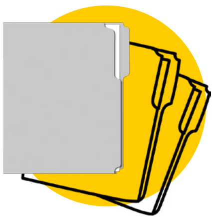
How to...

Identify and defend against financial crime

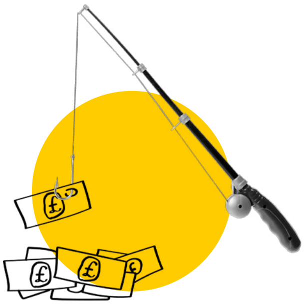
Covid-19 has presented a challenge for all businesses, industries, and individuals. A huge concern throughout the pandemic has been the proliferation of financial crime and the opportunities that have presented themselves to fraudsters. The risk and instances of financial fraud have increased substantially.

Increased fraud risk



2,866
reported scam cases

£11m
reported scam losses



13,820
phishing emails

£16m
online shopping losses

Source: Action Fraud figures were taken within 3 months of the first lockdown of 2020 – www.actionfraud.police.uk/covid19

During a period of significant disruption and change, such as the coronavirus pandemic, the risk of fraud and money laundering occurring is heightened. Criminals will actively exploit these difficult times to target vulnerable individuals and businesses for financial gain.

The mortgage fraudster

Desperate client

- They are motivated by the end result – the property / remortgage funds
- They may be under pressure, perhaps from a family angle or to do with social standing
- They may rationalise that this behaviour is not fraud, but a short-term solution

Professional offender

- Rare but dangerous
- They are experienced in financial fraud and have a deep understanding of the mortgage industry
- They know how to avoid the controls in place, where the most valuable assets are located and how to extract them

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What are the enablers of fraud?

Remote working

Disturbances in normal business processes, controls and working conditions give criminals opportunity to commit fraud.

Government scheme abuse

For example, Bounce Back Loans (BBLs) being used as source of deposit.

Lack of face-to-face contact with customers

Increased risk of impersonation / property hijack – fraudster impersonates the real owner of the property.

Financial downturn

The chaos and uncertainty of the pandemic has caused people to rationalise behaviour that they wouldn't have considered previously.

Increased risk of Push Payment Fraud

Applicant authorises a payment from their own account to an account controlled by the fraudster. For example, fraudster impersonates the solicitor and provides 'new' bank details for the applicant to send the deposit funds.

False EWS1 (External Wall Fire Review) forms

False certificates have been issued for large blocks of flats nationwide. This is heightened as house moves may be accelerated as a result of the pandemic. Read the full review **here**.

Types of fraud

Financial fraud can take several forms

Income related frauds

Income related fraud for both employed and self-employed, either through false or inflated incomes.

False address history

Fraudsters will want to portray their finances in the best possible way, or need to 'remove' any previous adverse. Providing an alternative address history may facilitate this.

Tax evasion

Evading tax may be seen as an opportunity to increase cash flows. This could be through additional 'cash in hand' income; undeclared BTL income; or the transfer of properties and avoiding tax which is due (Stamp Duty Land Tax).

Scheme abuse

Fraudsters will increasingly look to side-step income checks, e.g. by concealing a buy to let application as a residential (Back Door Resi).

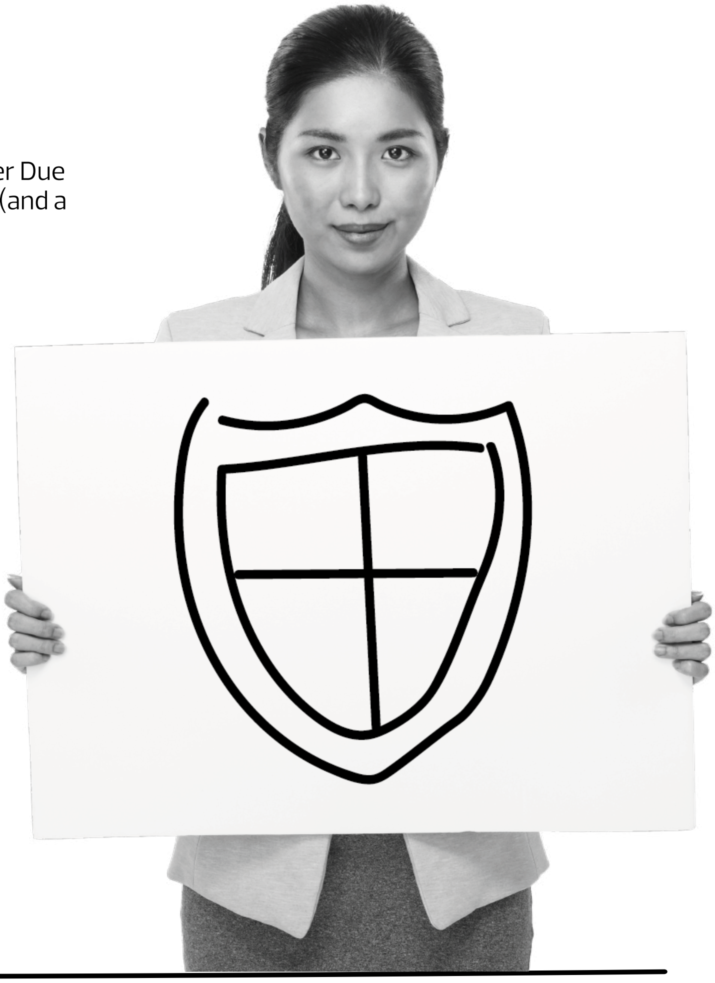
Impersonation

Fraudsters will impersonate genuine individuals or businesses. For example, by setting up false bank accounts or loans in order to build up a credit history for a mortgage.

Back door brokers / Unregulated brokers

Broker firms previously removed from lender panels, or had their regulated status removed by the FCA may approach an alternative broker for their unscrupulous clients – be aware.

How you can help fight fraud today

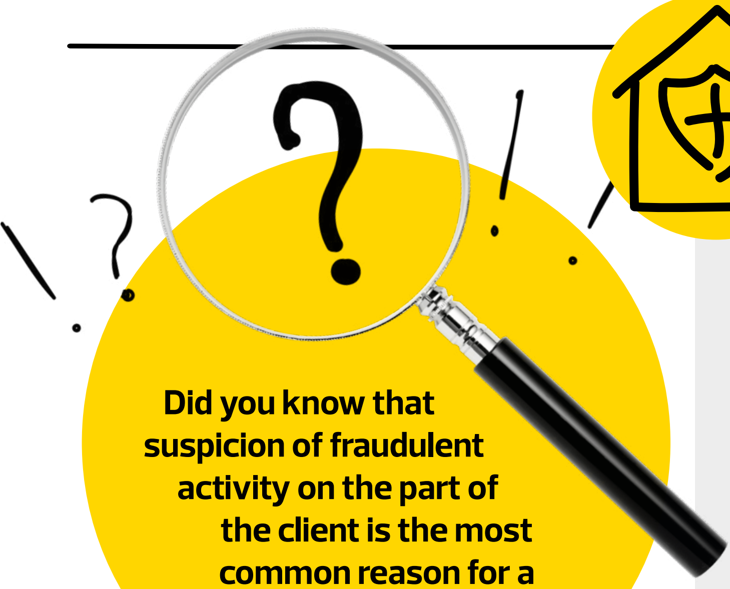


Know your customer!

Are you satisfied your clients are who they say they are? Customer Due Diligence (CDD) is an important step in combatting financial crime (and a regulatory requirement)

Some of the ways you can determine the identity of your client:

- Identify and verify your client's identity
- For Corporate Entities / Special Purpose Vehicles – identify and verify a beneficial owner to understand the ownership and control structure. This may not be your immediate client, and could include trusts or similar legal arrangements
- Obtain information relating to the purpose and intended nature of the business relationship and transaction – where purchase deposit funds originate / capital raising reasons
- Open resources – an internet search may reveal background information. Adverse Media articles, Companies House, LinkedIn, Zoopla or Facebook can help to substantiate a client story
- Do not be afraid to question them about anything unusual – ask for a second opinion if needed



Did you know that suspicion of fraudulent activity on the part of the client is the most common reason for a broker's expulsion from lender panels?

The mortgage broker is the first line of defence against mortgage fraud!

Both lenders and the regulator expect brokers to have strong processes in place to prevent themselves being used as a route to commit fraud, for example:

- Conducting 'Know your customer checks'
- Comparing documents (e.g. payslips) with other documents (e.g. bank statements) or with what the client has told you, can be revealing. Find out how to spot issues with your client's bank statements **here**
- Bank statements can provide insight into clients life – credit commitments, bills, other mortgages

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April 2021

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