

GBG



The Future of Fraud Management in Southeast Asia

Roundtable

 Regulation Asia

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The global pandemic changed the way people in Southeast Asia live, work and conduct their business, as it did all over the world. For the region's financial industry, it did not just mean adapting to the changing needs of employees and customers, but also to a growing threat of fraud, for which the usual tools and processes were found to no longer be sufficient.

According to recent research, up to one in three firms in Southeast Asia experienced online fraud in 2020 as the boom in online activities such as e-commerce and remote working triggered by the pandemic exposed the vulnerabilities of the digital economy. In real terms, this has translated to as much as 80 basis points of revenue lost by banks to fraud in the last year alone, *Regulation Asia* estimates based on aggregated data retrieved from Capital IQ and other sources.

Many institutions still see fraud as a mere cost of doing business, but now, more than ever, it's critical for financial institutions to anticipate new fraud schemes in order to mitigate risk, prevent losses, and protect the consumer. To do this, they need to assess their readiness for managing online fraud risk, and tap advanced risk assessment tools that can help better safeguard their assets, while also promoting wider financial inclusion.

As the pandemic unfolded and the operating landscape changed rapidly, some institutions managed these changes better than others. At a recent roundtable discussion convened by GBG and *Regulation Asia*, industry experts gathered to delve into the Southeast Asian fraud landscape and provide practical insights into the mitigation measures the industry can take to meet these emerging challenges.

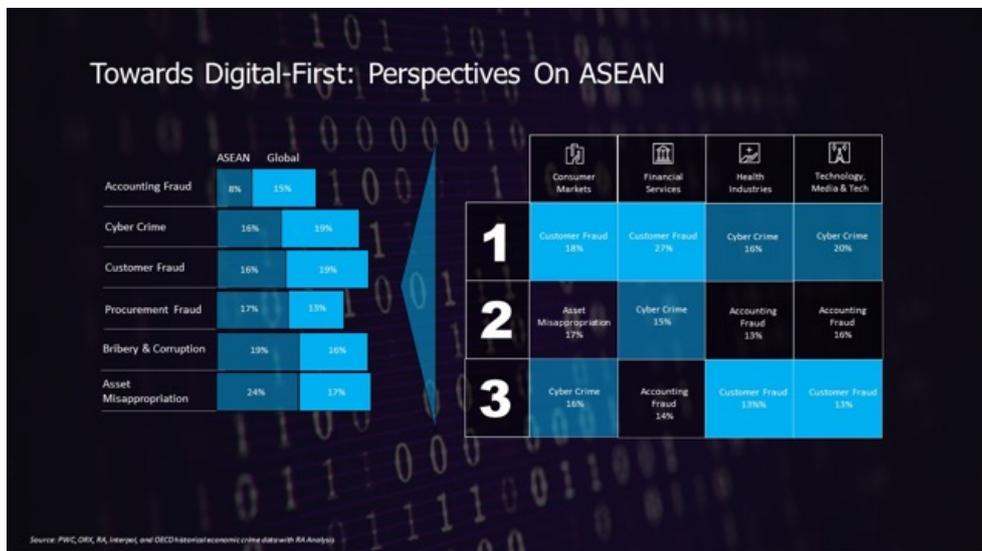


Figure 1: Key Fraud Challenges in ASEAN

...of all the fraud risks faced by companies in Southeast Asia, asset misappropriation was the largest, followed by bribery and corruption, and procurement fraud.

An escalating risk

While levels of economic crime spiked around the world as digitalisation accelerated, and millions of people moved their daily activities online, Asia-Pacific fared comparatively better than many other regions, with the exceptions of Europe and the Middle East.

According to research presented at the roundtable, of all the fraud risks faced by companies in Southeast Asia, asset misappropriation was the largest, followed by bribery and corruption, and procurement fraud (Figure 1). External risks in the form of customer fraud and cybercrime feature slightly less prominently but are still major issues. For financial services firms, customer fraud is still the standout concern.

The data showed that fraud risks in some ASEAN countries began to escalate around 2016, when fintech became mainstream and the adoption of third-party ecosystems created a new landscape of vulnerabilities and friction points. The year-on-year growth in fraud rates in Singapore, for example, ballooned from just 16 percent in 2005 to 42 percent in 2020 (Figure 2).

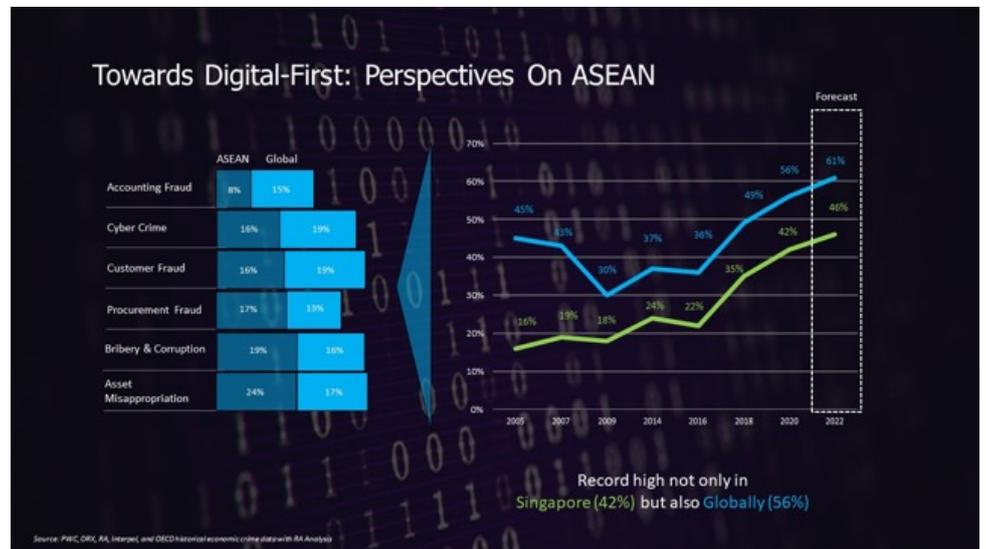


Figure 2: Increase in Fraud Rate in Singapore vs Global (2005-2022)

As a consequence, regulators are taking more control of the fraud space and there is an ever-increasing focus on consumer protection in the ASEAN region. Risk management priorities are also shifting. Over the next 12-18 months, the challenges of synthetic identity fraud, digital fitness, stimulus fraud, automated attacks, and the use of fraud in terrorism financing will take centre stage.

These challenges are, in part, a product of rapid digitisation. They also coincide with a period in which financial institutions are competing to offer customers instant, frictionless digital services. The confluence of these trends has heightened vulnerabilities and placed a greater premium on consumer trust.

Twin imperatives

Banks face the task of balancing twin imperatives: the demand for both frictionless customer experiences and fraud protection. In research conducted in June 2020, "[Future-proofing Fraud Prevention in Digital Channels: APAC FI Study](#)", GBG found that instant loans and instant customer onboarding are becoming new focus areas in online banking strategies as traditional products struggled (Figure 3).

“The first trend that was coming out pretty clearly when it came to online banking strategy was the need to provide instant financial services.”

Dev Dhiman, APAC Managing Director at GBG



“The first trend that was coming out pretty clearly when it came to online banking strategy was the need to provide instant financial services. Consumers have developed expectations of swift gratification from e-commerce and digitisation of retail. This is increasingly being reflected in digital banking expectations,” said Dev Dhiman, APAC Managing Director at GBG.

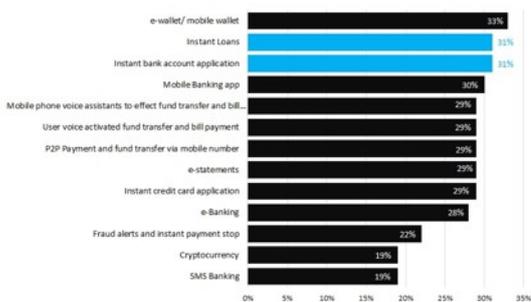
“When we asked fraud, compliance and business leaders in banking and finance organisations across APAC what their focus was going to be in the next 12 to 18 months, instant loans and instant bank account applications were clearly a priority,” he said.

“Traditional products are definitely not doing well now,” said the Chief Risk Officer of one Malaysian bank who participated in the event. “So a lot of banks are focusing on operational efficiency through digitisation, including to automate lending processes. The customer experience part still has a lot more work to be done.”

At the same time, close to one-third of ASEAN financial institutions plan to focus on the unbanked (Figure 4). According to Dhiman, the focus on the unbanked and the underbanked is growing especially rapidly in developing countries, as it allows for greater outreach to these consumer segments particularly in markets like Indonesia where bank branch networks are relatively dispersed.

“The pandemic has also been a major driving force propelling FIs to promote increased financial inclusion as a way to ensure government relief can be distributed effectively,” Dhiman said. “This plays back into the increased focused on online banking strategy that we found with the FIs we surveyed.”

Beyond e-wallet / mobile wallet products, instant banking & credit products will see more rollouts in APAC



Source: Futureproofing Fraud prevention in digital channels, APAC FI Study, June 2020, GBG and The Asian Banker

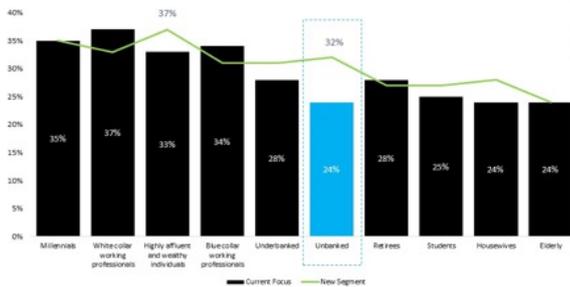
Figure 3: Online Bank Strategies: 12-18 Month Focus in APAC



“... a lot of banks are focusing on operational efficiency through digitisation, including to automate lending processes.”

**Chief Risk Officer
Malaysian bank**

The **unbanked** pivots to a mainstream focus as fraud technology advances



Source: Futurewatching fraud prevention in digital channels APAC FI Study, June 2020, GBD and The Asian Banker



Figure 4: Current and New Focus Areas for FIs

Indeed, in countries where bank branches are thin on the ground, rapid digitisation is the only way to pull the unbanked and underbanked into the financial system. However, this has also increased vulnerability to fraud and cyberattacks. According to Guy Sheppard, Head of APAC Financial Crime Compliance at SWIFT, cyberattacks peaked in the first and second quarters of 2020, with “five to six attempted hacks globally every week” at banks connected to the SWIFT network.

“Supervisory authorities in ASEAN are taking this very seriously, because we’ve got banks that have gone bust because of the severity of economic damage that they’ve sustained,” Sheppard said. “A lot of banks are trying to offer express account openings and then not performing the identity verification and checks until right before the credit card limit is given to the customer. This creates a perfect breeding ground for organised criminals to link up with cyber gangs.”

“Cyberattacks peaked in the first and second quarters of 2020, with “five to six attempted hacks globally every week” at banks connected to the SWIFT network.”

**Guy Sheppard
Head of APAC
Financial Crime Compliance
SWIFT**

While the opening of multiple new digital channels exposes new vulnerabilities, banks cannot afford to ignore the sheer scale of the opportunity presented by Asia’s unbanked. To that end, there has been a strong regulatory and commercial push for banks to target these populations. Mobile wallets and mobile banking are becoming more mainstream, and the use of mobile phone numbers as de facto identities is enabling financial institutions to onboard customers with greater comfort.

“In the last couple of years, we’ve seen a regulatory push to reach the unbanked,” said Michelle Oira, Risk Consultant for Sterling Bank in the Philippines. “Some local banks have even set up specialised units to reach more of the unbanked, and introduced certain products specifically targeted for these segments, including mobile wallets and mobile funds transfers.”

“Besides this, most of the local banks are bringing their existing products and services online and beefing up their e-channels, and market penetration has been increasing,” Oira added. “We’ve seen an uptick in the adoption of digital channels by clients especially when the lockdown started. This also presents opportunities to develop more products online.”

Dao Gia Hung, Head of Risk at Vietnam Prosperity Bank, described a significant investment by his bank to establish an IT platform that now serves as the foundation for the development of digital banking products. “The budget for IT investment has been increasing, and we also recruited a lot of personnel with IT experience to work in our dedicated division for digital development.”

These individuals served as a bridge between business divisions and IT to develop digital products, enabling Vietnam Prosperity Bank to develop mobile banking, instant loan, credit card and payment products, as well as e-KYC and online account opening systems. However, Dao highlighted difficulties involved in recruiting and retaining IT personnel. “This issue consumed a lot of our efforts and resources, because competition in recruitment is so strong.”

The key differentiator

Getting it right involves more than just developing mobile or app banking, or faster processes. A key theme highlighted at the roundtable was that a more multi-layered approach to KYC and fraud risk management is required to ensure fraudsters don’t also benefit from the same opportunities enjoyed by new digitally-enabled consumers.

End-to-end fraud management readiness is emerging as a key differentiator in determining product preferences. [GBG’s research](#) found that more than half of financial institutions are prioritising the ingestion of new data inputs such as information related to malware detection, credit risk, geolocation and bot detection, while more than half plan to invest in device intelligence, like fingerprinting (Figure 5).

“Some local banks have even set up specialised units to reach more of the unbanked, and introduced certain products specifically targeted for these segments.”

**Michelle Oira
Risk Consultant
Sterling Bank**

A more multi-layered approach to KYC and fraud risk management is required to ensure fraudsters don't also benefit from the same opportunities enjoyed by new digitally-enabled consumers.

Developing these technologies is now a competitive advantage, however this comes with challenges. One participant, the Head of Risk Management at a private bank in Singapore, said dealing with data gaps is a key hurdle when it comes to fraud detection. "The quality of monitoring is always only as good as your data, and so it requires constant enhancement. Unfortunately, there's not much you can do when you don't have clean data, except to start cleaning it."

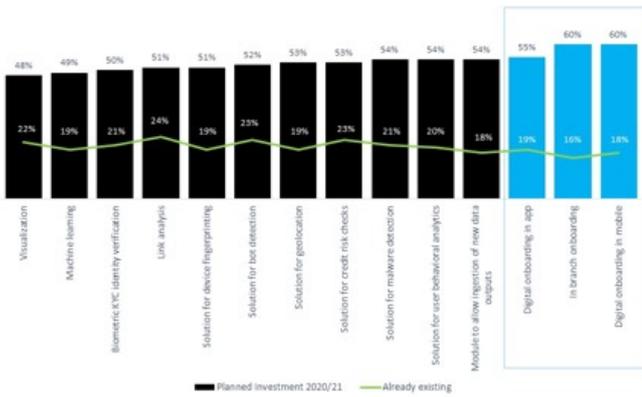
Dhiman also pointed to data as a key challenge, particularly with regard to the unbanked, for whom no data may be available. In such cases, GBG utilises a variety of non-traditional data sources from mobile, IP, email, social media, location, device intelligence and alternate credit scoring to obtain a comprehensive set of probabilistic data needed to establish consumers' identities and enrich fraud detection.

"Moving towards a multi-layered approach is the best way to handle this lack of data. What FIs need today is on-demand access to the required data and intelligence to facilitate the acquisition of new consumer segments while also managing fraud risks in these new segments," Dhiman said.

Meanwhile, roundtable participants from the Philippines highlighted the benefits of consumer awareness campaigns to combat fraud, including social engineering and phishing. "Scams are prevalent, so locally the institutions have been beefing up client and consumer awareness on what schemes are out there so that they're aware and can protect themselves," said the Head of Risk at a Taiwanese bank with operations in the Philippines.

Banks in Vietnam are likewise focused on preventing scams through advancements in fraud detection. "We have restructured our organisation for fraud detection," said a Compliance Officer at a local Vietnamese bank. "Before, fraud detection belonged to the risk division. Now we are focusing on the fraud system itself, with a priority for scams. In fact, we focus more on fraud than AML."

APAC FIs are **still ramping up** their foundation of fraud management across **mobile, app and branch banking**



Source: Futureproofing fraud prevention in digital channels: APAC FI Study, June 2020, GBG and The Asian Banker



Figure 5: Planned Investment by APAC FIs for 2020-2021

The face of future fraud

[GBG's research](#) showed that almost half of financial institutions in ASEAN believe that scams will drive future spikes in fraud. There was a broad divergence in the findings among different markets, though. Scamming was the most prominent concern in Vietnam and Malaysia, for example, while money-muling predominated in Indonesia (Figure 6).

What's uniform across the region is that banks cannot afford to drop their investment in fraud prevention. Fraudsters are making large investments in their schemes, whether it's more sophisticated hacking technologies or human farms physically filing fake applications, and so it's vital that banks continue to raise awareness among staff and clients of the types of schemes in operation as threat levels continue growing and the nature of fraud keeps evolving.

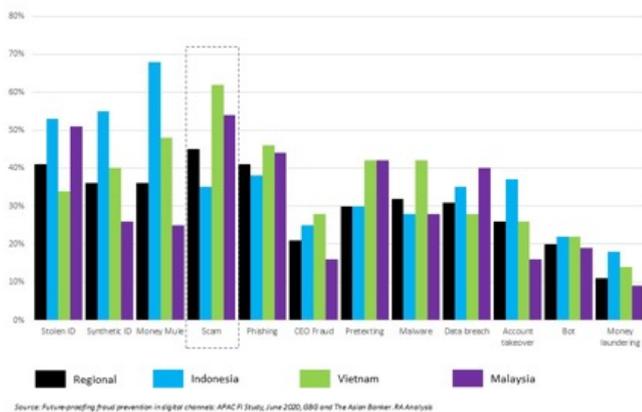
To keep up, firms can become more efficient by digitising and automating core AML and fraud-detection processes – thereby delaying human involvement so they can prioritise alerts that have a greater potential to be relevant. This will reduce operating costs and free up capital to invest in developing and experimenting with more effective technologies.

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**Head of Risk
Taiwanese Bank**

There also needs to be a re-evaluation of what an effective risk-based approach looks like, Sheppard said. “Within ASEAN, there is still a generally low tolerance for error, which limits the scope for innovation. The industry needs to look at how it can reinvent financial crime compliance, AML controls and fraud controls, and create a better financial system that is more accurate, more efficient, and inclusive,” he said.

APAC Financial crimes typologies to grow in 2020/21



According to Dhiman, the industry needs to continue to innovate to stay ahead of bad actors. “As new digital channels get open, it creates a new vulnerability. We shouldn’t underestimate the size of the challenge, and the need to be open and ahead of fraudsters in utilising advanced technologies like AI and machine learning, as well as a comprehensive suite of dynamic data intelligence tailored to each FI’s unique needs,” he said.



Figure 6: Financial Crime Typologies That Will Drive Future Fraud

“The size of the investments fraudsters are making to innovate new forms of fraud is pertinent to the investments that we all should be making to stop them from being successful. Not only do we need to continue to innovate to stay ahead, but we need to continue to build awareness and drive collaboration within the industry, and ultimately recognise that we exist to protect consumers.”

GBG was awarded [Best Solution in Fraud Monitoring & Detection](#) in the 3rd *Regulation Asia Awards for Excellence 2020* in an online ceremony on 15 December 2020.

Future of Fraud Risk Management Executive Roundtable

On 18 March 2021, *Regulation Asia* and GBG hosted an online private executive roundtable to discuss the future of fraud risk management at Southeast Asian banks. This paper summarises the findings from the closed-door event.

Participants discussed digitalisation and the changing state of fraud risks, technology risks and regulatory expectations, as well as incremental data intelligence and technology requirements at Southeast Asian banks. Participants and observers included senior risk executives from a mix of banks in the region.

The event was moderated by *Regulation Asia* co-founder Brad Maclean, featuring special guest speakers Dev Dhiman, APAC Managing Director at GBG, and Guy Sheppard, Head of APAC Financial Crime Compliance at SWIFT.



About GBG

GBG (AIM: GBG) is a global technology specialist in fraud and compliance management, location and identity data intelligence with offices in 18 locations worldwide. For over 30 years, GBG has been accessing and verifying identities, to the standards set by financial regulator. GBG works with 20,000 customers across 70 countries, and has a network of over 270 global partnerships connecting to more than 510 datasets to provide data with accuracy and integrity. The industries we serve include traditional banks, financial services, BNPL, fintechs, telco, government services, retail, and wagering organisations.

GBG is classified as a global category leader in KYC, AML and enterprise fraud, and manages the entire customer journey from KYC/AML to digital onboarding to ongoing transaction and payment monitoring. Under the financial crime solution pillar, GBG's award winning enterprise digital risk management and intelligence platform manages end-to-end fraud and compliance needs providing layered data intelligence and machine learning to enhance fraud detection and accuracy. GBG's solutions primarily serves banks and fintech. In APAC, our customers include nine out of ten top tier banks in Malaysia, such as AmBank, five out of the seven BUKU 4 banks in Indonesia, global banks such as Citibank and HSBC, regional banks, major wagering players like Tabcorp and Buy Now Pay Later (BNPL) operators such as the hummgroup in Australia.

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