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2015 Edition

Frauds in the financial sector Survey report



The Conference of Financial Companies in Poland - Association of Employers (KPF) was established on 27 October 1999, and now comprises of more than eighty key companies from many sectors of the Polish financial market, including banking, collections, receivables management, financial advisors and intermediaries, loan institutions, economic and credit information exchange, reverse mortgage in sales model and insurance. KPF is a Member of the Financial Market Development Council, appointed by the Minister of Finance of the Republic of Poland and member of the prestigious NGO organization of European credit industry - EUROFINAS (European Federation of Finance House Associations), which brings together seventeen national organizations, representing more than 1,200 financial institutions. KPF has recorded several hundred survey reports, focusing essentially on the area of consumer credit.



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Introduction

This report summarizes a research project conducted by EY together with the Conference of Financial Companies, "Investigation of fraud in the financial sector".

The research is a continuation of the study conducted since 2009 on scams on the Polish loans market in the retail segment. This year's survey, compared to previous years, was conducted in a revised formula. In order to reach a wider range of representatives of the financial sector, the survey took on a more universal character. The new formula of research allowed to examine a variety of financial institutions such as retail banks, corporate banks, leasing companies and loan companies. The telecommunications company also participated in this study, which is another manifestation of the cooperation of the banking industry with this sector. An additional benefit of the changes made in the survey is the increasing, relative to previous years, attendance of respondents.

The primary objective of the study is to present the problem of the occurring fraud, fought by companies from the financial and telecommunication sector, with particular emphasis on:

the scale of the phenomenon of fraud,

- › effectiveness of the tools used by the institutions to prevent frauds evaluation,
- › the difficulties institutions are facing while their fight against fraud.
- › The research was conducted in the form of an anonymous survey in 2015.

On behalf of EY and the Conference of Financial Companies in Poland we would like to thank all respondents for their time and insights.

Participants of the research

The largest group of participants in this year's study were - as in previous years- banks, including universal banks, banks specializing in retail loans, automotive banks, specialized corporate banks, cooperative banks. One quarter of the entities involved in the study were the leasing companies. Besides financial institutions, the study covered one company providing telecommunications services.

The number of respondents representing organizations whose balance sheet did not exceed 10 billion PLN total at the end of the calendar year preceding examination increased by 22 percentage points, as compared to the previous year. At the same time 30% of respondents worked for financial institutions, whose balance sheet stood at the level below 0.5 billion PLN total at the end of 2014. Only 11% of respondents represented organizations with total assets exceeding 50 billion PLN (9% in last year's survey).

Chart 1. Types of institutions participating in the study

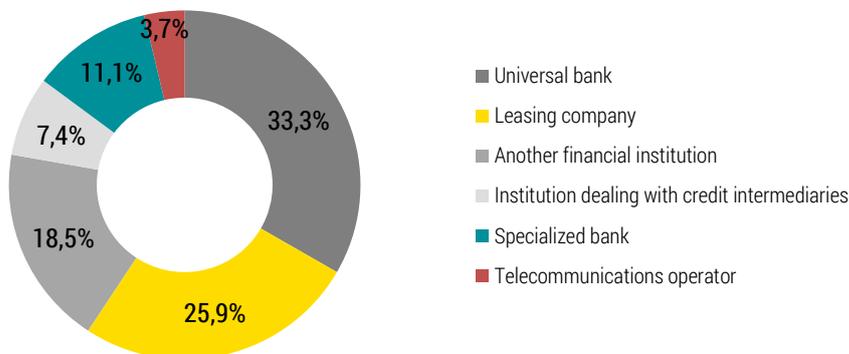
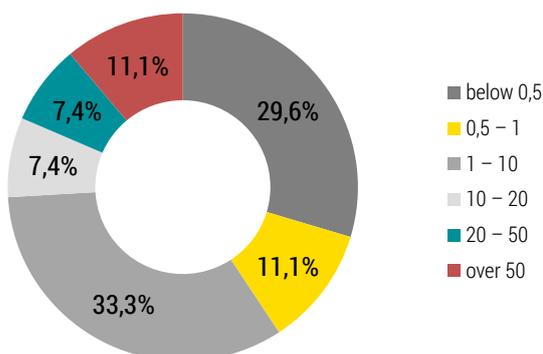


Chart 2. The size of the institutions participating in the study because of the balance sheet total at the end of 2014 (in billion of PLN)



Michał Czuma

Advisor to the Chairman of the Board
PKO Leasing

"Still a cause for concern is the fact that a matter of fraud is a subject of interest for financial institutions mainly, although people fighting frauds are aware that they touch everyone today, although to various extent."

Results of research

The scale of the fraud phenomenon

In the general opinion, the scale of fraud increases from year to year. Analyzing the results of surveys from previous years, we can see that respondents each time expected the increase in the scale of this phenomenon.

In 2012, 58% of respondents estimated that the number of fraud would continue to grow, in 2013, it was already 60%, and in 2014 almost 75% of respondents who expressed concern that the scale of the phenomenon would increase in the future. In order to assess whether these predictions had materialized among the institutions surveyed, we asked respondents about:

- 1) the number of investigations initiated in cases of fraud,
- 2) the number of events recognized by the authorities as confirmed cases of fraud,
- 3) the number of notifications made by the institution of the suspected crime

Respondents' answer were illustrated in the figures below.

Chart 3. Number of investigations initiated in connection with cases of frauds

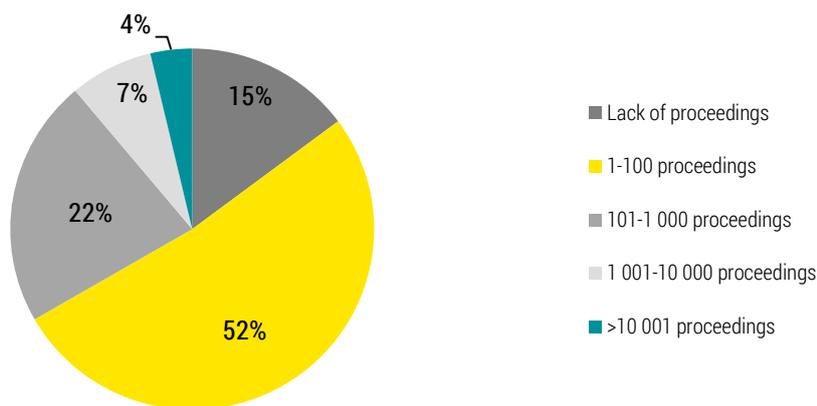
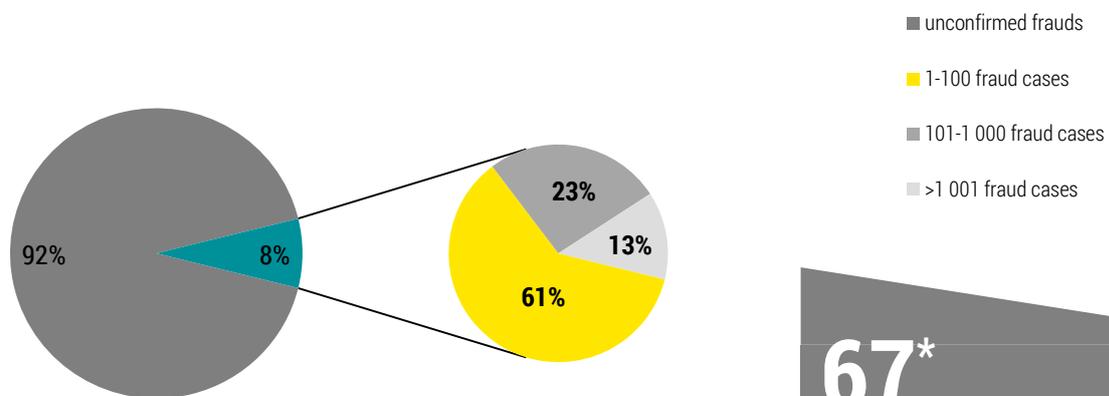


Chart 3 illustrates the intensity of the process of responding to potential fraud cases in the surveyed institutions within the last 12 months. On average, every 7th institution has not carried out any investigation on the fraud. More than half of them conducted less than 100. Almost one fourth of responses ranged between 100 and 1000 proceedings. 11% of those interviewed held more than 1000 cases within the last 12 months. The number of proceedings conducted by the institutions is positively correlated with the amount of its total assets. The smallest institutions (balance sheet total of less than 0.5 billion PLN) carried out the average of 15 proceedings in the surveyed period, the biggest - more than 39 thousand. Detailed results are presented in the chart below.

Table 1. Number of conducted proceedings depending on the amount of total assets

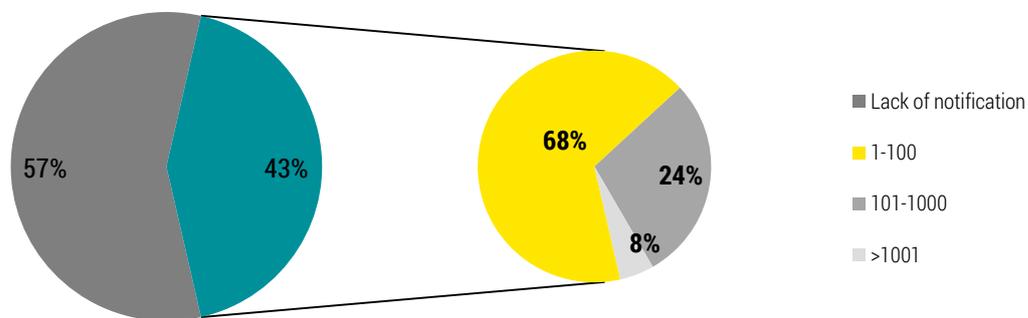
The amount of total assets (billion PLN)	The average number of proceedings performed
below 0,5	15
0,5 – 1	34
1 – 10	203
10 – 20	262
20 – 50	600
over 50	38 330

Chart 4. Number of events recognized as the confirmed cases of frauds**67***

* The average No. of fraud cases identified by each of the surveyed leasing companies within the last 12 months

The number of frauds identified by the institutions was twelve times less than the number of their investigations. 61% out of the institutions where the occurrence of fraud was confirmed, reported no more than 100 such cases in the 12 months prior to the survey. 23% of the institutions identified between 101 and 1000 cases. Every eighth respondent replied that in the past year there were confirmed over 1,000 cases of fraud in the institution where he/she is employed. On average, 338 confirmed cases of fraud occurred in each of the institutions in the past year.

Chart 5. Number of notifications on suspicion of committing a fraud



According to the respondents' replies, the number of fraud notifications was less by a half than the number of frauds identified. The majority (68%) of the surveyed institutions did it less than 100 times. One-fourth did it between 101 and 1000 times, and 8% reported to law enforcement agencies about more than 1,001 suspected frauds over the past year.

Leasing companies made a notification on suspicion of committing a crime

2 times

a month on average.

Katarzyna Baumgart

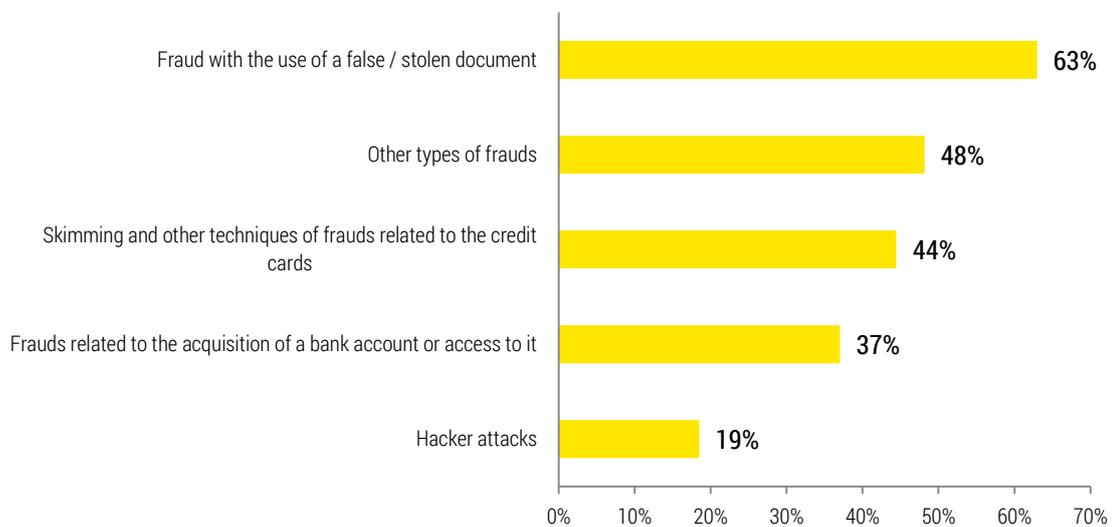
Head of Anti-Fraud Team,
Risk Management Department, mLeasing Sp. o.o.

"What makes this phenomenon worrying is a relatively low number of notifications on committing a crime. In case of leasing companies it may have something to do with lack of understanding of leasing companies specifics by the law enforcement agencies."

Identified types of fraud

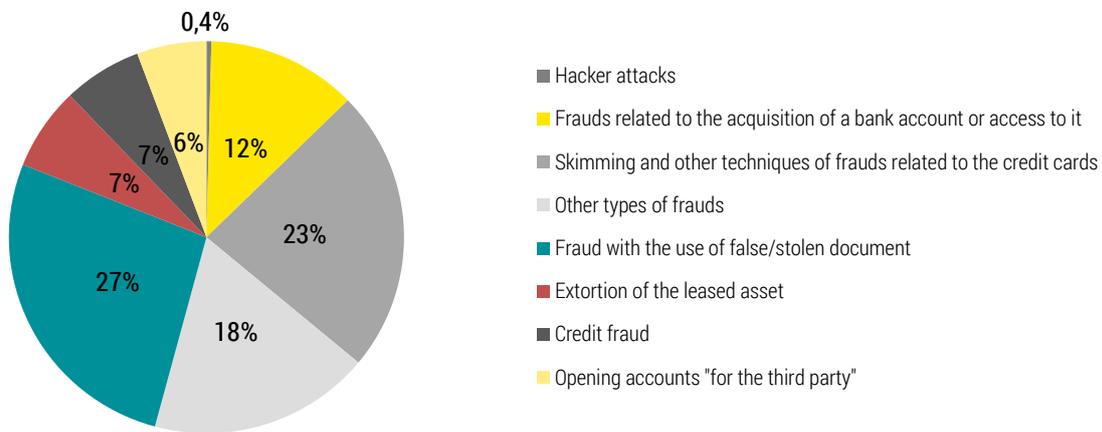
Various types of fraud occurred in the surveyed institutions within the last 12 months. . In response to further questions, the survey participants indicated types and number of frauds that took place in their institutions.

Chart 6. Identified types of fraud (% of respondents)



The largest group among the surveyed institutions (63%) faced the problem of product or service extortion, using false or stolen document last year. The smallest number of institutions (19%) indicated the occurrence of hacker attacks.

Chart 7. Identified types of fraud (quantification)



In terms of volume, the most abundant fraud, as indicated by respondents, was the acquisition of access to a bank account or credit card (35% of all identified frauds). Frauds with the use of a false/stolen document accounted for 27% of fraud cases. 7% of the confirmed fraud cases, are respectively swindling of the leased asset and loan fraud. Another large group is opening bank accounts for a third party (6% of the identified frauds in the past year). This method is about using real identity documents, usually belonging to a homeless person or a person in a difficult financial situation, who is properly prepared by criminal groups to perform operations on the basis of false documents confirming the income or employment. Most often such actions are taken by them voluntarily in return for payment.

Michał Czuma

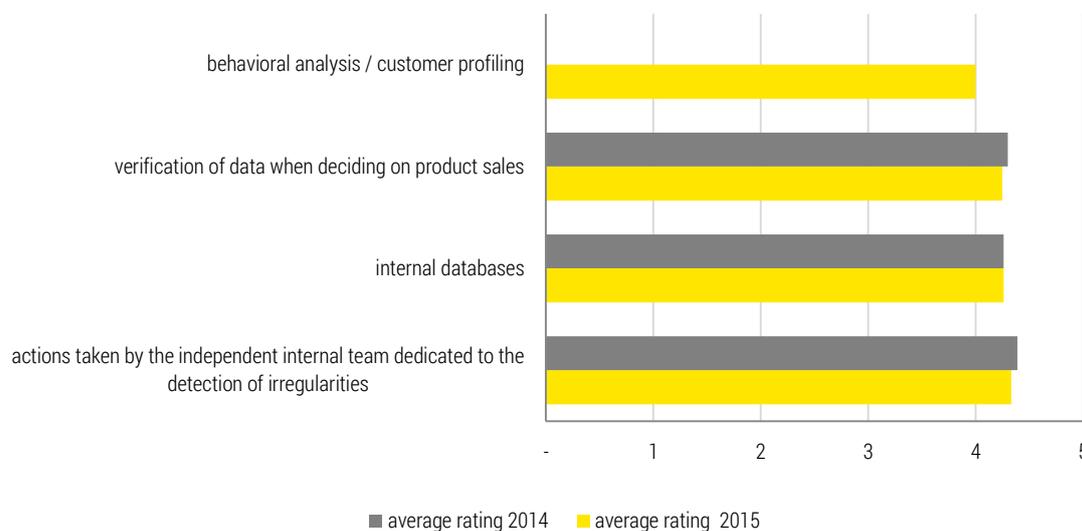
Advisor to the Chairman of the Board, PKO Leasing

"These results suggest that the vast majority of fraud can be detected using own resources, knowledge about Customers and using the database containing data of unreliable companies and Customers, like the bases of BIG, BIK and KRD."

Preventing Fraud

In the last 12 months, the surveyed institutions used a variety of tools to prevent irregularities and fighting frauds. These tools are of different efficiency. The survey participants were asked to indicate the most and the least effective in their opinion tools used to counter the risk of fraud.

Chart 8. The most effective methods to fight against frauds (average rating above 4 out of 5)

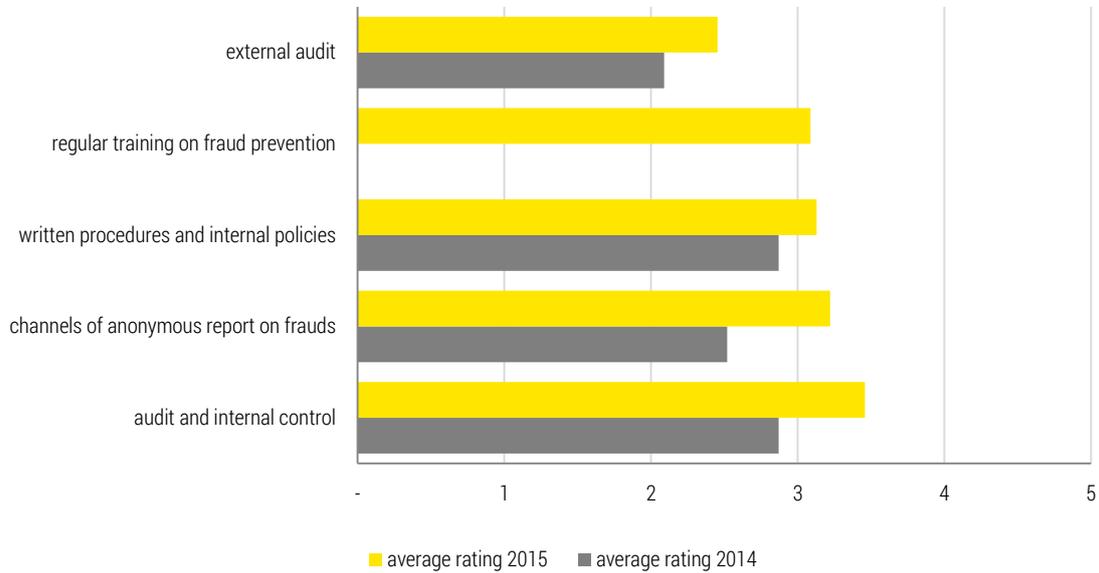


The methods of fighting against frauds, rated the highest by the respondents, both in this year's and the previous study, were activities undertaken by an independent, internal team dedicated to detecting irregularities and the fight against fraud. The respondents positively assessed the activities carried out by other employees when establishing a business relationship with the customer. The high evaluation of these tools may result from the fact that they are designed to prevent the occurrence of fraud, i.e. not to allow the institutions to establish relationship with fraud customer.

Marcin Bizoń
Senior Manager, EY

"Among 4 most effective methods of fighting against frauds, respondents pointed to 3 techniques that require technological support in the form of databases and detection algorithms. However, the highest efficacy mark (as in previous years) was received by a specialized internal team, dedicated to the detection of irregularities. In this way, respondents stressed that despite the development of technology, the human factor continues to play a leading role when it comes to effective prevention of fraud."

Chart 9. The least effective methods of fighting against frauds (average rating below 3.5 out of 5)



Low rating was given to methods detecting fraud ex post, for example audits or channels of anonymous report on frauds (whistleblowing). Low ratings of the efficacy were also given to staff training and the introduction of written procedures for preventing frauds.

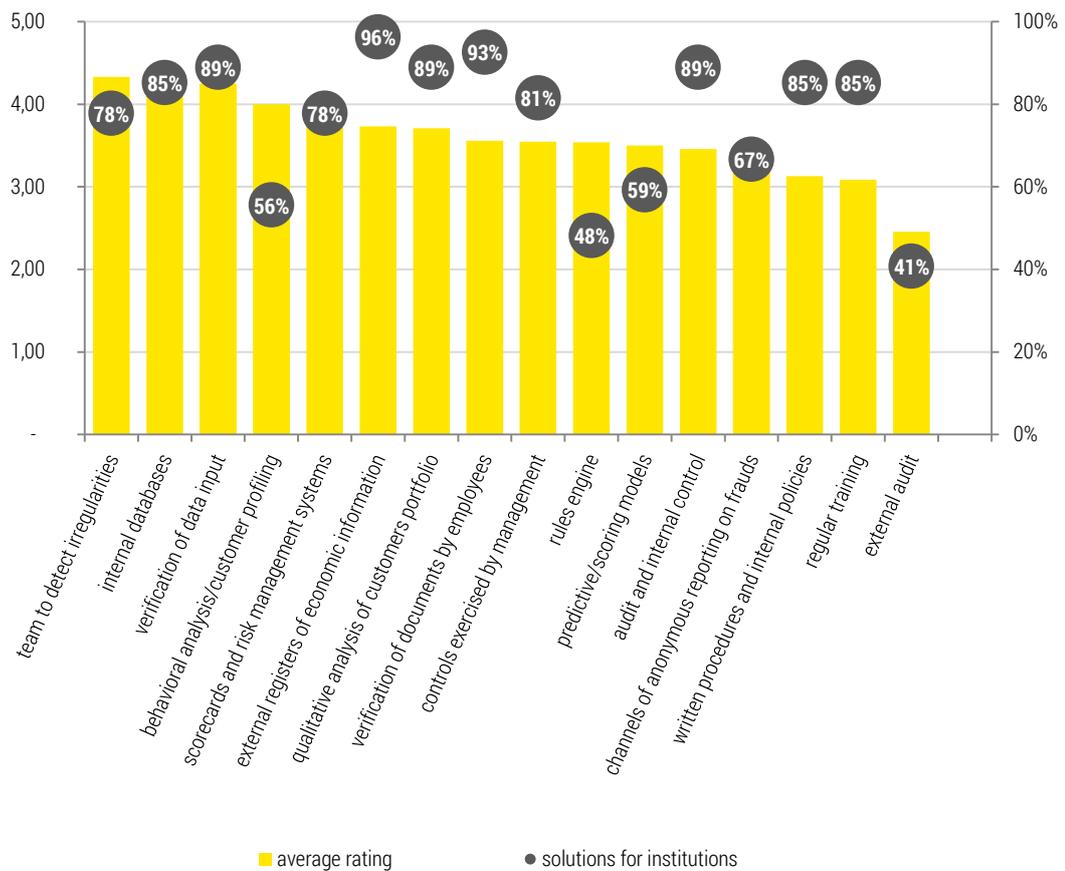
Katarzyna Baumgart

Head of Anti-Fraud Team,
Risk Management Department, mLeasing Sp. z o.o.

"Leasing companies in their operations record the increase in the number of identified cases of events that are regarded as attempts of financing frauds annually. An important method of fighting against fraud are still steps taken by the internal teams dedicated to the detection of fraud and attempts of leasing extortion supported by IT systems using internal and external databases."

The graph below illustrates the fact that the surveyed institutions often employ methods of fighting against fraud, defined by them as less effective, e.g. the majority (96%) of the institutions use external databases to fight against fraud, the effectiveness of which is assessed as average.

Chart 10. The tools used by institutions to fight the problem of fraud
 (evaluation of effectiveness – left axis, the percentage of institutions in which the method is applied)

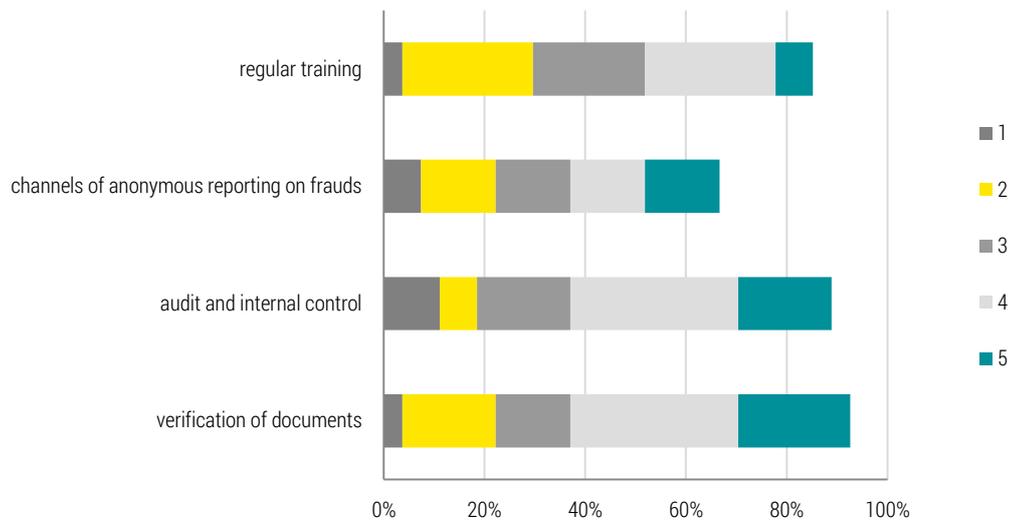


Michał Czuma
 Advisor to the Chairman of the Board, PKO Leasing

"It is more and more obvious, what I have often predicted in discussions, methods to detect fraud ex post are becoming less and less popular. If there has been a loss, if we already know what has happened, every owner wants to recover the lost benefits. It is often very expensive, if not impossible. "

In cases of several methods of fraud prevention it is not possible to draw firm conclusions about their effectiveness. This applies to cases depicted in a graph below. In these cases, respondents with almost equal frequency evaluated these tools as effective and ineffective.

Chart 11. Assessment of the effectiveness of methods used by the institutions to fight against frauds
 (1 – ineffective, 5 – very effective)



Michał Czuma

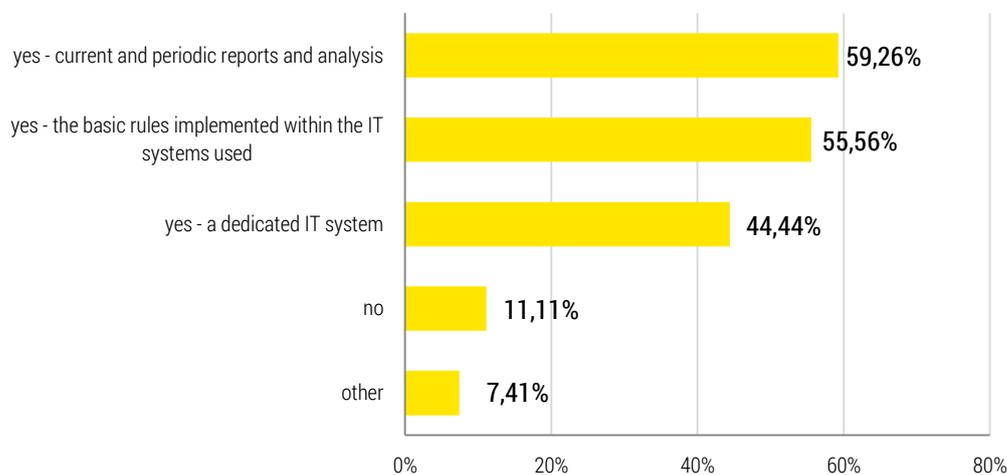
Advisor to the Chairman of the Board, PKO Leasing

"The slogan given by the media about the increased risk of fraud, led, unfortunately, to an oversupply of different training, not necessarily based on good and effective specialists. Here I must emphasize that there are not many experts and practitioners in this field, and experts who can translate a subject of frauds into tangible result are even less numerous."

IT solutions

Some financial institutions additionally support the above-mentioned methods of fighting against fraud, with IT solutions dedicated to the prevention and detection of fraud. Therefore, during the study we asked the respondents about the types of tools and the areas in which the fight against fraud is supported by IT systems.

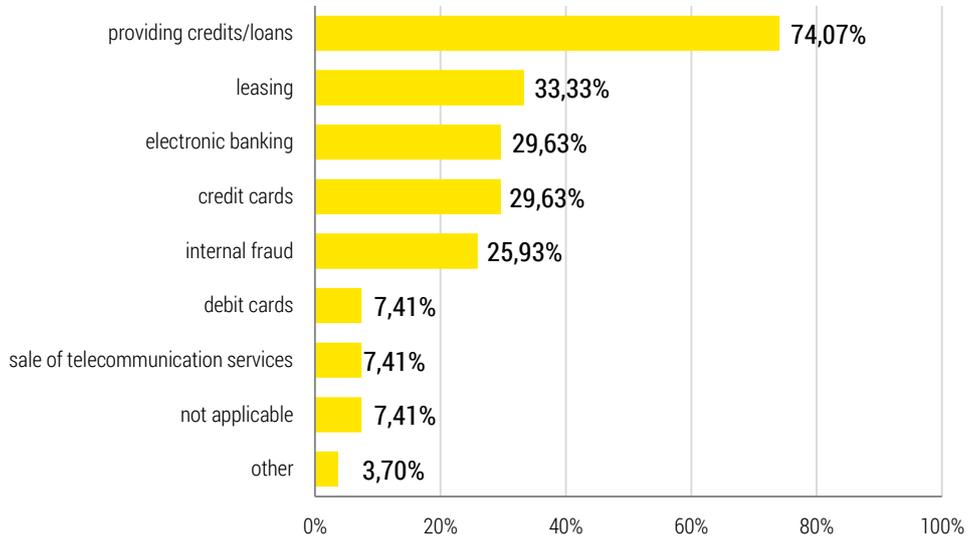
Chart 12 The use of the IT solutions dedicated to the prevention and detection of fraud
[% of institutions]



Nearly 90% of respondents said they use IT solutions dedicated to the prevention and detection of fraud. According to the respondents, almost half of the institutions surveyed have at the same time a special, separate system of fraud prevention, basic rules implemented in the framework of used IT systems to detect potential cases of fraud and create current or periodic reports and analyses carried out on the basis of data collected in the primary (operating) IT systems. 7% of the institutions declare to have other IT tools, for example system interlocks to prevent the establishment of relations with specific entities.

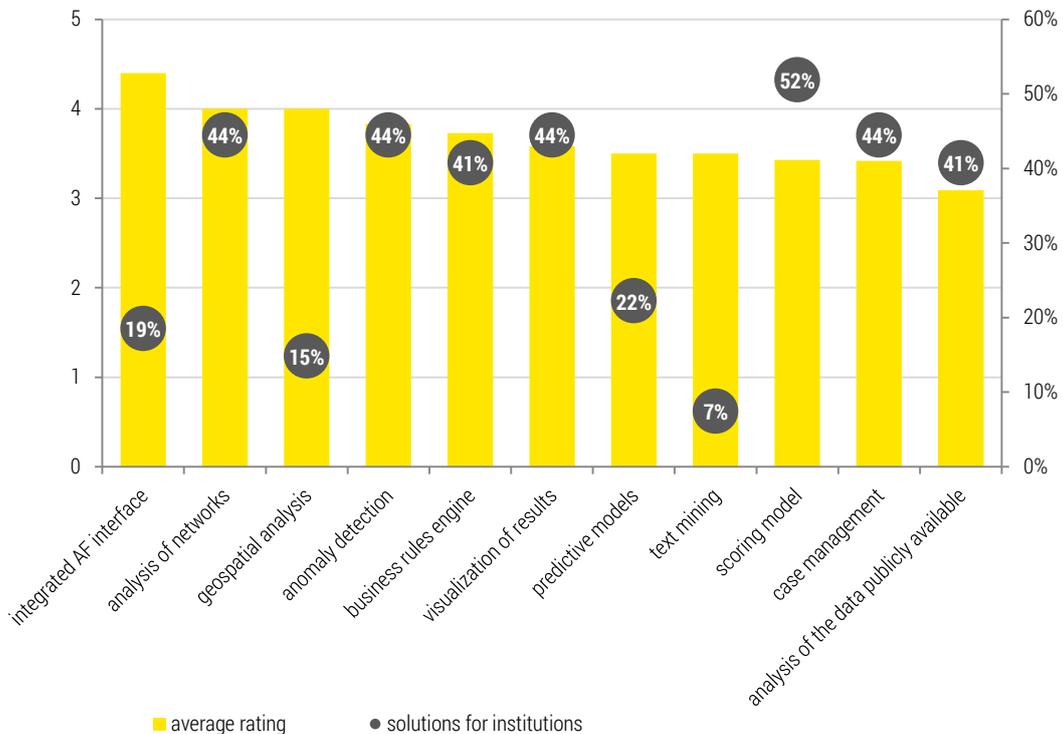
The surveyed institutions generally have the support of IT tools in the fight against fraud. 93% of respondents identified at least one area in which information systems are used to prevent fraud. According to the respondents, information systems are designed to support of core business areas, related to interactions with customers. Only every 4th institution uses IT systems to prevent internal fraud. The detailed responses are presented in the chart below.

Chart 13. Areas where systems are used in order to prevent abuse (% obligated institutions)



The surveyed institutions use IT tools which are characterized by different levels of effectiveness in the fight against fraud. Respondents were asked to identify which tools are used in the institutions they represent and to evaluate their effectiveness. We have visualized the collected answers in the chart below.

Chart 14. IT solutions used in financial institutions to counteract and detect frauds



Scores, assigned to individual tools, clearly indicate that IT solutions supporting the fight against fraud have high credibility among the respondents. According to respondents, the most effective IT tool to fight fraud is to introduce a single integrated interface for the fraud analysts (*graphical user interface* - GUI). At the same time, this solution is used by only 19% of respondents. Other tools, which according to the

respondents are characterized by high efficiency, and - at the same time - are rarely used, are the analysis of the context and unstructured data (textmining), the use of which was declared by only 7% of respondents, and geospatial analysis - respectively 15%. One of the lowest ratings was given by respondents to a scoring model, which is also a tool used by more than half of the institutions surveyed - 52%, the highest percentage among all the tools.

Marcin Bizoń
Senior Manager, EY

"The attention should be drawn to the fact that out of all IT tools supporting anti-fraud, the integrated AF interface was indicated as the most effective, allowing the analyst a quick and easy access to the information necessary to assess the event and take immediate required actions. The relatively low popularity of this solution now, combined with a strong belief of the respondents in the superiority of the human factor over the technology, indicate in which direction the IT systems should evolve to support anti-fraud. It seems that the recipe for the success of IT technology suppliers is to provide solutions that will allow as much as possible to exploit the potential of trained professionals dealing with fraud matter. "

Challenges related to anti-fraud

In the last part of the survey respondents were asked to indicate, according to their knowledge and insights, the biggest challenges related to preventing fraud and cooperation with law enforcement authorities. The answers given by the respondents were convergent, and a summary is presented in the following diagrams.

The biggest challenges of anti-fraud

1. Allowing the free exchange of information on compromised entities and people between the institutions and law enforcement authorities
2. Providing appropriate technical and personal resources for the needs of the fight against fraud
3. Increasing IT security

The biggest challenge related to cooperation with law enforcement authorities

1. Failure to understand the specifics of frauds occurring in financial sector institutions
2. Excessive length of proceedings
3. Cancellation of the proceedings due to failure to detect the perpetrator
4. Gentleness of issued judgments

Michał Czuma

Advisor to the Chairman of the Board, PKO Leasing

"Frauders act so quickly, because doing so they are almost elusive for law enforcement organs, acting sluggishly and very slowly. (...) The report should lead to cooperation of companies sensitive to issue of threat of frauds and scams."



Summary

This report summarizes the results of a study on the phenomenon of fraud in the financial sector. Our questions covered different aspects of the phenomenon of fraud, ranging from the scale, patterns of action to the tools to prevent and fight against this problem.

The survey was directed to the employees of the institutions who are experts in a particular field and executives, experts and specialists.

The most important conclusions of the study are:

- › survey results show no significant changes in the approach of the sector to counteract frauds as compared to previous years,
- › as in previous years, the surveyed institutions indicate that the most popular in the area of fraud prevention events are cases of purchasing a product or service using false or stolen document
- › on the other hand, hacker attacks, which are widely reflected in the media, according to the survey participants, occur relatively rarely,
- › granting credits and loans is a business area, in which systems in order to prevent fraud are used most commonly by the surveyed institutions,
- › in evaluating the effectiveness of anti-fraud tools, trends remained the same as in previous studies, i.e. prevention methods are evaluated as more effective than detection methods,
- › it should be emphasized that the survey participants have a high awareness of the effectiveness of certain analytical techniques (e.g. geospatial analysis, textmining, predictive models), which are not yet widely used by the financial sector,
- › still the primary challenge in the field of fraud prevention is lack of cooperation between institutions and law enforcement authorities to exchange information, which is especially emphasized by leasing companies, where quick decisions to grant funding is inscribed in a business model,
- › leasing companies pay attention to the lack of understanding by law enforcement agencies regarding the operating model of companies in this industry,
- › moreover, the participants pointed to the common problem of inefficiency of actions taken by law enforcement agencies in connection with the frauds.

