

**VERITAS FINANCE LIMITED**  
**(Formerly known as Veritas Finance Private Limited)**

**Fraud Risk Management & Prevention Policy**

Author of the Policy	Risk Department
Vetted by	Chief Risk Officer
Approver of the Policy	Board
Details of the Approval of Board	October 29, 2024
Applicability	All employees/Directors/Consultants/Interns/Vendors
Policy Amendments	None
Reference	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
Date of Policy	October 29, 2024

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**1. Background:**

In compliance with 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 crafted with the aim of setting up a framework for preventing, detecting, investigating, and reporting fraud incidents within Veritas Finance Limited (referred to as "Veritas" 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, and individuals with a business relationship with Veritas Finance Limited.

**3. Objectives of the Policy:**

This policy aims to instill a proactive approach within the company for identifying, analyzing, 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.
- Providing guidance to Veritas employees on fraud prevention, identification, and detection.
- Developing internal controls.
- Promptly documenting and reporting fraud incidents.
- Offering essential training to Veritas 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:

- Misappropriation of funds or assets.
- Improper handling or reporting of financial transactions.
- Soliciting or accepting material benefits from customers or service providers.
- Criminal breach of trust and misappropriation.
- 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 and documents forgery.
- Fraudulent transactions involving foreign exchange;

- 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" are 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 onsite inspections of processes, employees, documents, or by recognizing early warning signals. Veritas has a framework for Early Warning Signals (EWS) through appropriate early warning indicators for monitoring credit facilities / loan accounts and other financial transactions.

A Board Level Committee, similar to Risk Management Committee 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 CRM team
- II. Pre-disbursement sample customer visits by Field Risk Officers
- III. Post Disbursement trigger based customer visits by Credit & Risk team
- IV. Customer Complaints: Complaints from customers can trigger fraudulent practices
- V. Credit Monitoring: Unusual Portfolio Behavior indicating potential fraud
- VI. Whistleblowers: Employees or insiders who notice suspicious activities can report them
- VII. Audits: Regular audits can help detect irregularities or frauds
- VIII. Legal Actions: Legal proceedings or Litigation process can bring out fraudulent activities

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

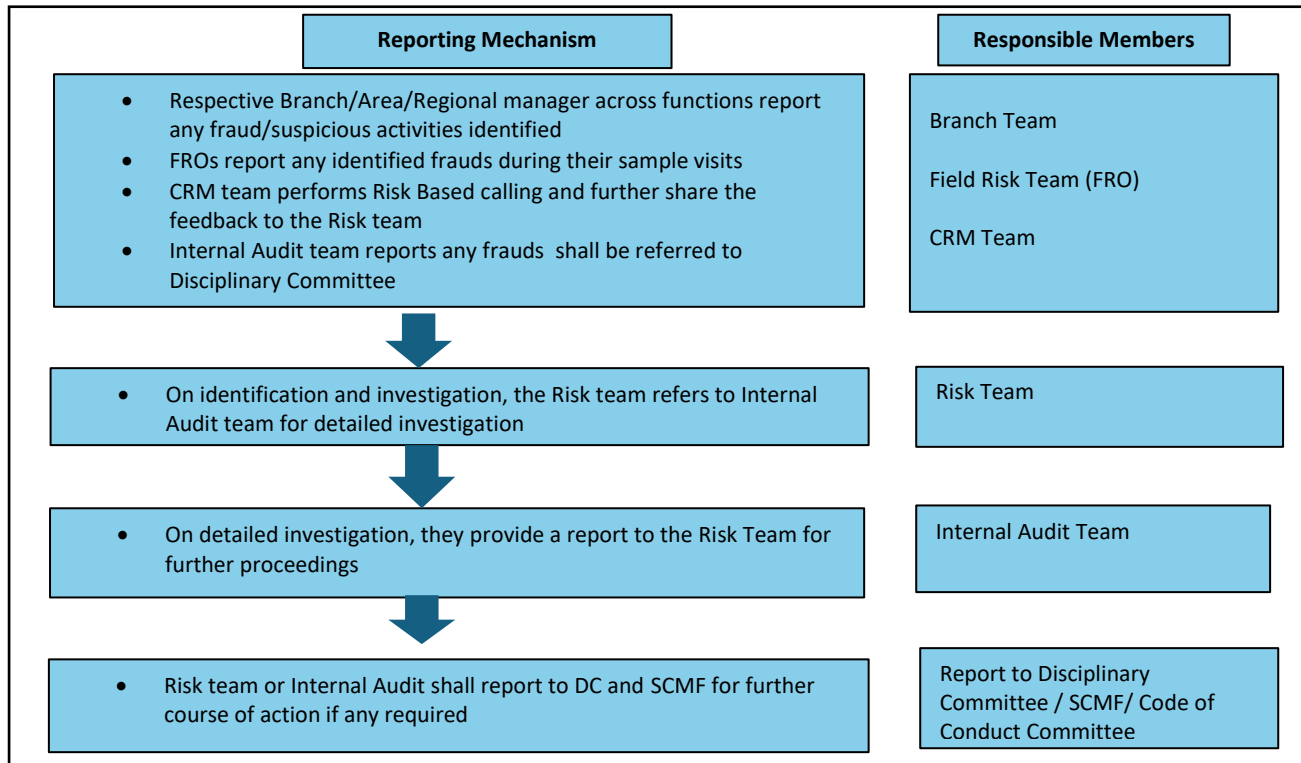
- I. Performing thorough background checks and verifying documents of customers, and other business associates of Veritas
- II. Periodic training programs for all employees on real life scenarios, recent fraud cases and Fraud Detection & Prevention
- III. Implementing preventive internal controls through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

#### **6. Fraud Monitoring:**

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

The Risk Team on periodic basis, share Fraud reports, if any and dashboards with internal management

and stakeholders. All potential fraud/suspected reports will be reported to the Internal Audit team.



### 7. Staff Accountability:

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

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

Veritas 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. Fraud Reporting:

Veritas shall issue an extensive Show Cause Notice (SCN) to the individuals, organizations, and promoters, as well as the executive directors and full-time employees, against whom the fraud allegations are under investigation. The Show Cause Notice shall capture the details about the transactions, acts, and occurrences which constitute the basis for the declaration and reporting of fraud.

Minimum of 21 days shall be provided to the Persons / Entities on whom the SCN was served to respond

#### Special Committee:

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

**(a) Reporting to the Board:**

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

- a) Information relating to frauds for the quarters ending March, June and September shall be placed before the Board of Directors during the subsequent month of the following quarter.
- b) Irrespective of the quantum, all instances of Fraud will be reported to the Managing Director / Executive Committee
- c) It is to be ensured that information relating to all the attempted frauds involving Rs. 25 lakhs or more shall be placed before the Audit Committee of the Board (with details of fraud).
- d) In addition to the above, Veritas shall conduct an annual review of the frauds and place a note before the Board.

**(b) Reporting to Regulator via XBRL:**

- a) FMR -1 for reporting new frauds within 14 days from the date of classification
- b) FMR-3/FUA for reporting the developments in respect of frauds already reported (as and when basis)
- c) FMR-4 (Quarterly Reporting of Theft, Robbery, Dacoit and Burglary): If there no incidents to report 'Nil' submission to be done in the XBRL
- d) Paper based Monthly Certificate to be submitted by 7th of every month in the prescribed format Veritas may, under exceptional circumstances, withdraw FMR / remove name(s) of perpetrator(s) from FMR. Such withdrawal / removal shall, however, be made with due justification and with the approval of an official at least in the rank of a director.

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

As a general rule, the following cases should invariably be referred to the State Police.

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

In cases where Law Enforcement Agencies (LEAs) have *suo moto* initiated investigation involving a borrower account, Veritas will follow the process of classification of account as fraud as per this policy.

**9. Penal Measures**

Persons / Entities classified and reported as fraud and also Entities and Persons associated with such Entities, shall be debarred from raising of funds and / or seeking additional credit facilities from financial entities regulated by RBI, for a period of five years from the date of full repayment of the defrauded amount / settlement amount agreed upon in case of a compromise settlement.

Lending to such Persons / Entities being commercial decisions, Veritas shall have the sole discretion to entertain or decline such requests for credit facilities after the expiry of the above mandatory cooling period.

**10. Treatment of accounts under Resolution**

In case an entity classified as fraud has subsequently undergone a resolution either under IBC or under the resolution framework of RBI resulting in a change in the management and control of the entity / business enterprise, Veritas shall examine whether the entity shall continue to remain classified as fraud or the classification as fraud could be removed after implementation of the Resolution Plan under IBC or aforesaid prudential framework. This would, however, be without prejudice to the continuance of criminal action against erstwhile promoter(s) / director(s) / persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.

The penal measures as detailed in Para 9 shall not be applicable to entities / business enterprises after implementation of the resolution plan under IBC or aforesaid prudential framework.

The penal measures detailed in Para 9 shall continue to apply to the erstwhile promoter(s)/ director(s)/ persons who were in charge and responsible for the management of the affairs of the entity / business enterprise.

**11. Fraud Governance:****Closure of Frauds:**

Prior approval from the respective Regional Offices of RBI/SSM Concerned is required for closure of fraud cases

**a) Statistical Closure:**

Fraud cases involving amount up to ₹25 lakhs, may be closed for limited statistical / reporting purposes where:

- 1) the investigation is on, or challan / charge sheet not filed in the Court for more than three years from the date of filing of First Information Report (FIR) by the CBI / Police; or
- 2) the trial in the courts, after filing of charge sheet / challan by CBI / Police, has not started, or is in progress.

**b) Other Closure:**

Veritas shall close the fraud cases after completing all following actions

- cases pending with CBI/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; and
- the systems and procedures have been reviewed, causative factors have been identified and lacunae plugged
- Veritas shall provide all possible assistance to the Police/CBI/Court for investigation/trial and vigorous follow up with the police authorities and / or court for final disposal of fraud cases shall

be undertaken.

In all closure cases of reported frauds, Veritas shall maintain details of such cases for examination by auditors.

## 12. Other Instructions

### a) Legal Audit of Title Documents in respect of Large Value Loan Accounts

Veritas shall subject the title deeds and other related title documents in respect of all credit facilities of ₹1 crore and above to periodic legal audit and re-verification, till the loan is fully repaid by the legal department. The scope of the legal audit would be to ensure that there is no encumbrance in the property and loan documents are obtained in line with Veritas's policy. This would be carried out every six months from the date of disbursement of loan.

### b) Treatment of Accounts classified as Fraud and sold to other Lenders / Asset Reconstruction Companies (ARCs)

Wherever Veritas is intending to transfer such accounts will complete the investigation from fraud angle before transferring the loan account / credit facility to other lenders / ARCs. In applicable cases where Veritas conclude that a fraud has been perpetrated in the account and the same would be reported to RBI before selling the accounts to other lenders / ARCs.

### c) Role of Auditors

Veritas shall initiate for audit where we may come across instances of 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. **'Date of Occurrence', 'Date of Detection' and 'Date of Classification' of Fraud – for the purpose of reporting under FMR**

The 'date of occurrence' is the date when the actual misappropriation of funds has started taking place, or the event occurred, as evidenced / reported in the audit or other findings.

The 'date of detection' to be reported in FMR is the actual date when the fraud came to light in the concerned branch / audit / department, as the case may be, and not the date of approval by the competent authority of the Applicable NBFC.

The 'date of classification' is the date when due approval from the competent authority has been obtained for such a classification, and the reasoned order is passed.

## 13. Disclosures

Veritas shall disclose the amount related to fraud reported in the company for the year in their Financial Statements – Notes to Accounts

## 14. Updates or revisions:

The policy would be reviewed once in three years or as per the updation intended by Veritas but not later than 3 years.



**Revision History**

No	Date	Revision details
1	29.10.2024	<ol style="list-style-type: none"><li>1) Removal of threshold limit of Rs.1 lakh and Rs.10000/- as per RBI Guidelines</li><li>2) Penal Measures</li><li>3) Treatment of accounts under resolution</li><li>4) Other miscellaneous instructions on legal audit of large value accounts of Rs.1 crore &amp; above, Treatment of Accounts classified as Fraud and sold to other Lenders / Asset Reconstruction Companies (ARCs), Role of Auditors, Date of Occurrence', 'Date of Detection' and 'Date of Classification' of Fraud – for the purpose of reporting under FMR, Disclosures</li></ol>