

# Opportunities for effective fraud detection and prevention



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## Overview:

Learn ten ways to help reduce fraud in your organization

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*Ten expert recommendations for the banking and insurance industries*

Every year, fraud costs companies and governments many billions of euros. In the current economic climate, fraud has increased at an alarming rate, adding to the financial impact on these organizations.

IBM recently organized two roundtable discussions, one with Dutch financial fraud experts and one with experts from Belgium, to help gain insight into strategies for detecting and preventing fraud. This research was conducted by Blauw Research and *Banking & Finance* magazine in cooperation with Tricia Howse, fraud detection specialist at the Serious Fraud Office, which investigates and prosecutes serious or complex fraud and corruption in the U.K.

Roundtable participants held in-depth discussions about fraud and economic crime and what should be done to combat it. These experts spoke about what they consider to be the greatest challenges and issues regarding fraud and described their recommendations for its detection and prevention.



## Findings

The roundtables revealed that combating fraud is a complex issue which is often discussed and handled within organizations on a rather abstract level. Agendas still seem to be dominated by defining the issue rather than working on an actual solution to tackle the problem. While there are many discussions on how to view fraud, on how the organizational culture and structure should be adapted, and on what the role of the legislator should be to better facilitate the fight against fraud, few tangible initiatives exist and little significant progress in actually combating fraud has been made.

However, the research also clearly indicates that organizations can take a number of relatively straightforward measures to detect and help prevent fraud and abuse. For example, they can adjust their remuneration systems; set up a central registration platform for fraud in order to focus the attention of their Executive Boards on the problem of economic crime; share more information internally and with other organizations; and deploy the appropriate technologies.

Roundtable participants concluded that risk management and fraud detection increasingly fall under the remit of business management rather than specialized departments such as the Fraud Department or Special Investigations Unit. The experts are also convinced of the importance of detecting and combating fraud at a corporate level, so that the Executive Board can make enterprise-wide decisions. By dealing with fraud issues at both the business level and the board room level, the decision-making process can become more effective and decisions can be better deployed across various business processes.

Finally, the roundtable discussions revealed that fraud prevention also requires more attention. Participants shared the view that, especially in these uncertain times, organizations should focus more on reducing risk, rather than merely on gaining profit. They also believe that more attention should be given to refusing bad business and that organizations should not invest in acquiring risky or dubious customers. They also concluded that sharing knowledge about risky customers internally and with other organizations can improve the detection of fraudulent practices, as well as result in cost savings because high-risk customers can be excluded from costly marketing campaigns.

## Recommendations

The roundtable discussions revealed that only a small number of organizations actively share knowledge and data on fraud and risk or use data analysis technology as part of their anti-fraud approaches.

The roundtable participants therefore proposed that financial organizations and insurance firms adopt the following recommendations to improve their fraud detection, prevention and risk management efforts:

- Improve data- and knowledge-management
- Pursue a change in business culture as well as prevention
- Focus on bringing the right people together
- Improve product development
- Increase transparency
- Take a critical look at remuneration systems
- Create a central registration platform for fraud
- Build success stories as a form of jurisprudence
- Pursue a joint, strategic, European approach
- Deploy predictive analytics technology

## Conclusion

Organizations interested in developing effective fraud-fighting approaches have taken the first steps in that direction. But it is time for financial institutions and insurance firms to adopt more effective measures that will completely eliminate fraud, and predictive analytics technology will play a key role in these initiatives.

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Route 100  
Somers, NY 10589

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