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Deloitte Forensic
Protecting your business in the Banking sector

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Introduction

Banks are facing an increasingly difficult scenario with increased fraud incidents and low recoveries compounded by a tidal wave of compliance regulations in India and abroad, thereby directly affecting their bottom-line and increased cost of compliance. With increased regulatory scrutiny, banks are under greater pressure to implement best practices. Compliance is therefore not an option but the need of the hour.

93%

Believe that fraud incidents have increased in the banking industry

More than ₹10 Lakh

Average loss per incident for nearly half of the respondents

Source for both figures: Deloitte’s India Banking Fraud Survey 2012

How can we help?

Fraud risk management

In the wake of increasing incidents of frauds in the financial service sector, the Reserve Bank of India (RBI) introduced guidelines vide circulars for a comprehensive Fraud Risk Management (FRM) system for banks pertaining to fraud prevention and the management's function in the organisation to prevent fraud. Stated explicitly within these guidelines is the need for controls related to the prevention, detection and deterrence of fraud and the roles and responsibilities of the senior management in fraud prevention and management function. The challenge for banks is to develop comprehensive fraud risk management controls that will not only prevent frauds, but also detect them as soon as they occur and respond to them.

As per Deloitte's fraud survey[1] more than half the respondents had indicated that they have implemented a formal fraud risk management framework. Despite this, the number of frauds is on the rise, which brings into question the effectiveness of the fraud risk management framework in place. The survey results indicated some of the following areas which needed immediate focus by banks, to foster better fraud risk management:

- Intelligence gathering mechanism
- Dedicated forensic tools for investigation
- Fraud risk assessment
- Due diligence of vendor/ third party

Our team has the experience and tools to assist you in the design, implementation, and assessment of antifraud programs and controls. Specifically, we can work with you on:

- Fraud awareness trainings
- Anti-Fraud Programs and Controls
- Fraud Risk Assessments (FRA)
- Current state assessments
- Fraud response management

Key questions banks should look into

- Who is responsible for the organisation's fraud risk management programme?
- Which products are most vulnerable to fraud?
- Which processes are most vulnerable to fraud?
- What is the number of fraud incidents encountered by the organisation in the last few years? Has it increased?
- What steps are being undertaken to improve fraud controls based on the root cause analysis of fraud incidents?
- How many processes are outsourced and what controls are in place to mitigate the outsourcing risk?
- Does the organisation have capabilities to identify "Red Flags" proactively?
- Does a formal incident response mechanism and process exist for responding to fraud?

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[1] Source: Deloitte's India Banking Fraud Survey 2012

Anti-money laundering (AML)

Negative publicity, damage to corporate reputation and loss of goodwill, legal and regulatory sanctions and adverse effect on the bottom line – are all possible consequences of an organisation's failure to manage the risk of money laundering. Many institutions face the challenge of addressing the threat of money laundering on multiple fronts. The challenge is even greater for complex institutions that operate in several lines of business and geographies, as well as companies that have expanded operations through a merger or acquisition as they face multiple legal and regulatory requirements, languages, IT systems and business cultures. With regulators adopting stricter regulations on financial transactions and enhancing their enforcement efforts, institutions are facing increased complexity on customer identification and monitoring programs.

Using our well established methodology and combining it with our expertise and understanding of the regulatory environment, we provide a comprehensive range of Anti-Money Laundering services: Review/ develop an anti-money laundering (AML) framework, due diligence and advisory to compliance technology advisory and systems integration. Our AML services include:

- Developing or enhancing your AML framework based on regulatory requirements and leading industry practices
- AML training for employees to facilitate knowledge and capability building
- AML due diligence
- Assist in Transaction look back exercise
- Implementation or enhancement of your transaction monitoring system
- Client on-boarding and remediation programs

Key questions you should ask

- What is the money laundering risk in each jurisdiction where you operate?
- Are your policies and procedures robust enough to mitigate these risks?
- What is your money laundering risk profile?
- Is your AML programme fully implemented in practice and supported by the corporate culture?
- How well do you know your customers? Are you acquiring clients, agents or business partners that may be involved in facilitating money laundering?
- Are your policies and systems benchmarked to leading industry practices?

Ethics helpline

An important aspect to encourage accountability and transparency within an organisation is a mechanism to enable all individuals to voice concerns internally in a responsible and effective manner when they discover information which they believe shows serious malpractice.

Implementing an employee whistleblowing hotline gives your employees a voice to confidentially report workplace concerns and enables you to identify and rectify problems before they damage your business and its reputation.

Deloitte Tip-offs Anonymous can act as a deterrent for unethical behavior that could lead to losses. It is also proved to be one of the most effective ways to detect fraud according to the Association of Certified Fraud Examiners (ACFE). Additionally, the presence of a whistleblowing helpline can boost staff morale by encouraging values such as trust, integrity, openness, honesty and transparency.

Deloitte's Tip-offs Anonymous is an independent and confidential whistleblowing facility that provides callers the opportunity to raise a concern regarding an incident of wrongdoing, fraud or unethical behavior within the workplace, while maintaining anonymity. We also offer some of the most comprehensive range of features including:

- Various ways for employees to report workplace issues i.e. website, email, toll free number
- Contact Centres use sophisticated call management technology
- On request, our experienced investigators have the ability to assess reports and recommend actions
- Secure and timely reporting of incidents to dedicated company representatives
- You retain control of the process and make all the decisions

2 Source: As per ACFE's 2014 Global Fraud Study, 42 percent of the respondents listed tip-offs received as the most common detection method for cases of occupational fraud.

Data analytics

With banks facing heightened regulatory and public scrutiny in many countries, using advanced analytics to help identify potential wrongdoing sooner may be a strategic and operational imperative. Technology has created new avenues for banks to prevent or detect fraud as many of the indicators of fraud are hidden within the bank's operational data. A clever data analytics tool can mine through this data and identify hidden relationships and red flags. This will enable banks to proactively identify potential fraudulent transactions before they manifest themselves months or years down the line.

Analytics has the potential to help banks refine the way they perform the sort of monitoring that will allow them to detect and identify potential fraud prior to the launch of a formal investigation by regulators. Banks should leverage the results of risk assessments to target their analytics efforts and fine-tune their monitoring systems for continuous improvement. They should then reshape their fraud detection efforts using advanced analytics and related tools, software and applications to obtain more efficient oversight. These steps can not only help enhance fraud deterrence, but also show regulators an enterprise-wide commitment to enforcing an effective anti-fraud strategy.

Our recommendations to specific banking clients will depend upon the risks they face and the state of their continuous monitoring process and technology. However, some areas that we commonly address are:

- Review your company’s fraud risk assessment results from an analytics perspective and identify targeted tests that can be implemented to address high-risk areas
- Evaluate the accuracy and effectiveness of your monitoring systems and perform periodic reviews
- Benchmark the analytics procedures used in your current monitoring system against the latest advanced analytics techniques and technology available on the market

Key questions you should ask

- Are you confident that your AML monitoring system has not missed transactions that should have featured in your STR?
- Do you have visibility to potentially suspicious customer behavior manifesting across different banking products and spread over 18 - 24 months?
- Are you certain that your de-dupe and UCIS[3] program is identifying all potentially related parties?
- Do you know which of your customers defaulting on their loan payment is potentially fraudulent?
- Are you aware of hidden / un-disclosed relationships between your suppliers and employees?
- Do you think there are ghost employees on your payroll?
- Are you confident that your credit risk process is filtering out potentially fraudulent applications?
- Do know which of your ATM / POS / Internet Banking transactions are potentially fraudulent?

[3] Unique Customer Identification Code

Computer Forensic

Today's business environment generates vast amounts of data and information. However, hundreds of billions of dollars are lost every year due to fraud, financial mismanagement or other malfeasance such as information deletion, policy violations or unauthorised access, etc. Evidences mostly lie concealed in different digital media, in the form of active, deleted, hidden, lost or encrypted files, file fragments etc. Commercial investigations and litigations increasingly rely on this data to help tell the whole story. The key to managing such huge volumes is turning the array of data into meaningful information.

We:

- Understand applicable legal requirements and policies
- Secure and collect evidence in a manner consistent with rules of admissibility
- Analyse the evidence with trusted and validated tools
- Present the evidence in an understandable manner

We have the state of the art analytic and forensic technology labs situated in our Hyderabad and Mumbai offices that feature an array of technology and tools to support forensic imaging, analysis, electronic discovery and electronic data anomaly detection. We have the capability to collect, preserve and harvest data from computer systems including hard drives, portable media, servers, smart phones and back-up media.

Our computer forensic services include:

- Forensic imaging and analysis
- Forensic investigation services
- Computer forensic incident response
- Training in computer forensic
- Legal business consulting

Business intelligence services

Investment banks seeking to raise capital for their clients, either through public or private offerings, or advising clients on potential transactions, or a private equity investor investing in a company generally need an objective picture and understanding of the backgrounds of the parties involved. Such information can assist in mitigating reputational, legal, or commercial risks in the context of contemplated transactions.

Just as strict anti-money laundering regulations have made it essential for financial institutions to practice "know your customer" due diligence, the need to "know your vendor" plays a similar role in mitigating fraud and regulatory risk for businesses.

Key questions you should ask

- Are we missing important information that could change our decision?
- Do we have the complete information about the prospective enterprise/ key decision makers?
- Has the fraud been examined from all possible angles and have we gone to the depth of the problem?
- Do we have complete knowledge of the fraudster, his businesses, assets and other interests?
- Are the subject parties involved in criminal activities or have links to organised crime?

We provide objective and accurate information on individuals and entities for clients that seek comprehensive intelligence in the context of due diligence, litigation support, and fraud and business investigations. Our Business Intelligence (BI) team has experienced research analysts who have expertise to gather relevant information from public records, subscribed databases, press and media sources. Desktop research is complemented by a dedicated field investigation team that has a strong network throughout the country to undertake background investigations of subjects, identifying conflict of interest, undisclosed relationships and affiliations or ascertaining issues such as any prior financial, legal, regulatory or criminal issues or links to organised crime.

Our BI services include
- Fraud investigations
- Intellectual property investigations
- Integrity due diligence
- Anti-bribery and corruption due diligence
- Know your vendor programs
- Asset tracing
- Enhanced due diligence

Working with our member firms, we can gather intelligence on individuals and companies virtually anywhere in the world in a timely and cost effective manner, including those jurisdictions where public records are sparse. We provide financial services institutions with comprehensive reporting tailored to meet their specific requests and requirements, while maintaining a high degree of confidentiality and discretion.

Anti-bribery and corruption compliance

The upward trend in regulatory anti-corruption initiatives globally has meant that Indian financial institutions need to ensure their compliance programmes are robust and tested. This will help to minimise chances of prosecution and significant fines not only under Indian laws, but also under the more stringent global regulations like U.S. Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA).

Key questions you should ask

- Have you performed a corruption risk analysis of your operations to identify potential high risk areas?
- Do you have an anti-bribery and corruption policy? Is your staff aware of anti-corruption measures?
- Does your staff receive regular, appropriate and specific anti-corruption training?
- Do you conduct sufficient, effective due diligence when entering into relationships with third parties?

Faced with these regulatory and legislative priorities, financial institutions should now brace themselves against corruption risks and consider appropriate risk management strategies, policies and procedures to mitigate the risk of bribes being paid, directly or indirectly. Our anti-corruption specialists have helped some of the world's leading institutions and companies navigate the risks arising from anti-corruption legislation.

Our anti-bribery and corruption (ABC) services include:

- Forensic Accounting Investigations of alleged ABC violations
- Transactional Due Diligence, whether buying or selling
- Compliance Program Implementation and Assessment
- FCPA "Health Checks"
- Business Intelligence Services
- Forensic Data analytics
- Training

Investigation

Some of the common fraud incidents in retail and priority sector banking include incorrect sanctioning, multiple funding, over valuation of collateral and fraudulent documentation. Similarly siphoning of funds and external vendor induced frauds are prevalent in the corporate banking environment. In addition to this, the introduction of technology for internet and mobile banking are leading to newer types of frauds like phishing, account takeover, hacking and cloning.

Any response to fraud therefore, should be swift and effective. The RBI circular dated September 2009 required banks to investigate 'large value frauds' with the help of skilled manpower for internal punitive action against the staff and external legal prosecution of the fraudsters and their abettors.

Whether investigating a large scale financial statement fraud, employee malfeasance, procurement fraud, corruption or general accounting irregularities, our financial fraud investigative team has extensive experience in dealing with the increasingly prevalent and complex white collar crime in the financial services industry.

Our approach

Our approach and methodology has been developed based on numerous investigations that we have carried out in the financial services industry in India and across the world. Our approach is custom designed for each client to assist them in demystifying the issue, identifying the perpetrators and the root cause, tracing the assets and enhance their existing controls to prevent the occurrence of similar incidents in the future

Our select relevant credentials

Investigation

Conducted an investigation to identify the quantum of loss to several financial institutions as a result of diversion of export credit disbursements by a borrower. Our analysis of the transactions helped in the identification of multiple circular transactions, fraudulent and irregular transactions leading to the diversion of funds. We also identified several irregularities in sanctioning and monitoring of facilities and quantified the loss to the financial institutions.

Anti-bribery and corruption

Appointed by a leading company in India to review their operations for compliance with the Foreign Corrupt Practices Act (FCPA). As part of the assignment, we identified several high risk/ irregular transactions involving government officials and contract workers. The review findings also revealed fraudulent billing by a contractor for ghost workers.

Fraud risk management

Appointed by a leading multinational bank for conducting an in-depth review of the bank's wealth management front end process. We identified process weakness which could potentially lead to mis-selling, fraud and regulatory violations and suggested changes to the process to enhance the control environment.

Anti-money laundering

Engaged by a leading multinational bank to assess their off-shore transaction monitoring process. Following an initial review, we presented a detailed report of our findings. Acting upon our recommendations, the client engaged us to assist them in strengthening their alert clearing procedures; including training their employees and developing an independent Quality Assurance (QA) function.

Business intelligence

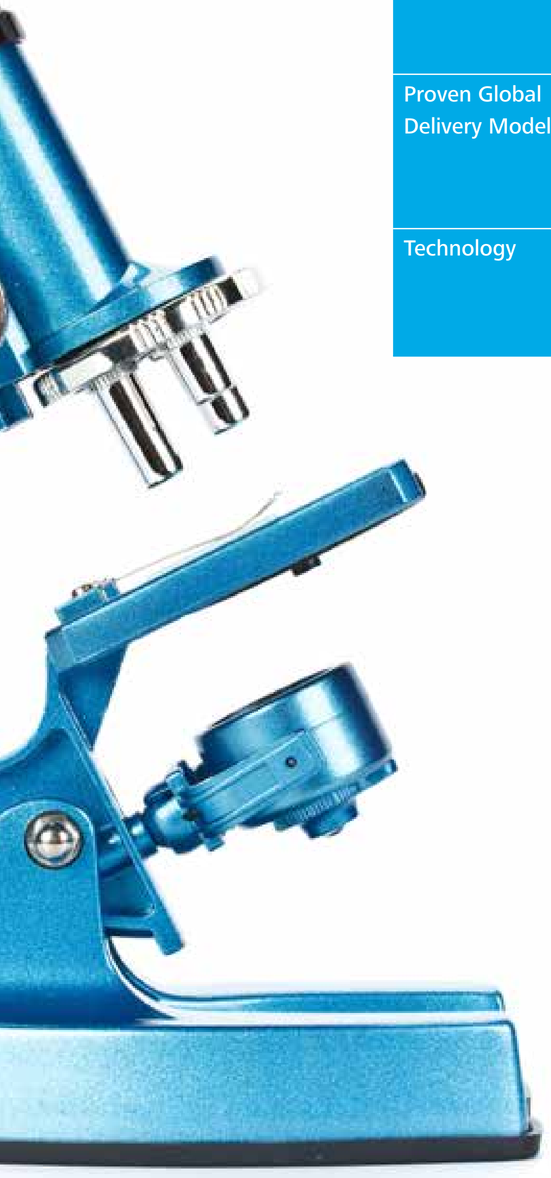
Appointed by a group of lender banks to carry out financial statement analysis, asset tracing and identifying the movement of funds for identified borrower companies. We conducted field investigation, source enquiries and desktop searches to ascertain existence, nature of business and relationships of the borrowers with selected entities and helped identify immovable assets. The results from the field investigations also indicated that the borrowers had diverted the funds to invest in real estate projects.

Computer Forensics

Appointed by a law enforcement agency to provide computer forensic support for their investigation of a financial fraud. We acquired forensic images of computers of a number of suspects and conducted digital forensic recovery procedures. This helped in identifying documents and images related to the execution of fraudulent activity and unauthorized transactions. The team assisted in uncovering suitable evidence that helped fill the missing links, eventually allowing the law enforcement agency to file the charge sheet within the stipulated time and also brought out several shortcomings in server configuration settings that could help future fraudsters.

The Deloitte Difference

Presence and Infrastructure	Deloitte has significant geographic presence in India, with offices in 13 locations including Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi. We have a highly developed infrastructure that has more than ten years of maturity.
Expertise and Experience	We have a highly talented and globally competitive workforce, offering experience and expertise in a wide range of services. Professionals in our Forensic services practice have worked on some of the largest and most complex investigations in the financial services sector, both within India and globally.
Robust Tools, Flexibility and Scalability	Our key differentiator is the use of robust tools in all our various forensic engagements, right from preventive services like fraud risk management assessment to reactive services like investigations that results in building efficiency and effective delivery of engagements; which in turn benefits our clients with outputs substantially exceeding their expectations. We have the flexibility and scalability to quickly ramp up to support large projects at short notice. We are able to staff projects, both virtually and on-site.
Proven Global Delivery Model	Deloitte has a proven global delivery model, working seamlessly across time zones and cultures to deliver high quality work on time. Depending on engagement requirements, we adjust our timetables to meet client requirements.
Technology	Deloitte operates one of the largest electronic discovery labs in Asia (and the largest in India), utilising advanced technology to collect, process, host, and analyse electronically stored information (emails, user files, metadata, etc.) in support of forensic investigations.



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