

# **FRAUD CONTROL POLICY**

## **Hero Housing Finance Limited**

FCU Policy Version 1.0

Fraud Control Policy - HHFL

## 1. INTRODUCTION

The main objective of Fraud Control Unit will be to closely monitor the various key functional units of the company which could include both external & internal business partners like sales points, credit units, verification agencies, billing unit, collection unit and others to ensure that the company's guidelines, policies & processes are followed at any given time.

It is the intent of HHFL to promote consistent organization behaviour by providing guidelines and assigning responsibility for the development of controls and conduct.

In view of having a seamless Fraud Control Unit within HHFL, FCU will undertake all kind of verification during pre as well as post acquisition under the umbrella of Fraud Control Unit (FCU) for Builder Finance, Housing Loans, Loans against Property and for purchase of commercial property

No parallel work of similar nature will be carried out by any other department.

### 1.1 Fraud Definition

Fraud is defined as a deliberate act of deceit which is planned and executed to deprive an individual or an organization of property, money or any other valuable security.

Fraud is committed with an intent and includes actions of misrepresentations and /or acts of omission.

#### Employee Fraud Definition

HHFL maintains "Zero Tolerance" policy in respect of internal fraud and malpractices based on the internal fraud definition in the policy.

Any internal resource is a person who is employed by the HHFL and is working for the company for remuneration and includes probationer, trainee, and apprentice or called by any other such name.

Internal Fraud is defined as any deliberate or dishonest act committed by an employee of HHFL that results in actual or attempted financial wrong doing. This may take place in any number of different forms including but not limited to; theft or release of account information, falsification of documents, or other acts of deception with the intent to obtain improper financial benefit.

Fraud may involve & not limit to the below mentioned points:

- Misappropriation (theft) or wilful destruction (e.g. property, records, etc.) or loss of assets including cash, inventory etc.
- Unauthorized personal use of company assets.
- Bribery and corruption i.e. where someone is influenced by payment in cash or benefit in kind to unreasonably use his or her position to give some advantage someone.
- Inappropriate relationships with third parties thereby causing conflict of interest.
- Manipulation, falsification or alteration of financial statements, other records or documents.
- Suppression or omission of the effects of transactions from records or documents
- Deliberate misapplication of accounting or other regulations or policies.
- Disclosing confidential information to third parties without authority.

## 2. SCOPE OF FCU

FCU will perform the below mentioned Tasks but will in no way limit itself to any boundaries while undertaking a task in the interest of the organization.

1. Vendor signup review.

2. DSE / Sub DSA pre-recruitment checks.
3. Review of documents submitted for loan applications/Property Documents (screening) and verifying the documents based on triggers
4. Agency Audits.
5. Investigation into Fraud Cases.
6. Post Disbursement Verification
7. Employee verification /market feedback before on-boarding / hiring

### 2.1 Products having FCU process

Fraud Control Unit will undertake above mentioned activities in the products mentioned below. With the addition of new products in HHFL, the FCU coverage will extend accordingly.

- Builder Finance Loans
- Housing Loans/Home Improvement Loans
- Purchase of commercial property
- Loan against property

Any new product launched in future will be covered under FCU guidelines

### 3. FRAUD CONTROL UNIT INTEGRATION:

FCU Head will work closely with Risk, Credit Underwriting Team, HR, Operations, Collections, legal, Technical and Sales team

### 4. FRAUD MANAGEMENT STRATEGY

There are 3 pillars of Fraud Control Unit, which can be described as below:

#### a) PREVENTION

- Screening.
- Sampling.
  - *Mandatory*
  - *Trigger Based*
  - *Random.*

#### b) DETECTION

- Post Disbursement Verification.
- Process Audit
- Policies
- Training

#### c) INVESTIGATION

- Legal Follow up.
- Personal Interview/ Questioning.
- Employee/Agency Termination.

#### 4.1 PREVENTION

Prevention is the first component of the Fraud Control Unit Strategy. Prevention measures are designed to stop fraudulent behaviour and usage before it occurs. These measures have been developed basis fraudulent behaviour and pattern observed by way of implementing controls with a view to reduce exposure and minimize vulnerability.

Some examples of prevention tool include:

- Searches of other relevant database should be made to ensure fraudulent transactions are being recorded and reported correctly to access fraud risk.
- Portfolio analysis should be used to determine geographic location, behaviour, and infrastructure and processes used or exploited by those committing or facilitating fraud.
- Enhance credit verification to identify and reject fraudulent applications at the dealer points and front line units.
- Confidential information leakage controls for all HHFL employees to curb internal fraud.
- Appropriate employee pre-screening programs.

#### **4.2 DETECTION:**

Detection is the second component of the Fraud Control Unit Strategy. Detection processes are used to identify fraudulent behaviour as it occurs or soon after its occurrence, in order to mitigate exposure. HHFL will have systems and processes in place to identify and analyse fraudulent behaviour with the intent of reducing the exposure and control fraud risk.

Some of the detection tools include:

- Agreed and tested triggers in system and using rule based formulas to detect fraud.
- Process for contacting customers with activities identified by detection system to determine if the activities are fraudulent.
- Metrics which provide timely tracking of fraud case inventories and provide data for trend analysis to understand shifts in the fraud attack and changes in the effectiveness of counter measures.
- The unit will implement numerous detection tools to avoid large scale fraudulent incidents including the following MIS and trackers:
  - Pre Disbursal Sampling Tracker
  - Post Disbursal Sampling Tracker
  - Region/Location wise sampling trends and analysis
  - Other MIS as deemed appropriate
- All fraud escalation and detection results will be reported monthly to senior management. The FCU unit will also forward all suspicious cases to the relevant departments for corrective measures.

#### **4.3 FRAUD INVESTIGATION:**

##### **Internal Fraud**

Thorough investigation would be conducted for cases involving Fulltime Employees and the outcome will be referred to the designated committee for appropriate advice/action.

##### **External Fraud**

Thorough investigation would be conducted for cases involving external or third parties and the outcome will be shared with the respective departments for their view & appropriate action based on the investigation findings will be taken by FCU Team.

#### **4.4 DETERRANCE**

Deterrence is the last component of the Fraud Control Unit strategy and it assists in limiting fraud by way of maintaining strong and effective controls. Deterrence activities discourage the fraud proponents from targeting an entity and may eventually lead to their arrest and prosecution.

Some of the deterrence tools include:

- Increasing the risk of the perpetrator being caught and prosecuted through aggressive investigation and law enforcement efforts.
- Educate customers to immediately report fraudulent activity on their loan account and to inform law enforcement authorities where appropriate.
- Having access to adequate training / education material on fraud awareness for employees.
- Having adequately dedicated fraud management staff trained to fight fraud anytime it occurs.
- Fraud strategy/plans that define fraud threats, mitigate the possible risk, manage fraud performance and identify gaps towards achieving minimum standards.

## 5. Pre-Acquisition stage

### 5.1 Hunter Checks

The most effective strategy is to prevent the fraud at the point of application. This requires the authentication of genuine customers and the detection of potentially fraudulent applications before the customer is accepted without adversely affecting customer service level and speed of decision. Hunter using its proven detection rules engine and highlights potentially fraudulent applications, enabling organizations to identify fraudsters before they become customers.

Hunter offers the investigators a range of tools to highlight to assist in any abnormalities found during the dedupe check with respect to demographics information/KYC details etc. Visual mapping and data assists in the detection of organized fraud and prevention

Hunter check for all the applications logged in are mandatory and any matches and catches will be highlighted to the credit team for further action.

#### 5.1.1 Matches & Catches

Clear matches: Positive, can go ahead and source the case

Declined/Suspect matches: Negative, checks & investigation to be conducted with participating organization and reject/clear accordingly.

#### 5.1.2 Hunter Status Information

- Clear - Hunter check is cleared with no substantial findings Pending
- Pending for Hunter Check - for pending cases NA will be updated under identifier no's.
- Declined - Declined under Hunter check Under investigation
- Suspected case - under investigation
  - Decline/Suspect matches to be mailed to sales and credit team for the location.
  - Documentation/ profile verified and if no adverse findings, go ahead and clear the same.
  - If not recommended, decline the cases on Hunter with complete remarks

#### 5.1.3 Hunter Checklist for Operations

In the operation checklist Hunter system check to be kept as mandatory with CIBIL and other verifications. There would be a column in which sixteen-digit unique number confirming Hunter check will be updated.

For example, 5258541319022016 (Eight-digit identifier no's followed by date in which case was logged (19022016) on hunter system).

#### Hunter Deviation

- Hunter cases declined on system, any approval post Hunter negative findings can be approved by Head – FCU
- The mail copy of the same should be kept in file and Hunter systems should be updated as worked /clear/declined with all necessary remarks for future reference.

## 5.2 Categories of document verification

The verification of documents/profile in an application for loan will primarily happen in three categories. They are: -

- **Sampling** – Each product / location will have a benchmark percentage which will be owned / budgeted by FCU team.
- **Mandatory** – Documents defined as per policy to be mandatorily sampled keeping the product dynamics in mind. Each product will have its own list.
- **Credit Referred** – Credit team can refer a case / document for verification clearly defining the triggers separately to FCU managers.

## 5.3 Case Status Notification

For all reporting purposes the following notations will be used. They are explained with examples here under: -

- **Positive:** - Any case verified where all documents / Profile has come clear, would be marked as positive.
- **FCU Decline (RD):** -All the cases verified where document / Profile are not matching with the records at the authority / archive or the profiling of the customer has clear proof of negative exposure of any kind.
- **Referred to Credit (RTC):** - There is no Proof of any misdeed available but only the market information which is available may play a role in the decision of the case for disbursement.
- **Could not verify (CNV):** - Any verification failed due to non-cooperation from various issuing offices or verification location is out of the reach of the FCU agency.

## 5.4 Application Screening / Sampling process:

This is a proactive Fraud Control process aimed at controlling frauds at the time application for availing loan. This involves sample checks at the application stage. The output of this process is to get an understanding of the latest application fraud trends and to monitor the channel partners.

### Persons authorized:

- CRO
- NCM / FCU Head
- FCU Managers
- FCU Consultant / Agencies & their employees.

### Process flow:

- Applications are picked up based on specific triggers or randomly from CPA at the time of login of the case or / and prior to the disbursement of the loan. There can be a mandatory check of document / profile too.
- The application can also be picked up from the DSA premises.
- A copy of the application is taken and the original application is allowed to follow the normal course of processing.
- FCU conducts the verification on these applications through the empanelled FCU agency.
- The FCU Manager / Agency, on a daily basis provide feedback on each application to stake holders through mail. A rolling MIS for the month will be used for this purpose.
- A sampling report is made and the physical copy is sent across to CPA in PDF format for filing along with the application. The original is archived at the agency.
- Experian Hunter fraud detection tool will run simultaneously on all logged-in applications. This will be managed through a separate SOP.

#### Following action on the FCU feedback will be taken on the cases.

- **Positive application** – application follows the normal processing cycle.
- **FCU Decline (FD)** – application is declined by CPA as declined by FCU, case given to FCU manager / Agency for further deterrent action. Also case is escalated to sales for further viewing. No file to be moved out of the CPA without FCU Manager Approval.
- **Referred to credit (RTC)** – Case needs to be sent for credit manager's approval as per the approval matrix listed below.
- **Could not be Verified (CNV)** – to be sent for credit manager's approval based on the points mitigating the case as per the approval matrix listed below.

Fraud Control Unit will provide monthly summary on sampling as part of the newsletter and also provide specific feedback from the process to the concerned units as and when required.

#### 5.5 Screening / Sampling process guidelines

The screening / sampling process is to be carried out only after the file login when application-ID is generated.

The screening / sampling process will be conducted two times for all the loans.

Firstly, before the sanction of loan. i.e. after the time of login of file once Application ID is generated.

Secondly before the disbursement. i.e. after the operation has generated the NDC checklist.

All Screening / sampling process must be aligned to / carried out on SFDC platform.

At any point of time during the file review before disbursement if any new document is added to the file then it must be first routed through FCU and a report must be generated for the same.

The Status of Sampled file will be communicated to business / Credit / Ops (CPA) through daily tracker (running MIS for the month) by the agency / FCU Manager. It can also be communicated back to the team via SFDC platform – whichever is applicable. Along with the daily tracker (in an excel format), FCU will either generate a one – pager report for all verified cases and will present to operation team (only) for filing purpose in the loan file or will report the cases on SFDC platform as per the designed workflow.

#### 6. FCU Stamps to be used on file during physical check – if any

There are four types of decision on the file.

They are :-

- Screened file – All documents in the file is to the satisfaction of the sampler.
- Sampled File – Document(s) are picked up for verification based on the trigger available.
- Hold / Query - Document(s) are not legible and need to be replaced with a better quality.
- FCU Complete – After the second stage of screening / sampling. This will suggest FCU process completion.

In case of hold / query stamped document the sampler will note the document in question on the file cover and the same needs to be resolved by sales manager / coordinator within 2 working days.

Hold / query can convert into screened / sampled after the same is resolved. However, all queries in the file to be noted by the sampler at one go. This is limited to the document available in the file and does not hold true for any new addition.

A hold MIS will be generated and shared with process owners to take note and clear the back log.

If the cases are flowing on SFDC platform there is no need for FCU stamping on the documents as the FCU process is being completed on the scanned document available in the system.

## 7. Reporting TAT

The turn-around-time (TAT) for the FCU reporting in all kind of verification is mentioned here under.

100% Logged in cases will go through FCU process only after the login code is generated.

FCU TAT will be

- T+ 2 days- for cases within the municipal Limits
- T+ 2 day - For cases out-side Municipal limit but within FCU agency reach.
- T+ 3 days – for cases where FCU agency reach is not mapped.
- T+ 4 days - for vendor Verification and FOS verification.
- All Hunter clearance will be provided in 0+1 day but in case of investigation it will be done in 0+3 days
  1. Public / organization holidays are to be excluded from TAT count.
  2. Tth day being the day of Sampling / pickup of the document irrespective of the time of pickup.
  3. TAT can be reworked in consultation with business and credit team keeping special occasions in mind.

## 8. Deviations

Any deviation if required in FCU Decline (RD) reported cases will only be taken by FCU Head. The case to be recommended through FCU manager only.

RTC cases are marked so, for the additional information to credit to help them while underwriting the deal. Deviation on RTC can be taken by ZCM and above keeping FCU managers in loop citing and recording relevant points mitigating the RTC report. CNV cases must also be approved by ZCM and above citing and recording details which can mitigate the un-checked document / profile. All documents reported as CNV will be approved by respective ZCMs/NCM and Policy Head together keeping FCU managers in loop basis valid points mitigating the case / document.

## 9. Discrepancy Resolution

For any issues pertaining to FCU bottleneck / process related, below mentioned Escalation matrix should be followed.

1. 1st Level: Mail should be marked to FCU Manager and he would in normal cases revert within 2 working day. Failing which 2nd level can be approached.
2. 2nd Level: Mail should be marked to Head - FCU and he would in normal cases revert within 2 working days. Failing which 3rd level can be approached.
3. 3rd Level: Mail should be marked to CRO and he would in normal cases revert within 2 working days.

All requests for approval of a FD reported case to be routed through FCU managers only, citing points mitigating the case.

All approvals request need to be initiated within 3-5 working days of the FCU reporting.



## 10. Other Guidelines

- All cases which have been sourced by HHFL employee / channel must be logged-in at the branch / CPA and an Application ID must be generated.
- All cases / documents logged in at the branch must be shown to FCU sampler only after system generated Application ID is mentioned on the file.
- Any document which has been added in the file after FCU screening / sampling should be shown to FCU sampler separately.
- No document must be removed from the file after FCU screening / sampling irrespective of its requirement or not.
- No request to the FCU agency can be made by any other department and must route through respective FCU managers only.
- Operation team must hold any file which doesn't have a FCU stamp on the file / document or corresponding FCU report.
- All communications to agencies must be only routed through the FCU Manager. No individual contact with the FCU agency must be carried out.
- All vendor verification request need to be marked to FCU managers only and not to local samplers.
- Any third party tool applied for fraud prevention will have its own SOP circulated by the FCU team.

## 11. Vendor Signup Review:

### Persons authorized:

- CRO
- Head – FCU
- FCU Managers
- FCU Consultant / Agencies & their employees.

### Procedure:

Concern Departments must hand over the following document to the FCU Manager / Agency, Prior to signing up a new DSA.

Proposal from of the vendor after the business / credit visit

- PAN card
- Residence / Office Proof
- GST proof
- Bank statements (where payout of other banks and NBFCs/HFCs is getting reflected)

FCU will conduct the pre signup checks and revert with their findings and recommendations in a pre – approved format

The reporting notation will be either Recommended or Not Recommended from FCU

The report will be sent by mail in a pre- approved format to the respective process-managers for further approval / empanelment.

One copy of the report will be filed with FCU Agency.

## 12. Vendor Audits:

Vendor audits will be conducted by FCU based on

- The vintage of the Vendor with HHFL.
- Previous issues with the vendor – if any.

- High risk vendors as per fraud/delinquency trends.
- Market information.
- Instances of Feet on Street (FOS) involvement etc.

**Persons authorized**

- CRO
- Head – FCU
- FCU Managers

**Process:** It will be done on a random basis.

**13. Post Disbursement Document Verification**

The dynamics of the business line demands that a few of the important document required confirming the hypothecation / mortgage of the asset in the name of the HHFL will be getting submitted at the branch after the loan is disbursed. All such documents will undergo FCU verification process before they are updated in the records.

**Persons authorized:**

- CRO
- Head – FCU
- FCU Managers
- FCU Consultant / Agencies & their employees.

**Process:**

- Screening / sampling (trigger – basis) of all the PDDs will be done as per the process defined and approved.
- Central Operation team to hand over the record file for FCU processing to the local sampler.
- All PDDs must be stamped Screened / Sampled by the FCU sampler.
- The report will be updated to Central OPs only in a separate tracker. PDF report for each verified case will also be submitted by FCU.
- FCU decline / CNV PDD to treated as per deviation matrix before updating in the system.

**PDD sampled and verified by FCU will be reported as**

- Positive
- FCU decline (FD)
- Could not Verify (CNV)

All FD reported PDDs to be intimated back through mail by the operation team to the stake holder who is responsible for updating PDDs while keeping FCU manager and Risk / policy in loop.

All FD reported PDDs to be held back by COPs team and can be handed over to FCU team on their request for further investigation.

All CNV reported PDDs to be jointly approved by Zonal Credit Manager (ZCM) and NCM citing points which can mitigate the document. COPS team to route the same to Regional Operation Manger (ROM) of respective region keeping FCU in loop.

**14. FI Cross Verification**

FI report can be picked for FCU verification based on local triggers available with FCU managers / Samplers. Discrepancy if any found in the FI report will be discussed with credit team.

### 15. Cross Valuation Process

Valuation reports from the empanelled valuers are picked based on triggers during screening process prior to Disbursement. Reports are cross valued with external resources through FCU agency. Mismatch if any found is highlighted to the Zonal Credit Manager for necessary action.

### 16. Adhoc Projects

Any other project to be started on an adhoc basis for further analysis and implementation can be carried out from time to time. The project features along with the incremental costing of the same will be discussed and approved by a committee comprising of CRO and CFO/Business Head. The time line and the outcome of the project along with its benefits need to be presented and approved by the above mentioned committee post which the same can be started. The outcome of any such project undertaken by the FCU team will also be presented to the committee with future course of action.

The collection as per the below given grid will be on the best effort basis. However, the grid is just a guiding principal and the penalties will be decided basis the gravity of the fraud committed.

### 17. FCU Check of probable Candidates shortlisted against a Vacancy

HHFL is in a growing state and so we have opened up the door for job-seekers. This will attract good as well as bad application.

Bad application in terms of capacity can be weeded out at various levels of personal interviews / interactions but intent / integrity issue and past records / references of a candidate can only be confirmed once the market scan is done on them.

**Objective** – To conduct a market scan on the past career span of the candidate to be sure about his past records and his vintage in the industry. All applicants interviewed for all positions till MANCOM level is covered under such search.

#### Persons authorized:

- CRO
- Head – FCU
- FCU Managers

#### Process Flow –

1. Regional HR will send the copy of the Resume to FCU Head on mail in the approved format. It will be counted as the “Tth day”.
2. No information of any such checks to be given locally to any other team including FCU and only be communicated to Head – FCU.
3. All reporting to be done by FCU team only.
4. A final decision on hiring rests with HR
5. No adverse background-check to be shared with the proposed candidates.
6. All such information must be treated as classified.
7. The TAT for the activity will be T+4 days.

**The report will contain the –**

1. Market feedback on the employee.
2. Employer (FCU peers comment) check.
3. Resume Scan (career span only) this will not include any certificate or education check.

**Guidelines**

- FCU check on shortlisted candidates for further hiring process is only initiated for HHFL business.
- All candidatures till the grade of 1 will be subjected to such checks.
- The resume can be handed over to FCU just after the clearance from functional Head and before the roll out of offer letter / final discussion on hiring.
- There is no deviation on the process and must be managed completely only by FCU team.
- During the reference check it is difficult to manage evidences however we will work on the same on best effort basis.
- No source of information to be contacted by any other unit other than FCU as such information is gathered basis FCU-networking and we need to safeguard the same for future usage.
- However, any clarification sought will be arranged / provided by FCU team.
- In case of any conflict / escalation on the report the final decision rests with respective LBO Head, CFO / CRO and HR.
- Offer letter can only be issued after the FCU report on the candidate is available with HR. Even after the offer letter is issued in a case and any negative market information is gathered for the candidate then the same can be shared with CRO / CFO, LBO Head and HR.

**Implementation & Review of Policy**

Custodian of this Policy to be the CRO , Policy Head & the CEO.

Policy will be reviewed on a regular interval to accommodate dynamic market conditions and any change will be placed before the Risk Committee.

Operating guidelines within the framework of this Policy can be signed off by Chief Risk Officer and CEO on recommendation of FCU Head/ Policy Hear/ National Credit Head.

***Glossary***

***Term Definition***

**FCU** - *Fraud Control Unit*

**CPV** - *Contact Point of verification*

**PDOCS** - *Post sanction document collection check*

**DSA** - *Direct Sales Agent*

**SE** - *Sales Executive*

**RD** – *Risk/FCU Decline*

**RTC** - *Refer to credit*

**CNV** - *Could not verify*

**SOP** - *Standard Operating procedure*

**FI** - *Field Investigation*

**TVR** - *Tele Verification*

**UND** - *Under Writing*

**LTV** - *Loan to Value*

**CPA** - *Credit Processing Agent*

**PDD** - *Post Disbursement Document*

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