



LEND

CONNECT 2020

SMALL DOLLAR, SHORT-TERM, CONSUMER LENDING CONFERENCE



INTERNAL FRAUD
AND ITS EFFECTS ON
ORGANIZATIONS

(AND 7 WAYS TO STOP IT)



LEND CONNECT 2020

SMALL DOLLAR, SHORT-TERM, CONSUMER LENDING CONFERENCE



BART MILLER
CEO, OWNER

Online Lenders' Alliance:

Board Member (2008—Present)

Treasurer (2010—Present)

Executive Committee Member (2011—Present)



Centrinex is an industry leader in call center management for financial service companies.

We specialize in:

- Loan Verification
- Customer Service
- Renewal
- Retention
- First-Party Delinquencies





WHAT I'LL COVER ABOUT INTERNAL FRAUD:

- Definition
- Inside the Mind of a Fraudster
- Statistics
- Common Misperceptions
- Examples in the Industry
- Top Ways to Combat It





Defining Internal

FRAUD

- Asset Misappropriation
- Vendor Fraud
- Accounting Fraud
- Payroll Fraud
- Bribery
- Data Theft





Inside the Mind of a Fraudster

Driven by:

- Pressure & Incentive
- Opportunity & Accessibility
- Justification & Rationalization

Likely works in 7 key departments:

- Accounting, operations, sales, executive/upper management, customer service, purchasing or finance

Typical behavioral red flags:

- Living beyond means, financial difficulties, unusual close association with a vendor or customer, excessive control issues, a general "wheeler-dealer" attitude involving unscrupulous behavior, and recent divorce or family problems





Eye-Opening Statistics*

- A typical organization annually loses **5%** of revenue due to fraud.
- The median loss per occurrence is **\$150,000** regardless of < or > 100 employees.
- The more individuals involved, **the higher the losses** tend to be.
- Median duration of fraud is **18 months**.
- Most fraudsters are **first-time offenders**.
- Lack of internal controls was most prominent organizational weakness cited in **nearly 30%** of fraud cases.



Common Misperceptions About Internal Fraud

- Not my company
- Not my employees
- My company's policies and procedures protect against it
- Small frauds aren't big enough to concern management
- My company's auditors will quickly detect any fraud





Examples of Fraud in Our Industry

- \$25,000** Lender's ACH processing employee put through manual credits.
- \$75,000** ACH processor changed checking account when setting up ACH file.
- \$150,000** Developer ran script siphoning small amounts to checking accounts over 3 years.
- \$125,000** Two employees submitted fake loan applications. One would apply. The other would approve.
- \$15,000** Agent created and mimicked a supervisor's account to withdraw loans.
- \$3,500** Service rep ran loans through her personal account and withdrew loan next day in LMS.



Top 7 Ways to Combat Fraud

1. Run reports that show checking accounts that have been used more than once in a 30-day period.
2. Run reports that show if the ACH checking account number differs from the LMS after the loan is originated.
3. Put run reports on a rotating schedule among many employees who look for fraud.





Top 7 Ways to Combat Fraud

4. Set up a tip hotline via email, phone or both to report fraud. Close to 50% of all fraud is found when companies provide a tip hotline.

5. Offer anonymous tipsters a reward in exchange for reporting internal fraud.

6. Pay attention to employees' behavior. Vacations? Nicer cars? New clothes with no obvious way to afford them?

7. Prosecute all internal fraud cases, arresting fraudsters on site when warranted.





LEND
CONNECT 2020



Headquarters: 10310 W. 84th Terrace
Lenexa, KS 66214

CENTRINEX.COM

Phone: 913.744.3400