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India Banking Fraud Survey

Edition IV
January 2022

Enhancing the existing FRM function

The current traditional methods of fraud detection are plagued with the lack of centralised control, limited feedback from FRM processes, lack of risk-based monitoring, focus on detection than prevention, etc. To transform to a proactive, agile future and achieve a robust and comprehensive system, EWS and FRM needs to be integrated.

Current state

Traditional and reactive

- **Standalone** anti-fraud/AML policies and procedures
- **Threshold/materiality-** based monitoring of accounts
- **Dependency** on other teams - **Traditional method** of detecting frauds
- **Centralised** training and communication
- More focused on reporting
- **Lack of centralised control** on suspicious cases reported by branches/zones
- Limited feedback from FRM on process and system enhancements
- Lack of risk-based monitoring
- Focus is more on detection than prevention



Future state

Proactive and agile

Future enhanced FRM

Enhanced due diligence	Continuous monitoring/enhanced EWS	Investigation and remediation
<ul style="list-style-type: none"> • Identify anomalies or the potential misrepresentation of facts • Background checks on promoters/borrowers • Database screening and source enquiries • Tweaking of policies and procedures, if any, for the changing environment • Review asset classification to verify if account showed stress prior to COVID-19 lockdown 	<ul style="list-style-type: none"> • MRI index will provide inputs to design new fraud alert monitoring scenarios • Identify trigger events to revisit and enrich fraud scenarios • Optimise EWS with the enhanced scenarios for timely triggers • Integrate internal and external data sources to identify potential "red flags" 	<ul style="list-style-type: none"> • Conduct thematic testing and portfolio analysis based on MRI • Detailed investigation including enhanced due diligence, market intelligence, and end use of funds on suspect customers • Develop additional anti-fraud controls to address identified new risks • Update and socialise policies/processes • Robust MIS reporting/dashboards

Bringing synergy across various fraud risk monitoring tools

Industry-wide banks are using various systems that run pre-defined scenarios and generate alerts, which may be in the form of early warning signals, potential fraud alerts or suspicious alerts, indicating money laundering activities. However, most banks continue to monitor these alerts in isolation.

Several banks have begun to integrate various alert monitoring tools to bring synergy and get a comprehensive view of customers and their transactions. Integration of alerts does not necessarily mean that one team reviews all alerts generated by various tools deployed by banks. Bringing more synergy may entail revisiting the alert scenarios defined in various systems, alignment between the FRM and EWS teams, data sharing between the FRM and credit monitoring/inspection departments to proactively identify red flags, providing meaningful insights to the AML transaction monitoring team for review, and reporting to FIU, if required, etc.

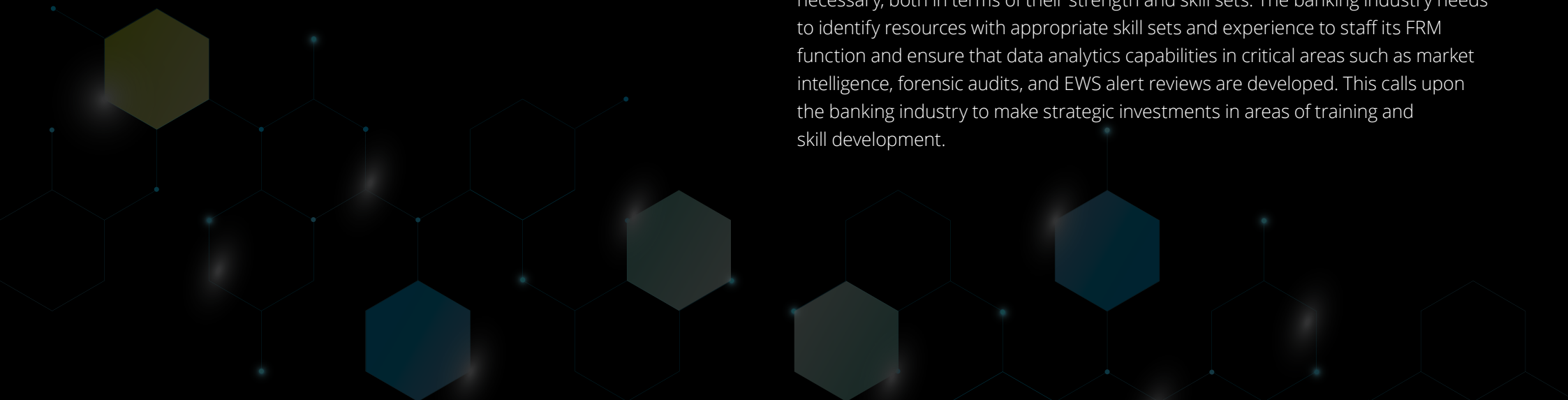
For banks, this combined effort will help achieve the ultimate common objective of protecting its customers from potential financial loss and enhancing trust amongst customers and the banks' stakeholders.

Upscaling resources in FRM

Limited monitoring after disbursement of assets has been identified as a major contributor to stressed assets by more than 38 percent respondents. This appears to have elicited an appropriate response from the banking sector in the form of increased reliance on measures such as EWS and data analytics. The survey also indicates banks' heavy reliance on FRM human resources for effective continuous monitoring of assets, with 20 percent respondents opting for a dedicated team of experienced FRM professionals to handle high-value credits.

The industry seems to have reached a consensus on the need of continuous monitoring and effectiveness of tools, such as EWS and data analytics; however, there appears to be several challenges in the effective implementation of these tools/measures. The survey cites factors such as lack of data integrity due to siloed systems, lack of dedicated teams and the absence of the overall skill sets required in market intelligence, forensic audits, and EWS alert reviews and analytics, as impediments to operationalise an effective fraud monitoring framework.

The criticality of having an effective fraud monitoring framework has been amplified due to an upward trend in frauds since our previous survey. Concerns are heightened by expectations that the transaction volume will rise as a result of government stimulus and 78 percent survey respondents stating that banking frauds may increase over the next two years. In this regard, upscaling FRM resources is necessary, both in terms of their strength and skill sets. The banking industry needs to identify resources with appropriate skill sets and experience to staff its FRM function and ensure that data analytics capabilities in critical areas such as market intelligence, forensic audits, and EWS alert reviews are developed. This calls upon the banking industry to make strategic investments in areas of training and skill development.





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