

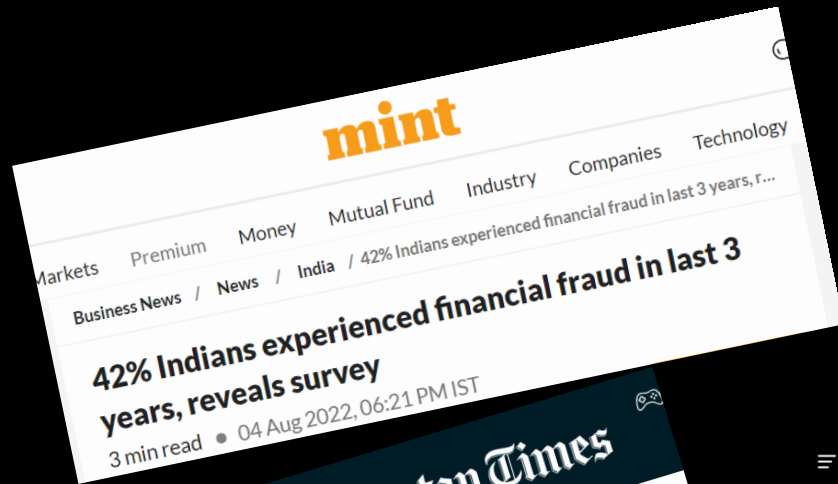
Current fraud landscape in India

25 May 2024

Introduction

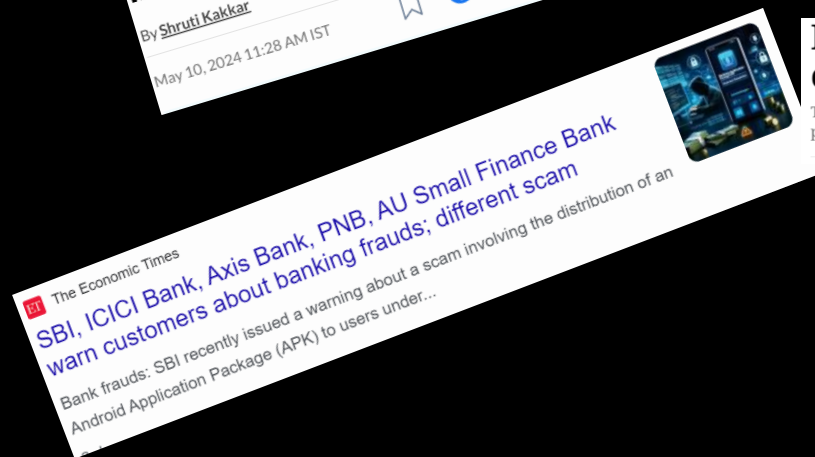
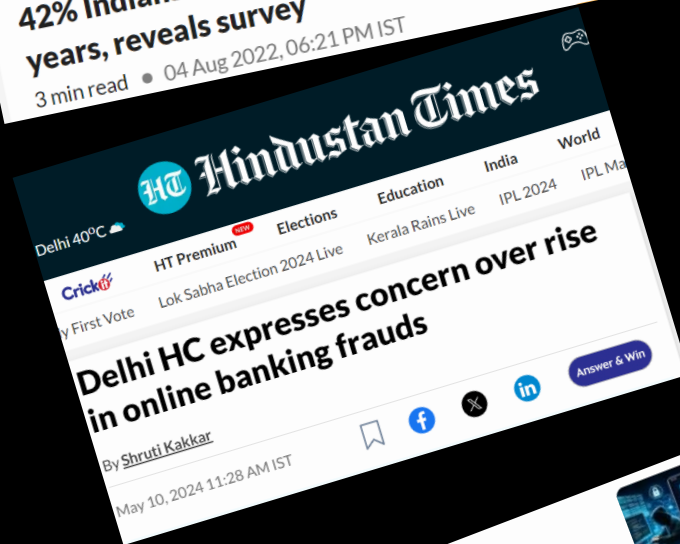


Banking frauds in the news



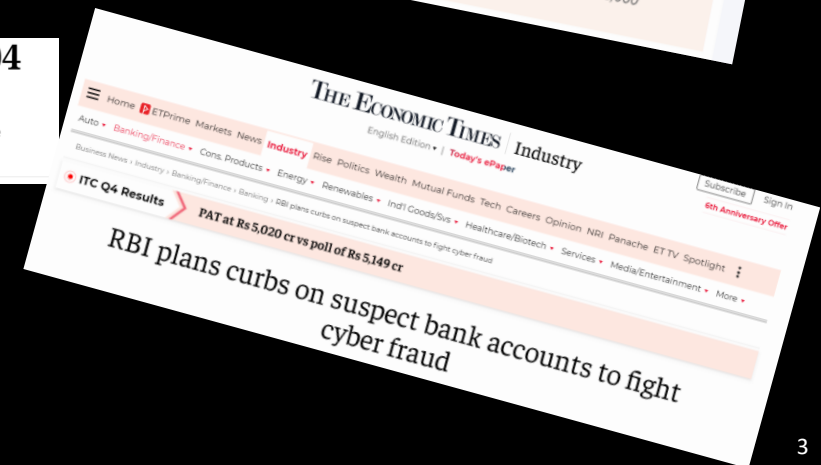
55% of digital banking frauds detected in India were third-party account takeover frauds, says BioCatch

"Accounting for 55 per cent of all fraud in India, third-party account takeover fraud still represents a bigger slice of the fraud pie than the social engineering scams BioCatch sees exploding elsewhere on the planet," it said.



Payment frauds rise by 70.64% to Rs 2,604 crore in October-March period

The volume of frauds also rose to 15.51 lakh during the March 2024 period from 11.5 lakh in the previous six-month period, RBI data shows.



Decoding frauds



Setting the context



Definition of fraud as per Section 447 of Companies Act 2014

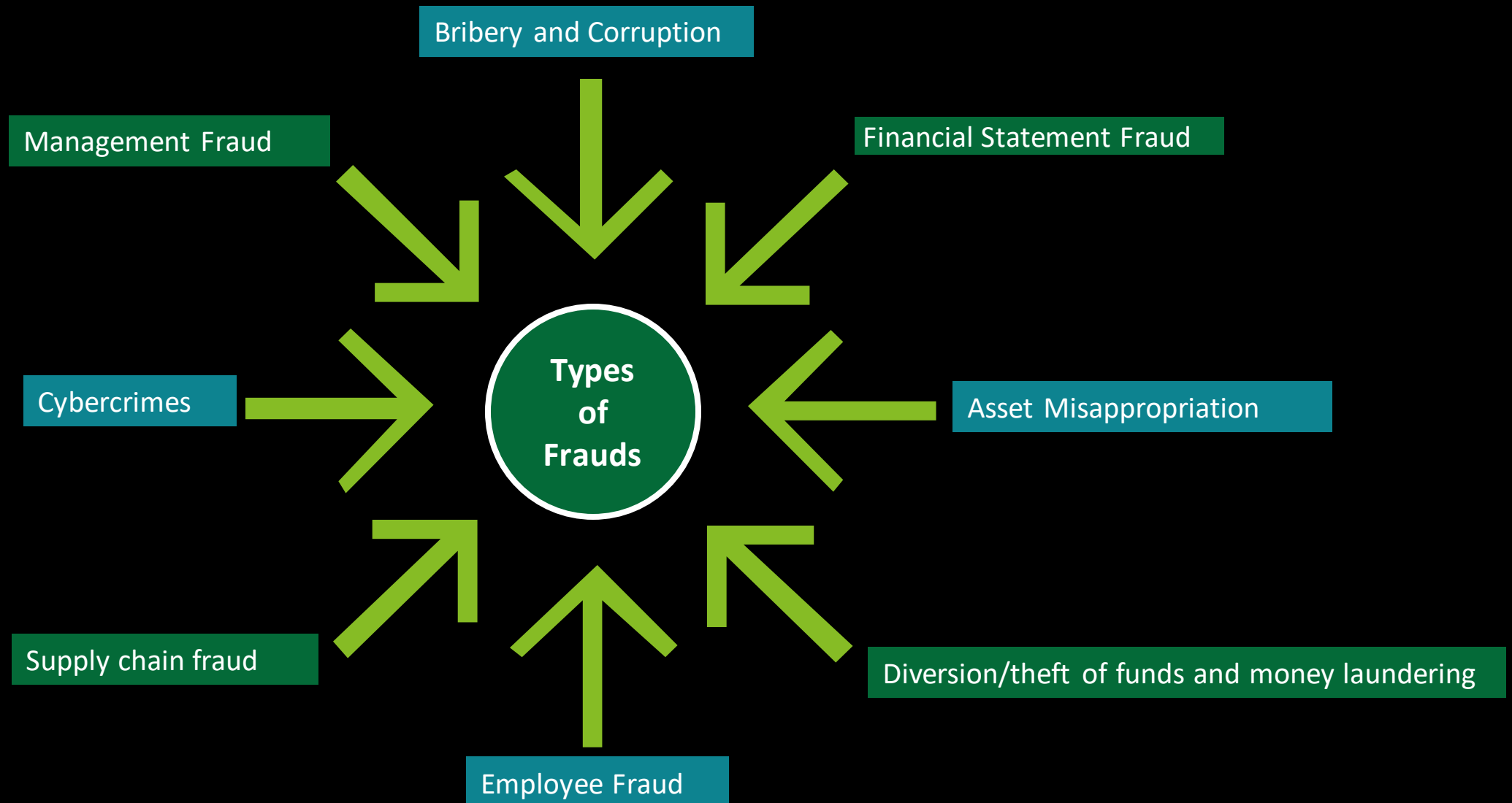
Any act or omission, including a misrepresentation, by a director or any other person, whether a party to the fraud or not, which involves any fraud by him or any other person, or a willful concealment of any material facts from any person with the intent to deceive, and thereby prejudice the interests of the company, its shareholders or creditors.



Why are frauds perpetrated?

The purpose of fraud may be monetary gain, personal satisfaction and a desire of power and control

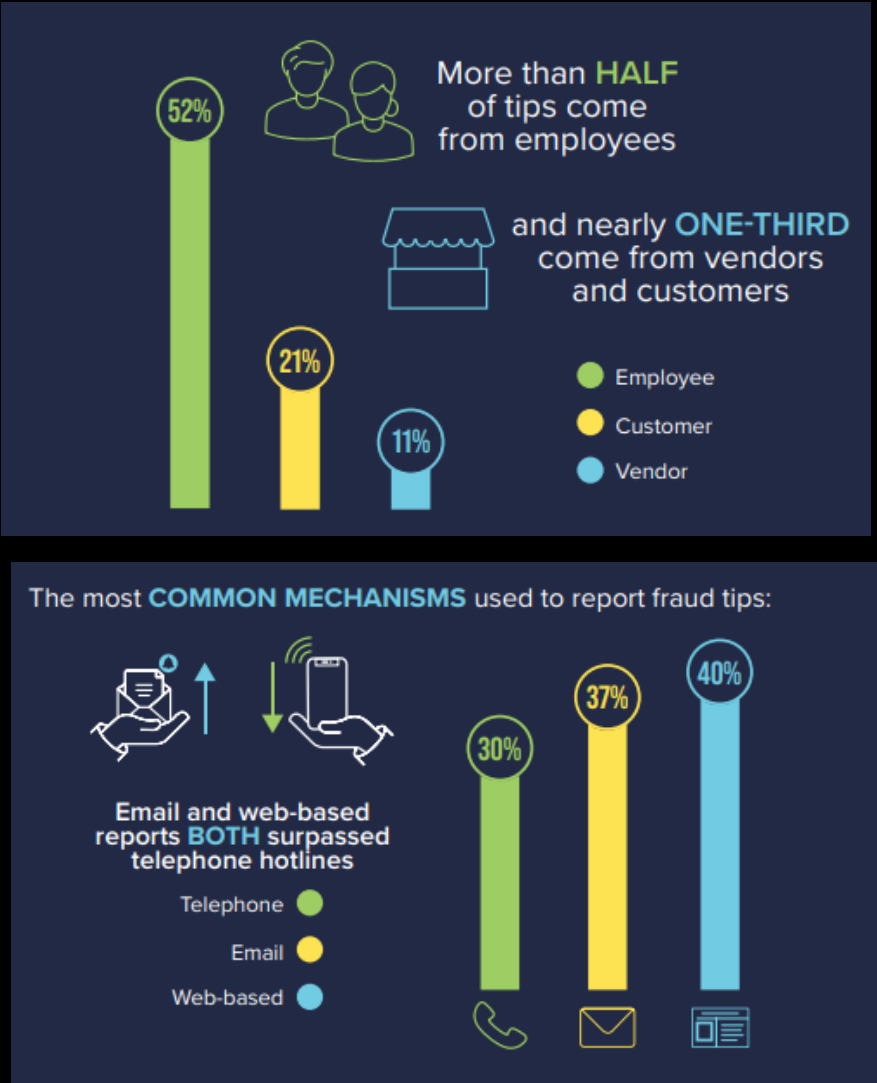
Types of frauds



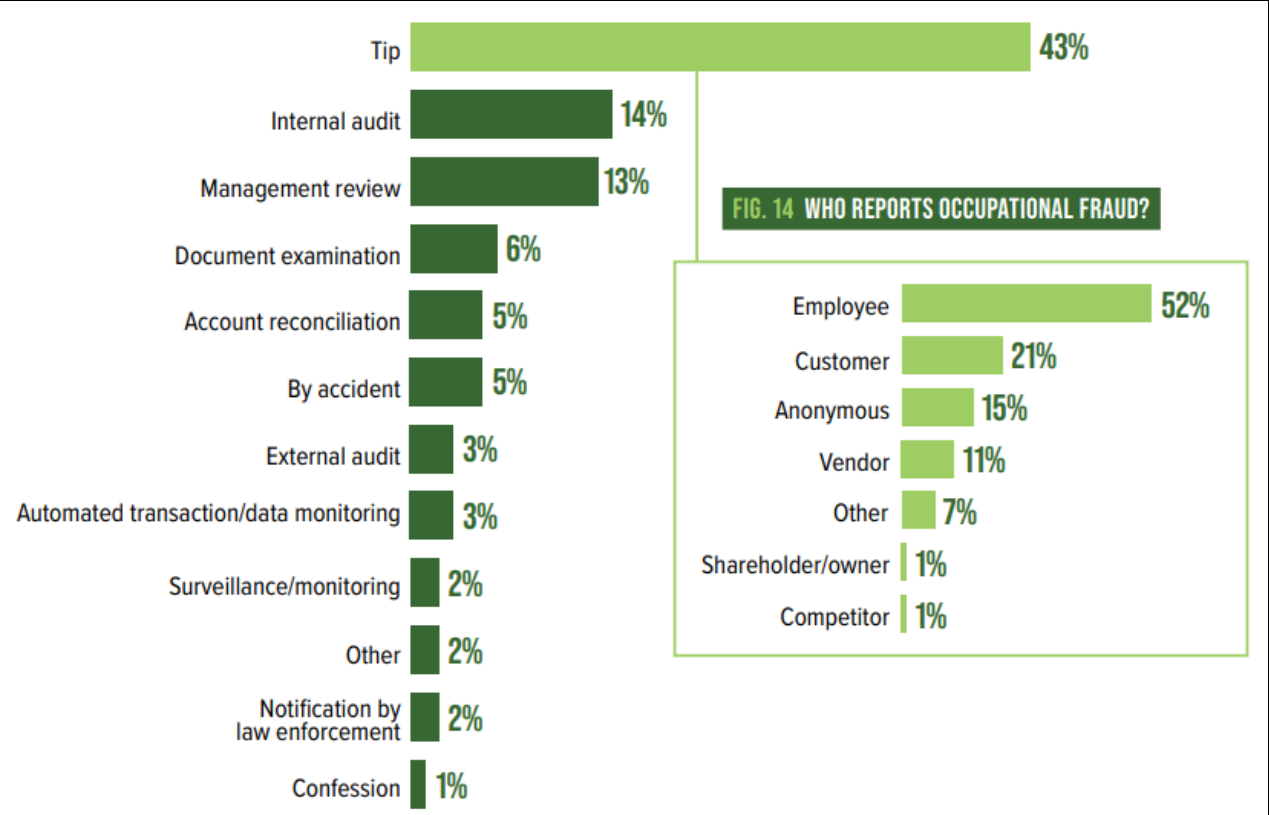
Early warning signals of corporate frauds

1. High amounts in employee expense statements
2. Management decisions are dominated by an individual or small group
3. Purchases and other transactions with third parties that are related or linked to the employee
4. Frequent bank account changes
5. Frequent change in accounting policies
6. Frequent changes of external auditors
7. Continuous loan renewal
8. Excessive number of year-end transactions
9. Employees having close relationship with a customer or supplier
10. Missing documents

How are corporate frauds discovered?

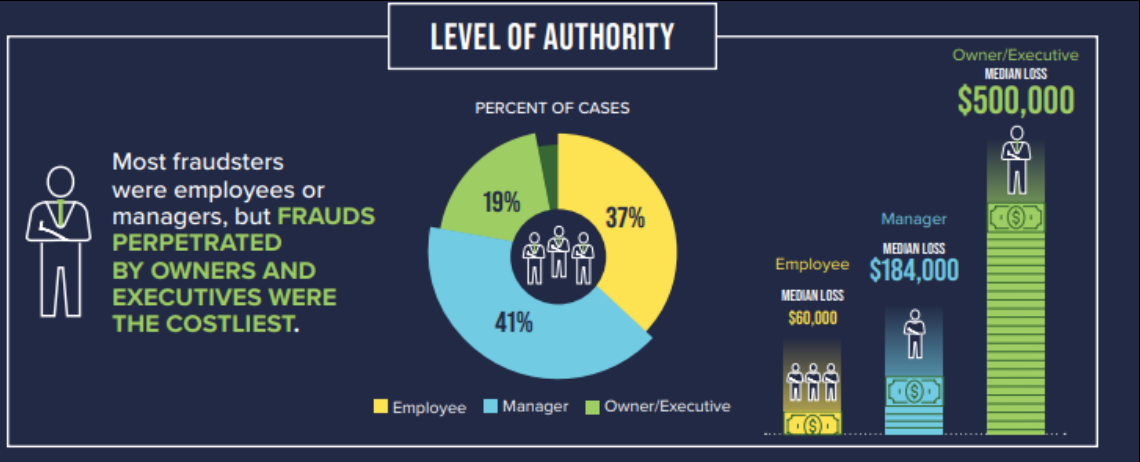


How is occupational fraud initially detected?



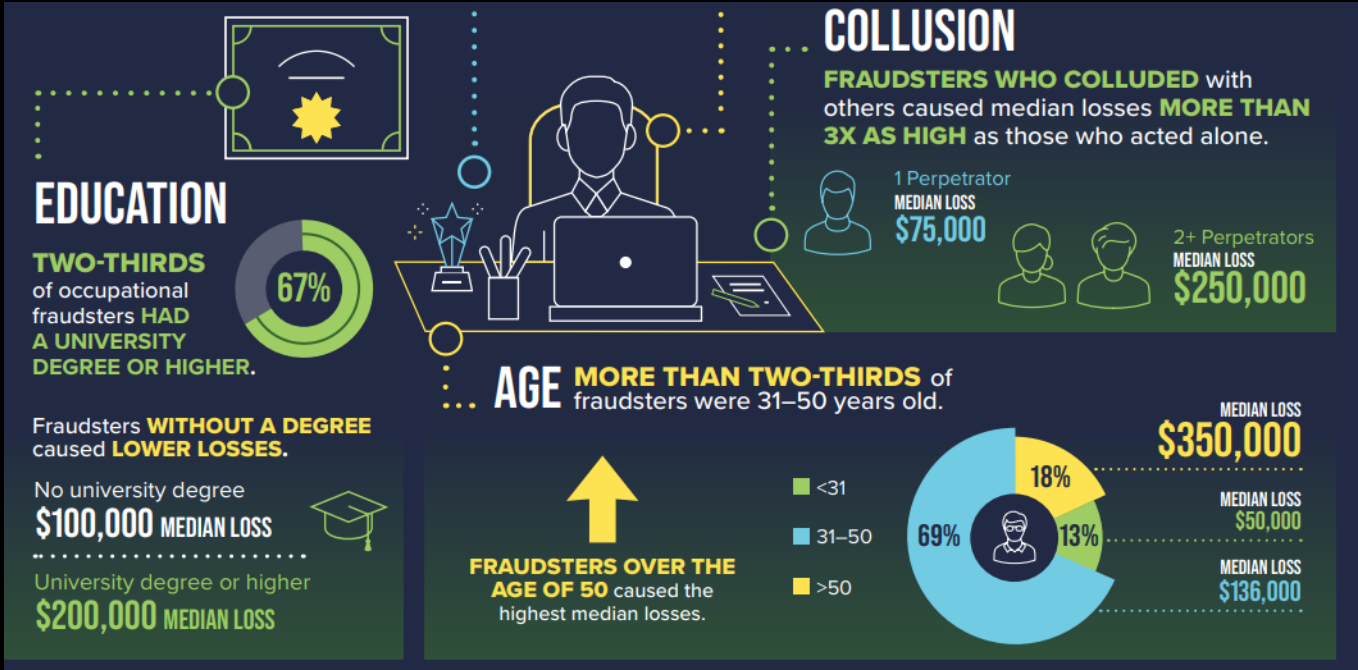
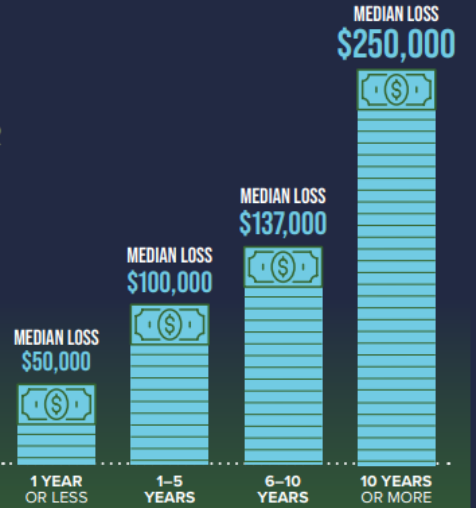
Source: ACFE Report to the Nations 2024

Profile of a fraudster



TENURE

THE LONGER a fraudster has worked for an organization, **THE MORE COSTLY** their fraud.



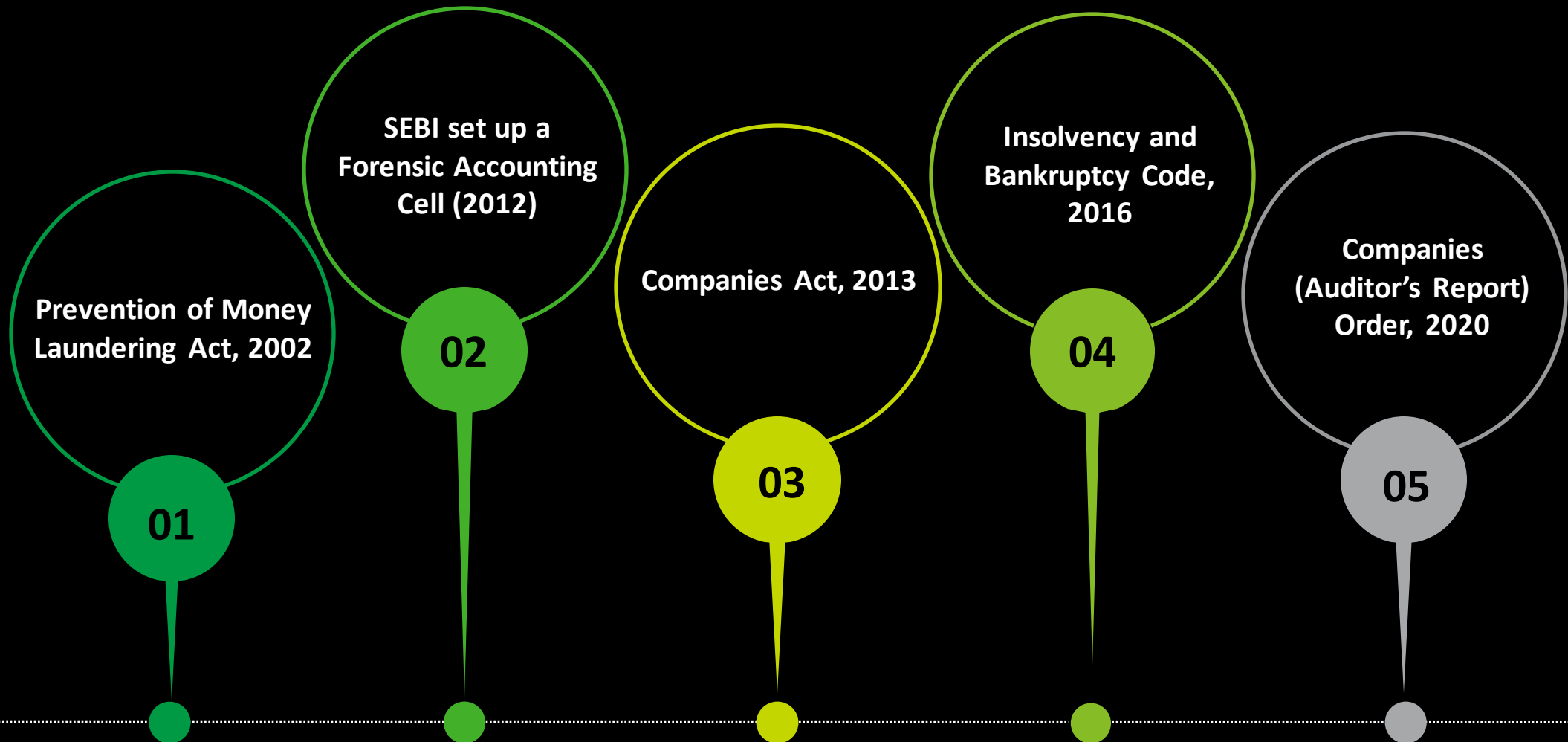
Source: ACFE Report to the Nations 2024

Global statistics on frauds

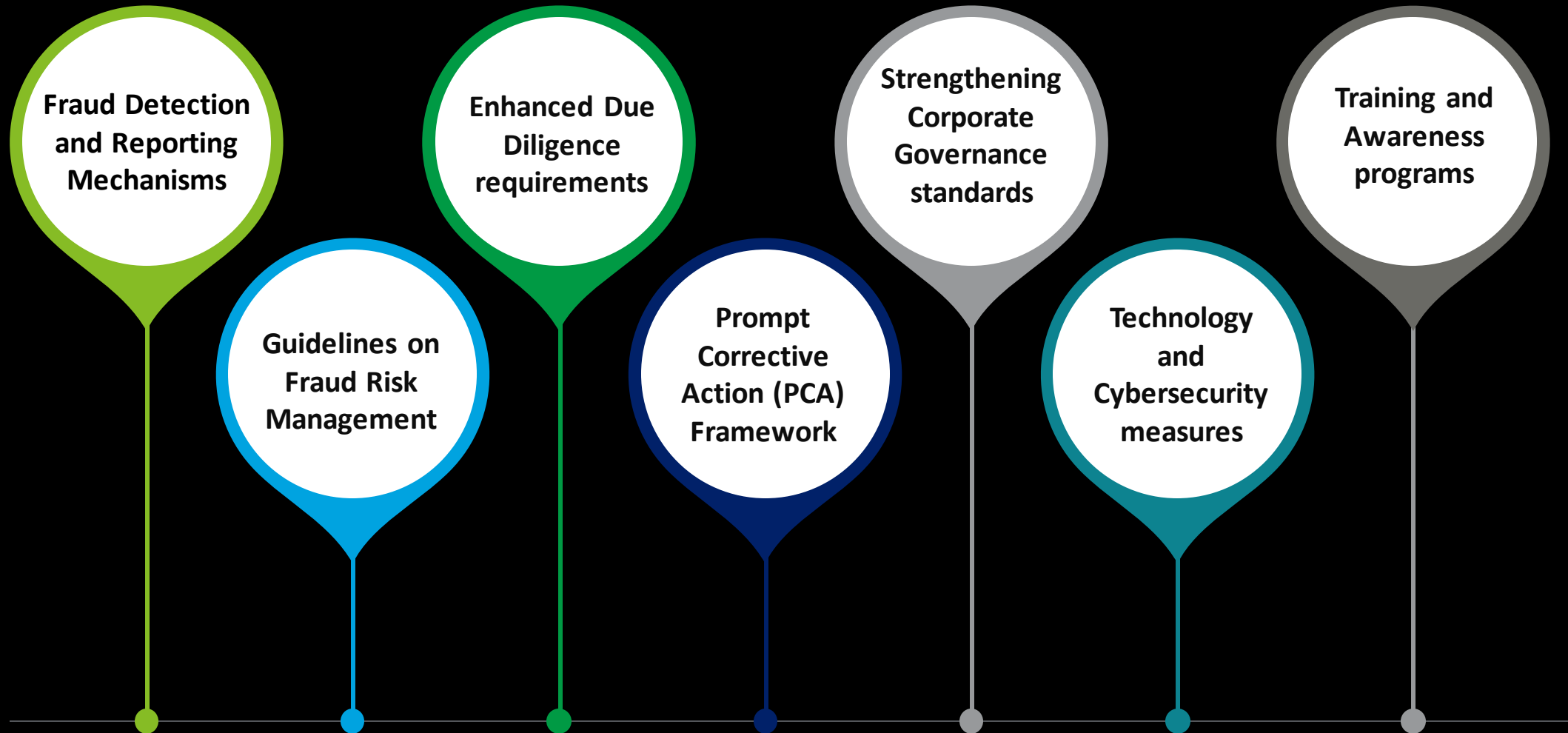
- 01 Globally, organisations lose **5%** of revenue to fraud every year
- 02 Median loss per case: **USD 145,000**; Average loss per case: **USD 1.7 Million**
- 03 **43%** of frauds were detected by tips
- 04 More than **50%** of tips came from employees
- 05 The most common mechanisms used to report fraud tips: **Web-based, Email and Telephone**
- 06 A typical fraud case lasts **12 months** before detection

Source: ACFE Report to the Nations 2024

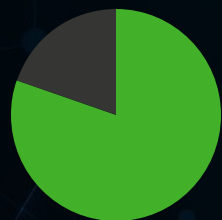
Some key legislations and regulatory measures to address corporate fraud and enhance corporate governance in India



Key measures implemented by the RBI to curb corporate fraud and enhance the stability and integrity of the banking system

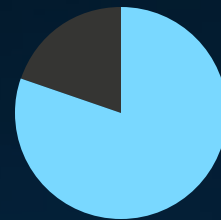


Sentiment towards corporate frauds in India



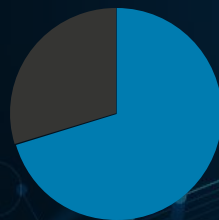
80%

believe frauds will rise in the coming years, dominated by cybercrime



78%

believe that frauds in the banking sector will increase over the next two years

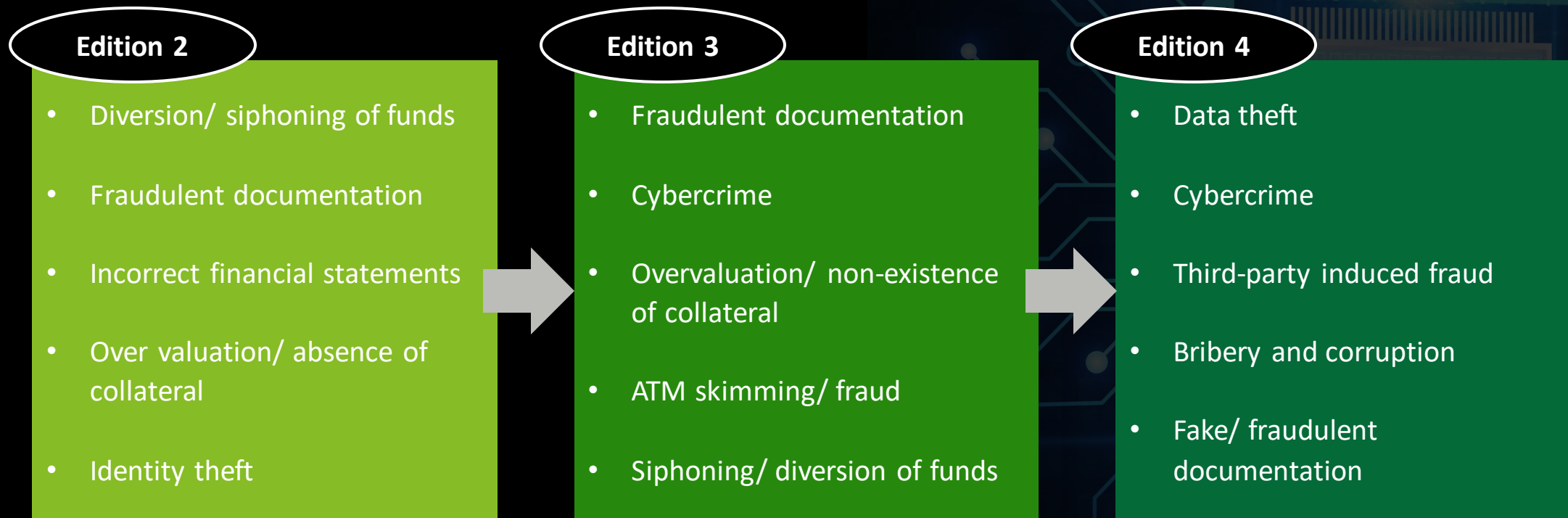


70%

expect a rise in the quantum of fraud loss

Source: Deloitte India Corporate Fraud Perception Survey, Edition IV and Deloitte India Banking Fraud Survey, Edition IV

There has been a clear shift - Top 5 types of fraud experienced (in the banking sector) over the years



Source: Deloitte India Banking Fraud Survey, Edition IV

Preparedness to future fraud risks



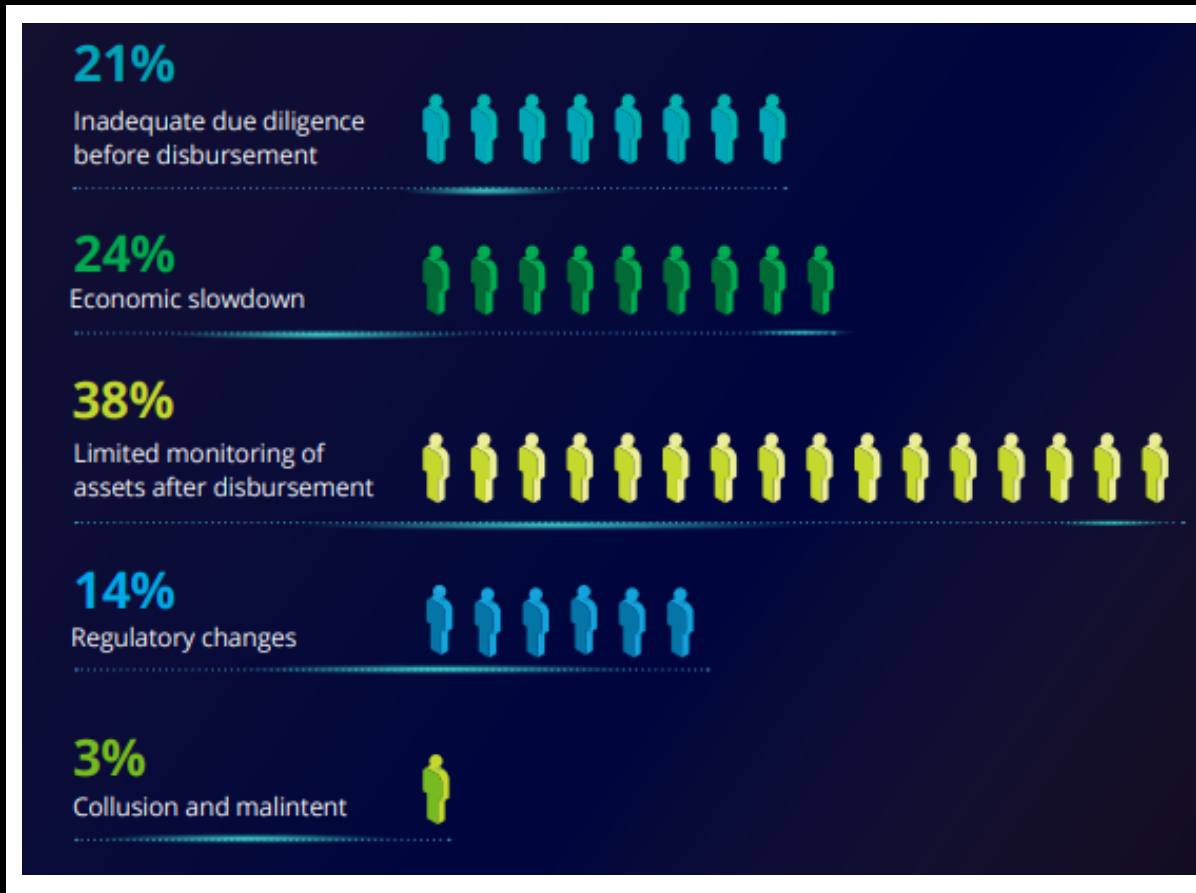
Fraud risks identified as the biggest concerns by banks



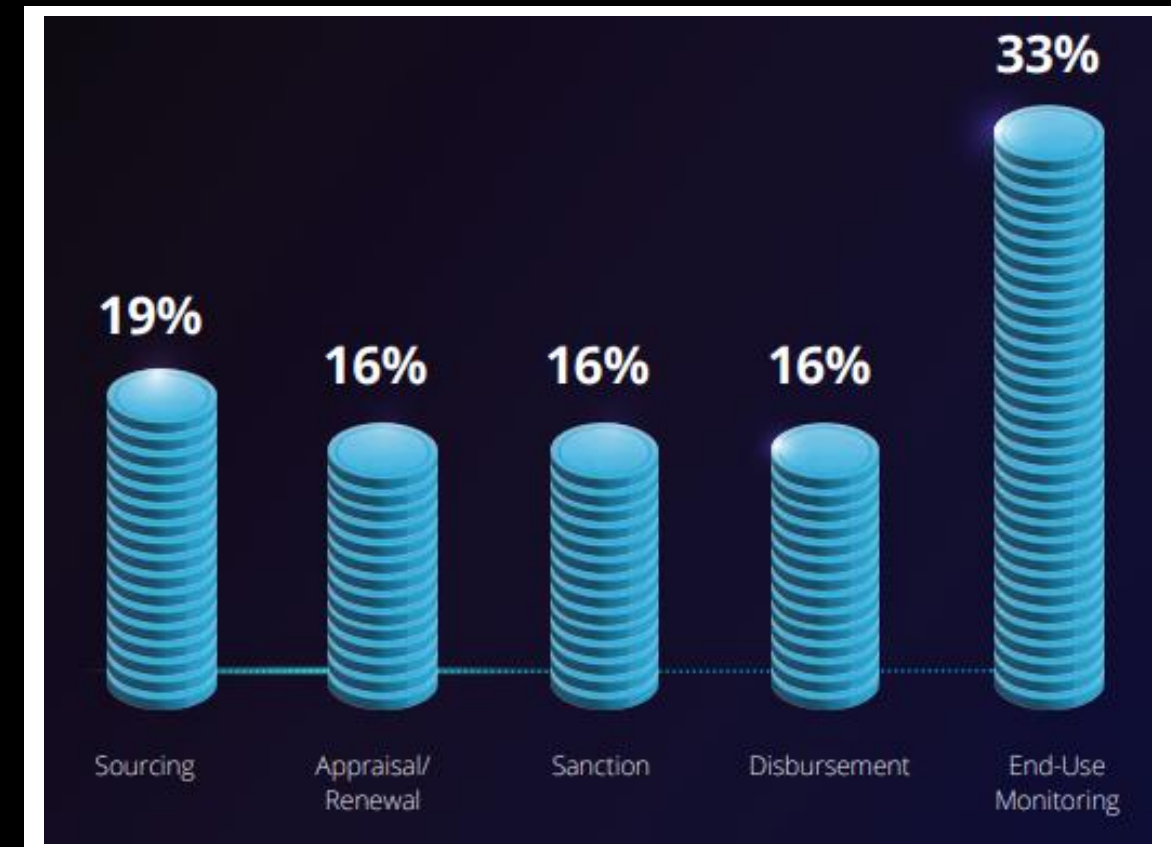
Source: Deloitte India Banking Fraud Survey, Edition IV

Where do the issues lie?

What do you believe has led to higher stressed assets?

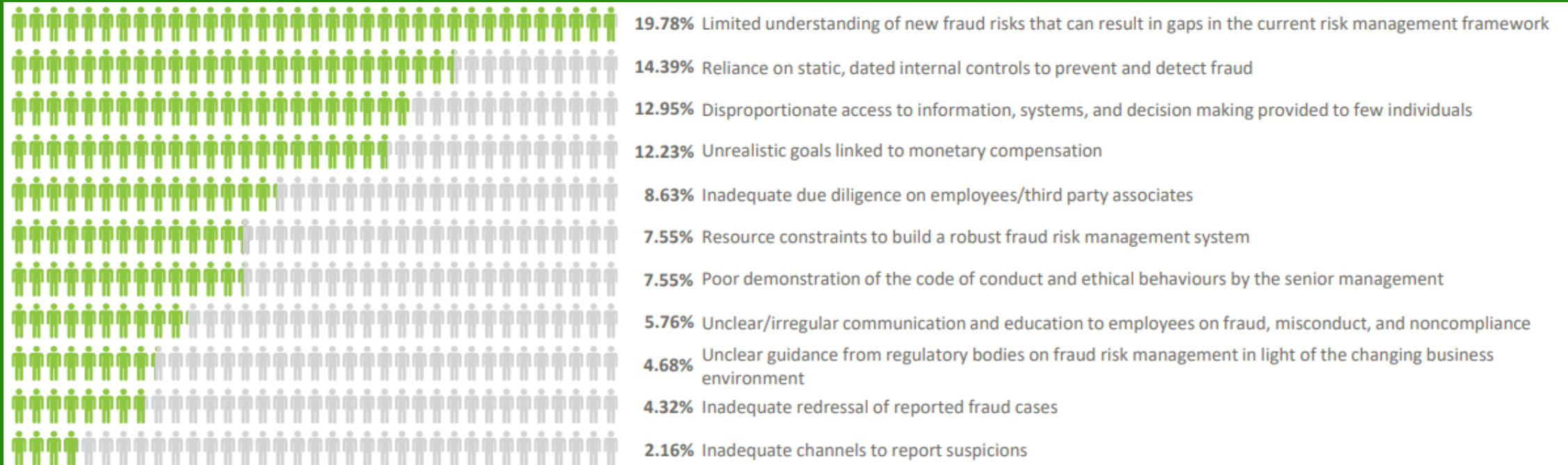


Which of the following stages in the life cycle of a MSME/corporation loan is the most vulnerable to fraud?



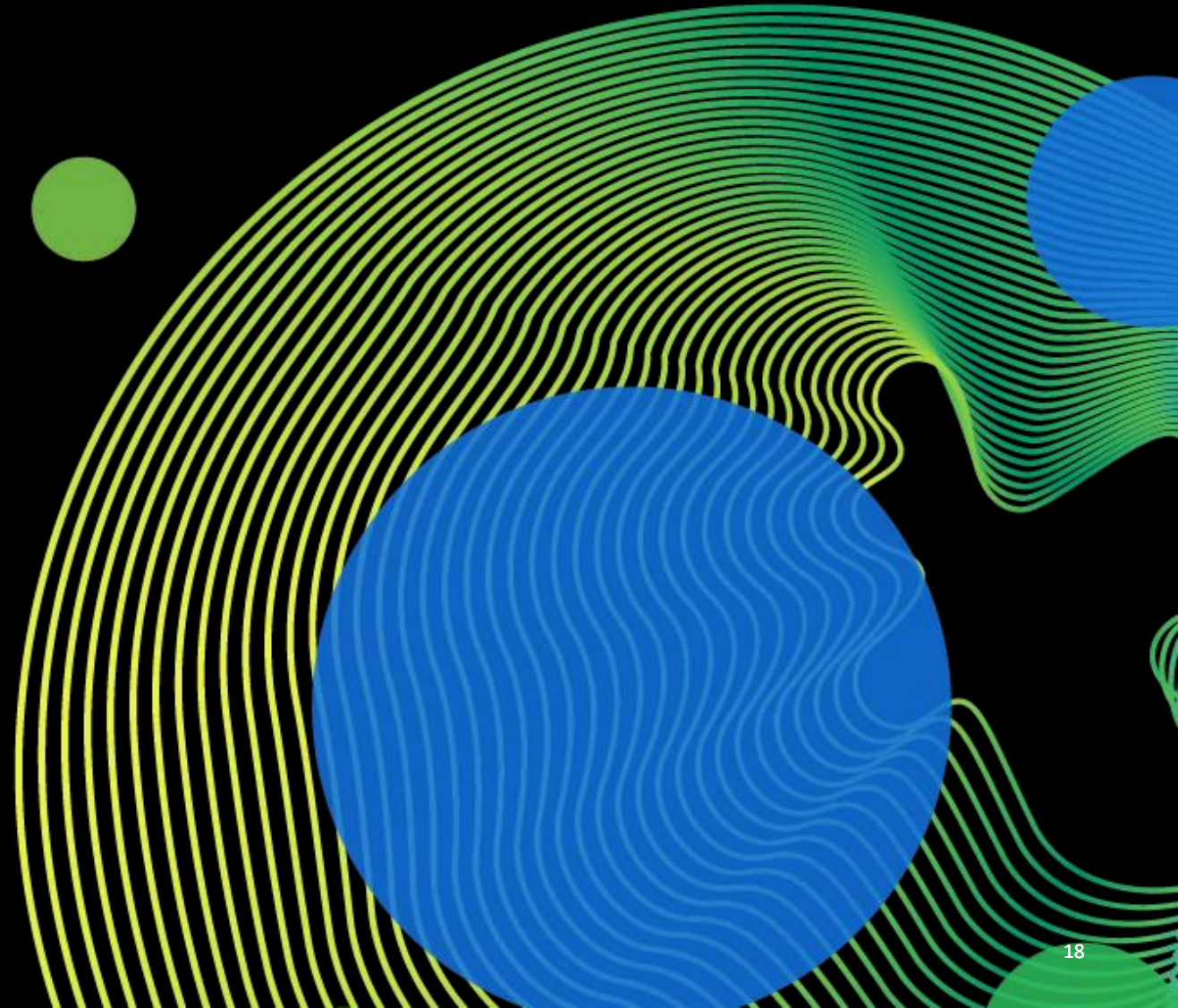
Source: Deloitte India Banking Fraud Survey, Edition IV

What do you feel are some of the reasons that can contribute to future fraud?



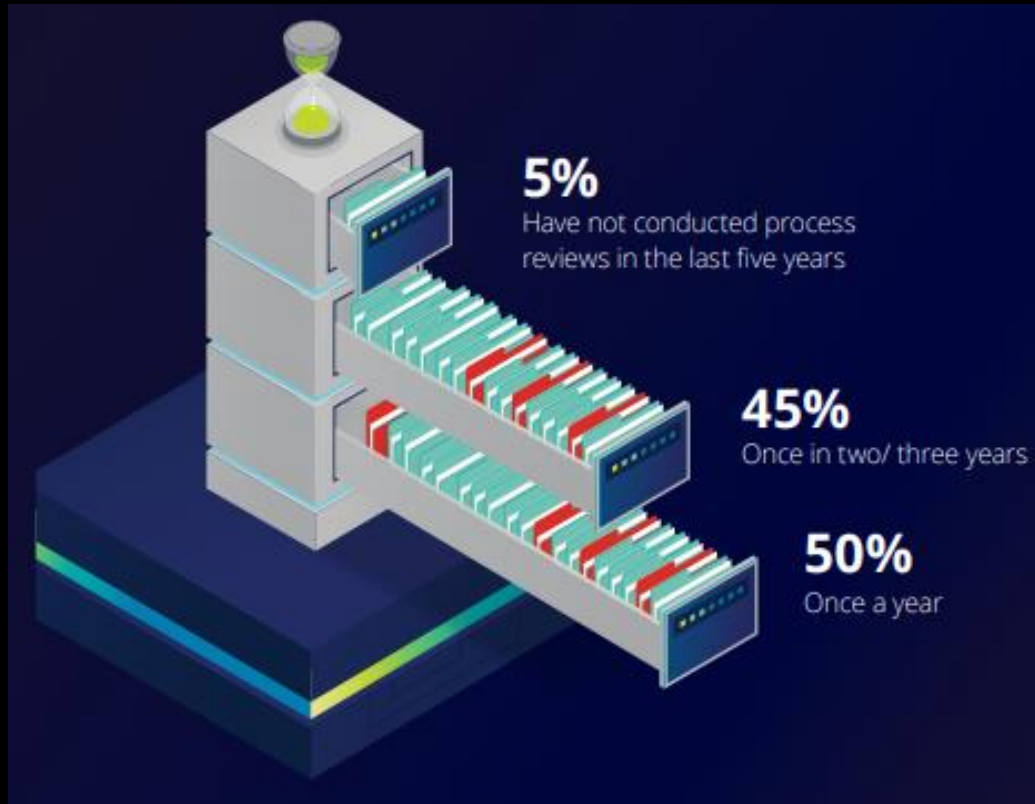
Source: Deloitte India Corporate Fraud Perception Survey, Edition IV

Fraud risk management and continuous monitoring at banks

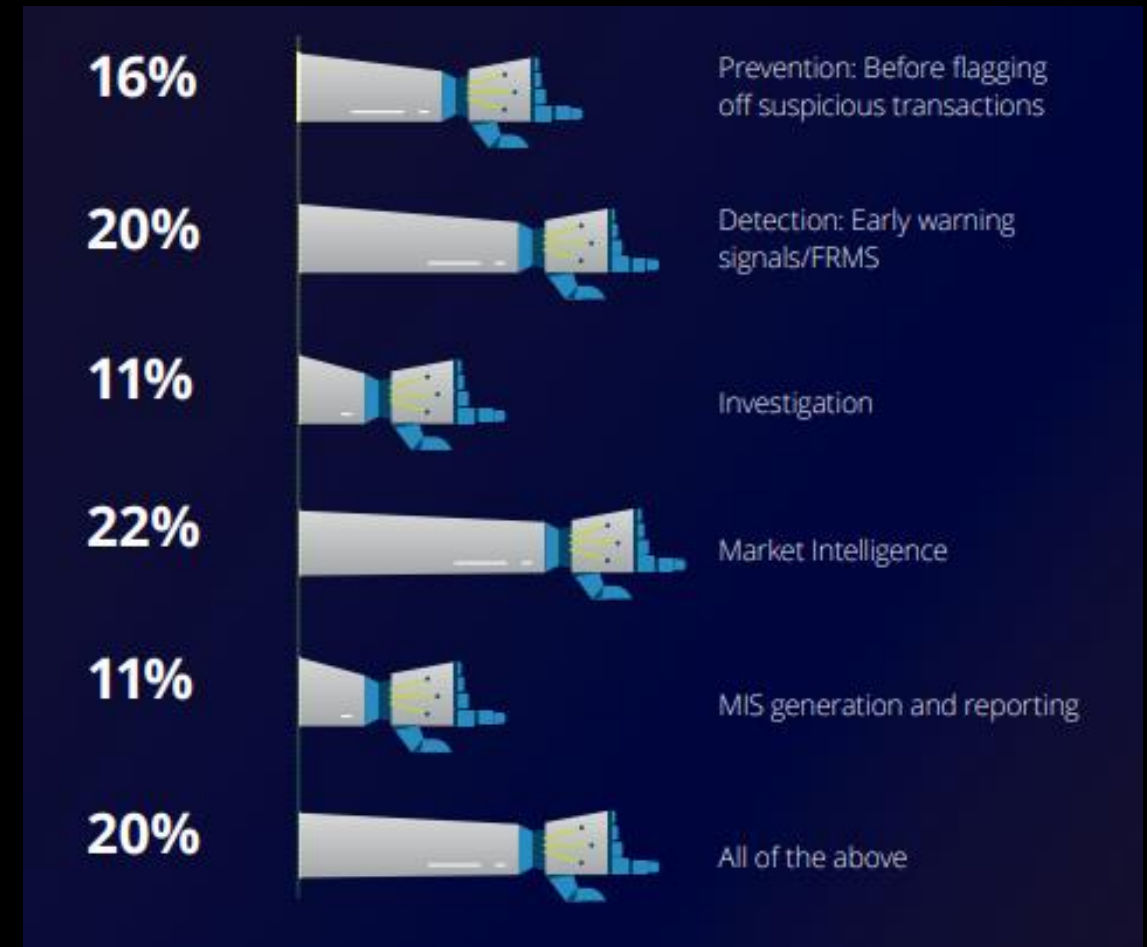


How strong are your controls to be able to tackle fraud?

How frequently does your bank conduct fraud risk assessments and update the fraud risk register?

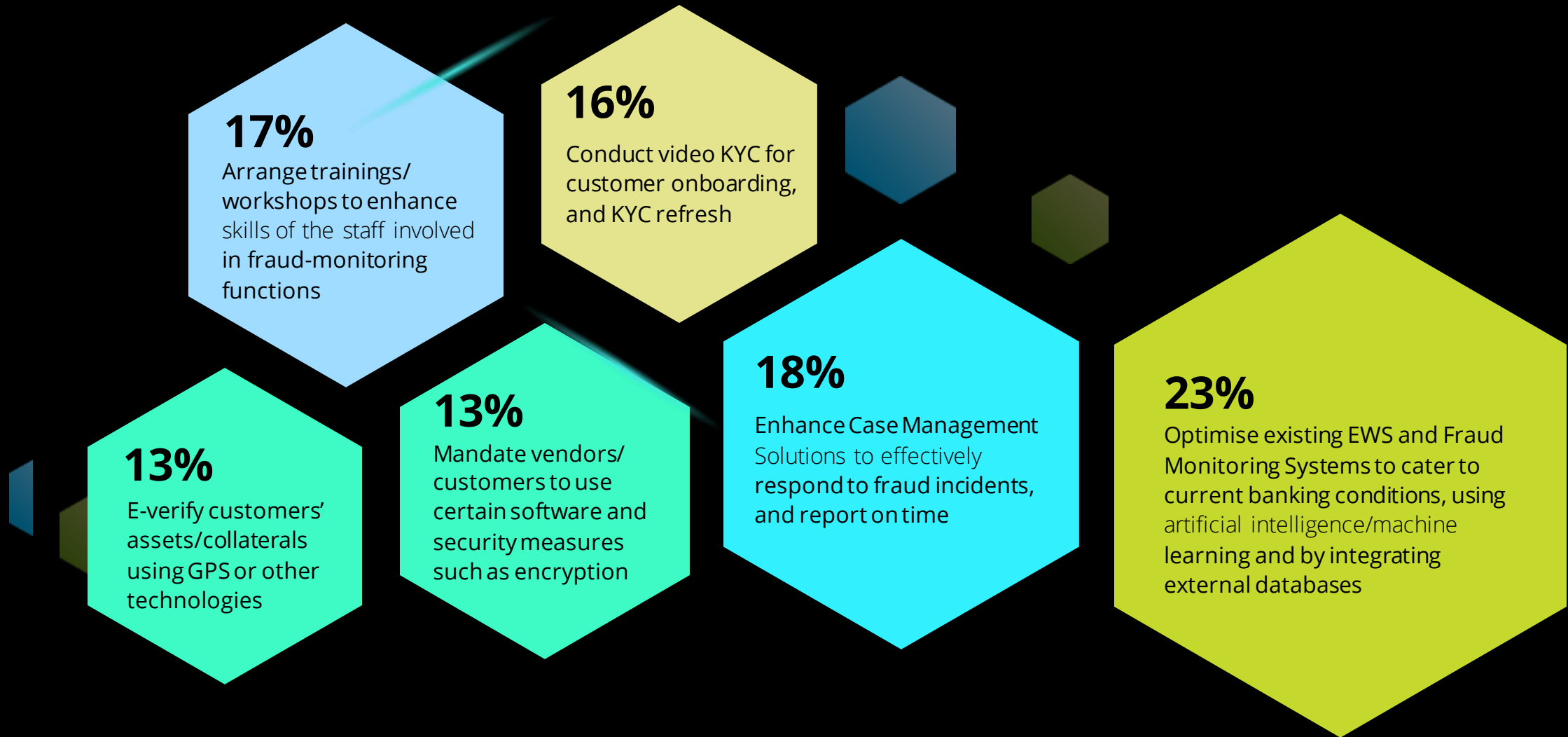


Which of the following stages areas are you currently using AI and ML tools to improve FRM?



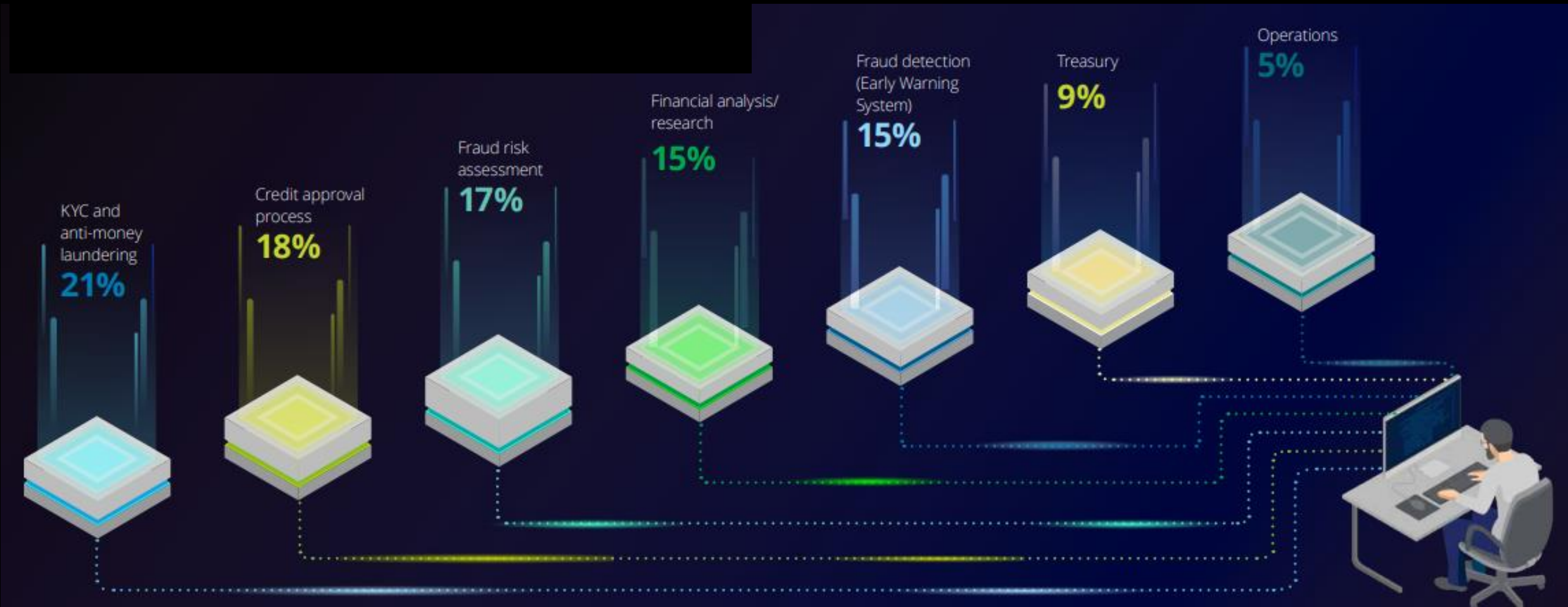
Source: Deloitte India Banking Fraud Survey, Edition IV

What kind of measures has your bank implemented to mitigate fraud?



Source: Deloitte India Banking Fraud Survey, Edition IV

Which areas will your bank most likely benefit from by deploying AI/ML technology?



Source: Deloitte India Banking Fraud Survey, Edition IV

Key trends and drivers guiding future investments



Where is the future headed?

Key trends and drivers that require a keen eye

REGULATORY COMPLIANCE PUSH

- Imposition of stringent mandates on banks, online retailers, payment gateways/ aggregators and digital wallets
- Advanced technologies such as fraud management, passive behavioral biometrics, real-time transaction monitoring and fraud analytics will help increase overall security



LEGACY MODERNISATION AND PLATFORM INTEGRATION

- IT-focused modernisation of security measures is a top priority
- Monitoring financial transactions and events for fraud in real time across a variety of products and channels will be a critical requirement

RISE OF OPEN BANKING AND DIGITAL PAYMENTS

- Customers demand 'new age banking' that consists of financial services to be integrated, available across various platforms and enabled to perform a host of transactions online
- The focus needs to be on customer protection by leveraging identification, authentication and fraud detection technologies

BOOMING DIGITAL COMMERCE INDUSTRY

- Personally identifiable information (PII) has become a valuable asset, attracting interest from cyber criminals and aggravating the risk of fraud
- Industry convergence in the digital commerce space will give rise to new fraud vectors
- Lack of a comprehensive fraud prevention solution can be detrimental

Suggestions for a robust FRM at banks



Issues to tackle in near-future

01

Operational
resilience

02

Cybersecurity

03

Conduct and
compliance

04

Risk-aware culture

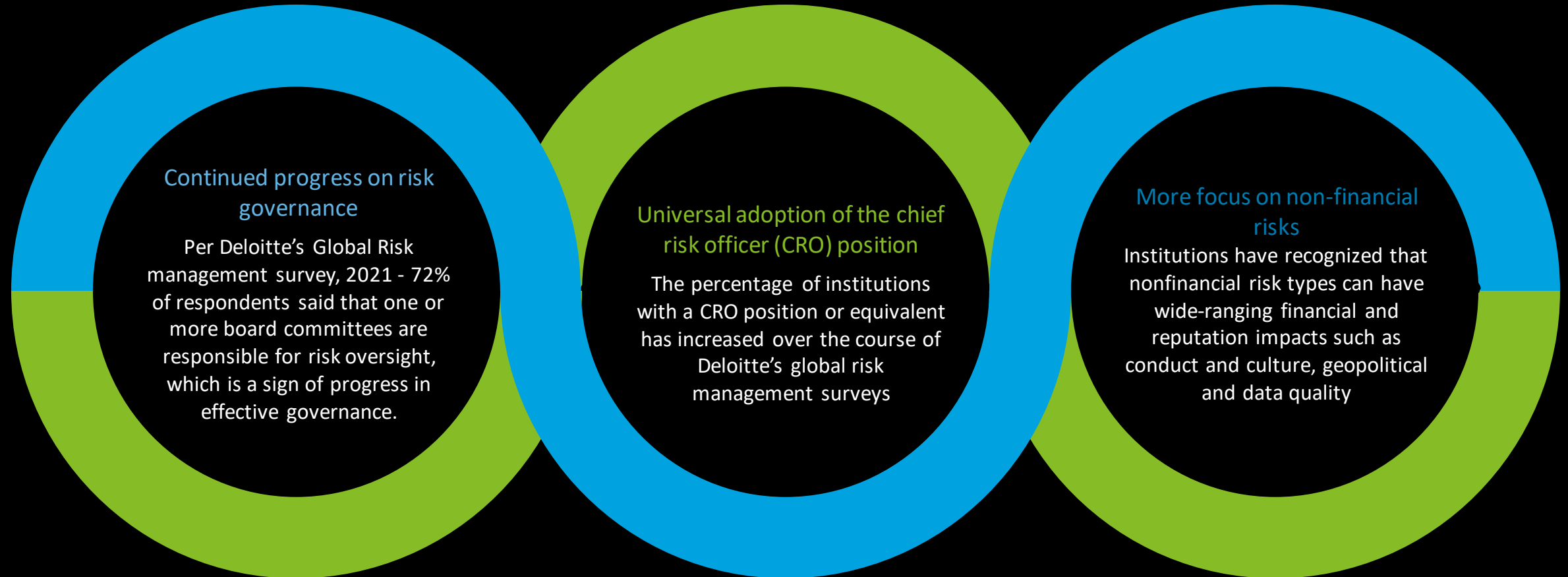
05

Innovation

06

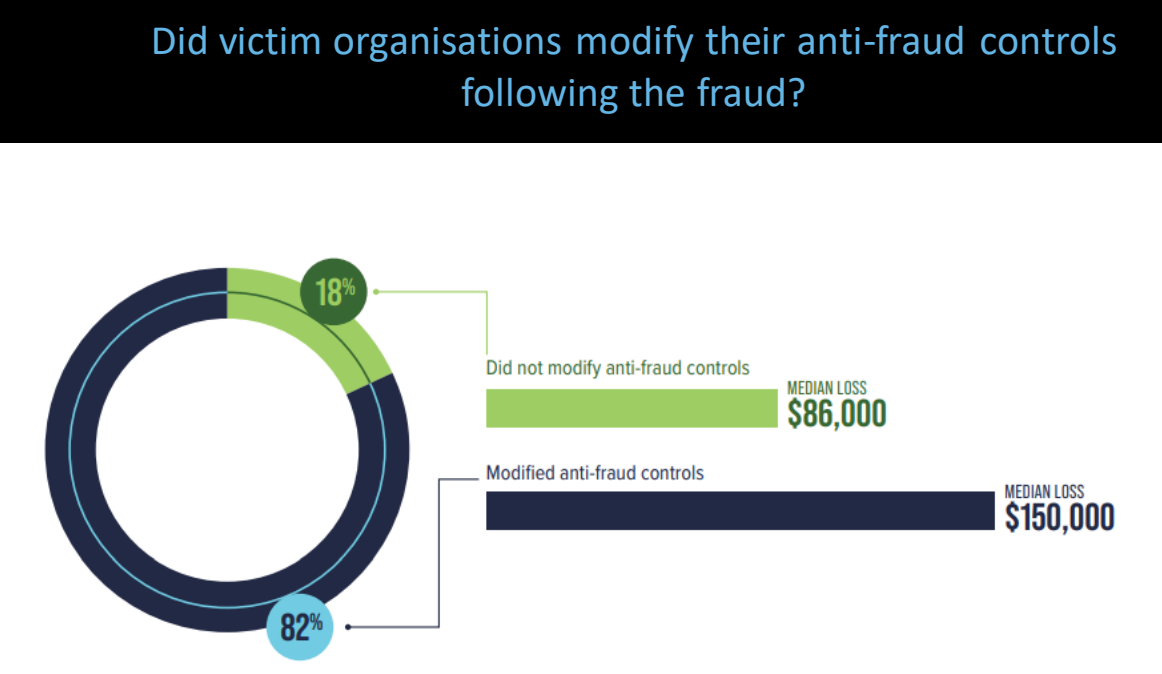
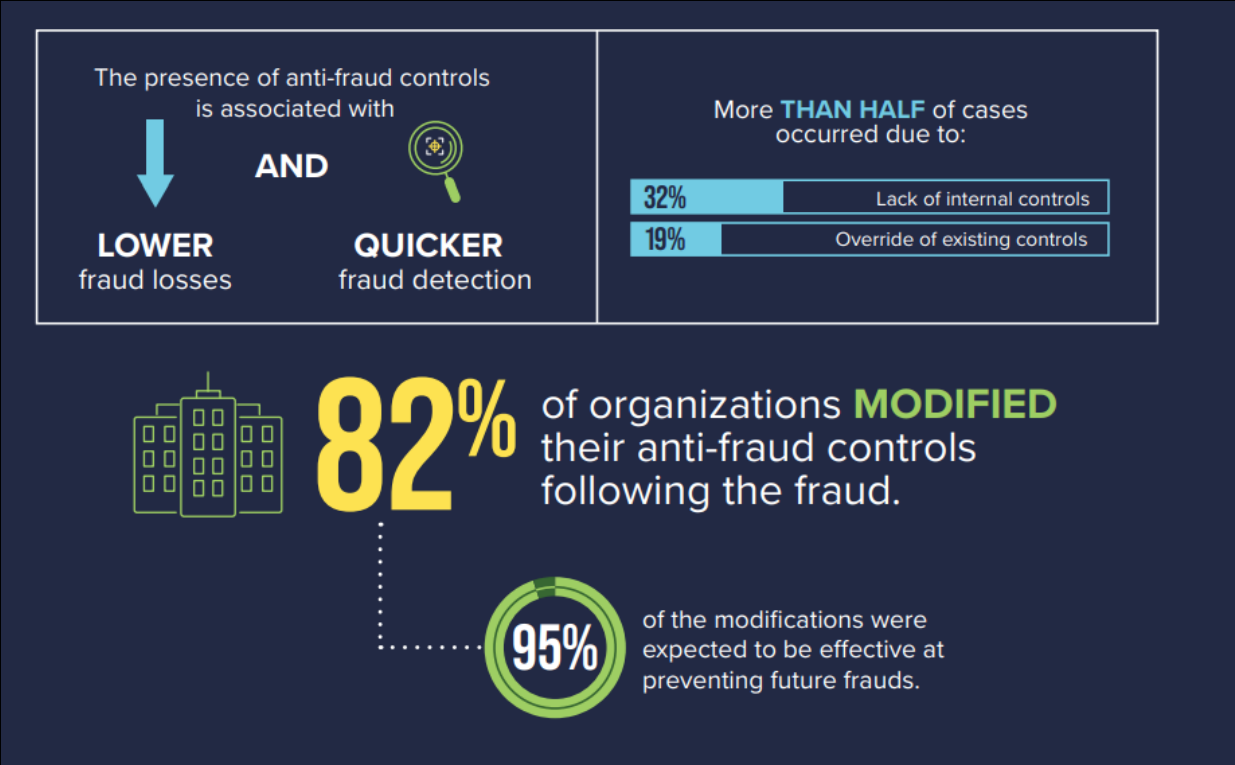
ESG risk

Adding an extra line of defense

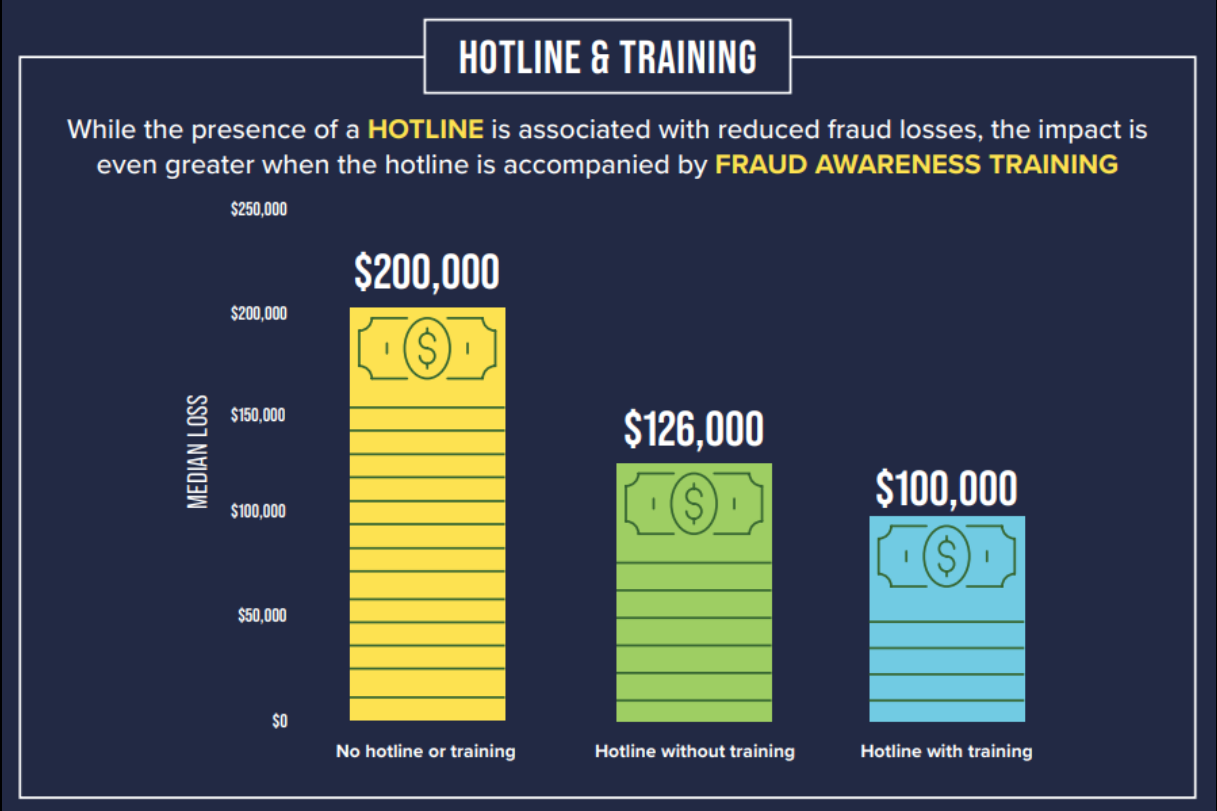


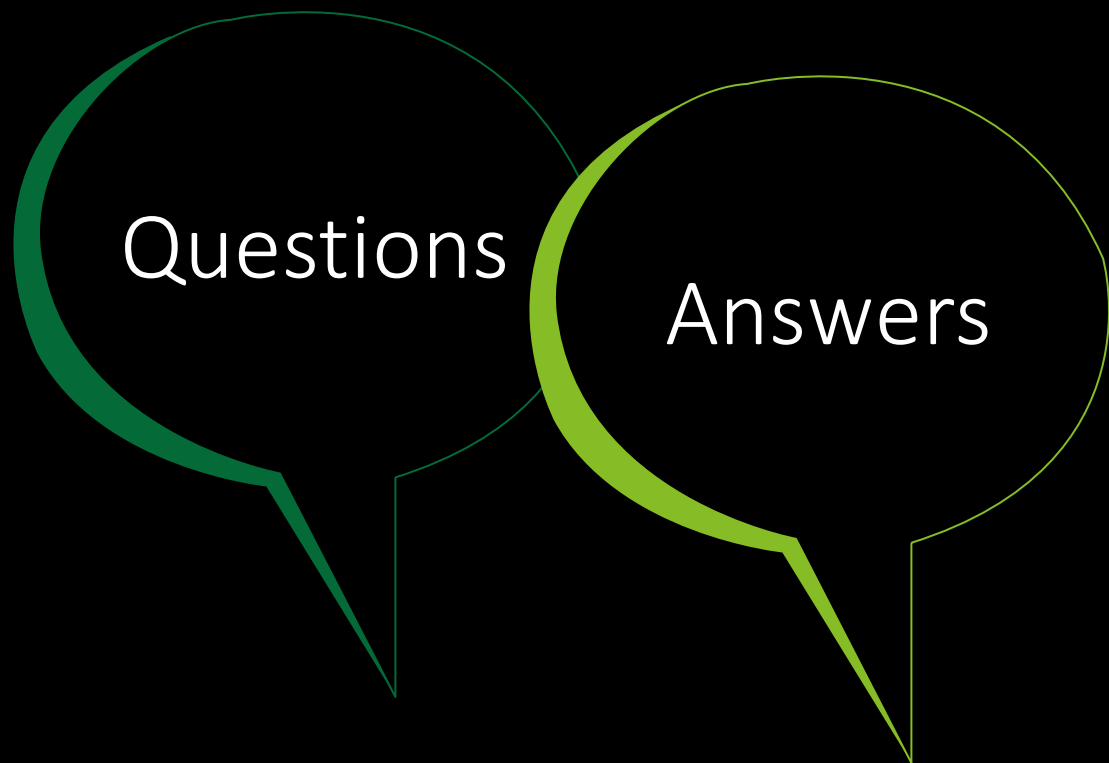
Source: Deloitte Global Risk Management Survey 12th edition

Effectiveness of anti-fraud controls



Importance of providing fraud awareness training to employees





Thank You