

## 5. GROUP RISK MITIGATION MEASURES

Group Risk Management aims to put in place standardised risk management processes in Group entities. Policies relating to Group Risk Management, Group Liquidity and Contingency Funding Plan (CFP), Arm's Length and Intra Group Transactions and Exposures are in place.

Monitoring of consolidated Prudential Exposures and Group Risk components is being done regularly. The Group Internal Capital Adequacy Assessment Process (Group ICAAP) document includes an assessment of identified risks by Group entities, internal controls and mitigation measures, and capital assessment, under normal and stressed conditions. All Group entities where State Bank of India has 20% or more stake and management control, including Non-banking entities, carry out the ICAAP exercise and a Group ICAAP Policy is in place to ensure uniformity.

## 6. BASEL IMPLEMENTATION

Your Bank is identified as D-SIB by the Regulator and is required to keep additional Common Equity Tier 1 (CET1) of 0.60% of RWAs applicable from 1<sup>st</sup> April, 2016 in a phased manner. It has become fully effective from 1<sup>st</sup> April, 2019. Additionally, it has also started maintaining Capital Conservation Buffer (CCB) in a phased manner and has to reach level of 2.5% as on 30<sup>th</sup> September, 2020.

## B. INTERNAL CONTROL

Internal Audit (IA) in your Bank is an independent activity and has sufficient standing and authority within your Bank. The IA Department, headed by a Deputy Managing Director, works under the guidance and supervision of the Audit Committee of the Board. Your Bank's IA function works in close co-ordination with the Risk Management and Compliance Departments to evaluate effectiveness of controls, assess compliance with controls and adherence to internal processes and procedures. The IA function undertakes a comprehensive risk-based audit of the operating units of your Bank, in line with regulatory guidelines relating to Risk Based Supervision.

Keeping pace with rapid digitalisation in your Bank, the IA function has initiated technological interventions for providing enhanced efficiency and effectiveness through system driven and analytics-based audits.

**Some key initiatives include the following:**

- Web based, online Risk Focused Internal Audit (RFIA) for assessing compliance with controls at a granular level.
- Analytics based, continuous assessment of compliable controls through remote evaluation of huge data.
- System driven, analytics based off-site monitoring of transactions.
- Concurrent Audit of business units to ensure contemporaneous scrutiny of compliances.
- Early review of sanctions to assess quality of loans of ₹1 crore & above.
- Online self-audit by branches for self-assessment by branches and vetting by controllers.

As part of RFIA, IA Department conducts various audits, viz. Credit Audit, Information Systems Audit, Cyber Security Audit, Home Office Audit

(audit of foreign offices), Concurrent Audit, FEMA Audit, Audit of Outsourced Activities of your Bank, Expenditure Audit and Compliance Audit.

Your Bank has created a new wing at IAD to strengthen the overview of the audit of banks aggregate risk assessment processes.

In addition to this, it undertakes Management Audit of business verticals to assess their strategic effectiveness and Thematic audits as per the directions of the Audit Committee or the regulators.

### Branch Audit

IA Department undertakes critical review of the operations of auditee units through RFIA, an adjunct to Risk Based Supervision, as per RBI directives. The domestic branches are broadly segregated into three groups (Group I, II and III) based on business profile and advances exposures. Your Bank has initiated a system driven process for identification of branches for audit, whereby, analytical algorithms are deployed to identify units displaying significantly different behavioural patterns. This enables your Bank to step in with a prioritised audit to identify the causative factors at these outlier branches and flag the underlying problem areas for early intervention.

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During FY2020, IA Department has audited around 12,803 domestic branches & BPR entities and 1,837 branches / outfits under Trigger Based Offsite Audit under the RFIA as on 31.03.2020.

#### Credit Audit

Credit Audit aims at achieving continuous improvement in the quality of commercial credit portfolio of your Bank, through critically examining individual large commercial loans with exposures of above ₹20 crore annually.

The Credit Audit system provides feedback to the business units, about the quality of advance portfolio in the unit and suggests remedial measures.

#### Early Review of Sanction

A review of all eligible sanction proposals with total credit exposure of above ₹1 crore is carried out under 'Early Review of Sanctions'(ERS). ERS captures the critical risks in sanctioned proposals at an early stage and appraises the Business Units of such risks for mitigation thereof. ERS facilitates in improving the quality of sourcing, pre-sanction and sanction processes. The entire ERS process is system driven and done through the Loan Lifecycle Management Solution.

#### FEMA Audit

The Branches that are authorised to deal (Authorised Dealers) in Foreign currency transaction, including Trade Finance Centralised Processing Cells-TFPCPC are subjected to FEMA audit. Branches with high credit exposures as well as the centralised trade finance processing centres are subjected to audit under FEMA at least once every year. Other AD branches are audited as per their risk profile within a maximum period of 21 months. During FY2020, around 386 auditee units were covered under FEMA Audit.

#### Information System and Cyber Security Audit

State Bank of India's branches are subjected to Information System audits ("IS Audits") to assess the IT-related risks as part of RFIA of the branch(es). IS Audit of centralized IT establishments is also carried out by a team of qualified officials, which includes IS auditors appointed through lateral recruitment. During the period from 1<sup>st</sup> April 2019 to 31<sup>st</sup>

March 2020, IS Audits of 87 centralized IT establishments were completed. In addition, a cyber-security audit of your Bank is also executed annually, as per the Cybersecurity Policy of your Bank.

#### Foreign Offices Audit

During FY2019-20, Foreign Office Audit was carried out at 20 Foreign Offices including Gift City and Management Audit was conducted at two Subsidiaries, four Representative Offices and one Country Head/Regional Head Office.

#### Concurrent Audit System (CAS)

Concurrent Audit System in your Bank covers advances and other risk exposures as prescribed by the regulatory authority. In order to further strengthen the CAS, all Extremely High Risk / Very High Risk / High Risk Branches/units, categorized as per the risk matrix prescribed by RBI are covered under CAS. Concurrent Auditors are placed at all Credit Central Processing Cells to identify shortcomings in underwriting at a very early stage of the client relationship. Your Bank has engaged Chartered Accountant Firms in addition to the retired experienced bank officers and regular officers for audits.

#### Off-site Transaction Monitoring System (OTMS)

For the purpose of monitoring the transactions offsite, scenario-based alerts are generated and flagged to the

business units for corrective actions. Presently, there are 45 types of scenarios embedded in the system against which the transactions are scrubbed at regular periods, wherein inconsistent transactions are flagged by the system for affirmation of the related compliances. The scenarios are periodically reviewed and enlarged, depending upon the need and certain triggers.

#### Legal Audit

Legal Audit in your Bank covers scrutiny of the loan and security related documents of loans amounting to ₹ 5 crore and above. Legal audit is a control function, carried out through a panel of advocates in addition to the scrutiny by the in-house team of internal auditors, to ensure that there are no shortcomings in the documents or creation of security in favour of your Bank. Legal Audit was carried out for 12,300 accounts upto the end of FY 2020.

#### Audit of Outsourced Activities

Your Bank recognises the need of service providers engaged by your Bank to be as compliant with the legal and regulatory requirements as your Bank itself. Audit of Outsourced activities is therefore conducted at regular intervals to gain a reasonable assurance that adequate systems and procedures are in place to mitigate legal, financial and reputational risks that may arise on account of the outsourced activities.



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Audit of outsourced activities in your Bank covers audits of vendors engaged in providing ATM services, Corporate Business Correspondents (BC), Individual BCs and CSPs, Recovery and Resolution agents, Cash Management Services, Cheque Book Printing, Collateral Management, Marketing of Loan proposals, Registrar and Transfer Agents amongst others.

Your Bank has engaged the services of 57,728 individual BCs and CSPs under financial inclusion plan, of which 28,864 units were audited during FY2020.

#### **RFIA of Corporate Centre departments**

Your Bank has taken an initiative to create a new audit wing at IAD to assess the aggregate risk and maintain an audit oversight at macro level. It audits your bank's adherence to various Regulatory Compliances and risk mitigating measures undertaken to keep your bank safe & secure.

#### **Management Audit**

Management Audit covers identified Corporate Centre establishments / Circle's Local Head Office / Regional Rural Banks sponsored by your Bank. The Strategy, Processes and Risk Management at auditee units are covered under the audit.

### **C. COMPLIANCE RISK MANAGEMENT**

Your Bank gives utmost priority to meeting the Regulatory and Statutory compliances. Towards this end, your Bank has completely revamped its compliance architecture to ensure a sharper focus for tracking areas that are increasing the compliance risks and for taking quick remedial steps.

A deep-rooted compliance culture is crucial for your Bank to manage its compliance risk effectively, and this is being strengthened through various forms of communication and interactions across the organisation.

To forestall any compliance risk, all products, processes, and policies are vetted from the Regulatory perspective before they are operationalised. A Compliance Risk Management Committee, comprising of Senior

Executives from business verticals and support functions, maintains oversight on all compliance-related issues. The committee meets regularly and extends necessary guidance to all the internal stakeholders for ensuring Regulatory compliance.

Compliance testing of RBI's regulations and remediation of gaps, if any, is regularly carried out. The testing universe is being expanded to ensure that the control mechanisms are in place to comply with all the regulatory requirements.

### **D. KYC/AML-CFT MEASURES**

Bank has a Board approved KYC Policy, in line with the extant RBI Master Direction. The Policy incorporates Bank's approach to KYC, AML and CFT issues. Bank has taken steps to implement provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, as amended from time to time.

The policy contains Banks framework for Customer Acceptance, Risk Management, Customer Identification and Monitoring of Transactions. Bank has put in place a robust system containing a combination of manual and system enabled methodology to ensure KYC compliance. No account is opened, in anonymous or fictitious/benami name or where the Branch/Business unit is unable to apply appropriate CDD measures. However, while implementing the policy, Bank takes care that it does not result in denial of banking services to those who are financially or socially disadvantaged.

AML CFT Deptt of the Bank takes care of ongoing due diligence through transaction monitoring. Bank follows a risk-based approach wherein Customers are categorized as low, medium and high risk, based on the assessment and risk perception. Bank takes care of filing of obligatory reports to Financial Intelligence Unit-India (FIU-IND). Suitable reports are also filed on priority in cases of accounts, suspected of having terrorist links.

Several initiatives are put in place to bring greater awareness amongst the staff. Ongoing employee training programmes are conducted by the Bank so that the members of staff are adequately trained

in AML/CFT policy. AML-CFT Day is being observed on 2<sup>nd</sup> November every year wherein pledge is taken on that day at all branches/processing centers and Administrative Offices. Similarly, 1<sup>st</sup> August is observed as KYC Compliance and Fraud Prevention Day.

### **E. INSURANCE**

State Bank of India has set up an Insurance Cell for covering your Bank's assets and other risks, by proper procurement of insurance coverage. Additionally, insurance Policy to cover cyber risks for US\$100 million is obtained. Similarly, insurance cover for Debit Card and Electronic Banking transactions are taken for covering the risk/cost of your Bank. RBI's instructions on limiting customer's liability on Debit Card Electronic Banking transactions are complied with.

## **4. OFFICIAL LANGUAGE**

Innovative initiatives are taken by State Bank of India to propagate the use of the official language

State Bank of India is present all over the world through its more than 22,000 branches, over 58 thousand ATMs, about 200 foreign offices and various banking channels. About 2,06,000 staff members of your Bank (except subordinate staff) are committed to propagating the use of official language in the banking industry through all the channels established by your Bank.

Efforts made for the entire banking industry

- On the direction of the Department of Financial Services, the IT Committee headed by State Bank of India was formulated, and its first meeting was held at the State Bank Building, Corporate Centre, Mumbai wherein General Managers (IT) of all banks participated. The 16 items to be implemented in all the PSU banks relating to customer service, the website of banks, amongst others were finalised. On this, all PSU banks have made systematic efforts, and positive results are now visible in this sector.
- Your Bank recently developed an account opening form for all banks on behalf of IBA on the direction of Department of Financial Services,