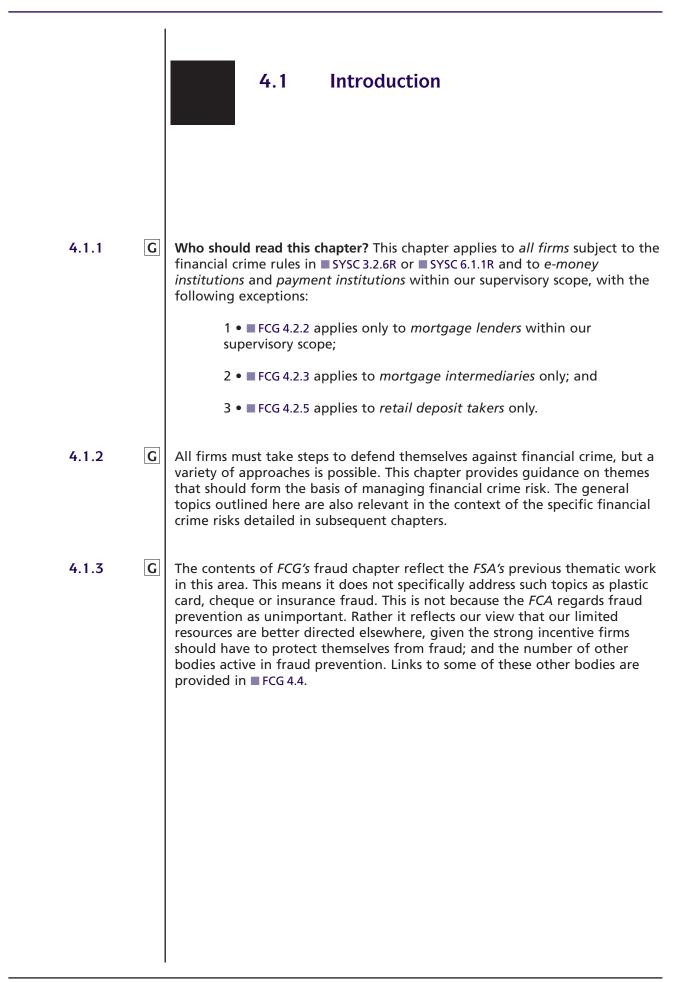
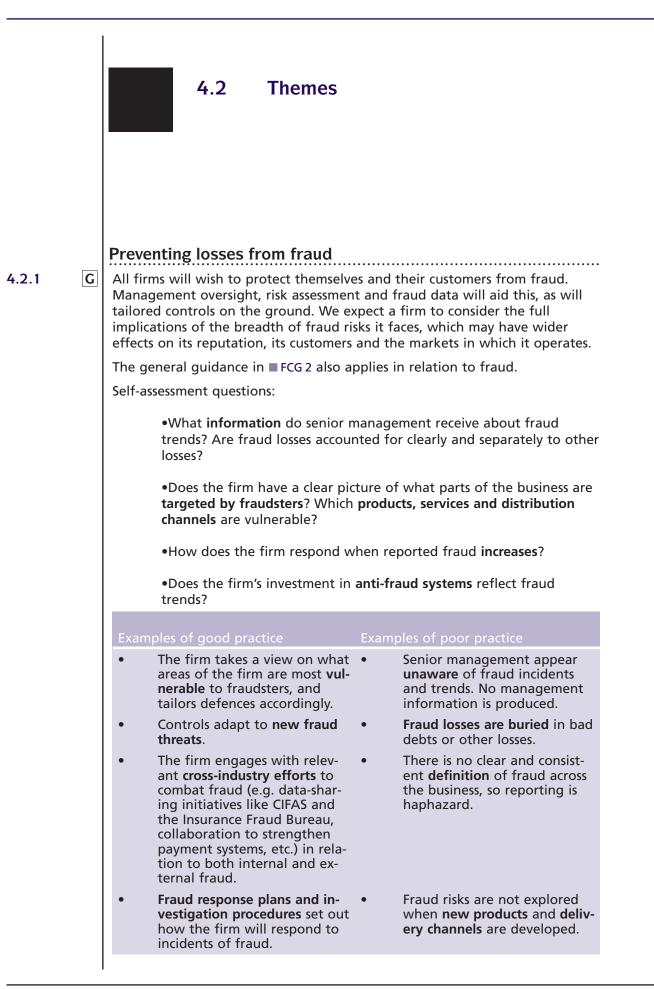
Fraud

Chapter 4

Fraud





Exar	nples of good practice	Exam	ples of poor practice
•	Lessons are learnt from incid- ents of fraud.	•	Staff lack awareness of wh constitutes fraudulent beha our (e.g. for a salesman to a report a customer's salary t secure a loan would be fraud).
•	Anti-fraud good practice is shared widely within the firm.	•	Sales incentives act to ence age staff or management t turn a blind eye to potenti fraud.
•	To guard against insider fraud , staff in high risk posi- tions (e.g. finance depart- ment, trading floor) are sub- ject to enhanced vetting and closer scrutiny. 'Four eyes' pro- cedures (see FCG Annex 1 for common terms) are in place.	•	Banks fail to implement the requirements of the Payme Services Regulations and Banking Conduct of Busine rules, leaving customers ou of pocket after fraudulent transactions are made.
•	Enhanced due diligence is per- formed on higher risk cus- tomers (e.g. commercial cus- tomers with limited financial history. See 'long firm fraud'	•	Remuneration structures m incentivise behaviour that creases the risk of mortgag fraud.
	in FCG Annex 1).		
Mor			
This s	in FCG Annex 1).	rs with	in the supervisory scope of
This s appro	in FCG Annex 1). tgage fraud – lenders section applies to mortgage lende	ers with	in the supervisory scope of
This s appro	in FCG Annex 1). tgage fraud – lenders section applies to mortgage lende opriate regulator.	etect a ith reso	nd prevent mortgage fraud ources allocated on the basi
This s appro	in FCG Annex 1). tgage fraud – lenders section applies to mortgage lender opriate regulator. assessment questions: •Are systems and controls to d coordinated across the firm, w	etect a ith reso an be u he frau	nd prevent mortgage fraud ources allocated on the basi used to best effect?
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4.2.2

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4.2.3

	nples of good practice	Ехапт	ples of poor practice
•	A lender reviews existing mortgage books to identify and assess mortgage fraud in- dicators.	•	A lender's panels of conv cers, brokers and valuers too large to be managea
•	A lender verifies that funds are being dispersed in line with instructions before it re- leases them.	•	The lender does no work identify dormant parties
•	A lender promptly discharges mortgages that have been re- deemed and checks whether conveyancers register charges with the Land Registry in good time.	•	A lender relies solely on Financial Services Registe when vetting brokers .
		•	Underwriters' demandin work targets undermine forts to contain mortgag fraud.
N /	and froud intermediation		
•••••	gage fraud – intermediarie	• • • • • • • • • •	
	ection applies to mortgage inter	mediar	les.
Selt-a	ssessment questions:		
	•does your firm satisfy itself th	at it ic	
	fraud?		able to recognise mortga
		, does vides is mparec rtgage	your firm consider wheth consistent ? (For example with stated employment comparable with what ye
	 fraud? When processing applications information the applicant provideclared income believable conthe value of the requested model 	, does vides is mparec rtgage of the	your firm consider wheth consistent? (For example, with stated employment comparable with what yo property to be purchased
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4.2.4

•deliberately submitting to lenders applications containing false or misleading information; and

•failing to have adequate systems and controls in place to deal with the risk of mortgage fraud.

The FSA have referred numerous cases to law enforcement, a number of which have resulted in criminal convictions.

Investment fraud

4.2.5

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UK consumers are targeted by share-sale frauds and other scams including land-banking frauds, unauthorised collective investment schemes and Ponzi schemes. Customers of UK deposit-takers may fall victim to these frauds, or be complicit in them. We expect these risks to be considered as part of deposit-takers' risk assessments, and for this to inform management's decisions about the allocation of resources to a) the detection of fraudsters among the customer base and b) the protection of potential victims.

Self-assessment questions:

•Have the risks of investment fraud (and other frauds where customers and third parties suffer losses) been considered by the firm?

•Are resources allocated to mitigating these risks as the result of purposive decisions by management?

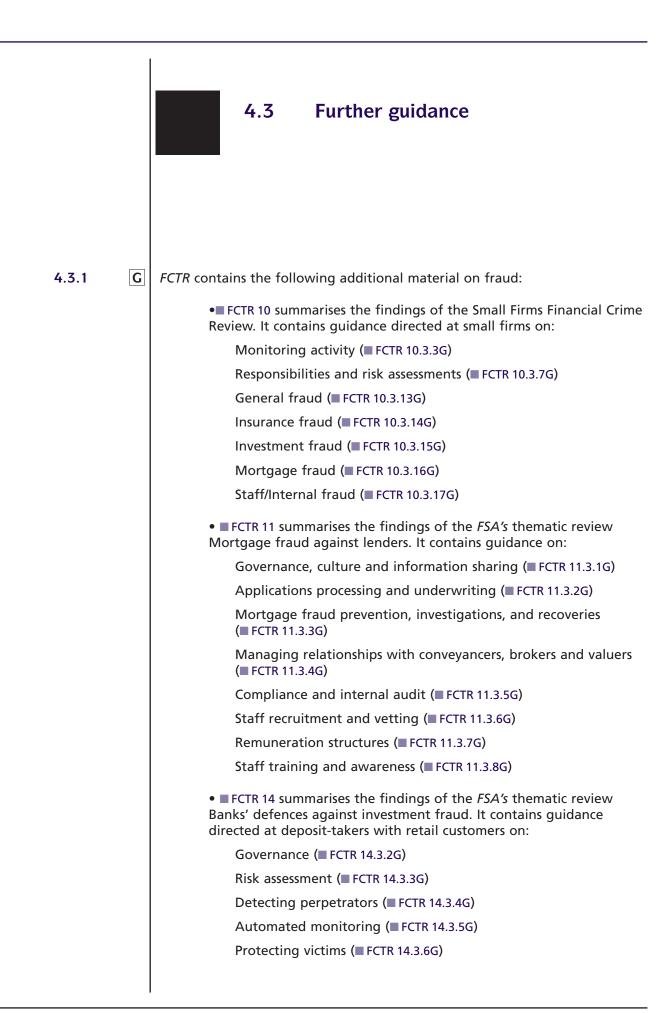
•Are the firm's anti-money laundering controls able to identify customers who are complicit in investment fraud?

Examples of good practice	Examples of poor practice
 A bank regularly assesses the risk to itself and its customers of losses from fraud, including investment fraud, in accord- ance with their established risk management framework. The risk assessment does not only cover situations where the bank could cover losses, but also where customers could lose and not be reim- bursed by the bank. Resource allocation and mitigation measures are informed by this assessment. 	 A bank has performed no risk assessment that considers the risk to customers from invest- ment fraud.
• A bank contacts customers if it suspects a payment is being made to an investment fraudster.	• A bank fails to use actionable, credible information it has about known or suspected perpetrators of investment fraud in its financial crime pre- vention systems.
 A bank has transaction mon- itoring rules designed to de- tect specific types of invest- 	• Ongoing monitoring of com- mercial accounts is allocated to customer-facing staff incen-

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Examples of good practice	Examples of poor practice
ment fraud. Investment fraud subject matter experts help set these rules.	tivised to bring in or retain business.A bank allocates excessive
	numbers of commercial ac- counts to a staff member to monitor.

I



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		Management reporting and escalation of suspicions (FCTR 14.3.7G)
		Staff awareness (FCTR 14.3.8G)
		Use of industry intelligence (= FCTR 14.3.9G)
4.3.2	G	FCTR 2 summarises the FSA's thematic review Firms' high-level management of fraud risk.

