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Actionables under the Fraud Reporting Framework for HFCs

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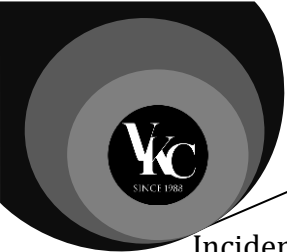
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Incidence of frauds in the housing sector is a matter of concern. While the primary responsibility for preventing frauds lies with the Housing Finance Companies (HFCs) themselves, the National Housing Bank (NHB) has been advising HFCs from time to time about the major fraud prone areas and the safeguards necessary for prevention of frauds. In order to facilitate the ongoing process relating to reporting of frauds in HFCs and to strengthen the reporting and monitoring system relating to fraudulent transactions reported by HFCs, NHB has decided to issue Guidelines vide its circular dated February 05,2019, on Reporting and Monitoring of Frauds in Housing Finance Companies.

HFCs are advised to strictly adhere to the provisions of the Guidelines, in particular the timelines stipulated in the Guidelines, failing which the companies would be liable to supervisory action, including invocation of penal action as per the provisions of the National Housing Bank Act, 1987. These Guidelines shall be called Guidelines on Monitoring of Frauds in Housing Finance Companies, 2018. These Guidelines shall come into force with immediate effect and shall apply to all Housing Finance Companies registered with the National Housing Bank (NHB).

Although the guidelines bear resemblance with that of Master Direction - Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016, except Chapter VII that deals with Provisioning pertaining to Fraud Accounts.

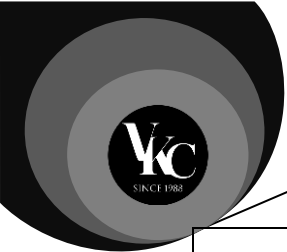
In this write-up we intend to list down the actionables for housing finance companies under this Framework.

1. Immediate requirements

- 1.1. Fraud reporting framework to be developed. This framework should also contain staff accountability in respect of fraud reporting and delays in fraud reporting, if any.
- 1.2. An official of rank General Manager or equivalent to be nominated as Designated Officer for submitting all returns to NHB and carrying out all reporting compliances under the framework

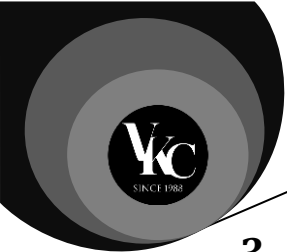
2. Reporting requirements

Nature of reporting	To be performed by	To be reported to	Frequency	Timeframe & other details
<i>Reporting of frauds involving Rs. 1 lakhs or above</i>				
FMR 1	Company	The General Manager,	Event based/ Quarterly	- 3 weeks from the date of detection of fraud/ 15 days from end of quarter



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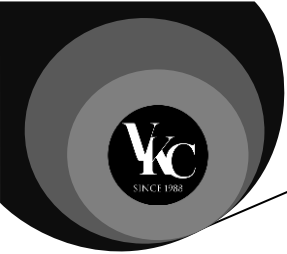
		National Housing Bank, Department of Regulation and Supervision		<ul style="list-style-type: none"> - Frauds perpetrated in subsidiaries, affiliates/ JVs must also be disclosed here - Additional details regarding unscrupulous borrowers must be furnished in the Part B of FMR 1
FMR 2	Company	- Do -	Quarterly	<ul style="list-style-type: none"> - 15 days from end of quarter - This is a report of frauds outstanding at the end of a quarter - A certificate has to be furnished, as a part of this report, to the effect that all individual fraud cases of Rs. 1 lakh and above reported to the NHB in FMR - 1 during the quarter have also been put up to the HFC's Board and have been incorporated in FMR 2. - Details regarding frauds in subsidiaries, affiliates/ JVs need not be disclosed here
FMR 3	Company	- Do -	Quarterly	<ul style="list-style-type: none"> - 15 days from end of quarter - This is a progress report of frauds of Rs. 1 lakh or more - Details regarding frauds in subsidiaries, affiliates/ JVs need not be disclosed here
<i>Reporting of frauds involving Rs. 1 crore and above</i>				
Letter informing about fraud of Rs. 1 crore and above	Company	- Do -	Event based	1 week from the date of detection of fraud



3. Matters to be placed in front of Board of Directors/ Audit Committee

3.1. The following matters are to be placed before the **Board of Directors**:

- i. All matters of frauds involving Rs. 1 lakh or above
- ii. Information relating to failure on the part of the concerned official and actions to be initiated against the official responsible
- iii. For quarterly review: Information relating to frauds for the quarters ending March, June, September and December shall be placed before the Board of Directors during the quarter following the quarter to which it pertains
- iv. For annual review: At the end of December every year, the following must be placed before the Board for annual review:
 - a. Whether the systems in the HFC are adequate to detect frauds, once they have taken place, within the shortest possible time;
 - b. Whether frauds are examined from staff angle;
 - c. Whether deterrent punishment is meted out, wherever warranted, to the persons found responsible;
 - d. Whether frauds have taken place because of laxity in following the systems and procedures and, if so, whether effective action has been taken to ensure that the systems and procedures are scrupulously followed by the staff concerned;
 - e. Whether frauds are reported to local Police, as the case may be, for investigation
 - f. Total number of frauds detected during the year and the amount involved as compared to the previous two years;
 - g. Analysis of frauds according to different categories and also the different business areas indicated in the Quarterly Report on Frauds Outstanding (vide FMR - 2);
 - h. Modus operandi of major frauds reported during the year along with their present position;
 - i. Detailed analyses of frauds of 1 lakh and above;
 - j. Estimated loss to the HFC during the year on account of frauds, amount recovered and provisions made;
 - k. Number of cases (with amounts) where staff are involved and the action taken against staff;
 - l. Time taken to detect frauds (number of cases detected within three months, six months and one year of their taking place);
 - m. Position with regard to frauds reported to Police;
 - n. Number of frauds where final action has been taken by the HFC and cases disposed of;
 - o. Preventive/punitive steps taken by the HFC during the year to reduce/minimise the incidence of frauds;



- p. Timely reporting of frauds to the concerned authorities.
- q. Details of fraud cases closed by the HFC during the period under reference

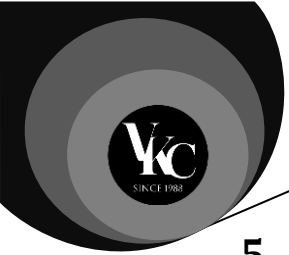
3.2. Matters to be placed before the **Audit Committee**:

- i. All individual cases of attempted fraud of Rs. 25 lakhs or above must be placed before the Audit Committee. The following must be placed:
 - a. The modus operandi of the attempted fraud;
 - b. How the attempt did not materialize in the fraud or how the attempt failed / was foiled;
 - c. The measures taken by the HFC to strengthen the existing systems and controls;
 - d. New systems and controls put in place in the area where fraud was attempted;
 - e. In addition to the above, yearly consolidated review of such cases detected during the year containing information regarding area of operations where such attempts were made, effectiveness of new process and procedures put in place during the year, trend of such cases during the last three years, need for further change in process and procedures, if any, etc. as on March 31 every year within three months of the end of the relative year.
- ii. The Audit Committee shall review and monitor frauds involving Rs. 50 lakhs or above. The periodicity to be decided by the Company.
- iii. All frauds involving Rs. 50 lakhs or above must be placed before the Audit Committee as and when they come to light.

4. Police complaints

The following cases should invariably be referred to the State Police:

- i. Where fraud committed by outsider: Cases of fraud involving an amount of ~1lakh and above, committed by outsiders on their own and/ or with the connivance of HFCs staff/ officers;
- ii. Where fraud committed by insider: Cases of fraud committed by employees of HFCs, when it involves the HFC funds exceeding Rs. 10,000/-



5. Others

- 5.1. Disclosure regarding the amount related to frauds must be reported in the balance sheet.
- 5.2. For accounts classified as “frauds”, provision of 100% to be created against the amount outstanding, irrespective of the value of collateral. HFCs have the option of providing for 100% against these accounts over 4 quarters starting from the quarter in which fraud has been detected, except where the account in question is classified as “loss” by the HFC.