



NATIONAL BANKING INSTITUTE

"The Banking Academy Of Nepal"

Frauds Detection & Management

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"Frauds defined"

Merriam Webster Dictionary

noun

the crime of using dishonest methods to take something valuable from another person

Oxford Dictionary

noun

wrongful or criminal deception intended to result in financial or personal gain:

In simple legal terms - A false representation of a matter of fact—whether by words or by conduct, by false or misleading allegations, or by concealment of what should have been disclosed that deceives and is intended to deceive another so that the individual will act upon it to her or his legal injury. The deliberate misrepresentation of facts for the purpose of depriving someone of a valuable possession or legal right.

Occupational Fraud

The use of one's occupation for personal enrichment through deliberate misuse or misapplication of employing organisations's resources or assets.

Frauds in BFSI

The Banking and Financial Services Industries (BFSI) sector suffers most frauds. BFSI remain a key target for criminals. Asset misappropriation is the most reported economic crime. Cybercrime, bribery and corruption are increasingly common in the sector.

The Perpetrators :

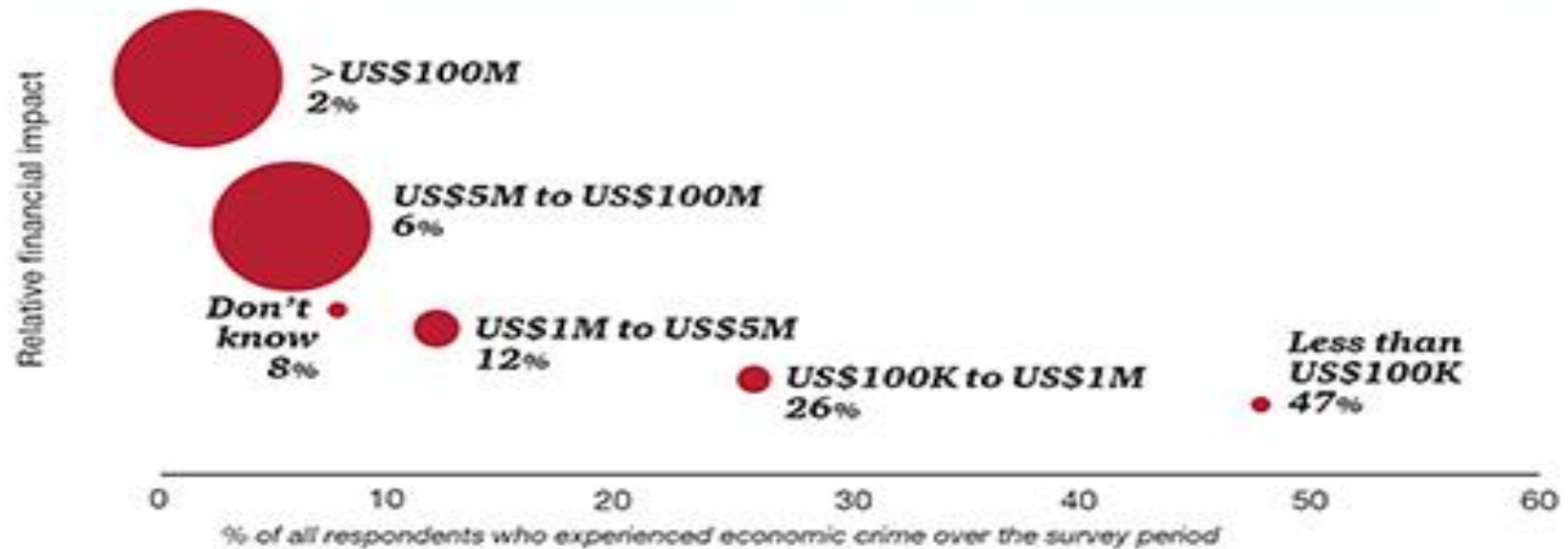
- An outsider (Customer!)
- A bank employee
- Collusion between a bank employee and an outsider.

Impact of Economic Crime*

*DATA

COURTESY PWC SURVEY 2014

Figure 6: Relative financial impact of economic crime on organisations



“Asia Pacific Region shows an increasing trend of Frauds”

Contributing Factors

PPT Factors

- ❖ **P**People – Negligence, Lack of awareness, Lack of skills and Greed.
- ❖ **P**rocesses- Lack of safeguards, Four-eyes, Exception reporting and Legacy Issues.
- ❖ **T**echnology- System Security, Firewalls breaches, Customer Awareness, Technology gaps in supervisors.

Some Data

(CUMULATIVE DATA OF FRAUDS
REPORTED > RS 1 LAC)

APRIL 1, 2009- MARCH 31, 2014

Type of Frauds	Number	Amount (₹ Crores)	% Numbers	% Amount
Advances	10,710	26,060	48.90	89.40
Technology (Card/Internet)	4,378	186	20.00	0.65
Other Frauds	6,811	2,895	31.10	9.95
Total	21,899	29,141	100.00	100.00

Large Value Frauds (>₹ 50 Crs.)

(AS REPORTED - MARCH 31, 2013)

Type of Fraud	Numbers	Amount	% Numbers	% Amount
Loans against deposits	3	604	4.40	3.85
Advances (including LCs & BGs)	58	14,229	85.00	90.75
Forex	7	843	10.60	5.40
Total	68	15,677	100.00	100.00

Causes

- **KYC Issues** : Lax KYC compliance, Non-updation of old accounts, Fake / Multiple identity documents, Increased reliance on outsourcing.
- **Advances** : Deficient appraisal system, Corporate Ambitions, Poor monitoring, supervision and follow-up. Absence of co-ordination and information sharing among the lender banks. Staff collusion.
- **Technology** : Compromised Internet/Mobile/Cards Security. Phishing, Identity thefts.

Frauds in Lending

❖ These frauds are often collusion between bank staff and the borrower. Corruption angle seen.

❖ Vehicles of frauds-

- ❖ Fake documents.
- ❖ Diversion of funds.
- ❖ Falsification of accounts.
- ❖ Over/Under -invoicing.
- ❖ Multiple borrowings.
- ❖ Un-authorized sale of security.

FRAUDS IN LENDING (CONTD.)

- ❖ Need for strong deterrents.
- ❖ Building of forensic capabilities
- ❖ Legal framework e.g., Nepal's Banking Offence and Punishment Act, 2064.
- ❖ Strong and agile legal system.
- ❖ Co-operation between banks.
- ❖ Zero tolerance by regulators

Some New Threats

- ❖ Unexpected communication through letters, faxes, and e-mails, are received from senders claiming to be Nigerian or African citizens and promising large amount of monies. Commonly known as **419 Fraud**, after the relevant section of the Criminal Code of Nigeria, these communications are referred to as **Nigerian Letters**.
- ❖ These are advance-fee fraud in which victim is asked to pay money upfront for financial reward which never materializes.

Modus Operandi

- ❖ An extensive exchange of e-mails takes place with the victim to gain his confidence and to collect personal information. This information, such as bank accounts, copies of ID documents, addresses and contact persons, is then used to commit criminal offences in victim's name (**Identity Theft**).
- ❖ The fraudster collect monies from victim by opening mule accounts to handle transaction.

Advice to Customers on 419 Frauds

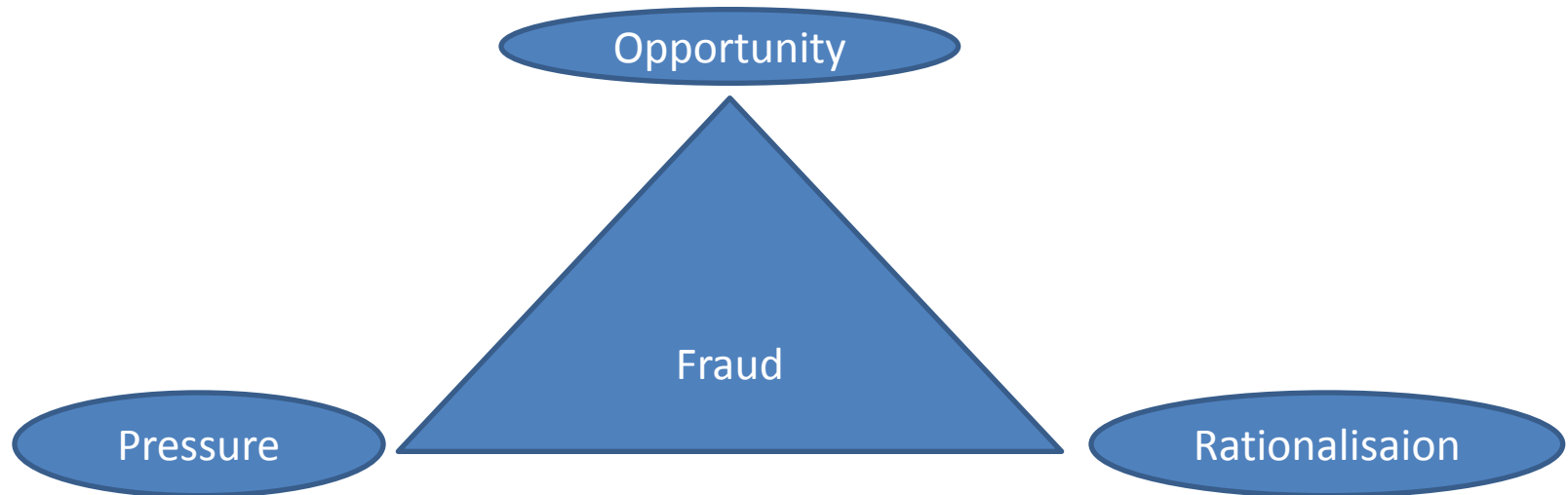
What to do

If you receive these fraudulent messages:

- ❖ **Do not** reply to any of these messages;
- ❖ **Do not** give details of your bank accounts;
- ❖ **Do not** give details of your company.
- ❖ **Do not** send or hand over ID documents and letters with your personal or official letterheads and logos – not even copies.

THE RED FLAGS

 The specific components of each fraud may differ, the fraud triangle is defined as:



 The three factors getting together create a fertile ground for frauds. An advance warning comes as a Red Flag.

What is a Red Flag?

- ❖ A red flag is a set of circumstances - unusual in nature or different from the normal activity. It is a signal that something is out of the ordinary and may need to be investigated further.
- ❖ Red flags do not indicate guilt or innocence but merely provide possible warning signs of fraud.

Employee Red Flags

- ❖ Lifestyle changes: expensive cars, jewelry, homes, clothes.
- ❖ Significant personal debt and credit problems.
- ❖ Behavioural changes- indication of drugs, alcohol, gambling, or just fear of losing the job.
- ❖ High employee turnover, especially in areas which are more vulnerable to fraud.
- ❖ Refusal to take vacation or sick leave
- ❖ Lack of segregation of duties in the vulnerable areas.

Management Red Flags

- ❖ Reluctance to provide information to auditors.
- ❖ Managers engage in frequent disputes with auditors.
- ❖ Frequent changes in banking accounts and external auditors
- ❖ Management dominated by an individual or small group and it display significant disrespect for regulatory bodies.
- ❖ A weak internal control environment
- ❖ Accounting personnel are lax or inexperienced in their duties
- ❖ Decentralization without adequate monitoring
- ❖ Excessive number of checking accounts
- ❖ Continuous rollover of loans

FRAUD MANAGEMENT FRAMEWORK

KEY OBJECTIVES AND ACTIONS

•Prevention

- Code of conduct for employees and its periodic renewal.
- Pre-employment screening and due diligence on employees.
- Awareness of the risks posed by frauds and its symptoms.
- Continuous evaluation of PPT factors.

Detection

- Strong internal audit system.
- Enhanced Board oversight on internal audit system.
- Effective fraud reporting system.
- Effective Whistleblower system.

•Response

- Well documented remedial system.
- Loss recovery.
- Zero tolerance of occupational frauds!
- Continuous evaluation and renewal.

FRAUD MANAGEMENT FRAMEWORK THE FIRST LINE OF DEFENCE

- ❖ Best defense of outsider frauds is an alert and educated workforce.
- ❖ Evolved processes and systems out come of continuous refinement based on learnings.
- ❖ Organisational commitment to combat frauds.

Top Managements need to

- Strengthen internal audit system.
- Increase board oversight on internal audit system.
- Awareness of capital on enhanced Operational Risks.
- Create awareness of the risks posed by frauds.
- Create awareness of Red Flags and Symptoms.
- Foster skill development in staff.
- Convey a Zero tolerance of employee fraud!

Please remember

Frauds eat into

- Reputation
- Investor confidence
- Economic value
- Staff morale

And lead to loss of business opportunities.

Thank You.