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RESERVE BANK OF INDIA

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Reserve Bank of India issues Revised Master Directions on Fraud Risk Management in the Regulated Entities

The Reserve Bank of India has today, issued three revised Master Directions on Fraud Risk Management for the Regulated Entities viz. [\(i\) Commercial Banks \(including Regional Rural Banks\) and All India Financial Institutions](#); [\(ii\) Cooperative Banks \(Urban Cooperative Banks / State Cooperative Banks / Central Cooperative Banks\)](#); and [\(iii\) Non-Banking Finance Companies \(including Housing Finance Companies\)](#).

These Master Directions have been prepared based on a comprehensive review of the earlier Master Directions, Circular and emerging issues. These Master Directions are principle-based and strengthen the role of the Board in overall governance and oversight of fraud risk management in the Regulated Entities (REs). These Directions also emphasise the need for instituting robust internal audit and controls framework in the REs.

The Master Directions now expressly require that the REs shall ensure compliance with the principles of natural justice in a time-bound manner before classifying Persons / Entities as fraud, duly taking into account the Hon'ble Supreme Court Judgment dated March 27, 2023 (*Civil Appeal No. 7300 of 2022 in the matter of State Bank of India & Ors. Vs. Rajesh Agarwal & Ors.*). Framework on Early Warning Signals (EWS) and Red Flagging of Accounts (RFA) has been strengthened further for early detection and prevention of frauds in the REs and timely reporting to Law Enforcement Agencies and Supervisors. Further, requirement for Data Analytics and Market Intelligence Unit for strengthening risk management systems have been mandated.

These Directions have now been made applicable to Regional Rural Banks, Rural Cooperative Banks and Housing Finance Companies as well, with the intent of promoting better fraud risk management systems and framework in such REs.

With the issuance of these Master Directions, the existing 36 Circulars on the subject stand withdrawn. This is done with the intent of rationalising the existing instructions and reducing the compliance burden on the REs.