

WAYS TO PROTECT AGAINST FRAUD BY THE BANKS FROM LENDING TO INDIVIDUALS

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Abstract:

Banking companies in Romania have made in recent years an accelerated pace of development of their business in credit in general, and the crediting of individuals in particular. Like any activity with a dynamic and sustained activity of lending to individuals held by the banks is generating risks. In all the risks to which banks are exposed to companies in their lending to individuals are included and the risks of fraud. Such risks can be generated both by internal factors and external factors. Identifying those factors and measures to protect the banks from the risks of fraud are elements to be stressed in this paper.

Key words: bank, credit risk, risk of fraud, measures against embezzlement knowing customers.

1. Introduction

One of the components increasingly important activity of banks, is the operations and services for the retail market and in their lending to individuals occupies a significant share, with strong influences of assets acquired by a bank.

Accelerated pace of development of the business of lending to individuals registered by the Romanian banking companies in recent years, was a consequence of several factors, which include: extremely low level that you record these operations in the activity of banks, low volume of loans that record companies banking on their total exposures to the population, low degree of financial intermediation, economic growth and increase capacity default of payment of potential debtors, the banks increased ability to engage in the business of lending to these segment and to manage these risks, the implementation of methods and techniques based credit scoring systems which have allowed a real industrialization of these operations, market requirements, competition on the part of the bank, and on the other side competition that has generated - an entry on the credits for individuals and non-bank financial institutions.

The evolution of the natural development of the credit population by the banks will not stop here. In the years ahead it will continue the expansion, following the trend similar banking markets in the region, close to the stage that we will record these transactions in the EU Member States.

How any activity, especially in banking, is generating risks and business lending to individuals has led, on the one hand the banks involved to adopt procedures more or less adequate volume of such transactions, enabling them an effective risk management, and on the other hand, the regulatory authority to impose specific requirements on conduct of business and prudential supervision.

2. The risk of fraud

One of the risks to which banks are exposed to companies in their lending operations of individuals, is the risk of fraud. This risk can be generated by several factors, of which remember: the accuracy of the internal regulations on business lending to individuals; reliability of the internal procedures for the management of credit, scoring systems used and the levels of access to staff in applications informatics system of supervision of lending activity, the quality of bank staff; criminal activities of individuals or groups of criminals from outside the bank, the activities of criminal groups with ramifications even in the banks, lack of communication systems with state institutions that are able to provide useful information a credit effectively so.

To avoid the risk of fraud on which the banks are exposed in their lending to individuals is necessary protective measures appropriate. These measures may look the part of a banking company in each hand, but also the community as a whole to banking, and on the other hand authorities or institutions of state. It should be noted that the risks of fraud occur primarily in loans whose object is unidentified. Harder will be able to register fraud, for example, loans for housing purchases.

Among the measures identified, which could be considered for the banks to protect against fraud in their lending to individuals, we stop to those below.

2.1. Procedures for early detection of potential fraud risk

The existence of internal procedures pertaining to the operations of banks lending, to be able to detect the possible risks of fraud, is one of the conditions essential for the protection of bank against any risks, including fraud. No doubt that all companies carrying banking business of lending to individuals on the basis of internal rules, but the more restrictive or more of their casual, is one of the elements that are likely to encourage the emergence of the risks of fraud.

Always an identified gaps in general groups of offenders, but the bank staff who leave or who drew even initiate operations of fraud in lending activity are the main cause which generates such risks. The documents required for a credit analysis are fundamental, mainly for loans without a specific destination them, and so-called loans for personal needs, to avoid the risk of fraud.

Also, an internal procedure that would involve analysis of an application for credit by another person, another integrated compartment than the employee who provides the interface with the applicant credit and competence of approval located

in a person other than the two people involved in the relationship client and analysis of documents formalized credit will be likely to lead to a limitation of the risk of fraud.

2.2. The scoring

It is known that lending to individuals today is done on the basis of scoring systems more or less performance. A scoring system designed in such a way as to be able to refer certain inconsistencies or discrepancies between the information entered automatically refer to those involved in credit analysis and approval, and the degree of permissively employee of the bank that is in direct relationship with customers applicants for credit access to opportunities on the application of scoring to be extremely limited, are still so many elements that would be likely to reduce the risk of credit fraud and they can expose a company in the banking business of credit individuals.

2.3. Supervising the operations information related to credit accounts

The existence of systems that do not allow providing loans without the supervision of operation by a person to view the actual documents approving the loan and the credit agreement signed by the parties, are items that cannot miss in any strategy of effective risk management.

Certainly that most banks have such systems of supervision, but it is necessary that this operation should not be done only formally, or high speed because of the many tasks that the person they are executed, but in a totally and utterly responsible and the allocation of time required for such operations.

Through such operations will be avoided and bank fraud arising from the inside, and the lending staff with access to customer accounts, through the payment of fictitious credits, without the existence of documents on behalf of customers of the bank good faith.

2.4. An information system at the level of financial market

To avoid the risk of fraud in the lending operations of individuals, but not only appreciate that there is a pressing need to achieve a level of cooperation actors on the financial market in order, on the one hand the creation of a database with more comprehensive information about individuals who already carried out operations of this market and those that will come with operations in this market. At this time there is a concern in this regard the majority of the banks by creating the Office of Credit, but we appreciate that so far the financial market has not fully hooked up to such a project.

According to latest data provided by the Office of Credit, this system is its databases based on the information supply of 30 banks that have over 98% of the retail market, 7 companies consumer credit and leasing of two companies

A database more complete would enable it to provide the kind of positive information about the financial behaviour of a potential client, and data to reflect the negative aspects of its behaviour, and information about its overall exposure. The possibility that domestic banks can obtain from such an institution rating on a customer or potential customer would be a big step on the way in developing this business segment, and on the other hand to avoid the credit risks and fraud.

2.5. Access to information managed by institutions of the state

Another way that would allow reducing the risks of credit fraud and default to which they are exposed banking companies would be represented by the adoption of a regulation which would allow access to information managed by institutions of the state. The author has in mind here, mainly the possibility that the banks may have access, under certain conditions, the information enabling verification of the items of income that actually presents customers seeking loans, such as:

- validity of an individual contract of employment of the applicant's credit company that issued the document income, the date when it is in force and duration;
- accuracy of the amount of income or revenue included in the documents presented;
- legal validity and taking in the institutions of contracts, under which a credit applicant would collect in future revenue from certain leases and the provision of professional services;
- validity of an identity document on which the bank has some doubts;
- real estate properties available to a customer, etc..

Access information of the banks to such information managed by institutions of the state would be likely to ensure a better knowledge of customers, and on the other hand would discourage attempts and fraud related to lending activity.

The author is agreed that such conduct of the state would be liable on the one hand to bring to light some law-related operations carried out by individuals, and on the other hand, the corresponding increase state revenues.

3. Knowing customers

Knowing the customer is a fundamental principle of banking business of a company entering into relationships with its customers. A bank should not enter into relationships with a client person who does not know a minimum set of information even for carrying out transactions on the account.

There is also an obligation on the banks arising from the regulations issued by the National Bank of Romania in this respect, which set a minimum set of

standards for knowledge of customers, which are clearly functional and in case of lending.

Under this regulation, banking companies operating in Romania are required to adopt policies and procedures for effective knowledge of customers to promote high ethical and professional standards and prevent the use by some bank customers to conduct some kind of criminal activities under the law.

The internal knowledge of the customers of each company bank should consider all banking operations carried out involving the receipt or distribution of funds to customers, including but not restrictive:

- opening of current accounts, deposit, savings, credit card;
- opening accounts record of securities;
- rental tapes of values;
- transactions of securities or other financial instruments, foreign exchange, precious metals, - whose value exceeds 15,000 euros in the equivalent;
- granting of credits and transactions with effect from trade.

It is noted that one of the fundamental obligations of banks operating in Romania, in global efforts for the implementation of effective *procedures for knowledge of customers*, is developing programs of their own knowledge of the customer to be approved by the board of each banks and known by all staff. In these programs, the banks are required to include at least:

- policies for the acceptance of customers;
- procedures for identifying clients and their employers to the appropriate constituency;
- ways of making and keeping proper records;
- procedures for monitoring transactions through accounts in order to detect suspicious transactions and procedures for reporting them;
- ways of dealing with transactions and / or jurisdictions in which there is no proper regulations in the field proven money laundering;
- training programs of staff in the field of customer awareness.

To enter into relationships *with their customers, banks are required to identify their identity and at the same time to verify this information, including direct observation of the location when deemed necessary*. The information required that the banks must require their customers individuals are: name and surname, home address, date and place of birth, code number, employer name, the source of funds; specimen signature.

Resulting from the companies that presented bank must show great care operation knowledge of customers, from the opening phase of the accounts of individuals having the legal possibility to refuse opening an account. When a company bank considers that the information presented by a person not satisfactory and has the legal obligation to observe even the location indicated by that person. If there is the legal possibility of a bank to see the location of a person opening the

account, the more such an operation is indicated in cases of suspicious transactions by credit or unconvincing.

In the business of lending to individuals is appropriate that the bank to carry out checks on some elements of the document attesting that the salary of an important document in the operation of credit, such as checking on the website of the Ministry of Finance a few items about the company that issued the document attesting , and even a brief analysis of its financial condition, a phone confirmation of the data contained in the document attesting to the number indicated on the website of the Ministry of Finance, if entered on the document attesting that the salary does not tally with that recorded in the ministry of finance is very appropriate and useful to avoid any risk of lending operation.

4. Conclusions

In pursuit of their joint bank watchers, among the objectives, and ensuring good management of their assets generating revenue. Between these assets include loans to individuals who hold shares increasingly significant assets in the balance sheet of banks.

Achieving this goal by banking companies require the use of appropriate means, methods and techniques, and their undertaking appropriate actions of the most diverse. Among these should be included and concerns for proper management of credit risk and the fraud.

To ensure their protection against internal and external, we appreciate that some of the measures identified in this paper may be the subject of analysis and reflection for both the bank and for some institutions of the state.