Financial Statement Frauds Detection and Its prevention of Financial sectors -With Reference To Banking &Insurance companies

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Abstract- *In the present globalised and liberalised business environment of the last few years, we face a drastically increasing volume of frauds, especially in the financial sectors (Banking & Insurance) in India. The Indian financial services sector has witnessed exponential growth in the last decade—a growth that has not been without its pitfalls, as incidents of fraud have also been on the rise. Fraud results in significant losses to the public exchequer, thus adversely affecting service delivery. Financial fraud is big business, contributing to an estimated 20 billion USD in direct losses annually. Industry experts suspect that this figure is actually much higher, as firms cannot accurately identify and measure losses due to fraud. The worst effect of financial frauds is on FDI inflows into India. The time has come for financial services organisations to pursue a more strategic approach to fraud management within. To overcome this challenge, they need strict and focussed steps. There needs to be transparency in Financial Statement at all levels in organisations to reduce frauds. The main purpose of this study is to identify the current fraud trends and how we prevent it's inthe present world.It was found that the Fraud prevention tools are automated analysis tools, Data visualisation tools, Behavioural analytics, deep learning, the internal audit function, going to reduce the financial frauds and its prevention of financial sectors of banking and insurance companies. Hence it is suggested that, Key components of an effective anti-fraud programme such as Periodic reviews and transparent management reporting, Staff services across locations awareness and training, Develop policies and procedures to provide guidance to business, Policies to be structured in layers to cover all products.*

Keywords- Fraud trends, fraud risk, fraud prevention tools.

I. INTRODUCTION

In today's volatile economic environment, the opportunity and incentive to commit frauds have both increased. Instances of asset misappropriation, money laundering, cybercrime and accounting fraud are only increasing by the day. With changes in technology, frauds have taken the shape and modalities of organised crime, deploying increasingly sophisticated methods of perpetration. As financial transactions become increasingly technology-driven, they seem to have become the weapon of choice when it comes to fraudsters.

In this paper, we share our perspective on the trends in frauds in the financial sector, the changing regulatory landscape and the ways for fraud prevention and control. We hope these insights will help the financial services industry combat fraud and other forms of economic crime.

II. REVIEW OF LITERATURE

An attempt has been made in this study to review the selected research work already undertaken in in the area of this study, to understand the concepts methodology employed and the gaps in the research.

1. **Louise Francis,(2010) "Banking on Robbery: The Role of Fraud in the Financial Crisis"**The evidence indicates that a well-established and well-known permissive attitude towards fraud created a global systemic risk of such significance that a financial crisis of major proportions was all but inevitable. The SEC needs a "chief criminologist," i.e., someone experienced in fraud detection and prosecution. He concluded that Reinstitution of previously abandoned regulations that protected the banking system from risk (i.e., Glass-Steagall Act) and a new commitment to SEC enforcement of already existing antifraud laws are greatly needed. If fraud is not pursued and prosecuted, future financial crises where fraud is a significant factor are likely to occur.
2. **Michael S. Raab(1986) wrote an article on "Detecting and Preventing Financial Statement Fraud:** The Roles of the Reporting Company and the Independent Auditor". He found that companies should be required to institute sufficient internal management controls in addition to the

current statutory mandate to implement internal accounting controls. And also found that the sanctions imposed on perpetrators of financial statement fraud should be increased. Barring from corporate office those responsible for fraudulent financial reporting can provide greater levels of deterrence than fines alone, since the effectiveness of fines is limited by the net assets of wrongdoers. Appropriate due process protections should be instituted to minimize the chance of error and thus to prevent innocent managers from becoming too risk averse.

III. OBJECTIVE OF THE STUDY

The overall objective of the study is to find financial statements frauds and its prevention of financial sectors of (1) banking companies(2) insurance companies.

The specific objectives of the study are:

1. To study the overview of frauds in the financial sectors.
2. To study the fraud risks in the financial sectors.
3. To examine the financial fraud and its prevention tools of financial sectors.

IV. RESEARCH METHODOLOGY

This study based on Secondary data. This secondary data collected from Journals, Published reports, RBI reports and PWC.

V. DATA ANALYSIS & RESULTS

1) Overview of frauds

Frauds in financial institutions and Understanding the types and modus operandi as follows.In1990–1999 frauds like Hawala transactions, Fake currency, Cheque forgery But 2000–2015, Tax evasion and money laundering, Black money stashed abroad, Cybercrime, Debit/credit card fraud, dentity theft, Fakedemat accounts, Benami accounts, Use of forged instruments such as stamp papers and shares, Violation of Know Your Customer (KYC) norms. Here discuss the some important frauds.

a) Bribery and corruption:

Corruption is one of the biggest challenges faced by the Indian economy. Various surveys and studies conducted by industry bodies like Transparency International have identified corruption as a key risk for Indian corporates. India ranked 85 among the 170 countries included in Transparency International’s Corruption Perceptions Index - 2014. This ranking has gone up by 9 points as compared to the country’s rank of 94 out of 177 in 2013. Some of the key reasons for high corruption in India are the lack of a strong legal framework and enforcement of anti-corruption laws, red-tapism and a result-oriented approach.

b) Moneylaundering:

The goal of a large number of criminal acts is to generate a profit for the individual or group that commits the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process enables the criminal to enjoy profits without jeopardising their source.

c) Cybercrime:

According to RBI, in 2012, 8,322 cases of cyber frauds amounting to 527 million INR were reported. Although the number of cases reported decreased from 15,018 in 2010, the total amount involved increased from405 in 2012, implying that the average value per cyber fraud case has increased significantly.

2) fraud risks in the financial sectors

Fraud risks: Banking

(i) Fraudulent documentation

Fraudulent documentation involves altering, changing or modifying a document to deceive an other person. It can also involve approving incorrectin formation n provided in documents knowingly. Deposit accounts in banks with lax KYC drills/ inoperative accounts are vulnerable to fraudulent documentation.

(ii) Internet banking and related frauds

Around 65% of the total fraud cases reported by banks were technology-related frauds (covering frauds committed through/at an internet banking channel, ATMs and other payment channels like credit/debit/prepaid cards), whereas advance-related fraud accounted for a major proportion (64%) of the total amount involved in fraud.

Some examples:

Triangulation/site cloning:

Customers enter their card details on fraudulent shopping sites. These details are then misused.

- **Hacking:**

Hackers/fraudsters obtain unauthorised access to the card management platform of banking system. Counterfeit cards are then issued for the purpose of money laundering.

- **Online fraud:**

Card information is stolen at the time of an online transaction. Fraudsters then use the card information to make online purchases or assume an individual's identity.

- **Lost/stolen card:**

It refers to the use of a card lost by a legitimate account holder for unauthorised/illegal purposes.

- **Debit card skimming:**

A machine or camera is installed at an ATM in order to pick up card information and PIN numbers when customers use their cards.

- **ATM fraud:**

A fraudster acquires a customer's card and/or PIN and withdraws money from the machine.

(iii) Mobile banking: Risks

There are two types of mobile financial services that are currently offered in the Indian market—mobile banking and mobile wallets. Being an easy and convenient mode of transacting, there has been a 55 times rise in value usage of mobile banking and 5.5 times rise in the volume of transactions between FY12 and FY15.

Fraud risks: Insurance companies

Large accumulations of liquid assets make insurance companies attractive for loot schemes. These companies are under great pressure to maximise the returns on investing the reserve funds, making them vulnerable to high-yielding investment schemes. The insurance industry has witnessed an increase in the number of fraud cases over the last couple of years. A growing number of organisations are realising that frauds are driving up the overall costs of insurers and premiums for policyholders, which may threaten their viability and also have a bearing on their profitability. To keep these risks under check, a detailed framework for insurance fraud monitoring as been laid down with effect from 2013–14 and is applicable to all insurers and reinsurers.

- **Policy holder and claims fraud:**

Policy holder committing fraud against the insurer at the time of purchase and / or execution of an insurance product

- **Internal fraud:**

Employees commit fraud suo moto or in collusion with external parties or amongst themselves against the insurer.

- **Cash defalcation:**

Agent collecting the premium but not remitting the cheque to the insurance company, owing to which the insured has no coverage.

- **Doctor's nexus:**

Doctor being involved with the perpetrators in committing life insurance fraud.

3) Fraud prevention tools

Automated analysis tools:

Today, the industry is increasingly aware of the need for automated analysis tools that identify and report fraud attempts in a timely manner. Solution providers are providing real-time transaction screening, third-party screening as well as compliance solutions.

Data visualisation tools:

These are being used to provide a visual representation of complex data patterns and outliers to translate multidimensional data into meaningful pictures or graphics.

Behavioural analytics:

This is helping businesses identify enemies disguised as customers. The data analytics implemented by the institutions to understand customer behaviour, preferences, etc are also helping in the detection of fraudulent activity either in real-time or post mortem.

Deep learning:

Internet payment companies providing alternatives to traditional money transfer methods are using deep learning, a new approach to machine learning and artificial intelligence that is good at identifying complex patterns and characteristics of cybercrime and online fraud.

The internal audit function:

This function is being altered to include fraud risk management in its scope. The changed technological landscape requires the old ways of internal auditing to give way to new, technologically equipped audit functions. Annual audit planning may no longer be fully effective and flexible audit plans are the need of the hour, as fraud risk assessments require extensive use of forensic and data analytics solutions.

VI. CONCLUSION AND SUGGESTIONS

This study analysed the difference Fraud prevention tools in the Banking and Insurance. It was found that the Fraud prevention tools are automated analysis tools, Data visualisation tools, Behavioural analytics, deep learning, the internal audit function, going to reduce the financial frauds and its prevention of financial sectors of banking and insurance companies. Hence it is suggested that, Key components of an effective anti-fraud programme such as Periodic reviews and transparent management reporting, Staff services across locations awareness and training, Develop policies and procedures to provide guidance to business, Policies to be structured in layers to cover all products.

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