Internal Fraud – The Threat from Within

David Porter - SAS
The new fraud landscape & the rise of the insider

How to rob a bank

How to detect fraudulent staff
Fraud is a global problem

- Typical organisations lose 5% of revenues to fraud each year
- Estimated to be a global loss of more than $3.5 trillion
- Industries most commonly victimised:
  - Banking & Financial Services
  - Government and Public Administration
  - Manufacturing Sector

Source: Association of Certified Fraud Examiners
Tough challenges for organisations

Estimated **global financial crime IT spending** will grow to $4.3 billion USD by 2013.

*Chartis Research*

In the **UK**, estimates show that 55% of **fraud** – a massive **£21 billion** – is committed against the **public sector**.

*National Fraud Authority*

The **global AML market** is currently at $450 million USD, will grow at a CAGR of 9%, reaching **$690 million USD in 2015**.

*Aite Group 2011*

**Potential projected global fraud losses** related to occupational fraud are **more than $3.5 trillion USD**.

*ACFE 2012 Report to the Nations*

**Tax evasion losses** are estimated at **$3.1 trillion** for 145 countries in the world which represent 98% of the world GDP between them.

*The Tax Justice Network*

“**Cyberthieves** have cost US companies and their banks more than **$15 billion in the past five years**, the FDIC found in a recent study.”

*Financial Times, 2012*

Organisations are faced with tough challenges to **focus on reducing losses** AND **ensure a smooth customer journey** AND take effective, timely action.
Today’s frauds are

Increasingly sophisticated
Higher velocity/faster
Cross industry
Multi channel
Advanced technologies
Social with pressures on staff
Current fraud systems are not good at finding insiders:

- Siloed by line of business - No sharing of data
- Act on event or customer
- Rules and predictive models alone have limitations
- Few proactive steps taken to combat cross channel fraud
- Evidence insufficient to act upon
- Investigation time consuming
Internal fraud and collusion are on the rise
Why is insider fraud so hard to spot?
75% of all major fraud cases involved insiders

KPMG Australia 2012 survey
Today's schemes are:

- **Financial losses**
- **Reputational Risk**

**Former RBC employee faces $1.1 million in fraud**

**Business Standard**

- Internal fraud rising in Singapore cos, says survey

**BBC News**

- East Sussex NHS finance head jailed for £2.2m fraud

**Svenska Dagbladet**

- Nordea fraud suspects jailed, fined

**Økonomi**

- Gate Gourmet-chef anklages for svindel for 138 millioner kroner
Real Fraud

Would make a terrible heist movie!
How to rob a bank
The perfect heist requires:

- Advanced safe cracking
- Mountain climbing
- Kung Fu
- Computer hacking
- CCTV hacking …
Or …
Get a job at the bank …

… or better still
Get to know someone who has a job at the bank
Insider fraud is the low risk, high reward crime of choice for modern organised criminals
How many mortgage fraud cases involved collaboration with industry insiders?

The FBI Estimate, Washington Post, Dec 11
What is internal ‘fraud’?

- Favouring applications from a friend
- Stealing money from a dormant customer account
- Searching the account of a favourite team
- Searching for information of use to a competitor
- Giving themselves credit to cover debts
Intervention strategy is key to success
Fixing Fraud

How to detect staff behaving badly
"Security and fraud risk exposure is increasing as organizations are threatened at multiple points of vulnerability.

Companies are re-evaluating how they tackle security since a fragmented approach is consistently leaving organizations at greater risk of attack. A more holistic approach to security ensures all layers of protection function together."

Avivah Litan, VP Gartner
Detection 3 step programme
Train your staff to spot the signs of social engineering and Organised Crime recruitment.
Step 2

Recognise that none of your external fraud detection systems are likely to find an insider – they already have the keys to the safe!
Step 3

Adopt a holistic “defence in depth” approach to the problem.

Identify data sources that will enable you to distinguish staff behaviour.
Make better use of your data
Understand the risks

- Theft from customers
- Credit abuse
- Breaches of policy
- Money laundering
- Procurement fraud
- Trading fraud
- Expenses & Payroll
- Data theft
Hybrid Analytics
Hybrid Analytics

The fraud threat landscape
SAS Fraud Analytics

Reduce reputational risk
- Through more accurate identification of high risk employees

Reduce exposure to operational risk and fraud committed by employees
- More suspicious cases identified
- Fraud identified earlier
- Reduction in false positive rates
- Improved investigation efficiency

Create extensible solutions
- Fraud grows and changes over time - your solutions need to be able to evolve faster
For further information:
www.sas.com