

PREVENTIVE VIGILANCE, FRAUDS & SECURITY MEASURES IN BANKS

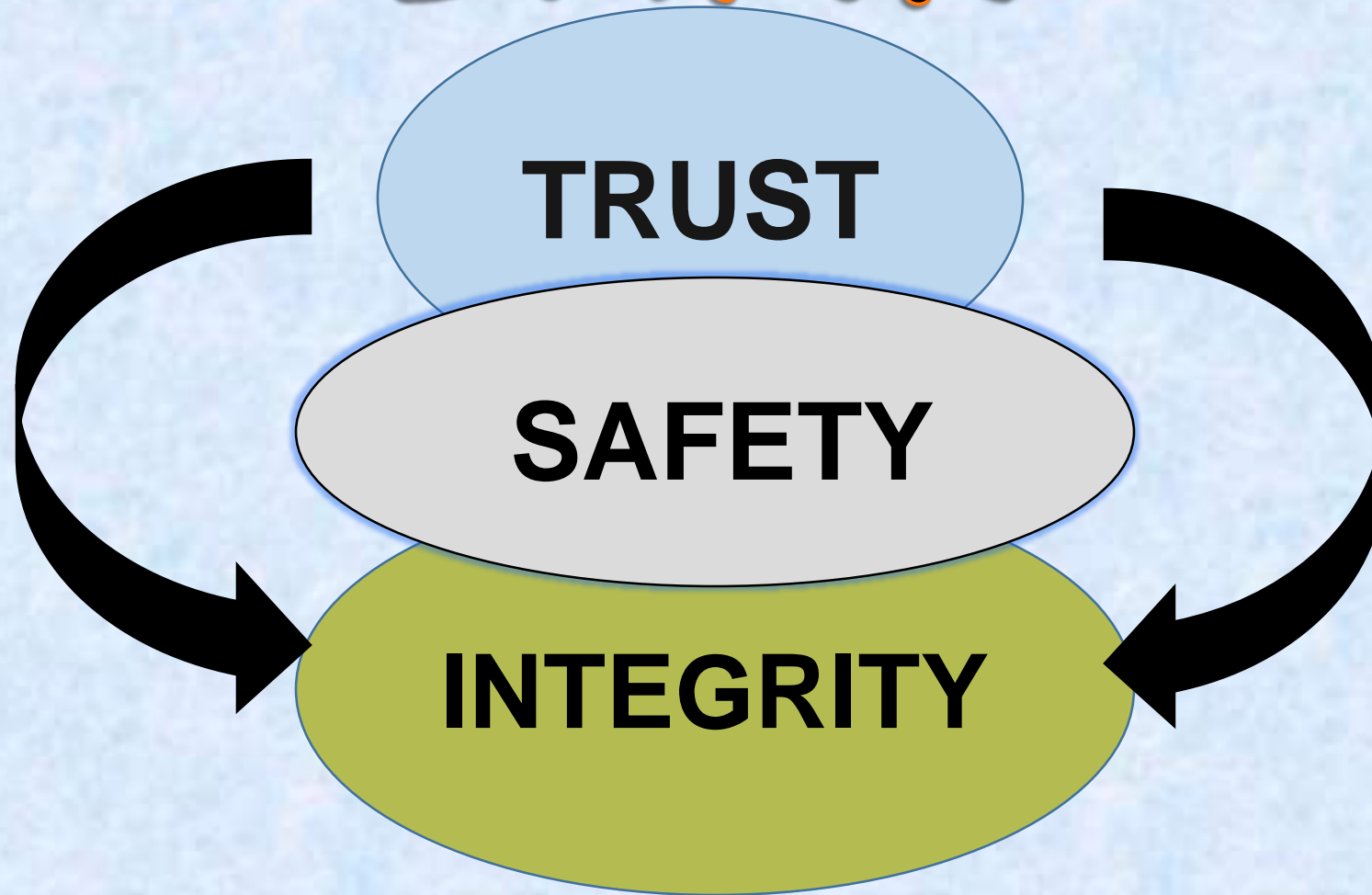
RBI/DBS/2016-17/28 DT. July 01, 2016 (Updated as on July 03, 2017)



PREVENTIVE VIGILANCE

- The origin of the word “vigilance” comes primarily from Latin word “vigilia” which means “wakefulness” or “alertness”.
- Preventive Vigilance is adoption of various measures to improve systems and procedures to eliminate or reduce corruption.
- Organisations keep a watch over their staff & customers to avoid any untoward happening, incident or accident.
- Vigilance refers to the process of paying close and continuous attention.
- सावधानी हटी, दुर्घटना घटी।

BANK



OBJECTIVE OF PREVENTIVE VIGILANCE

- ❖ Exercising watchfulness and diligence by all employees so as to prevent happening of any untoward incidents that may adversely affect financial or reputational implications for the organization .
- ❖ To ensure strict adherence to integrity by all employees and bank's laid down policies, systems and procedures so that bank's interest is protected.
- ❖ Preventive vigilance sets up procedures and systems to restrain the acts of wrong doing.
- ❖ Restrain the misconduct in the various areas of the functioning of any organization .

PREVENTIVE VIGILANCE COMMITTEE

Formation of “Preventive vigilance committee” as well as ensuring meeting every month without fail in the branch is the primary responsibility of Branch in charge .

प्रत्येक शाखा में सतर्कता निवारक समिति अवश्य होनी चाहिए।

FRAUD PREVENTION & MANAGEMENT FUNCTION

- ❖ The fraud risk management, fraud monitoring and fraud investigation function must be owned by the bank's CEO, Audit Committee of the Board and the Special Committee of the Board.
- ❖ Banks with the approval of their respective Boards, shall frame internal policy for fraud risk management and fraud investigation function.
- ❖ Banks shall send the Fraud Monitoring Returns¹ (FMR) through the XBRL system. Banks should specifically nominate an official of the rank of General Manager who will be responsible for submitting all the returns.
- ❖ The major functions of the Special Committee would be to monitor and review all the frauds of ₹10 million and above.

CENTRAL FRAUD REGISTRY (CFR)

- ❖ A Central Fraud Registry (CFR) based on the Fraud Monitoring Returns, filed by the banks and the select FIs, including the updates thereof, has been made available, for which banks have been given access through user-ids and password.
- ❖ CFR is a web-based and searchable database.
- ❖ The practice of issuing paper based Caution Advice (CA) has since been discontinued.
- ❖ However CAs on frauds including attempted frauds having systemic implication will be issued as and when required.
- ❖ Banks are advised to make full use of the CAs/CFR for timely identification, control, reporting and mitigation of fraud risk.
- ❖ Banks need to furnish Fraud Monitoring Return (FMR) in individual fraud cases, irrespective of the amount involved, to RBI electronically using FMR Application in XBRL System supplied to them within three weeks from the date of detection.

TIME LINE PROVIDED FOR REPORTING OF FRAUD

- Branch to ZO – 7 days
- ZO to HO – 3 days (Total 10 days from detection of fraud).
- HO to RBI – Within 21 days from detection of fraud.
- Quick reporting of fraud to be done on the same day.
- ❖ All fraud cases of value below ₹10,000/- involving bank officials, should be referred to the Regional Head of the bank, who would scrutinize each case and direct the bank branch concerned on whether it should be reported to the local police station for further legal action.
- ❖ Banks should ensure that all frauds of ₹0.1 million and above are reported to their Boards promptly on their detection.

REPORTING OF FRAUDS BY PUBLIC SECTOR BANKS

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₹10,000/- and above but below ₹0.1 million	State Police	If committed by staff.
₹0.1 million and above but below ₹30 million	To the State CID/Economic Offences Wing of the State concerned	To be lodged by the Regional Head of the bank concerned
₹30 million and above and up to ₹250 million	CBI	To be lodged with Anti Corruption Branch of CBI (where staff involvement is prima facie evident)
₹30 million and above and up to ₹250 million	CBI	Economic Offences Wing of CBI (where staff involvement is prima facie not evident)
More than ₹250 million and up to ₹500 million	CBI	To be lodged with Banking Security and Fraud Cell (BSFC) of CBI (irrespective of the involvement of a public servant)
More than ₹500 million	CBI	To be lodged with the Joint Director (Policy) CBI, HQ New Delhi

TYPES OF CORRUPTION IN BANKS

Personal Integrity

1. Corruption / Bribe

2. Illegal Gratification

3. Abuse of Official Position

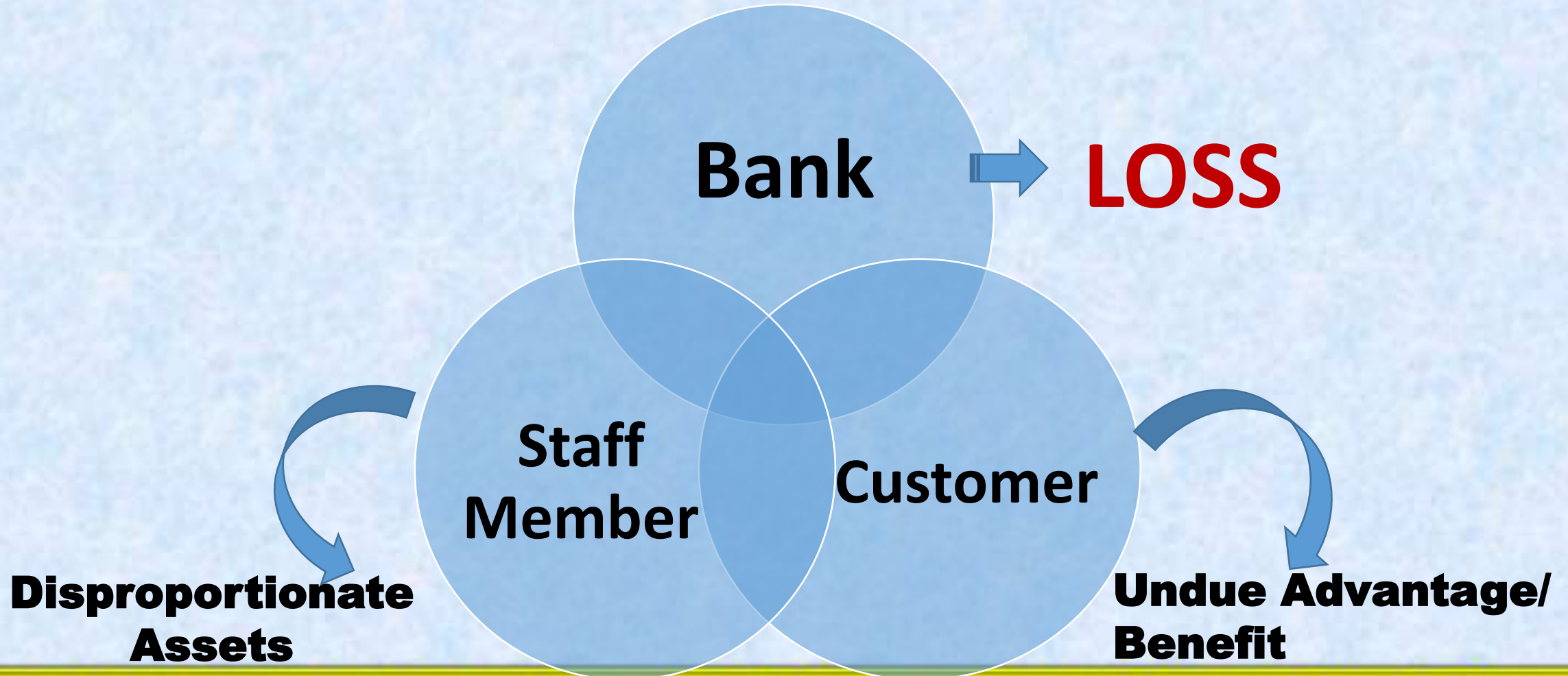
Abuse of Official Position

1. Sanction of Advances

2. Accommodation without basis

3. Non-reporting of sanction

PERSONAL INTEGRITY ABUSE OF OFFICIAL POSITION



TYPES OF VIGILANCE

Preventive Vigilance

Detective Vigilance

Punitive Vigilance

TYPES OF VIGILANCE

1) Preventive Vigilance: It plays an important role in strengthening the vigilance set up of any organisation. Preventive Vigilance sets up procedure and systems to restrain the acts of wrong doing and misconduct in the various areas of the functioning of department.

2) Detective Vigilance: Effective use and scan of Complaints, Inspection Reports, Audit Reports etc. Detection of Corrupt Practices, Malpractices, Negligence, Misconduct and better surveillance of public contact points. Close watch on officers at sensitive posts of doubtful integrity and detect fraud and scrutiny of decision taken by officials having discretionary powers.

3) Punitive Vigilance: It includes investigation and collection of evidence and speedy departmental inquiries. Swift and deterrent action against the real culprit.

In order to have uniformity in reporting, frauds have been classified as under, based mainly on the provisions of the Indian Penal Code

- a. Misappropriation and criminal breach of trust.**
- b. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.**
- c. Unauthorized credit facilities extended for reward or for illegal gratification.**
- d. Cash shortages.**
- e. Cheating and forgery.**
- f. Fraudulent transactions involving foreign exchange.**
- g. Any other type of fraud not coming under the specific heads as above.**

As regards cases under (d) & (f) above cash shortages resulting from negligence and fraudulent forex transactions involving irregularities / violation of regulations have also to be reported as fraud if the intention to cheat/defraud is suspected or proved. Notwithstanding the above, the following cases shall be treated as fraud and reported accordingly:

- a. cases of cash shortage more than ₹ 10,000/-, (including at ATMs) and**
- b. cases of cash shortage more than ₹ 5,000/- if detected by management / auditor/ inspecting officer and not reported on the day of occurrence by the persons handling cash.**

VIGILANCE ANGLE

- a) Casual Negligence;
- b) Procedural Negligence;
- c) Gross Negligence;
- d) Malafide Intentions;
- e) In case of irregularities like gross or wilful negligence;
- f) Reckless in decision making;
- g) Blatant violations of systems and procedures;
- h) Exercise of discretion in excess, where no ostensible organizational interest is evident;
- i) Failure to inform the competent Authority in time.

PUNITIVE VIGILANCE ACTION

- CBI / Police Investigation;
- Prosecution sanction;
- Filing of Charge sheet;
- Recommendation for departmental action:

Officers:- Under BOI Officers Employees' (Conduct) Regulations
BOI Officer Employees (Discipline & Appeal) Regulations, 1976.

Award Staff:- under Bi-partite Settlements

- ❖ Memo calling for explanation
- ❖ Minor misconduct
- ❖ Charge sheet - Minor Penalty / Major Penalty
- ❖ - Gross Misconduct
- ❖ Punishment

FINANCIAL FRAUD

- ❖ Financial fraud can be broadly defined as an intentional act of deception involving financial transactions for purpose of financial gain. Fraud is a crime as it is a civil law violation.
- ❖ Many fraud cases involve complicated financial transactions conducted by 'white collar criminals' such as business professionals with specialized knowledge and criminal intent.
- ❖ Fraudsters can contact their potential victims through many methods which include face-to-face interaction, by post, phone calls, SMS, E-mails, etc.
- ❖ 'Get-Rich-Quick' schemes are plans which offers high / unrealistic rates of return for investment. Generally speaking, if the offer is too good to be true, people should be alert.

TYPES OF BANK FRAUD

Some of the types of Bank frauds are :

- 1. Stolen Cheques;**
- 2. Forgery and altered cheques;**
- 3. Accounting frauds;**
- 4. Fraudulent Loans;**
- 5. Fraudulent Loan Application;**
- 6. Forged or fraudulent documents;**
- 7. On line Banking Frauds;**
- 8. Card Frauds.**

MODERN DIGITAL FRAUDS

Online Banking / Electronic Frauds

Hoaks e-mails which appear to be similar to genuine e-mails from the banks. You should not act on these e-mails before confirming the authenticity of the e-mail.

Card Frauds

Cloning of card. This crime is also known as skimming and can occur even in local supermarket when you use your card there. The information contained on magnetic strip is reproduced to clone your card.

CAUSE OF FRAUDS IN PRESENT SCENARIO OF THE BRANCHES / BANK

- **Shortage of Staff;**
- **Heavy Work Load & Late Sitting;**
- **High Expectation of Customer Service;**
- **Pressure from Customer, Controllers;**
- **Political and VIP Pressure at Branches;**
- **Control by Various Departments;**

CAUSE OF FRAUDS IN PRESENT SCENARIO OF THE BRANCHES / BANK

- **Business pressure – Cross Selling;**
- **To many meetings to be attended;**
- **Stress and strain experience at all level;**
- **Inadequate time for supervision/ follow up;**
- **Lack of knowledge of Banking, Computers & Technology;**
- **Inadequate Training, Infrastructure etc.**

CLASSIFICATION OF PEOPLE

People can be classified in four categories:

- 1) Honest and Efficient;**
- 2) Honest and Inefficient;**
- 3) Dishonest and Efficient;**
- 4) Dishonest and Inefficient.**

ROLE OF STAFF IN BANK FRAUDS

(Dr. N.L. Mitra Committee)

The role of staff can be divided in 3 heads-

- 1) Action taken with due diligence and good faith,**
- 2) Action taken negligently without regard to due diligence, and**
- 3) Transactions conducted in collusion.**

OPERATIONAL RISK IDENTIFIED BY BASEL COMMITTEE

- 1. Internal Frauds.**
- 2. External Frauds.**
- 3. Employment Practices and Workplace Safety.**
- 4. Clients, Products and Business Practices.**
- 5. Damage to Physical Assets.**
- 6. Business Disruption and System Failure.**
- 7. Execution, Delivery and Process Management.**

FRAUD PRONE AREAS IN BANKS

- ❖ **Deposit Accounts;**
- ❖ **DD/PSI/Other Remittances;**
- ❖ **Discounting / Purchase of Bills;**
- ❖ **Letter of Credit / Guarantee;**
- ❖ **Investments;**
- ❖ **Credit Portfolio;**
- ❖ **Other Common Frauds.**

CRITICAL AREAS OF PREVENTION VIGILANCE

I. Voucher Verification:

- a) Day end reports;
- b) Checking of day end reports;
- c) Transfer vouchers checking;
- d) Missing vouchers to be retrieved;
- e) Safe keeping of vouchers.

CRITICAL AREAS OF PREVENTION VIGILANCE

II. PASSWORD SECURITY:

- a) Maintenance of Password Secrecy;
- b) Change of password regularly;
- c) Watch the 'Third Eye' watching your password;
- d) Separate password for each programme;
- e) Ensure your password not used in your absence.

CRITICAL AREAS OF PREVENTION VIGILANCE

III. Use of Office Accounts

1. We should exercise the control over the reconciliation of all system related office accounts.
2. We should scrutinise the vouchers properly to identify the large debits to Gensus and other Office Accounts.

IV. Deposit Accounts

1. Return of undelivered cheque books. Account should be stopped or information should be given to customer.
2. ATM Card issued in individual name in a Corporate Account.
3. Huge withdrawal not monitored in new accounts.

CRITICAL AREAS OF PREVENTION VIGILANCE

4. At the time of first huge withdrawal, customer was not enquired though he was present and subsequently so many withdrawal from the new account.
5. TDR Certificate not obtained / request letter not obtained at the time of premature closure.
6. Signature not verified at the time of debiting the account.
7. We failed to take adequate precautions like identification of payee, enquiry about the large credits to a new account.
8. Heavy transaction in new account not monitored / reported properly.

CRITICAL AREAS OF PREVENTION VIGILANCE

V. Cash Department

1. Daily verification of cash balance not done by official.
2. Re-counting of note packets / loose notes not done by official.
3. Bi-Monthly verification of cash balance not carried out.
4. Retention limit not taken care.
5. Entries made in cash department in various ledgers / pass book not verified.
6. Counting of Soiled / Mutilated Notes not being done regularly.

SECURITY MEASURES AT BRANCH LEVEL

- A. There should be only single entry / exit point in the branch.**
- B. No one other than the staff is permitted to enter the branch premises before the commencement of working hours.**
- C. Branch to ensure adherence of cash retention limit strictly.**
- D. The main gate must be closed at the time of withdrawal / deposit of cash from / in the strong room.**
- E. To ensure that both doors of the strong room are closed and locked by the joint custodians each time cash transaction from the strong room is completed.**
- F. Time lock, where provided, must be used as per instructions.**

SECURITY MEASURES AT BRANCH LEVEL

G. The Alarm system should always be functional and checked daily. All the sensors and switches must be appropriately fixed. One panic switch must be installed inside the strong room.

H. CCTV must be installed in the branch. It should be ensured that one camera is fitted inside the strong room focused on cash safe.

I. No unauthorized person should enter the Cash Department.

J. One camera covering the entry / exit of strong room and PIR sensor must be installed inside the strong room.

K. The information about remittances should be strictly confidential.

L. Ensure Gun licenses are renewed in time.

M. The collapsible doors should be duly chained where applicable.

SECURITY MEASURES AT BRANCH LEVEL

N. Bank staff should be briefed regarding modus operandi of the criminals. They should observe simple precautions like keeping the cash cabins locked at all times when cash is kept inside. Cash boxes should be locked and chained in the cashier's cabin. The cashier cabin must have automatic lock.

O. The cash area must be segregated from the banking hall to prevent any outsider to enter.

P. Branch manager must check CCTV recording every day.

Q. All the security gadgets must be given power supply through UPS to ensure that they are kept on 24 X 7.

CRITICAL AREAS OF PREVENTION VIGILANCE

VI. ATMs

1. Undelivered ATM Cards and PIN mailers are to be kept separately under dual control.
2. Important Control Registers to be maintained as required by the bank.
3. Proper handling / delivery of the ATM PIN mailers by the official concerned.
4. Maintenance of various type of cards separately to avoid damage to the magnetic stripes.
5. Destroy the undelivered cards.
6. No person is allowed to handle the PIN mailers other than the authorized official.

SECURITY MEASURES FOR ATMS

The criminals have realized that ATMs are softer targets. We should adopt following security measures to protect these ATMs :

A. ATMs should be well lit inside as well outside.

B. The shutter of the ATM on the top should be covered by a box which should be kept locked so that no unauthorized person can bring it down.

C. The ATM should be properly grouted in the ground.

D. The e-surveillance system installed in the ATM should be functional.

E. The shutter of the ATM must have centre lock fixed in the ground so that it can not be cut.

F. Branch incumbent should get the ATM included in police beat route

CRITICAL AREAS OF PREVENTION VIGILANCE

VII. Advances

1. Proper Pre-sanction verification of the antecedent should be done to ensure the identity and the purpose of loan.
2. Land records etc. to be examined by the bank's advocate to ensure the defect free title of the landed property to be accepted as security.
3. Proper assessment should be done to ensure financing of a viable project / to check the over financing.
4. The scheme financed should be under Bank's Scheme.
5. No-dues certificate from the other credit institutions should be obtained.
6. Phase-wise disbursement should be made within the overall sanctioned limit.

CRITICAL AREAS OF PREVENTION VIGILANCE

- 7. Disbursement should be done to the supplier directly against receipt. No cash disbursement without proper justification.**
- 8. It should be ensured that the asset have been really created.**
- 9. Bank's charge should be created properly.**
- 10. EQM / ROC registration should be done.**
- 11. Execution of security documents should be done properly.**
- 12. Insurance of the property done at proper value.**
- 13. Correct rate of interest / other charges should be verified.**

CRITICAL AREAS OF PREVENTION VIGILANCE

14. It should be monitored that the unit is not defaulting the Government dues like Sales Tax, Income Tax, Customs / Excise Duties, Electric Bills, Land Revenue etc.

15. Periodical inspections to be carried out and finding should be written on reports.

16. Timely review should be done after obtaining necessary Financial returns.

17. It should be ensured that Non-moving stocks, stock against Bank Guarantee etc. are segregated at the time of calculation of Drawing Power to prevent double financing.

18. Reports relating to advance department should be verified properly by the concerned official.

PRECAUTIONS

1. Do not use your influence for securing any advantage for yourself or others.
2. Do not make any falls bill or make any attempt to falsify any amount.
3. Do not cultivate too close friendship with Bank's Contractors, Suppliers etc.
4. Let the files move without your intervention if your interest is involved.
5. Don't get influenced by any person.
6. Do not relax while you are on invigilation or supervision duties.
7. Avoid misuse of bank's property by you.
8. Do not enter into any borrowing arrangement with any bank. It may amount to misuse of official position.
9. Report all your transactions over Rs. 25000/- to the bank.

