Today's Topics

Types of Fraud and Fraud Prevention

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SALEM TRUST

A DIVISION OF ARGENT INSTITUTIONAL TRUST CO.

A brief trip down the history of fraud

The first recorded incident occurred in 300 B.C. Hegestratos, a sea merchant, took out an insurance policy secured by his vessel. A loan was then made using the ship and its cargo as collateral. He drowned when thrown overboard by the crew when they discovered that he was attempting to sink his ship.

✓ **FRAUD PREVENTION:** Vigilance can keep very bad things from happening.

Relics were a hot commodity in the Middle Ages, fetching premium prices for bones and body parts of saints and martyrs shown to perform miracles. Great sums were extracted from the multitudes of sick and dying – and those wanting to see a miracle. The widespread practice cooled during the Protestant Revolution, coupled with the observation of John Calvin that if all the relics were brought together every Apostle would have "more than four bodies, and every Saint two or three".

✓ **FRAUD PREVENTION:** Skepticism prevents loss.

Around 1820, Gregor MacGregor, an ex-soldier from Scotland, fabricated a story about the wonderous Caribbean land of Poyais. To back it up, he published a book (under a pseudonym) about the pleasures of life on Poyais, which attracted investors and raised more than $400 billion in today's dollars. Equipped with bagpipes and kilts, first boats of 250 hearty Scottish highlanders people set sail in 1822 - and landed at a desolate jungle. 150 died.

✓ **FRAUD PREVENTION:** If it seems too good to be true...

And we've heard of Bernie Madoff. But the Enron still holds the record.

What is the underlying message? Fraud has been around for a long time. It is insidious and will be here for a long time to come.

Fraud is a form of theft.

Theft — Taking property without consent.

Theft is direct while fraud is indirect.

Fraud — Taking of property with misrepresentation.

Think of this as stealing by an employee.

The bookkeeper

The trusted employee

Prevention measures:

Checks and Balances

Avoid vesting decision making to one person

Regular review of approval authority – user access and entitlements

Segregation of Duties

Divide responsibilities of a specific function

Review receipts and disbursements

Written Policies and Procedures

Strong internal controls – out of pattern payments

Second communication channel to validate

Approval of Workflows

Dual control for money movement activities

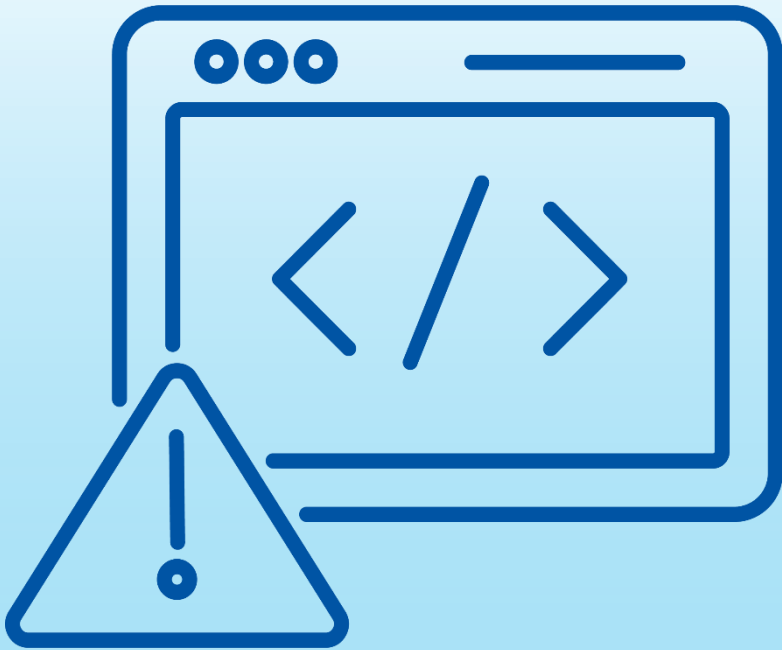Builds a case on the use of a third party to pay invoices

Regular Audits

Strong internal controls – out of pattern payments

Financial and benefit payment audits

System Integration – Data Analytics

Connectivity between systems

Detection of anomalous transactions

Cybercrime

Theft using misrepresentation by electronic means through a computer, network device or a network.

Techniques include email intercepts, pretexting, ransomware, phishing (smishing and vishing) and data breaches.

Examples from Florida:

The administrative assistant

The transfer request

Prevention Measures:

Encryption and Secure Protocols

Always use encryption with requests containing PII

Pension business using a personal mobile phone

Regular Updates of Software and Patch Management

The last time you were notified of a "software update"?

Incident response plan

Pensioner verification

Change of address and deposit accounts

"Are you still alive?"

Use Secure Websites

Look for "HTTPS"

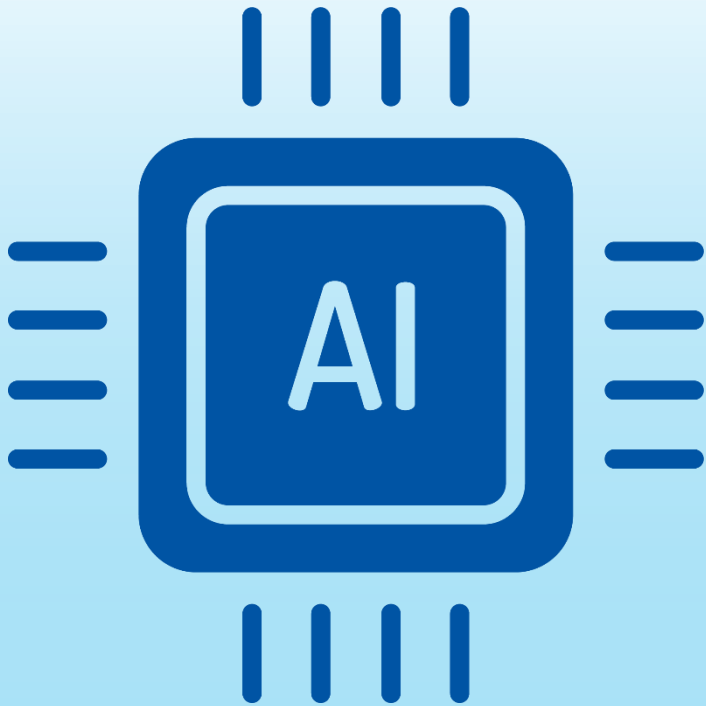For service providers, review SOC 1 report

Firewalls and Intrusion Detection Systems

Hardware vulnerabilities

Update hardware

Training and Testing

Test using false requests

"Scam of the Week"

Artificial Intelligence

Advanced memetic capabilities

Uses social media platforms for customized deception

"Internet of Things" – interconnectedness opens point fraud incursions

Phishing being taken to a new level

Crafting messages that impersonate a real interaction

Email can show "legitimate" source

Deepfake technologies to impersonate

Digitally altered interactions

New opening for ransomware

What Doesn't Work?

Conventional device checks, two factor authentication

Biometric authentication

What Does Work?

Builder AI

But AI is also being used to combat fraud