ALLAHABAD UP GRAMIN BANK
HEAD OFFICE: D.M.CLOLNY, CIVIL LINES BANDA

RECOVERY DEPARTMENT

Instruction Circular No.- 956 Date- 21-08-2014

All Branches / Offices / Inspecting Officers / RBTC / Project Office

OPERATIONAL RISK MANAGEMENT POLICY OF BANK

Deregulation and Globalisation of financial services, together with the growing sophistication of financial technology, are marking the activities of Banks and thus their profiles more complex. Evolving banking practices suggest that risks, other than credit risks and market risks, can be substantial, illustrations of these new and growing risks faced by banks include:

1- Highly automated Technology- If not properly controlled, the greater use of more highly automated technology has potential to transform risks from manual processing errors to system failure risks, as greater reliance is placed on integrated system.
2- Emergence of E-Commerce- Growth of E- Commerce brings with it potential risks (e.g., internal and external fraud and system securities issues.)
3- Emergence of Bank acting as very large volume services providers creates the need for continual maintenance of high- grade internal controls and back-up system.
4- Outsourcing- Growing use of outsourcing arrangements and the participation in clearing and settlement system can mitigate some risks but can also present significant other risks to banks.
5- Growing no. of high profile operational loss events worldwide has led banks to view operational risks management as an integral part of risk management activity.
6- Operational Risk is pervasive, Complex and dynamic. Unlike market and credit risk, which tend to be in specific areas of business, operational risk is inherent in all business processes. Operational risk management is an integral part of the risk management activity.

(Gopal Jha)
General Manager

Sn	PARAMETERS	BANK'S POLICY
1	What is Operational Risk	Operational Risk is an inherent part of the Bank business. As Operational Risk is inherent in all business processes so it is the necessity of time on focusing Operational Risk separately, besides Management of Credit and Market Risk. Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.
2	Objective	The Operational Risk management policy aims at following: -Meet Basel-ii requirements on Operational Risk Management -Develop a common understanding of Operational risk across the Bank, so as to assess exposure with respect to Operational Risk and take appropriate actions -Strengthen the internal control environment reducing the probability and potential impact of Operational Risk Losses -Develop techniques for creating incentives to improve the management and mitigation of Operational Risk
3	Management Structure	As per RBI guidance note on Risk Management System and approval given by the Bank Board a Risk Management Committee has been constituted headed by the General Manager (Recovery).The following Departmental Head have been inducted as the other member of the committee. 1. Chief Manager (Recovery) 2. Senior Manager (P&D) 3. Senior Manager (Credit) 4. Senior Manager (Recovery) 5. Senior manager (Inspection) 6. Senior Manager (Accounts) The minimum Quorum for meeting will be General Manager Chief Manager and three senior Managers. The committee will meet at least once in three month
4	Role and Function of Risk Management Committee	The Committee will evaluate risk faced by the Bank and put in place effective system to identify measure, monitor and control risk. The Committee will ensure: -Effective Management of the Operational Risk in bank -Periodically review (at least once a quarter) various operational Risk related issues and incidents , and focus on important issues requiring attention at the policy or process level -Review the risk profile , understand future changes and threats and priorities action steps -Review and approve the development and implementation of Operational Risk methodologies and tools, including assessments, reporting, etc -Discuss and recommend suitable controls/ mitigations for managing Operational Risk
5	Role and function of Regional Head	Regional Head are responsible for implementation of sound risk management practice at their respective Regions. They will have the following responsibilities related to operational risk management. -Create and promote risk awareness across all members of the Region -Ensure that all the branches are carrying out the responsibility relating to operational risk -Identification of loss events within the region and regular reporting of these events (details, amount and circumstances) to Head Office -Follow up for implementation of action plan on timely basis

6	Role and function of Vigilance department	-Root cause analysis of Fraud events -Maintain a data base of fraud related issues
7	Risk Categorisation	The four major cause categories of operational risk are as under: 1- PROCESS-The risk resulting from inadequate or failed internal process 2- PEOPLE-The risk resulting from the deliberate or unintentional actions or treatment of employees and or management 3- SYSTEM-The risk resulting from inadequate or failed system infrastructure including network, hardware, software, communications and their interfaces 4- EXTERNAL-The risk resulting from events outside of the Banks' direct or indirect control or from events that may impact on an external relationship example earthquake and or other natural calamities
8	Loss Event Type (Unauthorized Activity)	1- Loss due to Internal Fraud-Borrowal accounts Involvement of staff in frauds in advances accounts through submission of fake title deeds/fake documents, selling of part or whole of mortgaged property without prior approval of Bank, Willful takeover of non performance assets, financing of fictitious borrowers, impersonation of guarantor /borrower/ seller , connivance with valuer and property inflated, property already mortgaged to another institution offered for security of an advance 2- Furniture &Fixture including Vehicle write off due to theft 3- Cash missing from safe/cash removed by cashier or theft by other staff. Misutilisation /Misappropriation of funds / assets by staff 4- Intentional destruction of bank's assets 5- Fradulent withdrawal through forged cheques /signatures, Operation in dormant accounts (with involvement of staff) 6- Intentional purchase of accommodation cheques/bills 7- wilful non compliance of tax dues, interest penalty for delayed tax remittance 8- loss due to dacoity, cash in transit, burglary, theft etc. 9- loss due to DD frauds; Payment of forged DD , fraudulent withdrawal from other account, fraudulent withdrawal from ATM, fraud through credit card ,miscellaneous fraud 10-hacking of website, extraction of confidential data by unautorised person 11- compensation paid in labour dispute cases, consumer forum, compensation paid to customer as per direction of Ombudsman wrong disciplinary action against employees, unavailability of workforce 11-failure to file charge timely with ROC and govt. department 12-penality for non submission of various tax forms and other statutory information to regulating authorities

9	Risk Mitigation	The bank has an effective internal control structure covering policies, processes procedures including internal audit. Concerned functional departments will develop and recommend guidelines for mitigation of risk duly approved by the Bank Board. The Committee will ensure that all the guidelines are duly complied by the field functionaries will suggest measures to safe guard Bank interest.

(Gopal Jha)
General Manager