

Fraud in an Economic Downturn

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AGENDA

- Why Fraud Happens
- Effect of the Economic Climate
- How firms counteract
- Case Studies

Why Fraud Happens

- Incentive or Pressure
- Opportunity
- Rationalisation

Incentive or Pressure

- Maintain/Enhance Lifestyle
- Avoidance of loss
- Survival
- Culture
- Coercion
- Peer Pressure

Opportunity

- Weaknesses in control systems
- Weakest link
- New product/credit card launches
- Internal fraud
- Squeezing the balloon
- Lack of LEA response

Rationale

- Potential Punishments
- The Bank's can afford it
- It will keep the company going
- Its my company I can do what I want
- That's the culture of this country
- I pay enough in premiums
- One big payday

Effect of the Economic Climate

- Discovery of Historical Frauds
- Changing Focus of Fraudsters
- Weaker Control systems
- More people inclined to bend the rules
- Globalisation
- Loss of experience
- Is it fraud or Bad debt

How Firms Counteract

- Develop a Financial Crime Prevention Appetite
- Have a fraud response plan
- Resist budget cuts in FCP departments
- Appropriate deployment of technology
- Constantly revisit their defences

How Firms Counteract

The key to good control is intelligence on possible opponents and their methods. This enables risks to be avoided. The modern fraud department should be a source of intelligence and considered to be the CIA or MI5 of the organisation

Case Study

XYZ Rentals Limited

- Trailer rental company with 500 units sub hiring via finance facilities
- Audit revealed 3 assets sold out of faith
- Assets on 3 year leases instead of the contractual 5
- Administrators found a £2 m hole in the accounts
- MD had yacht and Villa in Spain

Case Study

ABC Boat Company Limited

- Long established family company involved in charter, sale and development of sports yachts
- Stocking facility held with BOS Marine
- One asset sold out of faith in September 2008
- Auditors misled
- Company into administration due to cashflow in June 2009
- Director rationalised by blaming economic downturn (Lehman Brothers)

To Sum Up

- Outside Bristol Zoo there is a car park for 150 cars and 8 coaches
- For 25 years the parking fees were managed by a very pleasant parking attendant
- The fees were £1 for cars and £5 for coaches
- One day the parking attendant did not turn up
- The Zoo rang the City Council to ask for a stand in
- The Council responded that the Car park was the Zoo's responsibility

Case Study

Gold Limited

- Family owned jewellers
- Expanded into wholesaling
- Factoring Facilities £5m
- Application to refinance gold refining equipment worth £8m
- Money raised was to fund property interests in Dubai

To Sum Up continued

- The Zoo said the attendant was a Council employee
- The Council established that there had never been an attendant on their payroll
- Meanwhile sitting in his villa in Spain is a man who'd had a ticket machine installed completely on his own
- Then had turned up every day to collect the parking fees estimated at:
- £450 per day for 25 years
- Assuming 7 days a week this amounts to £4.1m

To Sum Up

- Incentive – To create a retirement fund or just a source of income
- Opportunity – was the lack of control over the parking facility
- Rationale – who knows because no one knows who he is

Fraud in an Economic Downturn

Most victims of fraud are good companies , with managers too busy to pay attention to detail.

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Questions ?