



Strengthening Resilience Managing Fraud, Outsourcing Risks and Liquidity Pressures for Sustainable Growth

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Resilience

“The capacity to withstand or recover quickly from difficulties”



Agenda

01. Fraud: Recognising and Responding to Fraud

02. Outsourcing: Improving governance in the outsourcing framework

03. Liquidity: Understanding liquidity components and developing liquidity KPIs

04. Conclusion



Fraud

Some fraud stats

Case type	2023	2024	Proportion (%) 2023	Proportion (%) 2024	Volume change	% Change
Asset conversion	670	730	0%	0%	60	9%
False application	19820	21708	5%	5%	1888	10%
False insurance claim	453	644	0%	0%	191	42%
Facility takeover	42091	74256	11%	18%	32165	76%
Identity fraud	237682	249417	64%	59%	11735	5%
Misuse of facility	73444	74247	20%	18%	803	1%
Total	374160	421002	-	-	46842	13%

Source – Cifas

Some fraud stats

Source – ECB report on
Payment Fraud

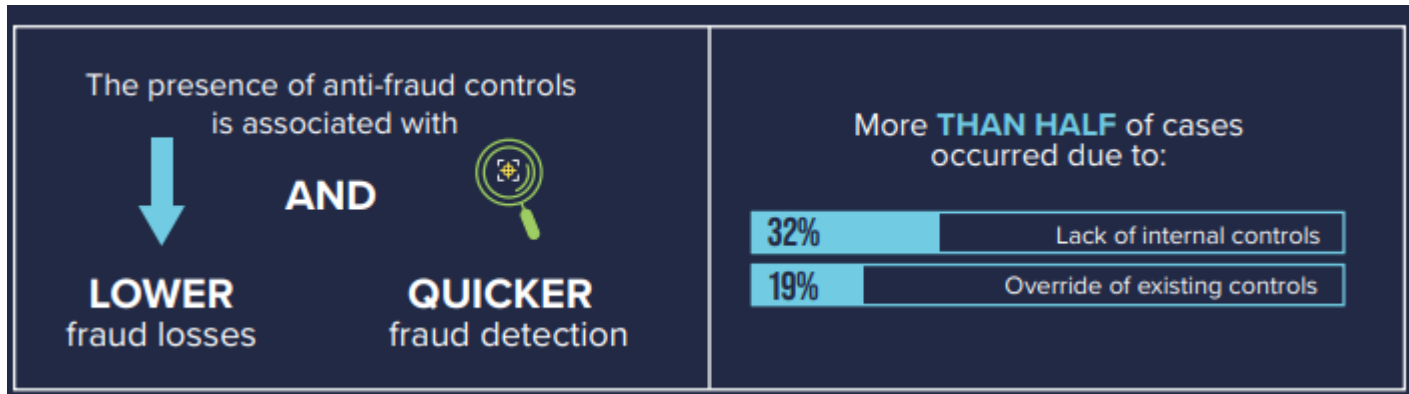


Some fraud stats

Source – Association of
Certified Fraud Examiners



A TYPICAL FRAUD CASE
lasts **12 MONTHS**
before detection



Some fraud stats

**53% of
respondents
believe Generative
AI will lead to more
identification fraud**

**Source – GBG Global Fraud
Report**

Q. With the evolution of Generative AI in identity verification and financial fraud, what specific vector do you see being most threatening?

Fraud vector	% of respondents who believe this is most threatening
Generative AI as a tool to create more convincing synthetic identities	27%
Increased accuracy of fake ID documents generated by AI	26%
Generative AI's influence on phishing & smishing	26%
Use of generative AI to create deep fakes	21%

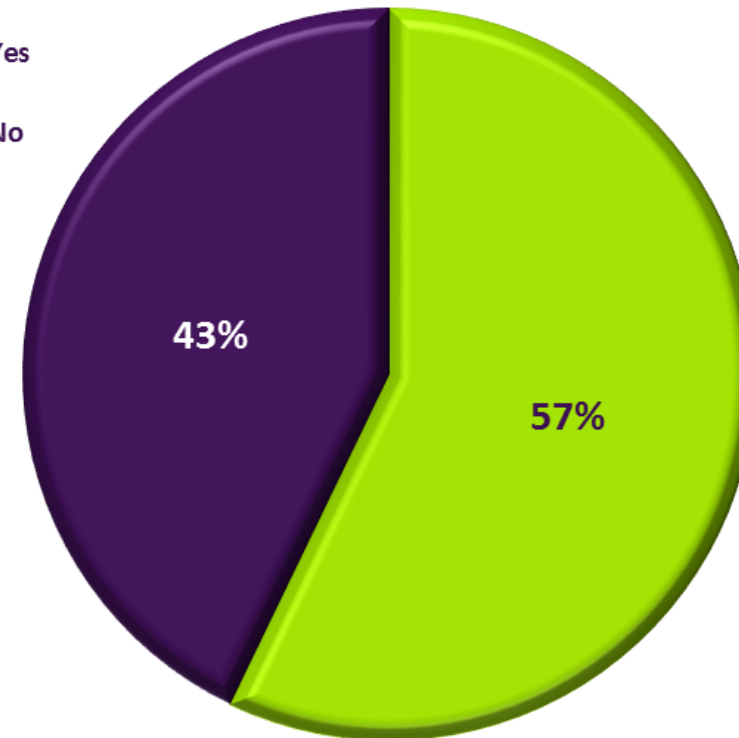
Some fraud stats

RBK's survey shows 57% of respondents experienced loss due to fraud

Have you experienced a loss due to fraud?

■ Yes

■ No



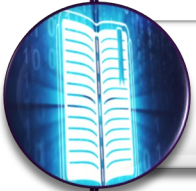
Types of Fraud



Embezzlement, money laundering, false billing, or tax evasion



Unauthorized use of someone's personal information for financial gain



Phishing, hacking, fake e-commerce websites, and investment scams

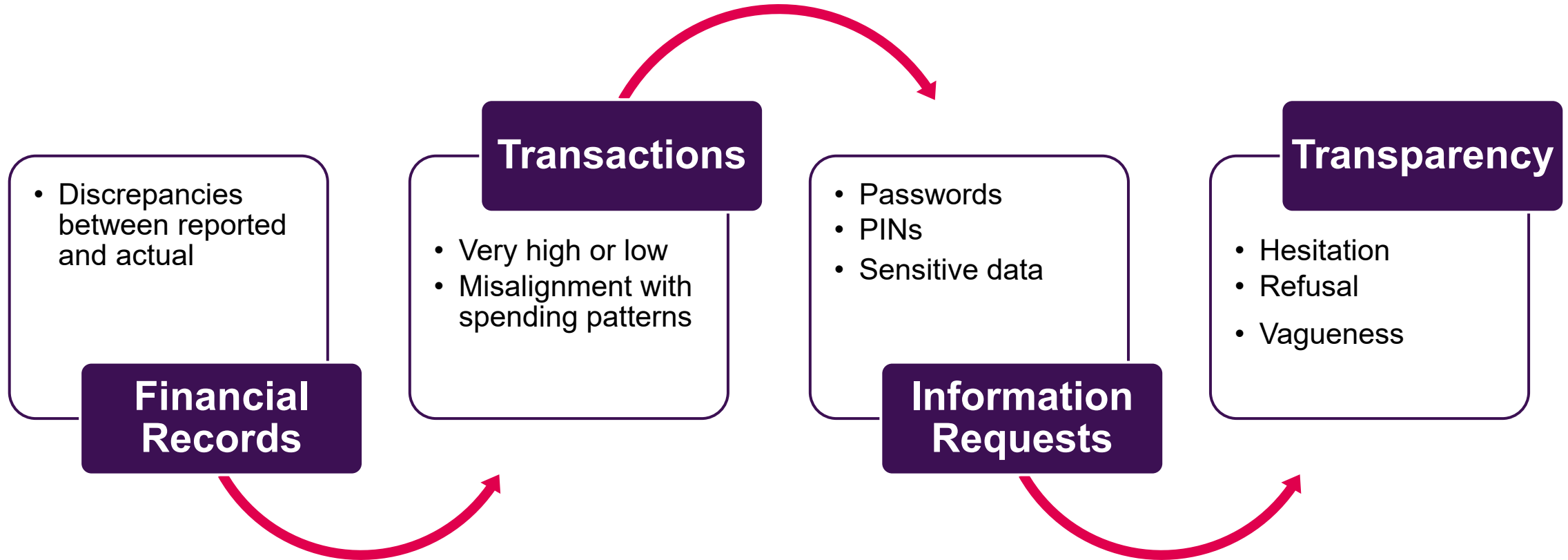


False claims made to gain benefits that one isn't entitled to

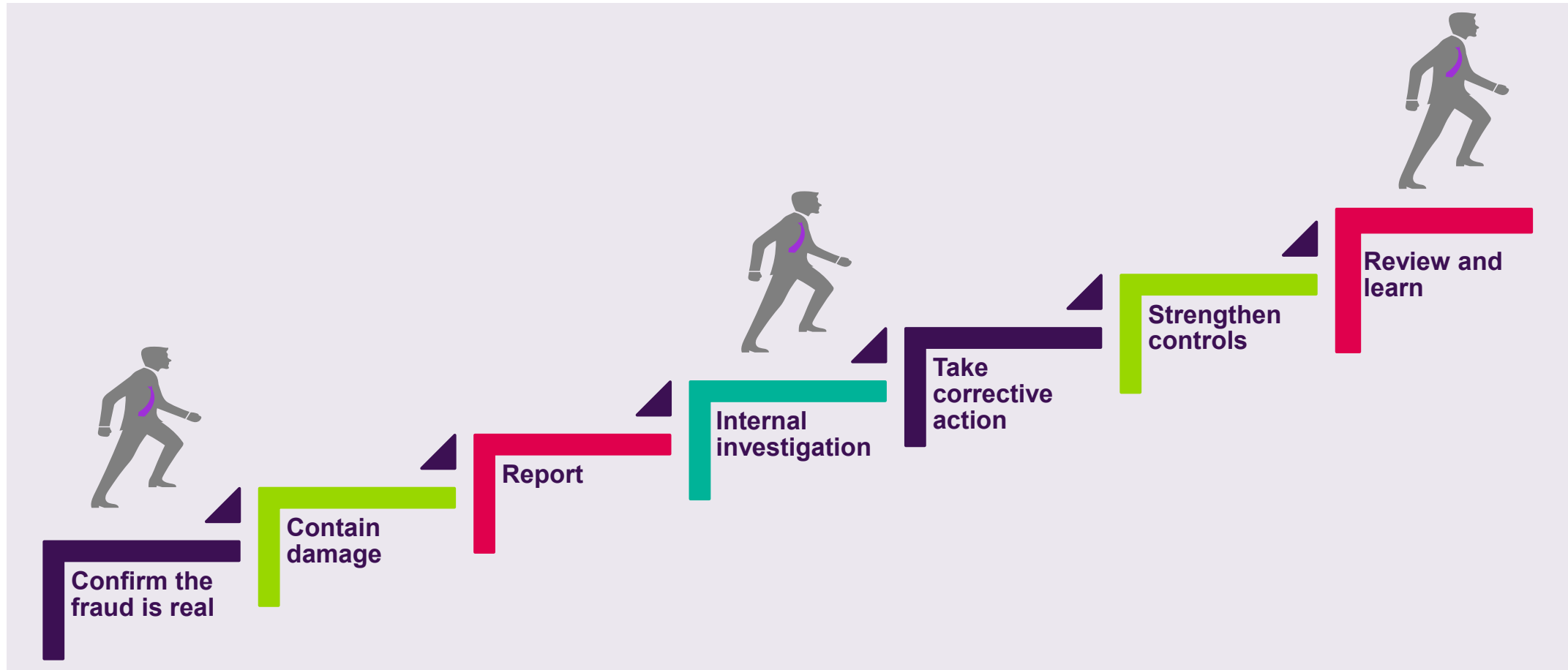


Using someone else's credit card details without permission

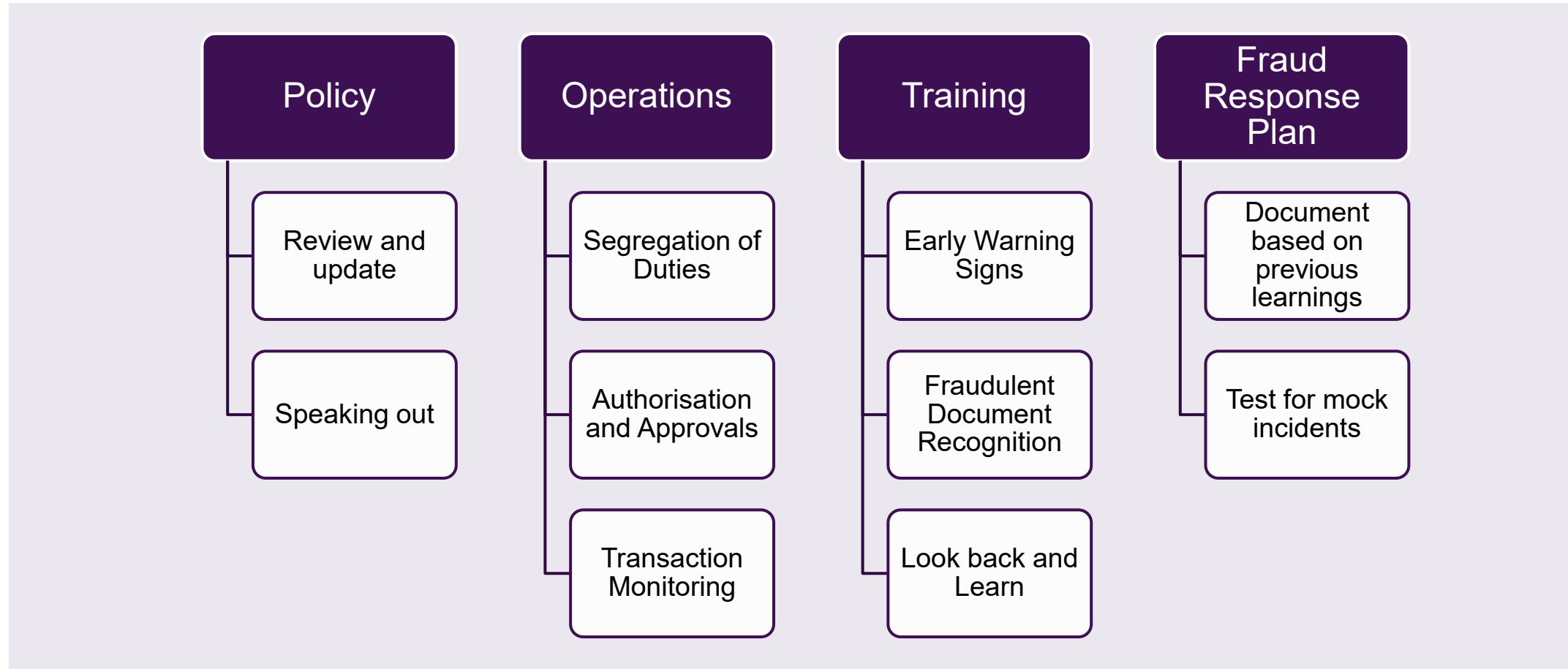
Recognising Fraud



How to Respond



Preventing Future Fraud

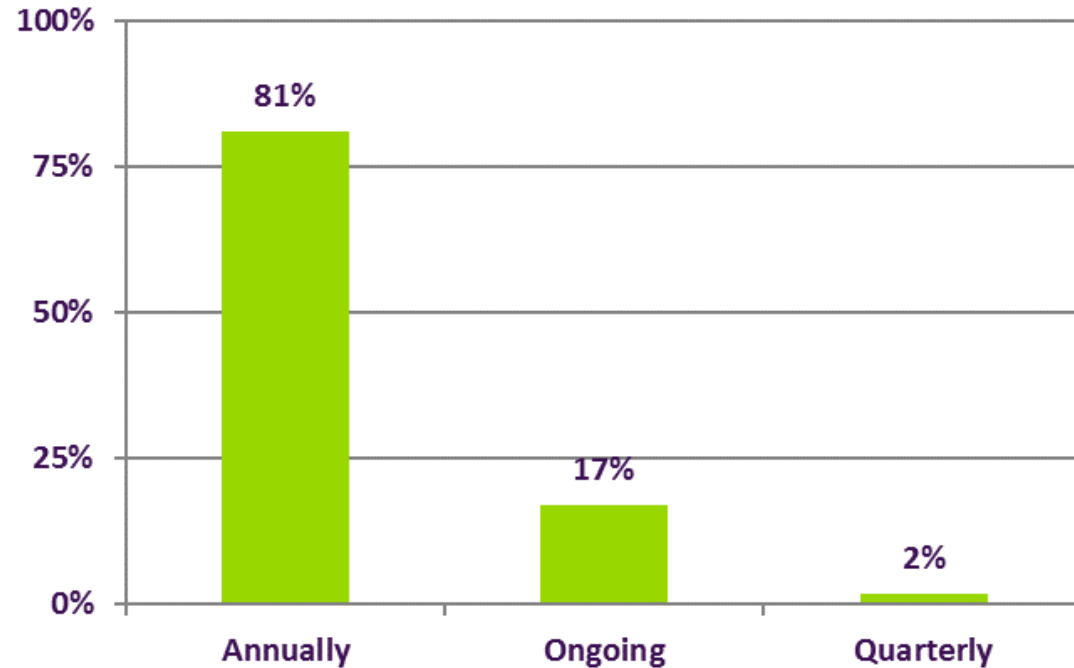




Outsourcing

The RBK Survey

How often do you do performance reviews of your outsourced providers?



- ❑ **51%** of the Credit Unions survey do not think they have appropriate KPI's to measure the performance of their critical and important outsourcing arrangement.
- ❑ **83%** have considered BCP and Cyber Resilience in the performance reviews of their outsourced providers.
- ❑ Only **32%** of respondents provide the output of performance reviews to the service providers.



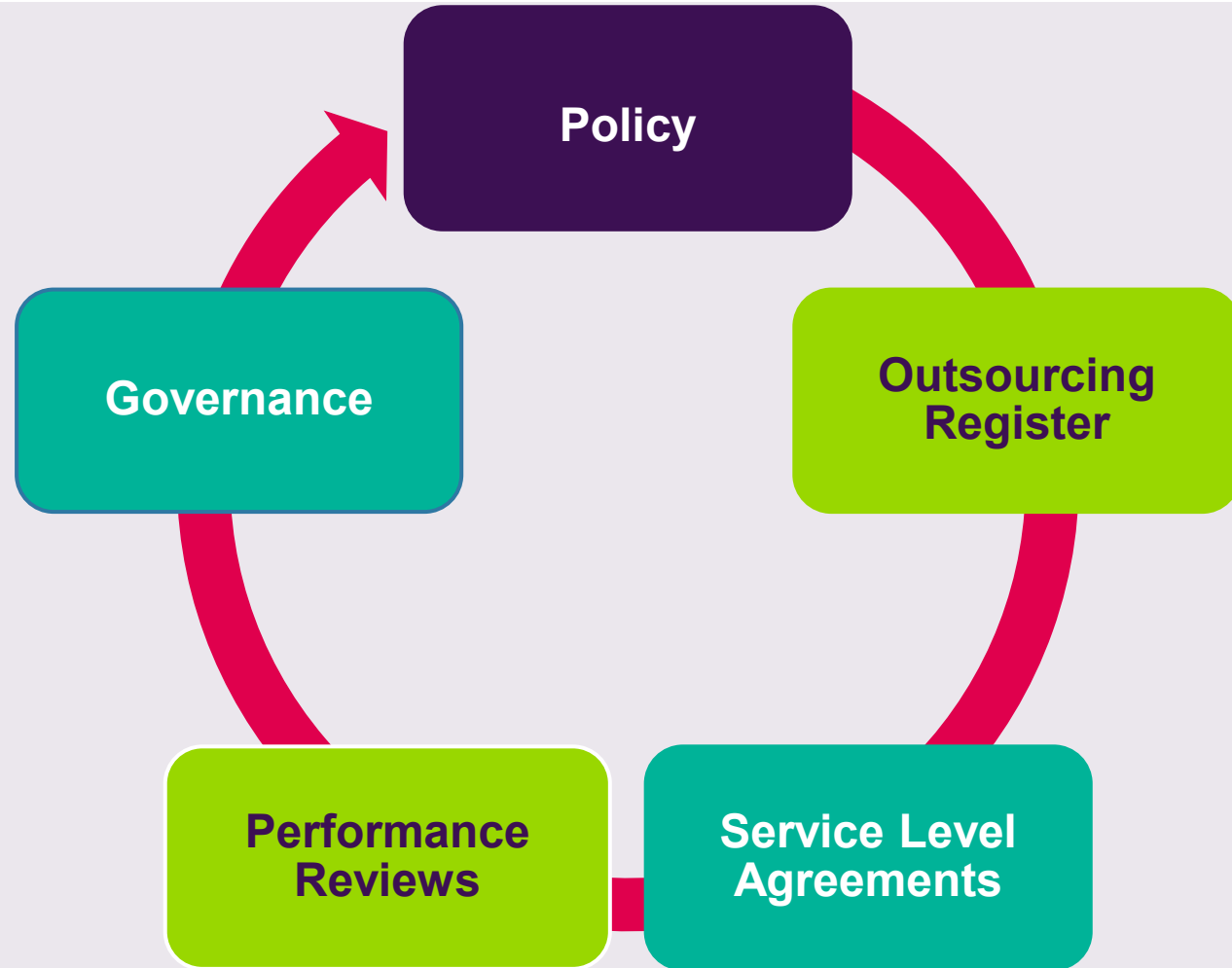
WHAT DO YOU

THINK?

**Are you happy that
your outsourcing
framework is
sufficiently robust?**

Outsourcing Framework

Today the
focus is on
Performance
Reviews



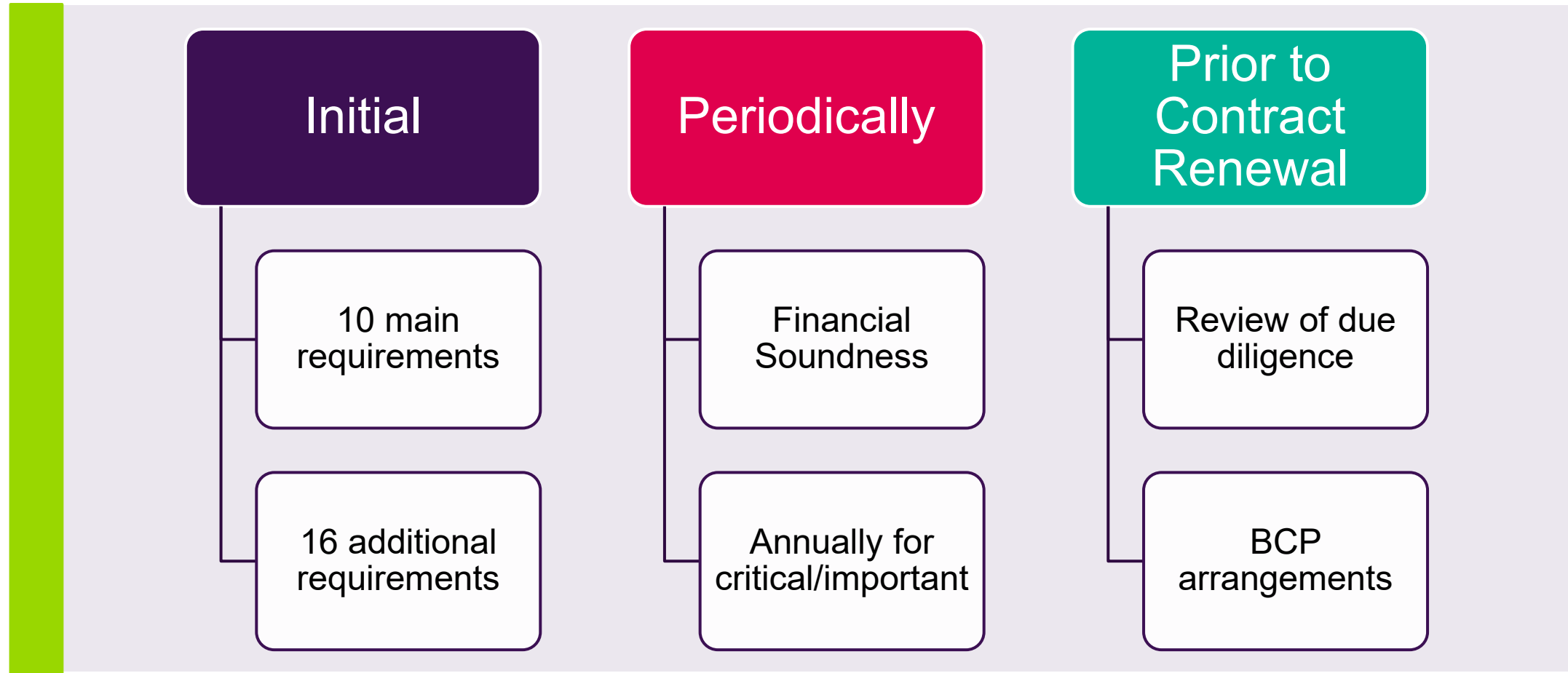
Monitoring Programme

“Regulated firms are expected to put in place appropriate mechanisms to oversee, monitor, and assess the appropriateness and performance of their outsourced arrangements.

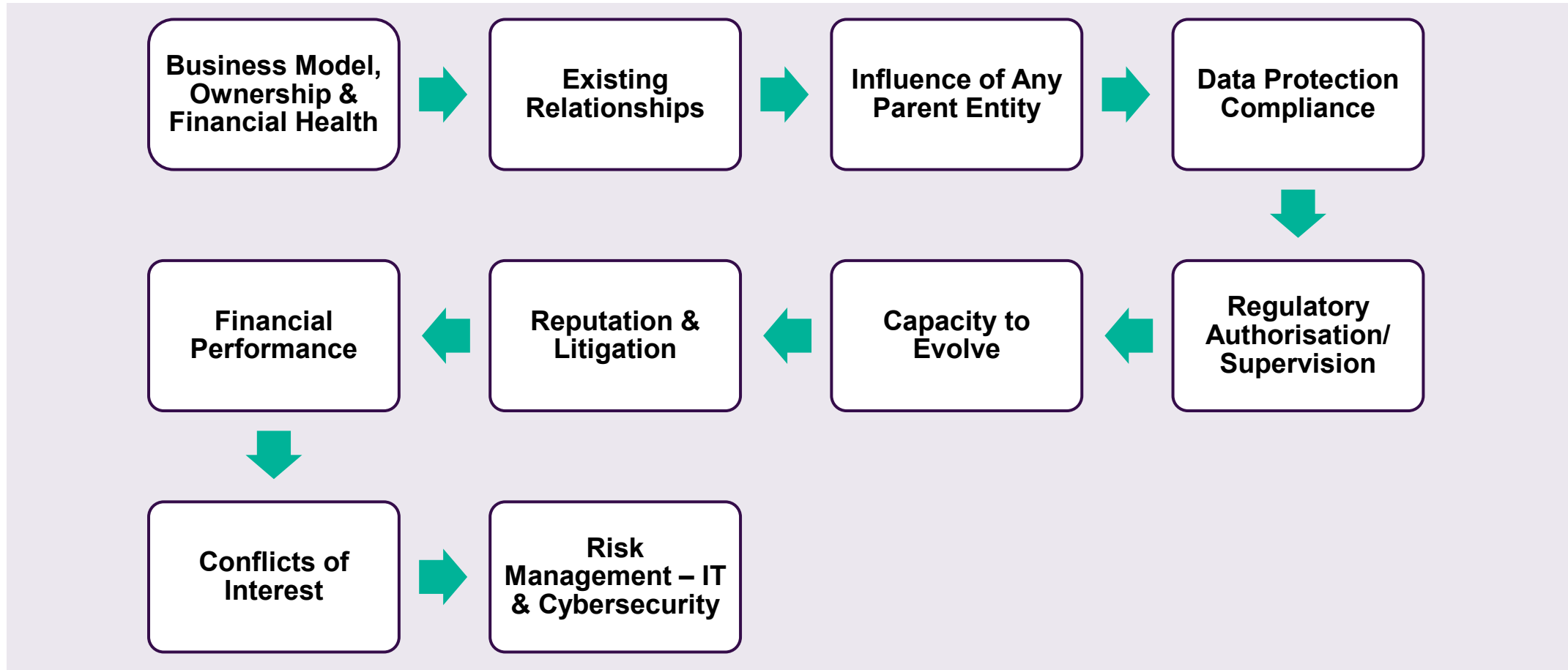
Such mechanisms will generally be executed by the first line of defence with oversight by the second line”



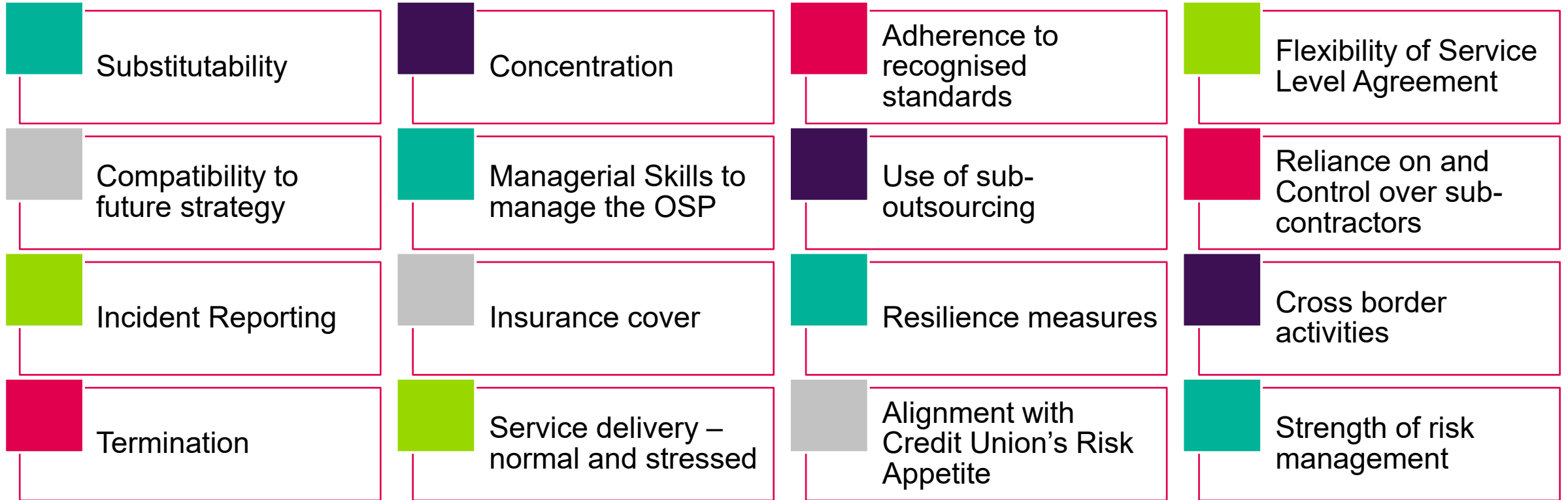
How Often?



Initial Due Diligence – 10 Requirements



Initial Due Diligence – 16 Additional Requirements



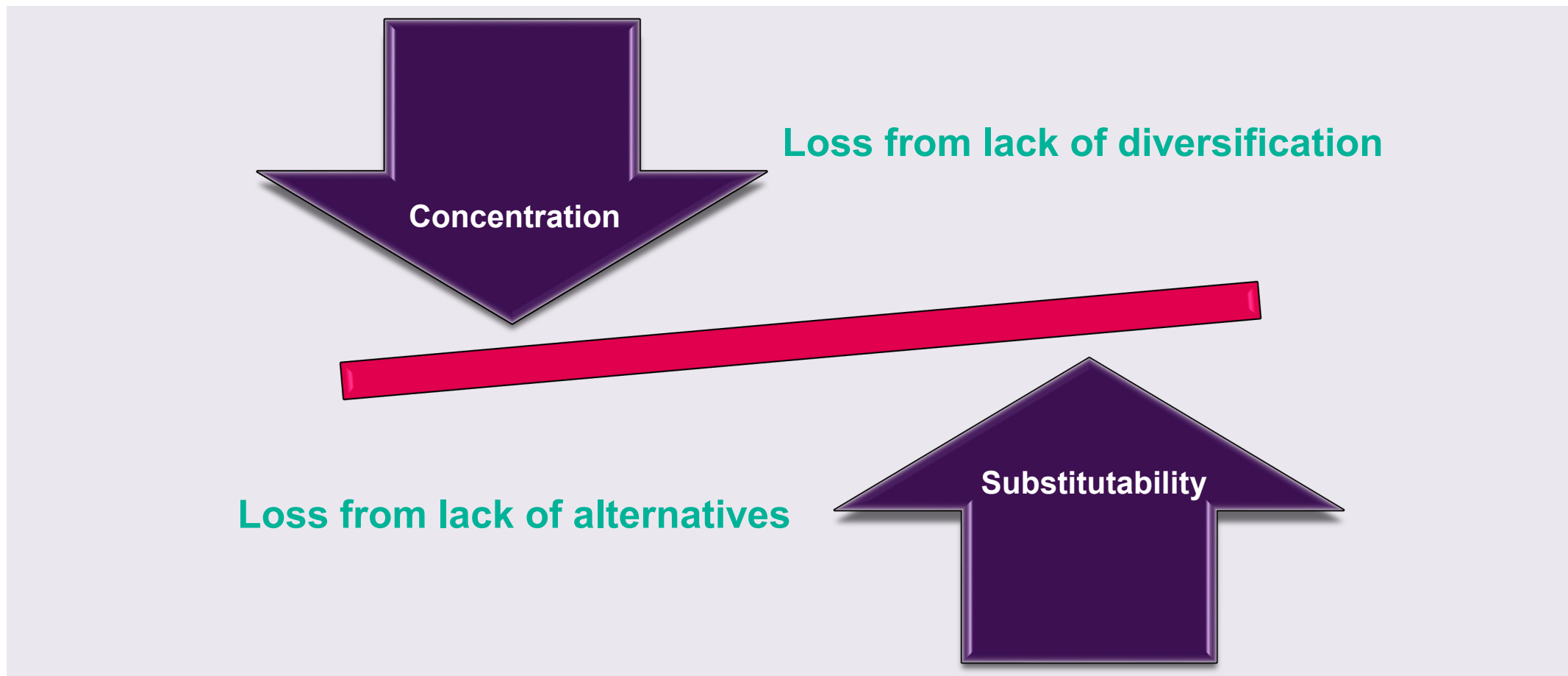
Monitoring and Performance Challenges



Top Issues:

- 1) Substitutability and concentration;
- 2) Identification of “*sub-outsourcing*”;
- 3) Risk Management: BCP & Operational resilience arrangements
- 4) Third Party certification packs

Substitutability and Concentration Risk



Substitutability and Concentration Risk

- 1) Sector wide risk due to small number of suppliers
- 2) A formal acknowledgement should be documented
- 3) Consider this as part of the initial and ongoing due diligence
- 4) Complete an overarching outsourcing risk assessment to look at the risk
- 5) Keep under review as part of the regular SLA reviews

Sub-outsourcing issues

- 1) Not defining the overall risk appetite for the use of sub-processors
- 2) The use of sub-processing is not identified for existing arrangements
- 3) New arrangements should confirm the use of sub-processors
- 4) How the main contractor oversees the sub-processor
- 5) How the credit union concludes on the performance reviews where sub-processors are used

Risk Management

OSPs need to demonstrate that they have the following:

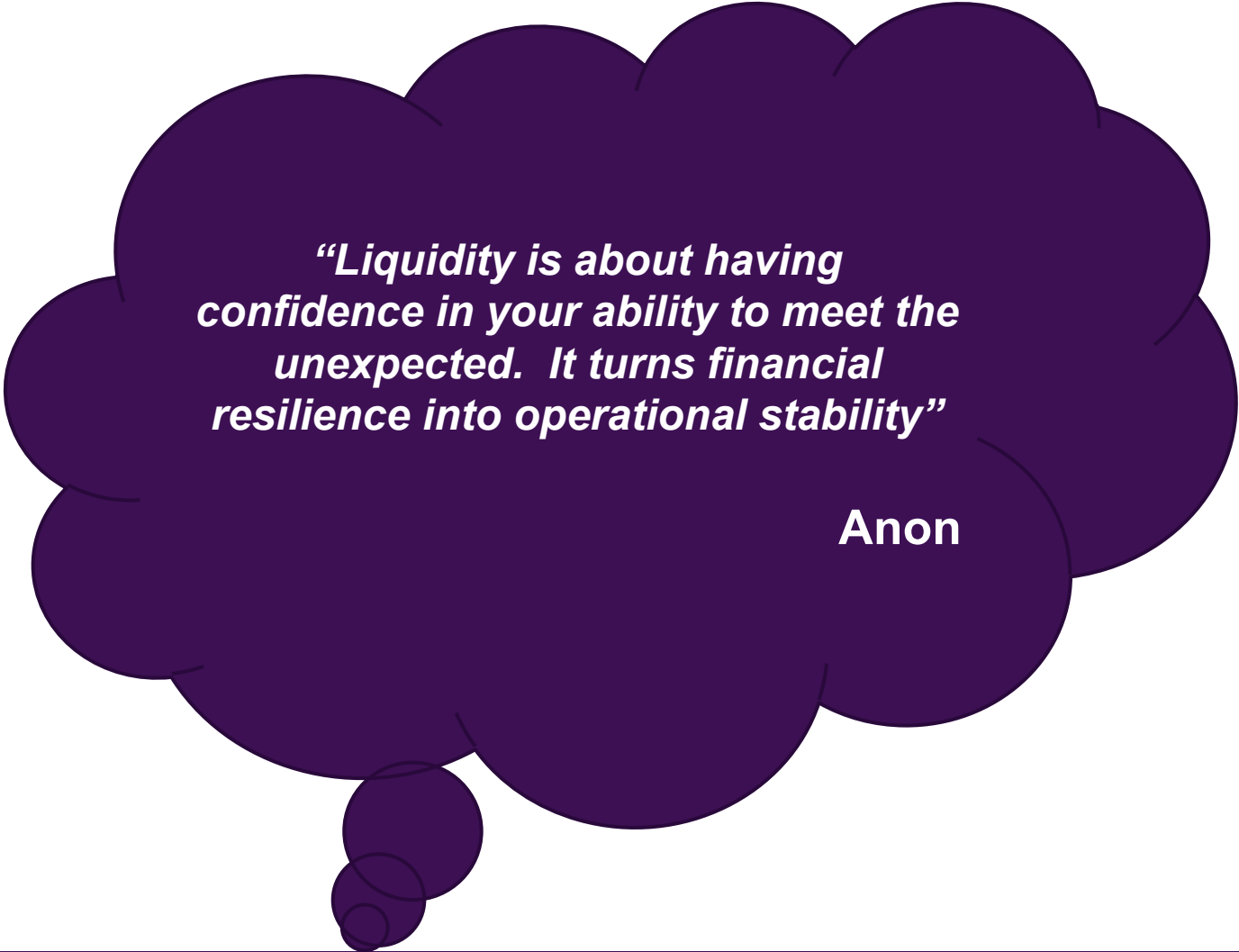
- 1) BCP plan – with appropriate resources to meet the credit unions needs
- 2) Testing – plan is update to date and is tested regularly
- 3) Remediation – that any issues are resolved
- 4) That it includes any sub-processors
- 5) That there are appropriate operational resilience measures
- 6) That there is an appropriate crisis communication and escalation plans

Third Party Certification

- OSP provides a self-certification or User Groups engages a third party to do a review
- Cannot simply rely on these:
 - ✓ Document the circumstance in which you are happy to rely on them
 - ✓ Consider what is included – do your own procedures require more evidence
 - ✓ Consider the skill set of the third party providing the assurance
 - ✓ Consider in-house skills and experience to critically examine what is provided
 - ✓ Be satisfied that the terms of your SLA are being met



Liquidity



“Liquidity is about having confidence in your ability to meet the unexpected. It turns financial resilience into operational stability”

Anon



WHAT DO YOU

THINK?

**How frequently do
you monitor your
credit unions
liquidity position?**

Definition and Regulatory Requirement

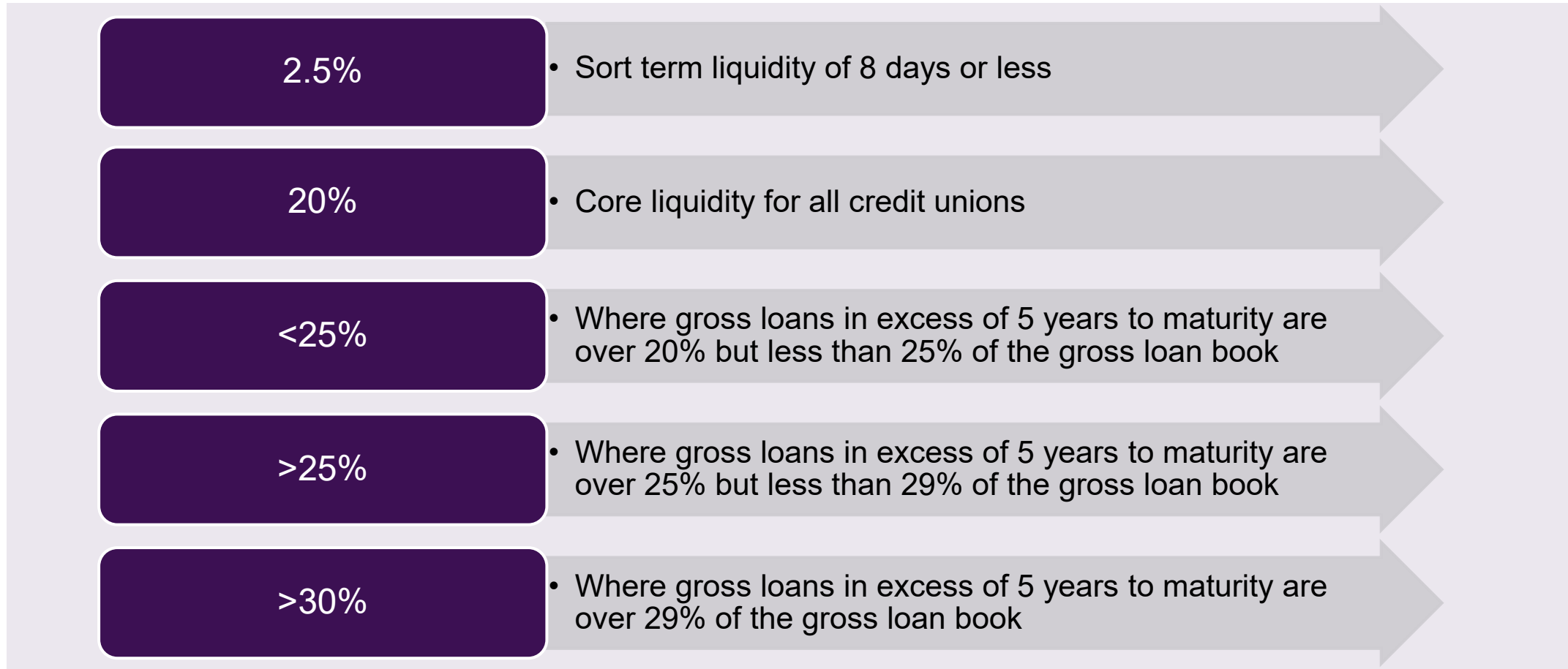
Definition:

the ease and speed with which an asset can be converted into cash without a significant loss in value

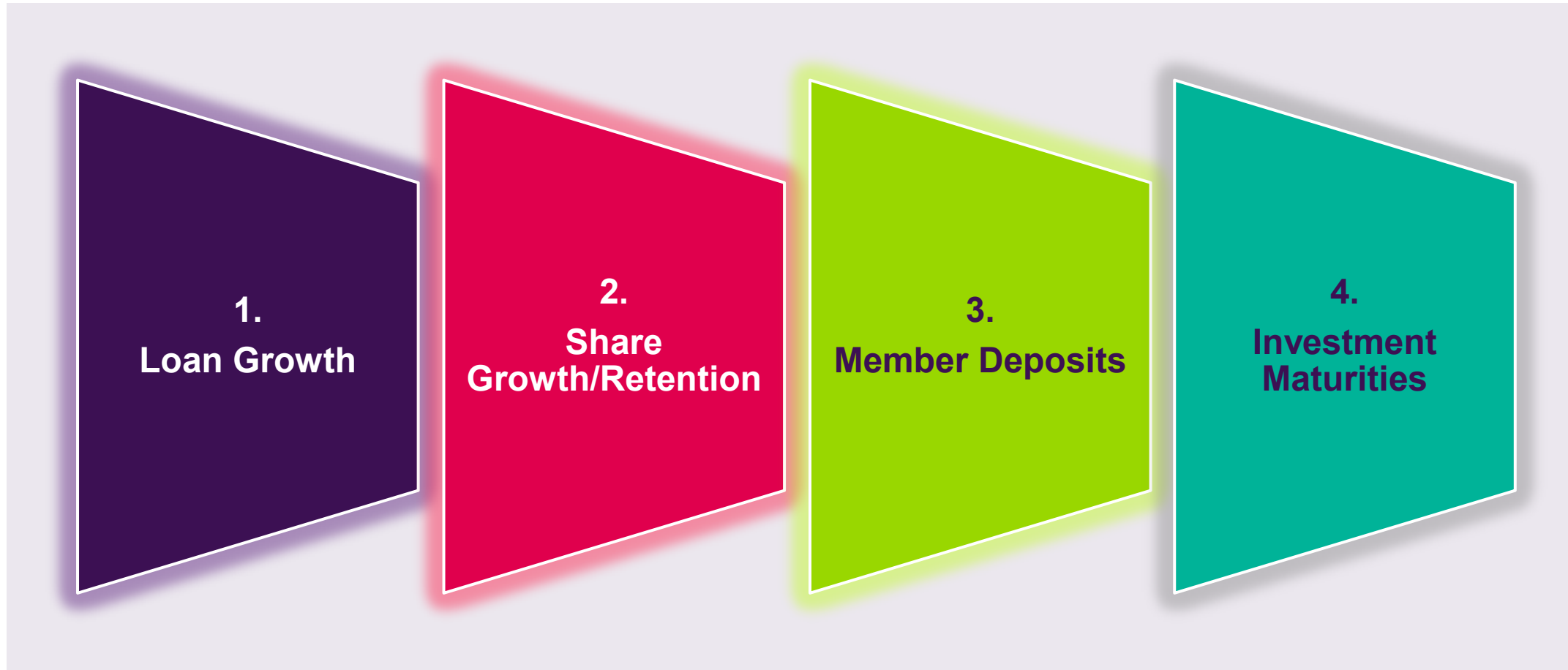
Section 85:

*“A credit union shall **at all times** keep a proportion of its total assets in liquid form (hereinafter referred to as "liquid assets"), being such a proportion and having such a composition as to enable the credit union to meet its liabilities as they arise”*

How much liquidity?



Key Components of Liquidity



Liquidity components



1. Loan Growth

- As longer term lending increases so too does the liquidity requirement
- Lending team need to be aware of liquidity buffer when issuing long term loans
- Lending projections should be reviewed against actual regularly
- Lending pipeline should be monitored

Liquidity components



2. Share growth/retention

- Sector is seeing a slow and steady uptick in savings
- This creates additional liquidity requirements
- Impact of ongoing or reinstatement of share caps
- Trade off – share retention v growth and impact on reserves and liquidity

Liquidity components



3. Member Deposits

- Attached for purposes of liquidity
- Can encourage member retention without impacting liquidity
- Wider part of ALM management

Liquidity components

4. Investment Maturities

- Additional liquidity from certain investment products
 - ✓ Discount by 10% for products between 90 days and 12 months
 - ✓ Discount by 30% for products between 1 year and 5 years
 - ✓ Discount by 50% over 5 years
- Watch maturities to maximise discount
- Review investment strategy to maximise return and liquidity

Liquidity Monitoring

Regulations specify

*A credit union shall monitor its liquidity ratio on a **continuous basis***



Liquidity Monitoring

Daily

- Loans issued/redeemed
- Shares issued/withdrawn
- Unattached shares
- Lending pipeline
- Liquidity ratio

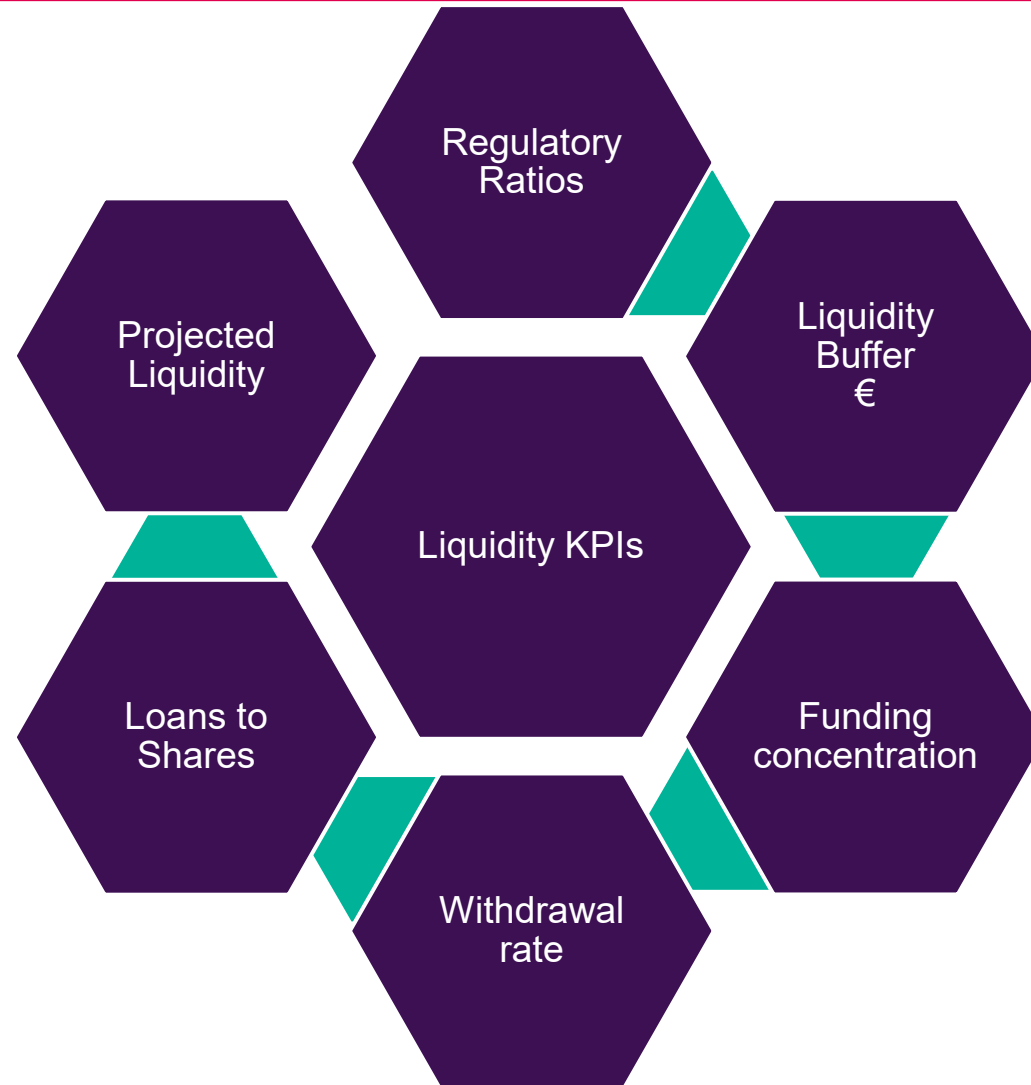
Weekly

- Loans outstanding by duration
- Unattached shares
- Lending pipeline
- 30 day investment maturities
- Liquidity ratio

Monthly

- Liquidity ratio
- Liquidity buffer
- Stress testing
- Loan growth projections
- Share growth projections

Liquidity KPIs



Concluding Comments



- Today is about building resilience
- Complete a health-check to assess the robustness of the areas covered
- Create forward looking frameworks to identify future and potential issues
- Complete look-back and learn exercises to improve future resilience



**Please Put
Questions In
Menti-Meter for
Panel Discussion**



Thank you



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