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Hot Topics in Financial Crime - Fraud and AML

Recent hot topics in fraud and AML.

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@ the speed of life

Agenda

- Top Threats Facing Financial Institutions
- Approaches to Manage Fraud Challenges
- Solution components of a flexible, sophisticated technology strategy

Evolving Threat Landscape

New Threats Are Emerging Everyday

more costly and complex than ever with no slow down in sight

$2.4 Million average cost of malware attack

1.5M Shortfall in Cybersecurity talent

4.2 Billion Records breached in past year

$5.1B **Account Takeover Fraud** **3X Growth**

80% of financial crime schemes are driven by organized crime

300 Billion passwords in use by 2020

$6 Trillion Cybercrime damage annually by 2021

$3.6 Trillion Money laundered through global financial systems

68% of financial institutions took months to discover breaches

Ransomware attacks every 14 seconds

$321 Billion Anti-Money Laundering Fines

16.7M ID Theft Victims highest on record

Today’s Threat Landscape

Targets

68% of financial institutions took months or longer to discover breaches

58% of breach victims were smaller institutions

80% of financial institutions replaced or augmented their existing AV solutions

Threat Actors

73% of breaches are perpetrated by outsiders

60% of breaches are conducted by organized crime

92% of breaches originated through email

Tools

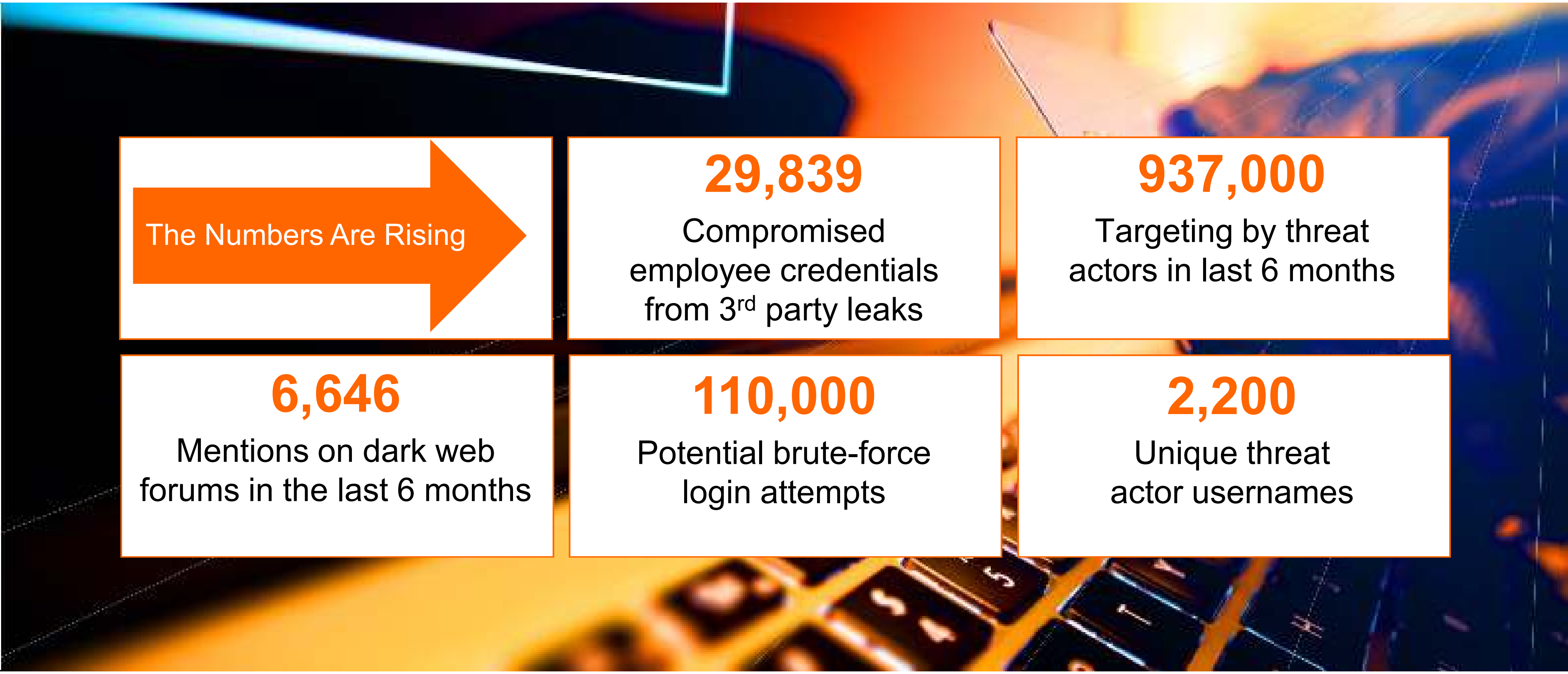
21% decrease in executables in favor of evasive, file-less techniques

87% of compromises took minutes to execute

37% of malware hashes only appeared once

Verizon Breach Report 2018

Real-World Targeting of Financial Institutions



The Numbers Are Rising

29,839

Compromised employee credentials from 3rd party leaks

937,000

Targeting by threat actors in last 6 months

6,646

Mentions on dark web forums in the last 6 months

110,000

Potential brute-force login attempts

2,200

Unique threat actor usernames

Advanced Malware beating Traditional Defenses

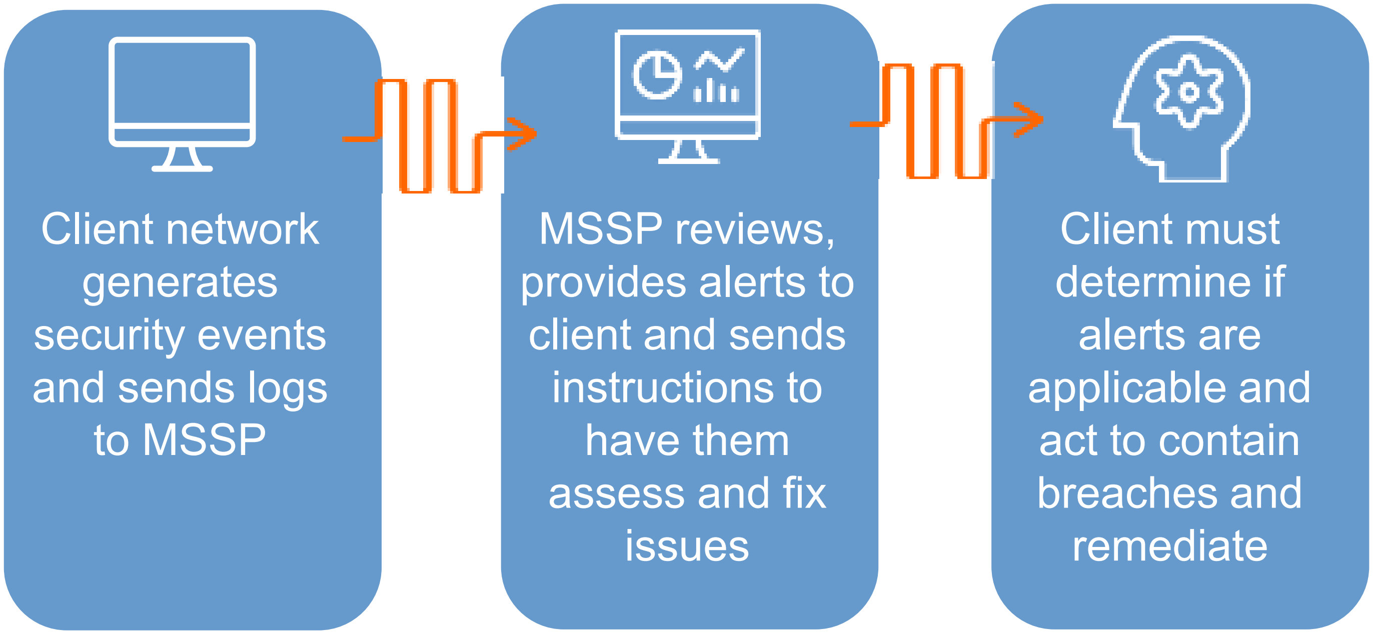
- File-less advanced malware that mutates to avoid detection by standard anti-virus
- Steals banking details and passwords

Polymorphic Malware Accounted for **57%** of all banking trojan payloads in Q1 2018*

* Proofpoint Q1 2018 Threat Report

Legacy Security Operations Are Not Enough

Siloed Detection, Instructional Response, Inadequate Remediation



Client network generates security events and sends logs to MSSP

MSSP reviews, provides alerts to client and sends instructions to have them assess and fix issues

Client must determine if alerts are applicable and act to contain breaches and remediate

Why are they not enough?

- Defenses not integrated
- Alerts not prioritized & causing alert fatigue
- No follow-through on alerts to remediation
- Limited access to sophisticated and actionable external threat intelligence resources

Recent Trends in AML: FATF's Revised Guidance on the Risk-Based Approach for the Life Insurance Sector

Why the Revision?

- Reflect changes (e.g., tax evasion added as predicate crime) since 2009 Guidance
- ML/TF Risk Assessment is a key starting point
- Confirming expectations (SARs are not risk based)
- Enhance guidance to provide examples of risk factors

Audience

- Governments
- Supervisors
- Insurers and Intermediaries

Key Themes

- Assessment design is commensurate with insurer's risk & complexity
- Reliance and involvement of intermediaries
- Ranking risk and mitigation measures to determine residual risk
- Tone from the top and three lines of defense model

Top 10 ways to Quantify & Manage Financial Crime Risk

Approach #1

Risk Assessment – Product Profile and Risk

Approach #2

Customer Centric View

Approach #3

Omni Channel Monitoring

Approach #4

Collaboration & Training

Approach #5

Data Management

Approach #6

Leverage Robotics

Approach #7

Leverage Analytics and Machine Learning

Approach #8

Business Intelligence and Reporting – Financial Tracking

Approach #9

Fine Tuning - Risk Assessment

Approach #10

Monitor Red Flags

Money Laundering Red Flags

- Premiums being paid into one policy, from different sources
- Making over-payment on a policy, then asking for a refund
- Unusual relationship between policyholder and beneficiary
- Channelling payments via offshore banks
- Funds coming from another country, particularly a high-risk jurisdiction
- Customer wants to pay a large premium with foreign currency
- Application for a policy from a potential client in a distant place where a comparable policy could be provided “closer to home”
- Insurance policy premium exceeds the client’s apparent means
- Transactions involving an undisclosed party
- Early termination of a product, especially at a loss, or where cash was tendered and/or the refund check is to a third party
- Applicant shows little concern for policy performance, but much interest in early cancellation provision
- Information provided by the customer that identifies a legitimate source of funds is false or misleading
- Upon request, customer refuses to identify or fails to indicate any legitimate source for his/her funds and other assets
- Customer or associated person has a questionable background or is the subject of new reports indicating possible criminal, civil, or regulatory violations
- Customer requests that a transaction be processed in such a manner to avoid the firm’s normal documentation requirements

Fraudulent Account Takeover Red Flags

- Loan request short time after registering policy with online portal
- Loan request short time after address change
- Loan request directing funds to be wired or ACH'd to new bank account, not bank account of record
- Loan request directing funds be mailed to new address, not address of record (e.g., hotel, vacant home) or a P.O. box
- Loan request directing funds to be wired or ACH'd to newly established bank account
- Irregular signatures on loan request
- Use of VOIP phone number when calling
- Urgency of transaction
- Calls to call center in which voice is distorted, caller mispronounces words, or pii of customer is not readily available
- Email requests which contain poor grammar, unusual font, or poor syntax
- Requests which indicate that the policy/account holder is traveling/unavailable/unreachable
- Use of free email services which do not require any personal information or verification to establish account (e.g., mail.com, homemail.com)

Evolving Technology to Manage Risk

Shift Towards Next Generation Solutions

Rules	Analytics	Robotics	Semantic Analysis	Artificial Intelligence
Scenarios	Pattern Analysis/ Outlier Analysis	Robotic Process Automation	Unstructured Data Analysis	Machine Learning
Tuning Thresholds	Statistical Analysis/ Predictive Analysis	Case Triage	Linguistics Analysis	Smart Process Automation
Name Matching	Data Visualization	Process Orchestration	Automated Reporting	Automated Decisioning

Source: Celent 2018, Innovations in AML and KYC Platforms New Models Powered by KYC Platforms

Technology Driving Next- Generation Solutions

Advanced Analytics

Data Mining
Statistical Analysis
Predictive Analysis
Link Analysis

Often employing specialized open source or proprietary modeling languages

Software Robotics

Robotic process automation (RPA) to handle routine processes and smart process automation (SPA) that joins robotics with artificial intelligence to enable the automation of workflow tasks that require decisions

Semantic Analysis

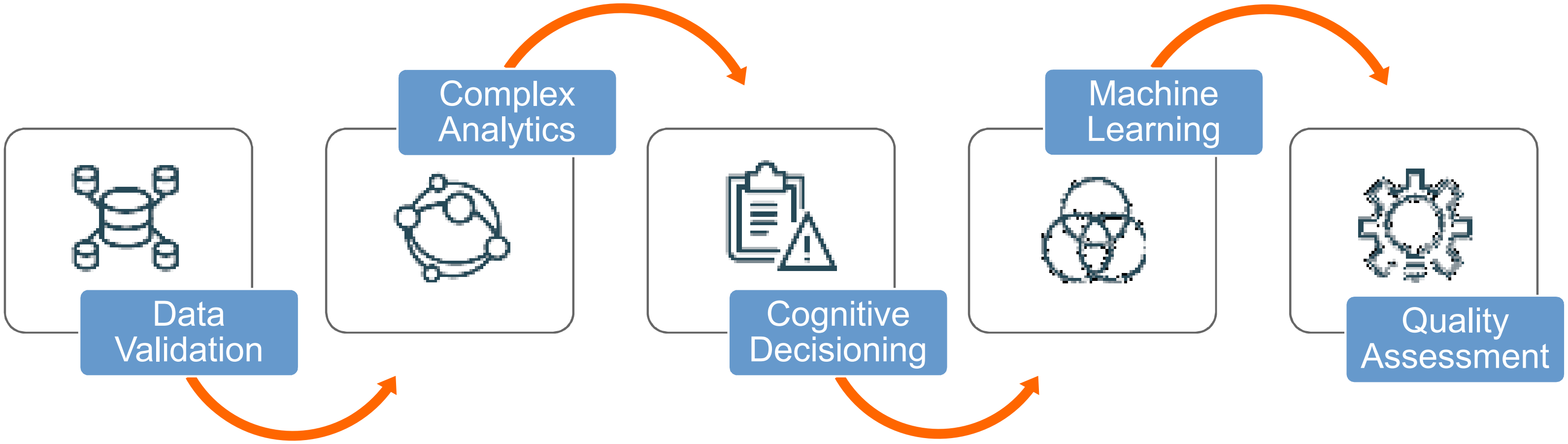
Unstructured data in texts, images, and audio to greatly expand the data universe susceptible to meaningful analysis

Artificial Intelligence

Which utilizes multiple technologies to imbue computer systems with some of the cognitive and decision-making faculties of humans.

Source: Celent 2018

AI, ML, NLP: How & where to apply?



Three Key Takeaways

1

Impact of the transformation of financial services on risk

Understand how the global transformation of financial services introduces new financial crime risks and trends

2

Leverage a risk based approach

Understand the need to focus on a risk based approach to managing financial crime risk according to your institution's risk profile and how this impacts customer experience

3

Leverage technology

Understand how technology can help manage financial crime risk given the brave new world that we live in.

Thank You