FRAUD RISK MANAGEMENT POLICY

Version Control

Version	Date	Created / Modify By
Fraud Risk Management Policy	24th January 2017	Raghuvir Mukherji, Chief Risk Officer – IIFL Wealth
	October 18, 2022	Modified by Compliance team

Contents

1. Introduction

This policy has been developed with a view to preventing instances of fraud where there is a lending relationship between the client and IIFL wealth Prime. It refers to the various products being offered by IIFL Wealth Prime, the principal processes followed to deliver those products, the areas which are vulnerable to fraud (whether by clients, employees or third parties) and the mitigating controls that have been put in place to prevent frauds. It also lays down the steps to be taken by employee(s) in the event an incident of fraud occurs.

Given the current size of operations and the client base, it is felt that a Fraud Containment Unit (FCU) is not required at present, and the function of scrutinizing applications can be carried out by the Operations team itself.

This Policy is being approved by the Board of IIFLW Prime. Changes to it will also be approved by the Board (including the Finance Committee of the Board), based on suggestions made by the Management. It should be read in conjunction with other procedures and policies like the IIFLW Prime LAS Policy and the IIFLW Prime Risk Policy. Employees may contact the Chief Compliance officer and Chief Risk Officer, IIFLW for changes / clarifications relating to this Policy.

2. Fraud

Fraud has not been defined but has been classified in the RBI – Master Direction DNBS. PPD.01/66.15.001/2016-17 – Monitoring of Frauds in NBFCs (Reserve Bank) Directions, 2016 (RBI/DNBS/2016-17/49) dated September 29, 2016. The difference between an instance of fraud and one of error is intent. In order to have uniformity in reporting, frauds have been classified as under mainly based 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) Unauthorised credit facilities extended for reward or for illegal gratification,
(d) Negligence and cash shortages,
(e) Cheating and forgery,
(f) Irregularities in foreign exchange transactions, and
(g) Any other type of fraud not coming under the specific heads as above.

Reporting of frauds to Reserve Bank of India, the Board of Directors and to Police will be done as per the guidelines/ directions specified in RBI/DNBS/2016-17/49 dated September 29, 2016 including any amendments and, or enactments thereof.

3. Products

Clients can broadly be classified into two categories: those who have other relationships within the IIFL Wealth family and those that only have a relationship with IIFL Wealth Prime. In the first category, there may be a better understanding of the client and his / her wealth and business; in the latter, one is largely dependent on the documentation that is signed by the client at the time of onboarding and the initial understanding given to the Relationship Manager (RM) by the client while explaining his / her need for finance.

IIFL Wealth Prime offers the following products to its clients:

- Loan against Shares, Mutual funds, Fixed Income Instruments etc.
- Margin Funding
- ESOP Funding
- IPO and NCD Financing
- Structured Loans
- Loan Against Property

4. Processes for Credit Approval and Disbursement

As provided in the **Credit Approval Matrix** and the **IIFLW Prime LAS Policy**, there are approval matrices depending on the nature of the loan and the quantum. As a process, the basic details (static data) of the onboarded client (encompassing Family and Account in the Family→ Account→Product structure on the Callibre system) are captured by the Account opening team. The IIFLW Prime Operations team captures the Product details as per the requirements of the client and records transactions.

Approvals from the approver(s), credit committees, group credit committee (as per the Credit Approval Matrix, depending on the type of transaction) are taken by circulation/ meeting, as may be required, and then the disbursements are done. Both input of client static data (Name, address, income, net worth) and recording of transactions (approval of loans, terms of loans and interest, details of security received, disbursements, repayments of interest and principal) requires a maker-checker process to be completed.

5. Areas Vulnerable to Fraud and Mitigating Controls

The following are the areas more vulnerable to fraud in the current business, and the mitigating controls and procedures:

Product	Nature of Fraud	Cause / Perpetrated by	Implication	Mitigating processes and Controls	Residual Risks, if any
All products	Client submits forged documents of identity and address	Client	KYC falsified—AML violation; difficulty of tracing the client if there is default	There is a separate **AML / KYC Master Policy.** Originals are verified by Service team and certified accordingly at the time of receiving documents, where	-

Product	Nature of Fraud	Cause / Perpetrated by	Implication	Mitigating processes and Controls	Residual Risks, if any
				initial KYC is done by us. In other cases, these are downloaded from the KRA / CKYC websites.	
All products	Client submits false income details, or purpose of the loan	Client	Client may be doing inordinately large or risky transactions vis-à-vis his income / net worth that increases risk of default, especially if the leverage is taken for entering into speculative transactions	Original documents relating to income (eg. Income Tax Returns) must be sighted / collected. A major portion of the loan book is secured against shares or other securities, to which haircuts are applied and which are tracked for adequacy of coverage. Also, since a significant number of clients have a Wealth Management relationship with us, at present, this risk is limited	Unsecured portion of the loan book
All Products	Client details / transaction details (e.g. security provided / interest rate applicable) are incorrectly entered on the system with a view to mislead those	Employee, in conjunction with client	Wrong details will lead to incorrect decisions being taken, incorrect tracking	Maker-checker controls. Business will decide the rate of interest (with reference to the interest rate policy), so there is an inherent maker-checker in the setting of the rate too.	-

Product	Nature of Fraud	Cause / Perpetrated by	Implication	Mitigating processes and Controls	Residual Risks, if any
	approving or tracking the transaction				
All Products	Fraudulent lending decisions because of other considerations	Employee, in conjunction with the client	Lending with an intention to defraud the company; mala-fide needs to be proved by the existence of extraneous considerations	As per Credit Approval Matrix, depending on the quantum of the loan, multiple levels of approval are required. A single person cannot take a decision to approve a loan in any situation	
All Products	Disbursements are made without approvals	Employee, in conjunction with the client	A disbursement is made without being approved by the appropriate authority	Two people have to authorise the final disbursement to the client hence maker-checker control exists. It is expected that the checker will ensure that appropriate approvals have been received. Loans above certain amounts require multiple approvals	The record-keeping system is not automated / integrated with the disbursement system, so there is operational risk in the process
All Products – more applicable to Margin funding	Margin calls not tracked or made	Employee, in conjunction with the client	While we may have accepted adequate initial margin, if this is not tracked or margin calls are not made, we could be sitting with a big deficit if the client defaults. Mala-fide needs to be	There are two teams involved in this activity: the broking team that uploads and updates valuations and the NBFC Operations team that monitors this	Triggers are still manual, so operational risk of a miss exists.

Product	Nature of Fraud	Cause / Perpetrated by	Implication	Mitigating processes and Controls	Residual Risks, if any
			proved by the existence of extraneous considerations	and triggers margin calls. If margins are not being made good, it is expected that at least someone will speak to the RM and seek an explanation as to why the collateral should not be liquidated	
All Products	Where collection agents are used, they may do fraud by collecting payment in cash or in different names	Agent	Agents sometimes open accounts in slightly different names and deposit funds into those accounts. At present we do not use any collection agents, so this risk is limited	Clients are clearly informed which A/c they should make repayments and pay margin calls into. This is built into the loan documentation	
Loan Against Property	Documents of title are not clean and contain defects; ownership doubtful	Client	The mortgage itself may get questioned later on	Due diligence is done using law firms	We are dependent on the quality of the due diligence
Loan Against Property	Valuation is incorrect because of false data arranged by client	Client	We will overfund and if prices correct, then we will be left with an exposed position	Valuation is done independently by a Valuation Agent appointed by us	We are dependent on the quality of the valuation exercise and could be affected by market cycles since valuations typically

Product	Nature of Fraud	Cause / Perpetrated by	Implication	Mitigating processes and Controls	Residual Risks, if any
					depend on sales of comparable units in the same area
Treasury	Employee may pass wrong entries or remit funds to the wrong A/c	Employees	Loss due to siphoning off of funds, incorrect entries passed	Maker-checker required for entry	-
Treasury	Bad investment decisions due to extraneous factors or consideration	Employees	Loss due to willfully taken poor investment decisions. Mala-fide needs to be proved by the existence of extraneous considerations	There is an authorization matrix in the **Treasury Manual** and multiple levels of approval are required	-
Internal revenue and expense accruals (NBFC)	Wrong reporting / fudging of financial figures	Employees	Incorrect reporting / financial fraud	Authorisation levels relating to Financial transactions as laid down the Board; statutory and internal audit	

6. Discovery and Reporting of Frauds

A fraud can come to light through the following means:

- It could be reported by a whistleblower / employee
- It could come to light in an internal or concurrent (process) audit
- It could come to light in a regulatory audit
- It could come to light in a statutory (financial audit)

When an instance of fraud comes to light, employees should immediately inform the following:

Name	Designation	Email	Contact Details
Mr. Rakesh Chandnani	EVP- Operations	Rakesh@iiflw.com	022 4876 5845
Mr. Amit Bhandari	VP – Compliance officer and Company Secretary	nbfc-compliance@iiflw.com	022 4876 5712

Mr. Himanshu Jain	CEO and WTD	Himanshu.jain@iiflw.com	022 4876 5237
Mr. Amarendra Tembe	Chief Risk Officer,	amarendra.tambe@iiflw.com	022 4876 5129
Mr. Sanjay Wadhwa	Chief Financial Officer, IIFL Wealth	sanjay.wadhwa@iiflw.com	022 4876 5685/ 9324112665

If employees are involved in the fraud, then HR will be informed by one of the above for suitable action. Legal & Compliance will take a decision on whether a Police complaint is required to be made or some other legal action is required to be taken.

Reporting of Frauds to the Reserve Bank of India, Audit Committee, Board and /or the Police

The following are the reporting requirements with respect to frauds as per RBI Regulations:

INSTANCE	FORM	SUBMITTED TO	DEADLINE
Fraud > Rs. 1 Lac	FMR 1	Central Fraud Monitoring Cell, Dept. of Banking Supervision, RBI, Bengaluru and Regional Office of RBI	21 days from detection
Report on Frauds Outstanding	FMR2	Regional Office of the RBI	Within 15 days of the end of the quarter to which it relates
All fraud cases > Rs. 1 Lac	FMR 3	Central Fraud Monitoring Cell, Dept. of Banking Supervision, RBI, Bengaluru and Regional Office of RBI	As and when Basis.
All fraud cases > Rs. 1 Lac	FMR 4	Online platform of RBI	Within 15days of quarter end.
Incidences of theft, burglary, dacoity, and robbery by e-mail on a cases to case basis		RBI, on the following email ID – fmgconbfc@rbi.org.in	By e-mail on case-to-case basis
All individual cases involving attempted fraud > INR 25 Lakh	-	Audit Committee	At every meeting of the Audit Committee

INSTANCE	FORM	SUBMITTED TO	DEADLINE
All frauds > INR 1 Lakh and above	-	Board of Directors	Promptly
• Cases of fraud involving an amount of > INR 1 Lakh, committed by outsiders on their own and/ or with the connivance of staff/ officers of the company and • cases of fraud committed by employees, when it involves NBFC funds > INR 10,000	-	State Police	Promptly

The reporting of frauds to the RBI will be coordinated by the operation / Compliance department.