

THE BACON AND MUSHROOMS OF BANK FRAUD

by [Steve Brown](#)

We frequently eat breakfast at a local establishment as we fuel up for the day. We eat there so many times a week in fact, that we have assigned nicknames to some of the employees that include Mr. Bacon, Mushroom and Flipper. Mr. Bacon, as you might imagine, is seemingly mesmerized by bacon. He appears to spend all of his time cooking sheets and sheets of bacon, pouring grease into a bucket and then repeating the process. Flipper, meanwhile, spends all of his time preparing to flip anything in a pan way into the air just to entertain those waiting to eat. We appreciate both of them and their antics, but our favorite is probably Mushroom. We'll get to her in a moment, but first let's talk about something a bit more banking in nature.

One interesting subject we would like to explore relates to employee fraud. A recent study by Aite Group of large banks in fact, finds that internal fraud (a wide variety of criminal behavior perpetrated by a firm's own employees or contractors) is identified by more than 50% of the financial services firms surveyed. Meanwhile, another survey by Actimize of 40 banks in the U.S. and the U.K. found that 85% of respondents said they had been hit with some sort of employee fraud and 50% said there had been a case of data theft in the last 12 months. Security experts say banks should not skimp on the resources and tools needed to detect such insider fraud and be more proactive in screening for and reacting quickly when investigations could be warranted.

Another area to explore in fraud comes from your customers' perspective. Here, another study found 75% of small and midsize businesses that were victims of banking-related fraud in the past year were victimized online. Of that group, 75% involved online account takeover or other internet-based fraud and 61% were victimized more than once. Even more concerning - 78% of the scams weren't discovered until after funds were transferred outside of the bank. Clearly it remains very important to warn your customers to upgrade their computer systems, consider using a dedicated computer for banking transactions, upgrade security firewalls and install security patches frequently (to name a few techniques) to protect themselves and your own bank. Keep spreading the word as you help guide your customers along toward improving security.

When it comes to catching fraud, an in-depth study from KPMG provides some insight that can help. It finds that about 77% of internal fraud was committed by employees acting alone (accounting for 98% of losses), while 17% involved 2 people, 4% had 3 people and 2% had 4 or more people involved. Also of note, 83% of perpetrators earned less than \$100k. Major fraud motivations included greed/lifestyle (92.7%), followed by personal financial pressure (3.1%), gambling (2.1%), other (1.7%), substance abuse (0.3%) and corporate financial pressure (0.2%). Even worse, 38% of major fraud warning signs were overlooked or ignored. The silver lining for community banks, however, is that the study also found the larger the organization the more likely fraud will occur. By size, 30% of organizations with less than 100 employees experienced fraud over the survey period, 31% was the number for those with 101 to 500 employees and above that level the percentages nearly tripled. That doesn't mean community banks should rest easy because it only takes one fraud to really hurt an organization, but it does show the odds are certainly lower than at the behemoths.

Now we return to Mushroom. She is a very nice person, but the café has her working the cash register. She pushes so many buttons just to order an omelet that lines form and you have to wonder what complex formula is being transmitted to Mr. Bacon or Flipper so they can cook it. We like her as a person, but think that ordering a mushroom (we usually get that in our omelets), should not be as complex as dropping billions of spores.

BANK NEWS

Debt Plea

BofA, JP Morgan and other large banks got together and made calls to Congress in an effort to help solve the debt ceiling issue before it does material damage. The move comes amid word S&P and Moody's have warned an additional 200 US agencies' credit and 170 municipalities could also be downgraded. While normally good news, the net flows out of money funds and into banks are only serving to damage NIM and drive up costs over the short-term.

Foreclosures

According to RealtyTrac, 84% of metro areas posted lower foreclosure activity in the 1H of 2011. However, we quickly add that some of this slow down was a result of documentation issues, so it could reverse in coming months.

Wealthy Sentiment

A survey by MFS Investment Management of 600 mass affluent clients (\$100k to \$1mm in investable assets) finds 65% call themselves protective, pessimistic or fearful and 44% have cut back discretionary spending in the past year. Cash holdings now average 28%.

Jobs

BLS data shows the top 5 most improved states year over year when it comes to the jobless rate (as of Apr 2011) are: MI (went from 12.8% in May 2010 to 10.2% as of April 2011); NV (14.9% vs. 12.5%); IN (10.4% vs. 8.2%); IL (10.5% vs. 8.7%); and OH (10.2% vs. 8.6%).

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.