

# *Ways to reduce avoidable losses and mitigate fraud risk in financial institutions*



# ***We can help you with the following key issues***

In terms of the number of cases reported, the financial services industry is one of the most fraud-prone sectors of the economy. Due to its nature, fraudsters tend to target this sector. However, financial institutions, are sitting on an enormous volume of data and thus manual analysis will be very time consuming and rather inefficient.

**Data analytics** - this is the solution that will enable your company to quickly analyse available data, discover any unusual trends and make invisible patterns more visible.

## **Why is data analytics so powerful?**

It combines our bespoke tools and advance data analytical techniques with the extensive forensic knowledge of our experts in the financial services sector.

And the good news is that data analytics can be used in all areas of fraud prevention, detection, investigation and remediation.



# Data analytics & forensic tools

## Would you like to spot irregularities in the riskiest areas?

- Perform proactive detection reviews over a vast amount of data using bespoke data analytical tools
- Customised reporting
- We have prepared specific solutions that allow irregularities to be identified in the most effective and efficient way
- Predefine tests looking for irregularities in the following areas
  - Loan portfolio
  - Procurement
  - Expenses
  - Payroll

## Track the payments in the bank's IT environment and provide support when there are disputes

We were supporting a bank in the CIS region with their £1.5bn dispute on alleged fraudulent behaviour of the former chairman. The dispute focused on defaulted debts. Our work included a wide range of services relating to our assistance in resolving the dispute:

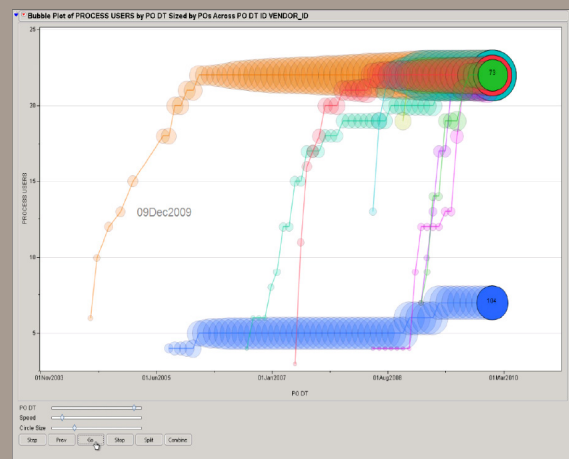
- reporting based on the bank's financial systems and tracing payments in the client's IT environment;
- investigating the backgrounds of the loan beneficiaries and their possible relation to the bank's former management;
- providing assistance in identifying relevant documentation and preparing support documents for counsel; and
- disclosure of relevant electronic and paper documents for the court.

## Loan portfolio review

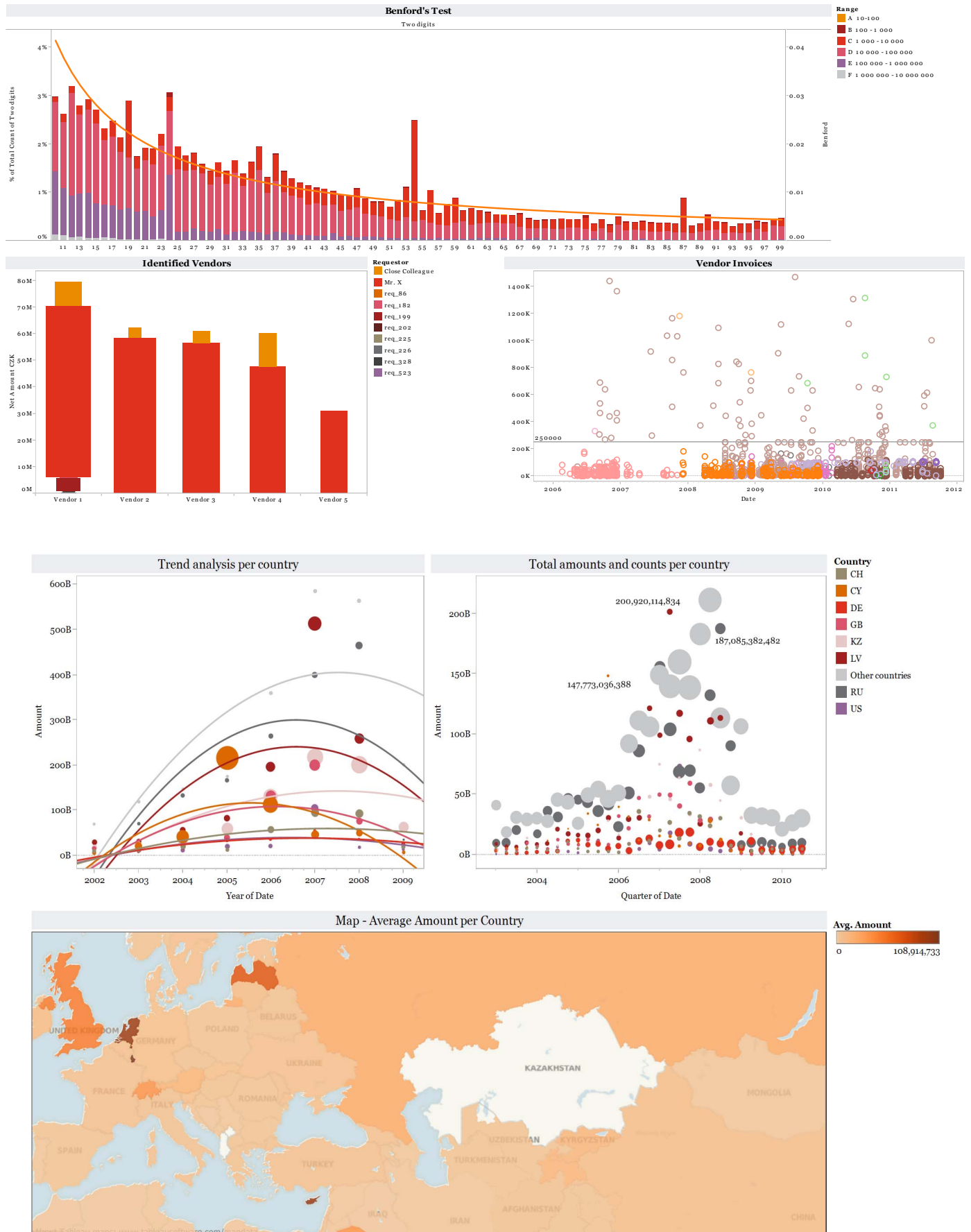
It is very important to be able to pinpoint specific loans where there is a risk that the loan will be non-performing ("NPL") in order to create a healthier portfolio.

If the warning signs are not there or are picked up late in the game, this may result in significant financial risk to the lender, ranging from the insolvency of the borrower, through an inability to sell the NPL in the open market to a total write-off of the loaned amounts.

Using our loan portfolio check will allow you to reach to red flags and thus provide you with more flexibility and more commercial options to mitigate the negative impact of non-performing loans.



# Examples of data analytics







# *Key advantages of data analytics*

*Detecting fraud earlier  
saves you money  
and protects your  
reputation*

*A data-driven approach that  
incorporates experience  
and advanced analytical  
techniques can be effective  
at detecting fraud*

*Proactive data-driven fraud  
detection can also act as  
an effective deterrent*



# ***Fraud Prevention & Detection***

## ***Want to be proactive in managing avoidable losses?***

- Conduct a fraud risk assessment – prepare a fraud risk map linked to key internal controls
- Review the elements of the Fraud-cycle namely prevention, detection, investigation and remediation including organisational set-up (“As Is” vs. “To Be”) – identify gaps and propose recommendations
- Assist in preparing an effective mechanism for whistleblowing and background checks of third parties
- Design and implement a Fraud response plan
- Test the functionality of internal controls to detect fraudulent behaviour
- Determine the requirements for an automated fraud detection system – define the requirements, assist during the tender process and implementation phase
- Development of tailored fraud awareness training

## ***Assess the risk of fraud and implement a software based detection solution***

We performed a fraud risk management review for a large bank in the Czech Republic. We performed a **detailed analysis of risks** in the required areas throughout the Bank. The output was the listing and description of fraud risks including a detailed description of possible fraud risk scenarios. Where the fraud risk was not mitigated, we proposed additional ways how to reduce the risk. Further, we **assisted the bank to select a software solution vendor** – we provided assistance to the Bank to prepare the tender documentation and to evaluate information received from vendors. In addition, we were also involved in the design and evaluation of the Proof of Concept.

The new shareholder of a bank operating in the CEE region were looking to make claims under the representations and warranties in an SPA related to the loan portfolio.

We reviewed a sample of significant loans in 5 different countries and for each loan assessed if the loan met the criteria of impairment. If a loan should be impaired, we assessed if provisions were created according to IFRS and local GAAP.

**We identified:**

- breaches of internal rules;
- noncompliance with the accounting regulations; and
- under-provisioning.

## ***Understand deficiencies of the loan portfolio***



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# *Regulatory compliance & remediation*

## *I need to be sure that we comply with AML and FATCA regulations*

- Review the effectiveness of the current AML system and perform an AML risk assessment
- Conduct any AML remediation required, for instance, by a regulator or by the group
- Assist with the selection of a suitable FATCA compliance model
- Review and map processes impacted by FATCA
- Develop a tailored FATCA road map / project plan
- Assist with implementation of a tool in order to comply with FATCA requirements

PwC was engaged by a Russian bank to review their AML policies and procedures and to develop appropriate recommendations to enhance AML procedures. The review involved examining KYC principles and policies and the thoroughness of the bank's account establishment procedures. We also reviewed the bank's compliance with Russian and German AML legislation and assessed if the relevant procedures were appropriately implemented. We undertook targeted transaction analyses to identify any potential incidences of money laundering activities.

### *Review of AML procedures*

### *FATCA compliance model*

We supported a large Czech bank during their choice of the most suitable FATCA compliance model. Specifically, we:

- Prepared a range of possible alternatives and evaluated them from cost, risk and business perspectives.
- Developed a FATCA road map / project plan tailored to the client's selected model

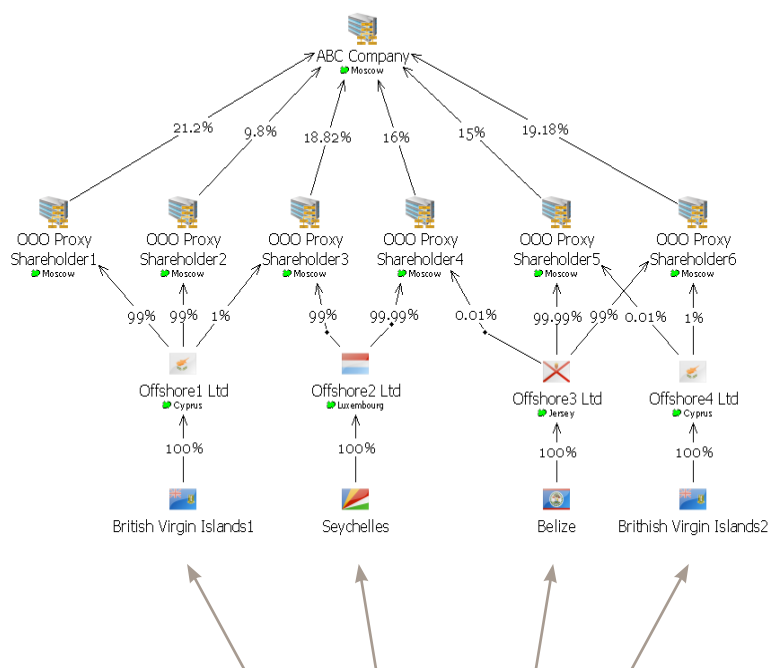
We recommended an efficient compliance solution to the client that allowed the bank to cut the estimated implementation costs for FATCA from € 2m to €150 000. The outputs of the project significantly raised the internal knowledge of FATCA at the client and helped them in negotiations with their foreign shareholder on the best way to become FATCA-compliant.



# Corporate & Business Intelligence

## *I would like to have better knowledge of my business partners*

- Perform integrity checks on employees, suppliers, customers, agents and other business partners and third parties
- Run reputational and compliance risk assessments



*Using our bespoke technology tools, we were able to identify in an effective and efficient way, the ultimate owners, who were not publicly available and were able to visualise our results in an understandable way to present the conflicts of interest*

**Companies belonging to Mr X**

## ***Do you know your counterparties?***

PwC assisted one of the largest banks in the CEE region to select a buyer of its non-performing loans portfolio. We performed ownership and personal relationships analyses of selected applicant companies based on publicly available data. Our work identified a number of relationship between employees, loan applicants and other third parties.

We performed a pre-employment screening for a US bank in the CEE region using publicly available information and paid databases. We prepared written reports summarizing information on the background and business activities of key employees including employees in risky positions, new joiners and newly promoted employees to middle and senior management positions.





# ***Response to Fraud***

## ***How should I react when fraud is suspected?***

- Investigation of identified suspicions/allegations
- Capture and seizure of electronic data, its processing and review

## ***I need help with recovery & legal proceedings***

- Assist lawyers in the recovery process
- Support with the insurance claim process
- Act as an economic expert witness for local and international legal proceedings

***I've suffered losses  
and want to quantify  
how much I can claim  
from the insurance  
company***

A major fraud was discovered in the factoring business of a major bank in CEE. We identified losses **in excess of € 25 million as the result of fraudulent transactions** perpetrated by a number of clients in collaboration with employees. Further, we **prepared a report for the criminal police and provided documentation and evidence for a fidelity /fraud insurance claim**. Our client was able to **recover approximately 80% of the losses** from the insurance company. We also advised the client on how to improve their risk management procedures.

Management of one of the largest banks in South East Europe had indications that **internal rules relating to the loan process may have been breached** resulting in losses for the bank. Using a risk-based approach, we selected approximately 200 transactions and **carried out a forensic review to identify any irregularities, breaches, unethical behaviour or misconduct**.

As part of the forensic review, we also **captured and preserved electronic evidence from the mail boxes and computers** of selected employees and, based on key words, we **searched for any evidence supporting our findings** from the review. We **proposed a number of recommendations for enhancing controls** within the bank, many of which were implemented. Further, we were also asked by the bank to support their legal council during recovery actions.

***I suspect our portfolio  
includes fraudulently  
provided loans and  
other transactions***



# Cybercrime & Data leakage

## *Cybercrime – Is it really an issue for my firm?*

- Independent assessment of the vulnerability of your business to cybercrime and data leakage
- Propose a response to security breaches and cybercrime attacks
- Investigate incidents of cyber attacks and data leakages and identify the root causes (such as who was involved, who it happened to and how to ensure it does not happen again)

***Are the offers of your competitors similar to yours? Are you facing a data leakage issue?***

We were asked by a large bank operating in the CEE region to assist them with the **investigation of the leakage of confidential data**. There was a suspicion that sensitive business information related to the launch of new products on the market had been leaked from the Bank.

Our work mainly involved:

- **Forensic imaging of the computers** of employees who had access to the sensitive information
- **Analysis of data obtained** in order to review if there were any documents supporting the suspicion; identify individuals who may have leaked the sensitive data
- **Risk assessment of data leakage**, plan to improve internal procedures relating to confidential data

By the end of the engagement we had identified over 100 data breaches by internal employees and we have advised the client on how to prevent them in the future.

# *Sample of other key projects for financial institutions*

## *Loan review at one of the largest banks in Romania*

We investigated the way in which several loans were granted to certain individuals and companies, as part of a criminal case initiated by the Romanian Authorities for some top executives of a major Romanian bank.

## *Investigation and asset tracing*

A Bank in the CIS region defaulted on its obligations and underwent significant restructuring. We investigated allegations of fraud, asset misappropriation and money laundering committed by the Bank's former senior management. **The Bank suffered fraud which is assessed to be in excess of \$8 billion.** Our work covered:

- extensive forensic accounting support to the Bank's multi-disciplinary asset recovery team; and
- investigation of the Bank's historic transactional activity to identify the nature and extent of the misappropriation by former management and to preserve relevant evidence.

As a direct result of our project, the Bank has won a series of multi-billion US dollar claims in the UK High Court to recover the misappropriated assets.

## *Economic expertise during court proceedings*

We supported a large bank operating in Slovakia in its commercial dispute against one of its largest clients. **The client claimed an amount exceeding € 130 million** as compensation for alleged losses resulting from financial derivatives trading. We prepared a rebuttal report in which we critiqued the report prepared by an expert appointed during the first instance court proceedings.

Our report was used by the bank in the appeal proceedings. Since the bank had a group insurance policy also covering potential losses resulting from this claim, we also assisted the client at a meeting with the insurance companies.

## *Financial misrepresentations at an insurance company*

We reviewed the management response to the misstatement of financial statements that occurred in the Bulgarian subsidiary of a multinational insurance company. We focused particularly on the assessment of whether the actions were taken on time; whether the steps taken allowed management to identify the full extent of the misstatements; and what controls failed. As part of our work we interviewed members of the senior management, performed a forensic image of the work computers of selected employees and reviewed emails identified based on a list of key words.

# *We can assist you in CEE, Russia and CIS*

## *Contact us*

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