

Institute of Risk Management
Introduction to Financial Crime

Steve Hyndman

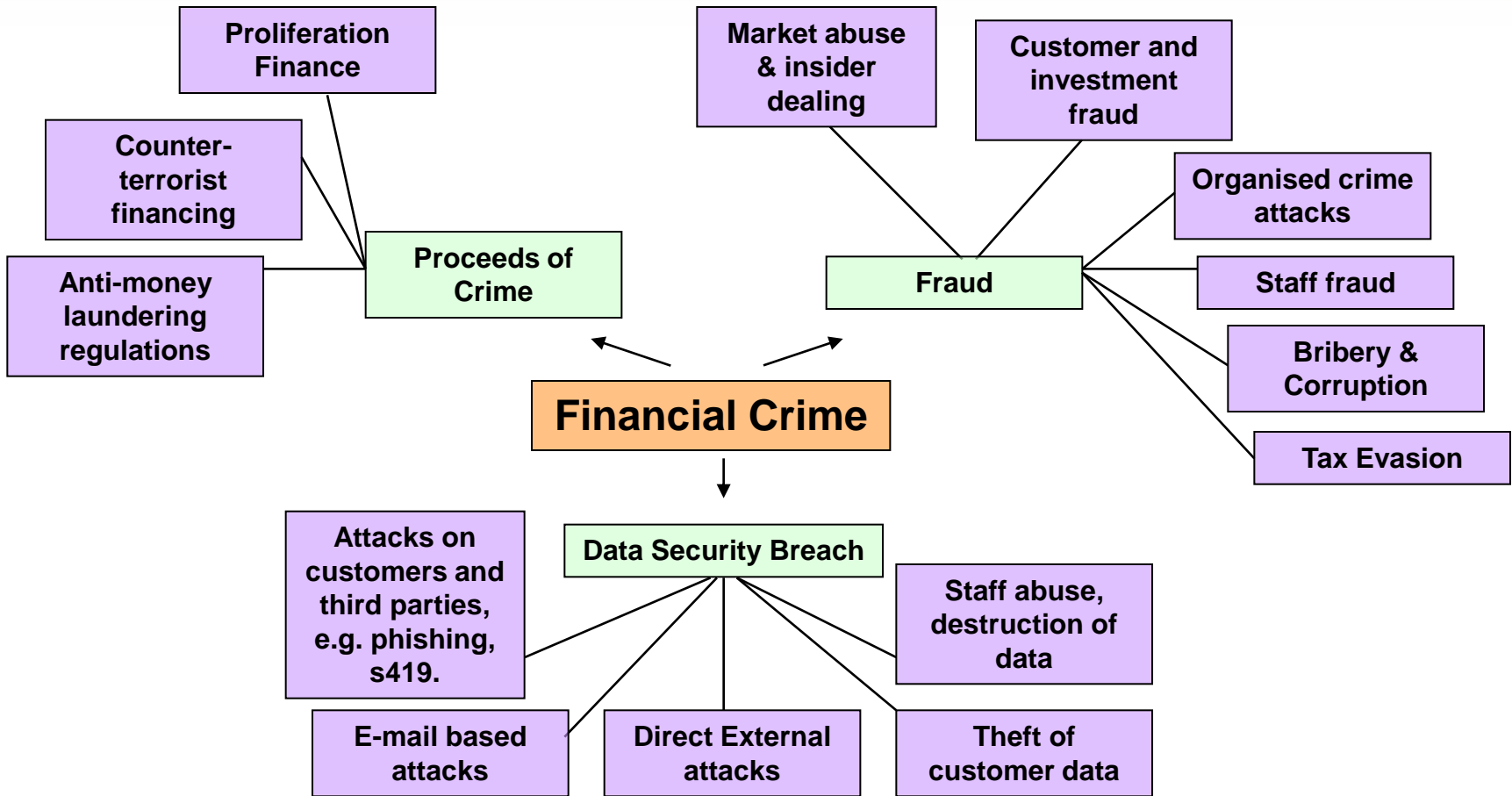
19 June 2008

Introduction

Areas to be covered:

- A financial services perspective of financial crime
- The legal and regulatory framework
- An example of a risk management framework for managing financial crime

What is Financial Crime?



Major Financial Crime Incidents

Feb'07 **Nationwide**

- £980k fine from FSA
- Loss of a laptop containing extensive customer data

May'07 **BNP Paribas**

- £350k fine from FSA, Weak controls allowed frauds using false signatures and fraudulent address changes to be perpetrated

Nov'07 **HMRC Data Loss**

- 7.3m data records of child benefit recipients lost

Dec'07 **Norwich Union Life**

- £1.26m fine from the FSA
- Poor data security controls and failure to respond adequately

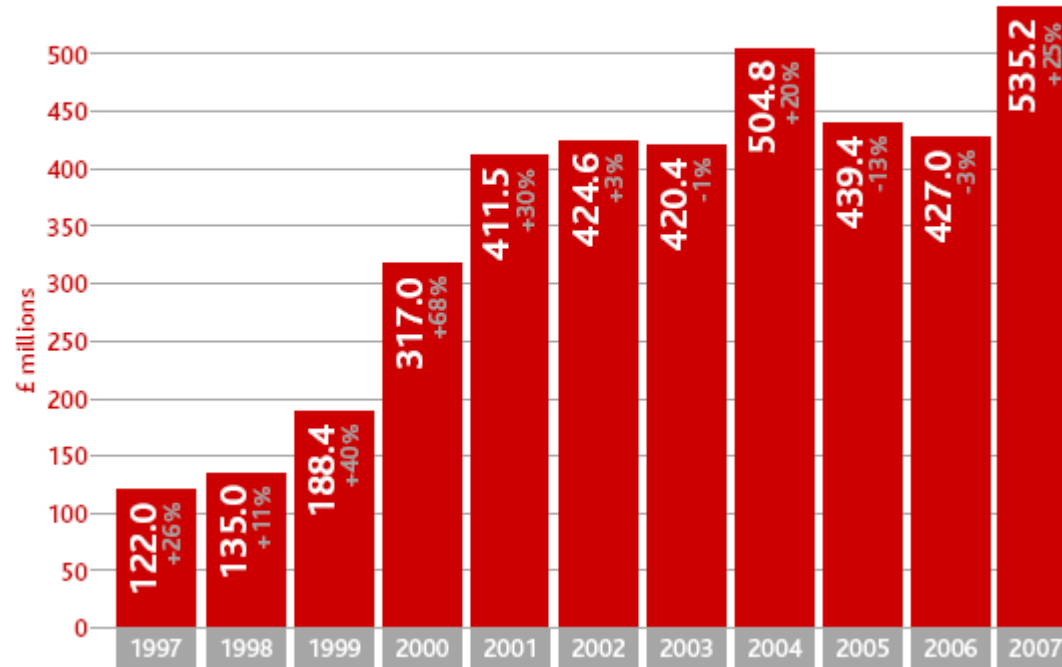
Jan'08 **Société General**

- £3.7b lost through trader fraudulently exploiting control weaknesses

The Figures: Plastic Card Fraud

Plastic card fraud losses on UK-issued cards 1997-2007

Figures in grey show percentage change on previous year's total

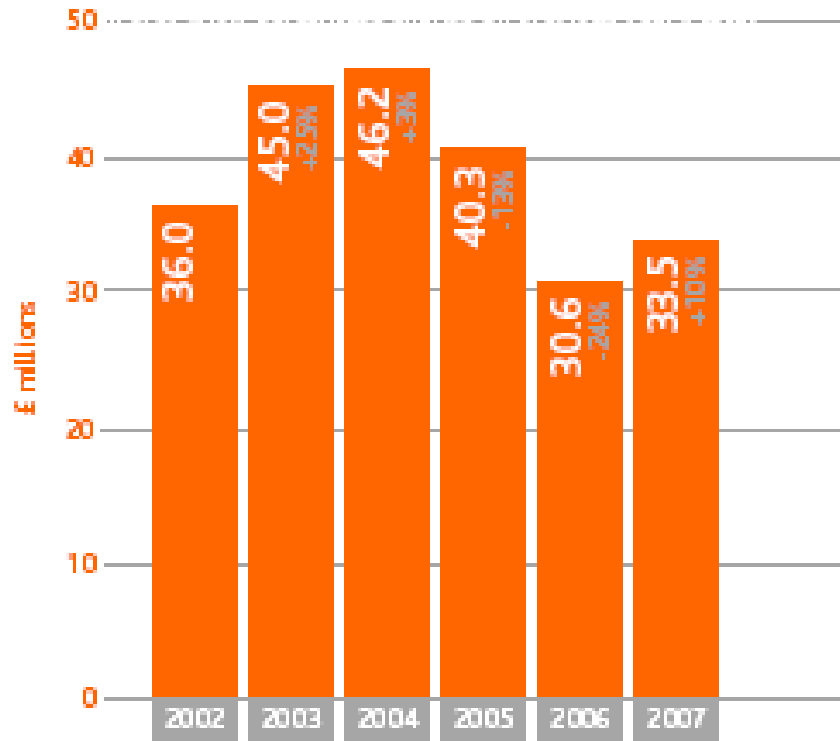


Source: APACS Fraud The Facts 2008

The Figures: Cheque Fraud

Cheque fraud losses 2002-2007

Figures in grey show percentage change on previous year's total

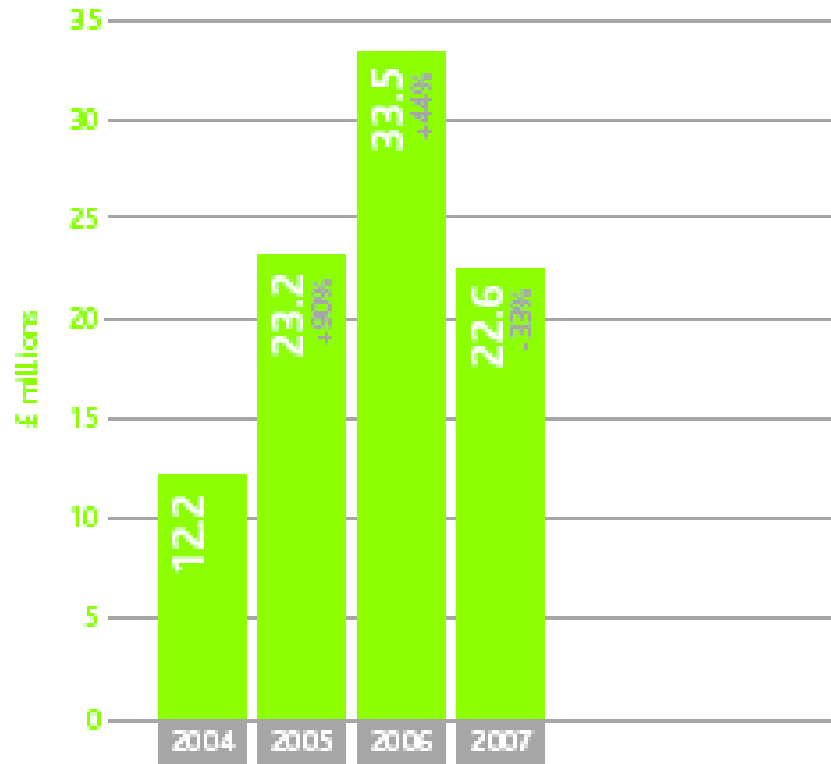


Source: APACS Fraud The Facts 2008

The Figures: Online Banking Fraud

Online banking fraud losses 2004-2007

Figures in grey show percentage change on previous year's total.



Source: APACS Fraud The Facts 2008

Changes in Financial Crime in the UK

Dec'06	Government Fraud Review
Jan'07	Fraud Act 2006
May'07	FSA launch Financial Crime & Intelligence Division
Oct'07	Serious Crimes Act
Dec'07	3MLD, Money Laundering Regulations 2007 & JMLSG
Jan'08	National Fraud Strategic Authority
2010	National Fraud Reporting Centre

- A number of recommendations to change how fraud is dealt with...
- First UK statutory definition of fraud
- Including the launch of the Financial Crime Operations Team
- Changes to POCA, Terrorism Act and rules on data exchange for fraud prevention
- Risk Based Approach to AML became mandatory
- Currently working the industry to make recommendation on reducing mortgage fraud
- In progress...

Risk Management Framework: Policy & Development

Roles & Responsibilities

Framework Documentation

Policy Standards

Regulatory Development

New products and Business changes

Risk Management Framework: Risk Identification, Assessment and Mitigation

Risk Identification

Risk & Control Assessments

Risk Mitigation Projects

Risk Management Framework: Training and Awareness

Co-ordinated Awareness Campaigns

Alerts and Information Sharing for Internal
Financial Crime Community

Training Plans

Risk Management Framework: Management Information

Analysis of Data, and Trends Identification

Intelligence Gathering & Benchmarking

Risk Management Framework: Incident Response

Response to Incidents and Breaches

Reporting Structure

Whistle-blowing

Wrap Up

Messages:

- Volumes of financial crime are increasing
- There is a growing realisation of the impact of financial crime
- The risks can be managed

- Any Questions?

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