FINTECH & FRAUD
Fraud
Since the Dawn of Commerce

300 B.C
1792
1884

- Greek merchants would take out large insurance policies for boats of corn
- Hegestratos is known for taking out a large policy on a boat he planned to sink
- Instead of selling the corn and keeping the money, he drowned at sea
Fraud
Since the Dawn of Commerce

- First insider trading scandal involving William Duer, the Assistant Secretary to U.S Treasury
- Duer used information gained from his official position to tip off friends / personal account
- Leaked information to drive up the prices and sell for an easy profit
- Often blamed for causing the first U.S market crash
Fraud
Since the Dawn of Commerce

- Fraud wiped our former President Ulysses S. Grant
- With bro-in-law they attempted to corner the nation’s gold market
- They planned to sell gold to pay off the national debt and boost the economy
- Scandal caused the Black Friday gold crash, which lasted several months
Traditional Fraud

- Local
- Slow
- Methodical
- Manual

Fraud Today

- Global
- Real-time
- Changing Fast
- Automated
In Hours, Thieves Took $45 Million in A.T.M. Scheme
Advancing Financial Well-Being

Benefits to Borrowers

• Competitive rates
• Digital experience
• Fixed term; fixed-rate
• Simple and transparent
• Convenient and fast application process

Benefits to Investors

• Attractive risk-adjusted return
• Digital experience
• Short duration
• Data transparency
• New retail asset class
Fraud in FinTech:
Information Security & Operations
(back-end fraud protection)

- **Prevent** bad characters from accessing private information (company and customer)
- **Detect** threats in real-time that could disrupt infrastructure or compromise security
- **Control** data; regularly monitor data sources to avoid extraction
- **Inform** customers of suspicious activities and technology threats
- **Protect** against future fraud
Fraud in FinTech:

Information Security & Operations

(front-end fraud protection)

- Identity *
- Income *
- Employment *
- Bank accounts / money transfer +
- Tax ID (social security number) +

*Directly impacts borrowers
+Directly impacts investors
Fraud in FinTech:

Information Security & Operations

- Bank Secrecy Act (BSA)
- Anti-Money Laundering (AML)
- Office of Foreign Assets Control (OFAC)
Shotgunning

- Applying and taking multiplied unsecured loans and cards in under 10 days
- Low intention to pay
- Exacerbated by soft-inquires but impacting all unsecured issuers in price comparison channels
- Small but extremely high risk segment
Loan Stacking

- Consumer takes multiple unsecured loans over 6-12 months
- Ability to pay erodes but willingness often exists
- An issue common to all consumer unsecured loan products (including credit cards)
- Higher risk but common to unsecured lending, in general
Prosper Risk & Compliance Environment

1st line of defense
- Business Units
  - Business units self-identify risks using a Risk Universe

2nd line of defense
- Management
  - Risk management groups (i.e. ERM, Compliance, Info. Sec., etc.)

3rd line of defense
- External Audits
  - External auditors for financial statements, SOC 1 Type 2, information security, compliance, etc.
Key Takeaways

Fraud has become more sophisticated and widespread than ever before.

Watch for leading indicators, trends and behaviors. Early detection is critical!

Make improvements to risk strategy and verifications; measure impact.
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