a committee consisting of Chief Executive Officers and two Independent Directors. Such a Committee shall be headed by one Independent Director to oversee the effectiveness of the fraud risk management in the Company and to review and monitor cases of frauds.

The Company shall also have the option of constituting a Committee of the Executives (CoE) with a minimum of three members, at least one of whom shall be a Whole-time director or equivalent rank Official for the purpose of performing the roles and responsibilities of SCMF as required under these Directions.

## 11. Fraud Governance

### Closure of Frauds:

Prior approval from the respective Regional Offices of RBI Concerned shall normally be obtained for closure of fraud cases reported to RBI.

### (a) Statistical Closure:

Fraud cases involving amount up to INR 25 lakhs, may be closed for limited statistical / reporting purposes where the investigation is on, but challan / charge sheet not filed in the Court for more than three years from the date of filing of First Information Report (FIR); or the trial in the courts, after filing of charge sheet / challan has not started, or is in progress for more than three years from the date of filing of First Information Report (FIR).

### (b) Other Closure:

SCCL shall close the fraud cases after completing following actions

- cases pending with Police/Court have been 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.

## 12. Updates or Revisions:

The Board of Directors shall review the Policy and shall carry out up-dation based on regulatory guidelines at least once in three years.