Fraud Risk Management Policy



Policy Owner	Head of Financial Crime Oversight/MLRO
Approving Body	Board Risk Committee
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General

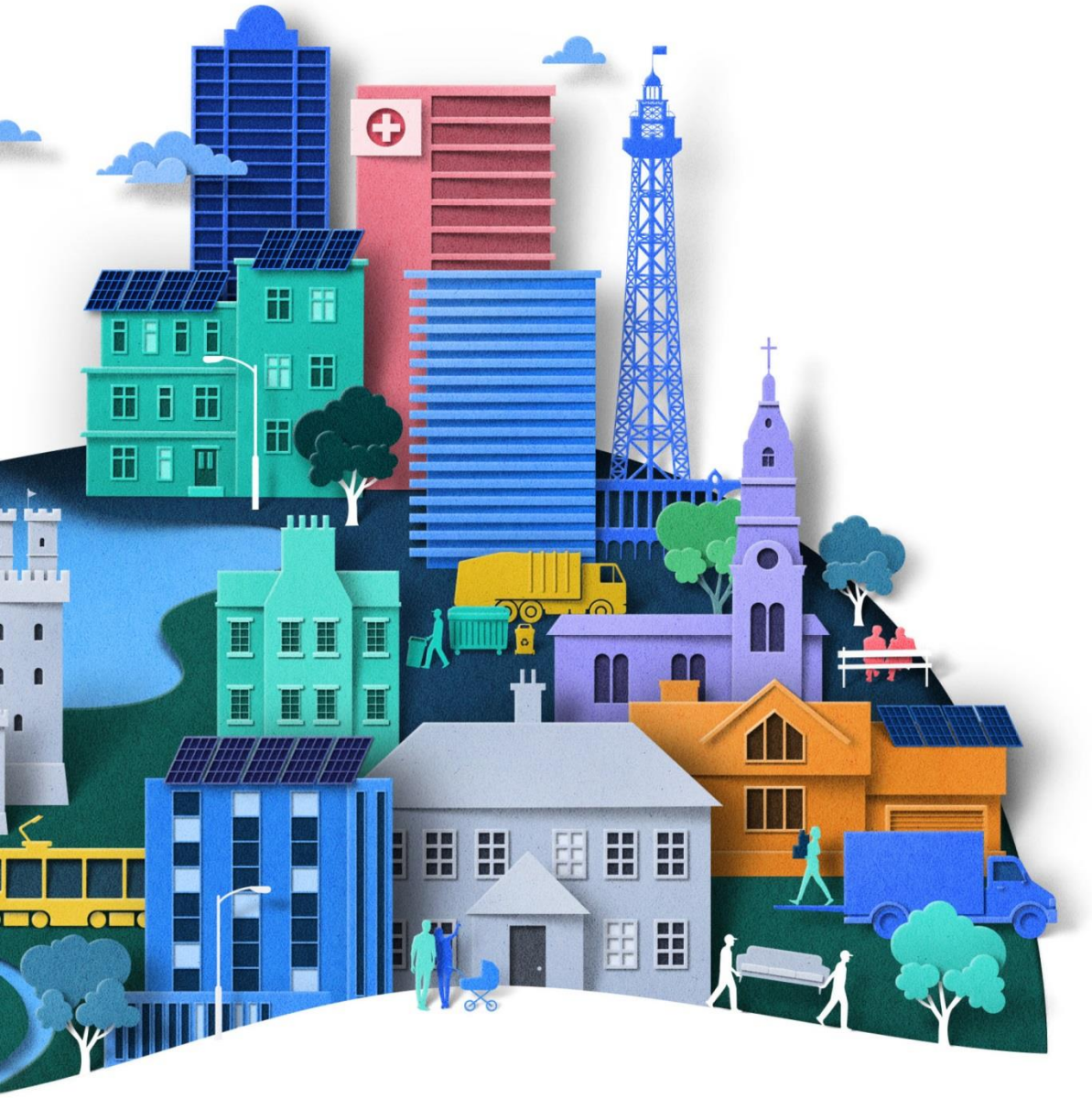


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General

Definition, purpose & policy

How do we define Fraud Risk?	1. **External Fraud:** Intentional misuse of Society funds or assets (whether physical or information) by an external party 2. **Internal Fraud:** Intentional misuse of Society, customer, or a related external party's funds or assets (physical and information), by an employee
What is the purpose of this Policy?	The Society's Fraud Risk Management Policy is produced in accordance with the requirements of the Financial Conduct Authority's (FCA) Financial Crime Guidance, and with laws and regulations including, but not limited to, Proceeds of Crime Act 2002 (POCA), Payment Services Directive and Payment Service Regulations. The purpose of the policy is to communicate the Society's approach to Fraud Risk Management and the arrangements in force for carrying out the Policy.

What is our Policy?

Risk Appetite

The Society has a low appetite for Financial Crime Risk (and therefore for Fraud Risk), meaning the Society will normally accept: i) green residual risks; ii) amber risks with approved action plans; and iii) a moderate cumulative impact of events across a 12 month period.

The Society operates a zero tolerance to Internal Fraud, and does not condone it in any way.

Scope

This Policy covers Fraud. Separate policies are maintained in relation to money laundering, terrorist financing, facilitation of tax evasion, sanctions, and bribery and corruption. Fraud Risk is a component of the financial crime operational risk category. Fraud risk is defined as the Society being used in connection with criminal conduct relating to money/financial services, covering offences involving fraud or dishonesty. This includes the risk that the Society fails to prevent or detect such conduct and take appropriate action. The scope of this risk covers external and internal fraud. External fraud is perpetrated against the Society and/or it's members by an external party, usually for financial or other gain. This includes third party fraud (committed by a person with no obvious connection to the Society) irrespective of it being unauthorised or via an Authorised Push Payment Scam (APP), and first party fraud (committed by a customer). External fraud covers multiple areas including but not limited to social engineering, remote access, account take over, ATMs, monies paid into or out of CBS Accounts, and supplier fraud. Internal Fraud includes, but is not limited to, the following types of fraud: payment, procurement, and travel and expenses.

Policy Objectives

The objectives of the Policy are aligned closely with legislative and regulatory requirements given the nature of the risk. The Society has a legal and regulatory responsibility to operate adequate systems and controls to prevent, detect and address fraud risk in accordance with the requirements of the FCA Financial Crime Guidance. In addition, the Society expects its employees, or individuals acting on behalf of the organisation to:

- Manage, design and implement processes, systems and controls capable of effectively preventing and detecting, on a timely basis, fraud within or affecting the business activities for which they and their staff are responsible. This applies to external and internal fraud;
- Comply with processes, systems and controls implemented by management and report any incidents of actual or suspected fraud to management in accordance with the Society's Whistleblowing policy;
- Act honestly and with integrity and safeguard resources for which they are either directly or indirectly responsible. This includes acting in accordance with the Society's Policies and Employee Code of Conduct;
- Ensure that all suspected cases of fraud, both external and internal, are investigated by Financial Crime. Persons suspected of fraud will normally be reported to the appropriate law enforcement and fraud prevention agencies;
- Take action against any staff member that has committed fraud against the Society or its members. This may include dismissal and/or prosecution;
- Comply with supporting standards, processes, and guidance (refer to the following section): and
- Comply with other risk category requirements as they relate to the Fraud Risk Management Policy (refer to the following section).

This Policy is reviewed by the Board Risk Committee on an annual basis or when warranted due to changes to the business or external factors.

Reliance Upon and Boundaries with Other Risk Categories

In determining appropriate content for this Risk Policy, activities which may give rise to Fraud Risk were considered. Where required, boundaries with other risk categories have been determined: Statutory, Regulatory and Internal Financial Reporting, Transaction Execution, Information Technology, Anti-Bribery, AML, People, and Third Party.

Other standards and processes are relevant to the management and related disclosure of Fraud Risk including: the Whistleblowing policy, code of conduct, ID guidance, and other fraud related policies and fraud operation guidelines.

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Scope, compliance & policy breaches

Who does this Policy apply to?

This Policy applies to all employees, contingent workers, business areas and companies within the Society.

It is the responsibility of all employees and contingent workers to maintain awareness of, and comply with this Policy and any associated standards, guidelines or procedures.

How is compliance with the Policy monitored, overseen and assured?

The Society adopts a Three Lines of Defence (3LoD) approach to monitoring, oversight and assurance.

Compliance with the Policy is monitored by the Financial Crime Oversight Team under the guidance of the Head of Financial Crime Oversight/MLRO, using the following mechanisms

- Review and challenge of first line RCSA;
- Review and challenge of first line controls assurance;
- Review of risk events reported via the Society's risk management system;
- Monitoring and review of Risk Acceptances and Exceptions to Policy; and
- Monitoring completion of risk mitigation actions.

Additional independent assurance will be gained from Operational Risk oversight, Compliance inspections and reviews and Internal Audits.

How should breaches or exceptions to this Policy be recorded and escalated?

Policy Breaches
All policy breaches should be recorded in the Society's risk management system. If the breach has caused or has the potential to cause a 'Moderate' or above impact (as assessed against the Society's Risk Impact Matrix) it must be notified to the Head of Financial Crime Oversight/MLRO and the Operational Risk team within 24 hours after identification.

Exceptions to Policy
No deviations to the policy are permitted unless an Exception to Policy has been formally agreed with Head of Financial Crime Oversight/MLRO. All requests for Exceptions to Policy must be requested using the Society's Risk Acceptance Request Form and forwarded to the Operational Risk Team.

Roles & Responsibilities

Appendix A

Board

The Board of Directors provides leadership on Financial Crime, including Fraud. The Board of Directors is responsible for ensuring the Society's business is conducted in a manner to protect itself and members from harm caused by fraud and scams.

Board Risk Committee (BRC)

Fraud Risk management is a key part of the Society's governance framework, ensuring clear lines of accountability. The Board delegates responsibility for oversight and review of the effectiveness of the Society's Fraud Risk management systems to the Board Risk Committee. BRC annually reviews and approves the Fraud Risk Management policy on advice from the Director of Corporate Services.

Chief Executive

The Chief Executive has overall responsibility for ensuring that Financial Crime Risk is successfully managed by the Society.

The Chief Executive and the Board have delegated authority to the Director of Corporate Services.

Operational Risk Committee (ORC)

Financial Crime, including Fraud, is a key part of the Society's governance framework, ensuring clear lines of accountability. ORC oversees the management of Financial Crime risks, and the resolution of any risks that crystallise into events. ORC:

- Reviews the Financial Crime Risk Management Policy, and the Financial Crime risk category dashboard including key risk indicators relating to Financial Crime (Fraud).
- Receives reports via the Financial Crime risk category dashboard of any emerging threats to the Society's position.

Head of Financial Crime Oversight/MLRO

The Head of Financial Crime Oversight/MLRO is responsible for:

- Agreeing the policy;
- Monitoring implementation of, and compliance with the policy;
- Providing the Board with the outcome of the review of the policy.
- Oversight of Financial Crime (Fraud) risk

Enterprise Leaders

All Enterprise Leaders in relation to their area of responsibility or control have the following responsibilities:

- Ensuring that their area is fully conversant in Financial Crime Controls applicable to their area and the ongoing maintenance and review of their appropriateness;
- Ensuring that any non-compliance with policy or controls are escalated to the MLRO as appropriate.

Head of Financial Crime

The Head of Financial Crime is the Risk Category Owner (RCO) for Financial Crime, which includes Fraud Risk. They are responsible for ensuring that the Director of Corporate Services is advised on significant issues which arise or need to be considered. This includes:

- Providing monthly updates on the Financial Crime Risk Category to ORC via the Consolidated Risk Report.
- Ensuring relevant Risk Events are raised under the Operational Risk Management Framework that apply to the Financial Crime (Fraud) L2 risk category.

The Head of Financial Crime is responsible for the day-to-day coordination and oversight of the Society's programme for managing Fraud Risk. The responsibilities include:

- Maintaining a business-wide Fraud Risk Management framework to ensure that the Society is well placed to meet its legal and regulatory obligations in relation to Fraud risks;
- Providing advice, support and challenge to business areas on the effective application of the policy;
- Ensuring all relevant colleagues receive Fraud training at least annually to maintain awareness;

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Roles & Responsibilities

Financial Crime Management

Responsibilities include:

- Maintaining a business wide Financial Crime Risk Assessment to ensure that the Society is well placed to meet its legal and regulatory obligations in relation to Financial Crime risks. This includes internal and external fraud risks.
- Providing advice, support and challenge to business areas on the effective application of Fraud Risk management systems and controls.
- Ensuring all colleagues who have customer contact, or access to information about customers' affairs, receive Fraud training relevant to their role to ensure their knowledge and understanding is at an appropriate level; and receive ongoing training at least annually to maintain awareness.
- Ensuring relevant Risk Events are raised under the Operational Risk Management Framework that apply to the Financial Crime (Fraud) L2 risk category

Chief People Officer

The Chief People Officer is responsible for:

- Ensuring that recruitment and ongoing monitoring of all colleagues and contractors ~~will~~ includes assessment of any information that would indicate they are a fraud risk to the Society. Screening to take place against, including but not limited to, established industry fraud screening systems, employment history and financial concerns, prior to them commencing employment and at agreed intervals thereafter. Support provided by Financial Crime team on the obtaining and assessment of relevant fraud indicators.

Head of Procurement

Responsibilities include:

- Establishing and maintaining systems to keep records of enquiries made and information obtained while exercising supplier due diligence–for Financial Crime Risk management purposes; and to ensure that these records are retrievable as required for legal and regulatory requirements.

Business Functions

Business Function leaders are responsible for:

- Ensuring that their area is fully conversant in Financial Crime Risk Controls applicable to their area and the ongoing maintenance and review of their appropriateness.
- Ensuring that any non-compliance with policy or controls are escalated to the Head of Financial Crime Oversight/MLRO, as appropriate.

All Financial Crime Colleagues

All Financial Crime Colleagues are responsible for:

- Investigating and assessing individual cases reported to Financial Crime or identified through transactions monitoring systems, and liaising with law enforcement agencies and/or regulators as appropriate.
- Supporting the Financial Crime Department's activities in raising awareness of fraud trends to colleagues across the Society

All customer Facing Colleagues

All customer facing colleagues are responsible for:

- Verifying the identity of all customers according to the ID Guidance, ensuring that procedures reflect customer risk characteristics.
- Obtaining information enabling the Society to assess the purpose and intended nature of every customer's interaction, both financial and non-financial, with the Society to ensure the safety of the customer and Society's funds and that details are not placed at risk of fraud or scams.
- Ensuring they maintain an up to date understanding of current fraud and scam trends/challenges through use of all available intelligence and training provided by the Society.
- Ensuring that they follow all relevant procedures for their role, including but not limited to authority mandates, system access and confidentiality.
- Escalating any fraud concerns either through line management, to Financial Crime or the Society's Whistleblowing procedures.

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