

18 January, 2011

**CIRCULAR BM 1078**

**To: All Licensed Banks  
Operating in the Sultanate of Oman**

After Compliments,

**Re: Combating Frauds**

**1. Background**

- i) Banks' primary strength is the trust the public have in them. The trust emanates from the manner in which banks conduct themselves. The conduct focused is related not only to the business size, efficiency and results but also the management of various risks they are subjected to.
- ii) Banks, all over the world, are easy targets for frauds from within and outside since banks deal, primarily, with large volume of monetary transactions.
- iii) The above underpin the need for banks to prepare themselves utmost in dealing with frauds and attempts of frauds as an important risk management requirement. There are financial and reputation risks otherwise, besides, possibly, legal and other risks.
- iv) Central Bank of Oman has been sensitizing banks over a period of time, stating, among others, that due diligence requirements in combating frauds have dimensions/implications far beyond AML and CFT vision, frauds and attempts thereof are to be promptly reported to Royal Oman Police and the Central Bank, the Board of Directors and the management of banks should take responsibility for ownership, roll out and management of policies, strategies and operational control and other requirements to deal with them.

## **2. Reiteration of Requirements**

- i) The requirement now under the Law of Combating Money Laundering and Terrorism Financing (RD 79/2010) that suspicious transactions there under need to be reported to Financial Intelligence Unit only highlights further the need to strengthen the requirement to distinguish incidents of frauds and attempts of frauds from the suspicious transaction reportings under the above Law and to streamline instructions and review structure of reporting system on frauds-related incidents (besides following AML and CFT requirements under the Law and instructions there under) and hence, the following stipulations are highlighted for compliance.
- ii) To a great extent, frauds are incidents of making money cheating others, while money laundering is related to transactions relating to ill gotten money and terrorism financing to terrorism related activities/persons.
  - a) The Boards of Directors of banks should diligently set appropriate policy as regards combating frauds and they should reflect proactive and preventive vision, besides follow-up vigour in case of occurrence.
  - b) Senior Management should be required especially to assume responsibility and accountability to implement the same through commensurate strategies and other details with, of course, oversight by the Board.
  - c) The operational requirements should be given detailed coverage, noting that frauds may be aimed at the bank or within with or without the connivance of insiders, prevention is better than cure and that there should be rigorous investigation and deterrent follow-up actions in case of any occurrence.

- d) Systems and procedures should be drawn up diligently and critically reviewed from time to time for improvements, noting that fraudsters become more and more sophisticated, banks should not become also-ran in the race, every fraud/attempt gives rise to scope for critical self-assessment and betterment of preparedness, and that same kind of frauds, repeated in a bank, reflects poorly on the response of the bank on earlier occurrences.
- e) Approach and focus should be varied, depending upon nature of banking activity. For instance, customer interface will receive different attention, as distinct from back office. And so will various facets of internet banking, investment banking etc.
- f) Necessary ingredients embedded in systems and procedures shall include internal control aspects the importance of which can hardly be overemphasized. Fraud management inputs are essential components of controlled environment, among others, encompassing checks and balances through appropriate systems, processes, procedures, oversight, compliance, risk management and audit.
- g) Segregation of duties, dual control, reporting to and oversight by the superiors, escalated decision-making and authorizations in high-value/high risk/high frequency transactions should be reflected in the systems and processes, guided by best practices and norms on due diligence, operational controls and management of risks, internal audit, external audit, compliance, corporate governance, information and other security coverage etc.

Electronic banking, non face-to-face transactions and dealings with non-residents including correspondents should be met with greater care.

In the name of risk based approach, attention should not be diluted on areas susceptible to obvious and significant frauds.

- h) The culture of awareness and compliance should be percolated throughout the organization with encouragement for whistle blowing with responsibility, protection and reward. No hierarchy should be exempted from this purview and it should be seen as part of corporate/professional responsibility and image building by all concerned.

### **3. Review and Reporting**

- i) Obviously, banks should have review mechanisms, meaningfully, at the higher levels of management and Board. While there should be at least a quarterly review at the management level (risk management committee and the like should assume primary responsibility for review and enforcement of follow-up actions) and the Board should review management reports at least half-yearly to ensure implementation of its vision and directives. These should not be of routine nature and there shall be intelligent questioning and follow-up actions and, equally importantly, improvements to mitigate scope for recurrence.

It will be useful to structure reporting system to categorize frauds and analyze according to activities, market segments, delivery channels, staff and outsider involvement etc., noting that more significant occurrences should receive more immediate attention by the top management and Board, staff involvement should lead to critical review of staff policies (screening and enquiring with Royal Oman Police and others before recruitment, enquiries with previous employers, particularly if they had been in the financial sector, on-going review of conduct of staff and their financial and banking relationships and transactions, linkages with related parties, service contracts and agreed terms, conditions and obligations etc).

While training and other means should constantly enhance ethical and professional awareness, attitudes, behavior and practices and adherence to laid down operational checks and balances and should reiterate serious implications from failures, banks should set policies to take deterrent actions commensurate with seriousness of the incidents. Reports to Royal Oman Police should be followed up for outcome, besides initiating suitable immediate actions against staff involvement, if any (e.g., suspension/dismissal on prima facie evidence, as may be warranted, based on service regulations).

- ii) Licensed banks should inform the Central Bank and Royal Oman Police of all frauds immediately (within three days of occurrence/knowledge), serious frauds of larger concern, requiring more expeditious report in the interests of concerned institutions and others.

The reports to the Central Bank should be self-explanatory to contain, among others, date of occurrence knowledge, the name and available details of the fraudster, amount involved, place of occurrence, modus operandi, confirmation that ROP has been informed, further direct course of actions being planned (including internal investigation and likely date of completion and of sharing the response), staff involvement details, if any, insurance and other mitigants available, loss estimated for the bank and customers, identified gaps in the bank and plan, including staff/customer awareness enhancement programs to address them, and any other observations. These should be followed up for prompt updates viz., outcome of detailed investigation within set time and those from Royal Oman Police till such time the case is closed diligently. Whatever details can not be submitted in initial reports should be provided in updates.

- iii) Material attempts of frauds, likely to be of larger concern, too, should be reported suitably within seven days of occurrence. Attempts not being successful should not stand in the way of due review and care and vigil in future.

- iv) Banks shall arrange to send to the Central Bank copies of the quarterly review reports of the management and of half yearly reports of the Board not later than two months/three months, respectively, from the end of the respective periods of coverage along with significant observations of reviewing authorities.
- v) The copies of quarterly review reports should indicate the numbers of frauds occurred during the period under review and of frauds of the past remaining unresolved/open (the latter with reasons).

Banks, being subjected to larger or continued high incidence of frauds, should submit detailed explanations/proposed plan of action to address the underlying issues.

- vi) The compliance function should assume responsibility on accuracy and promptness of reports in particular. Internal audit should ensure independent review and report to the Board.

#### **4. Compliance**

**All banks are advised to confirm, within ten days from the date of this Circular, having noted to review their existing approaches and practices so as to conform to compliance, as stated hereunder, by 31<sup>st</sup> March 2011 at least, also indicating the name of the official of sufficient seniority (not less than Assistant General Manager in the case of local bank) for communication with the Central Bank on the subject.**

Foreign banks, operating in Oman, shall make suitable adaptations, adhering to quarterly review and reporting requirements, ensuring, of course appropriate policy and plans of action and operational and control requirements highlighted.

Banks shall make available all relevant records to the Central Bank's examiners, on visit, and provide the periodical reports, as above, to Manager, Banking Development Department.

5. All banks shall arrange accordingly

Best regards,

**Hamood Sangour Al Zadjali**  
**The Executive President**

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