



Case study: Fraudulent investment redemption

UNAUTHORISED PAYMENT TRANSFER TO FRAUDSTERS

Themes: fraudulent investment portfolio redemption; fraud or theft; inadequate security policies and procedures

This complaint relates to a fraud against Mr A's online investment portfolio account held with Company B that was accessed unlawfully and the total investment balance stolen.

In June 2019, a fraudster gained access to Mr A's personal email account and, using information contained in previous emails, managed to access Mr A's online investment account held with Company B. The fraudster then used the personal information from both these sources to steal Mr A's identity and open a new bank account in a foreign country. Once the new bank account was opened, the fraudster sent an email to Company B using Mr A's personal email account requesting the liquidation of Mr A's investment portfolio and directed the full investment balance be transferred to the new fraudulently opened foreign bank account. Company B complied and transferred the total proceeds of the investment portfolio redemption.

Mr A contacted Company B when the fraud was discovered. Company B argued that they had maintained sufficient security processes and that the responsibility for the fraud loss should lie with Mr A because his personal email and his online account had been hacked using his personal credentials.

Mr A complained to CIFO who fully reviewed Company B's security policies and procedures. CIFO found that Company B had inadequate security policies and procedures, with the only authentication check performed being a PIN code sent to Mr A's personal email account, which the fraudsters already controlled.

Email account takeover is a known and growing criminal fraud problem. Financial services providers are expected by regulators to have adequate policies and procedures in place to combat fraud. CIFO concluded that the security policies and procedures Company B employed were inadequate. CIFO therefore concluded that it would not be fair and reasonable for Mr A to suffer the losses made possible by Company B's weak internal policies and procedures. CIFO highlighted that there were several technical elements with the internet communications and the proposed funds transfer that should have raised Company B's suspicions. [The details of these elements are withheld for security reasons.]

CIFO upheld the complaint and concluded that, as a result of the weak security policies and procedures, Company B failed to take adequate steps to prevent the fraud against Mr A's investment account. As a result, CIFO concluded that Mr A should receive a full refund of the loss due to fraud. Company B agreed to refund Mr A's losses and calculated the combined value of assets stolen to be USD 137,166. Company B replaced the original investments that had been

fraudulently redeemed. CIFO also recommended that Company B pay Mr A compensation for distress and inconvenience in the amount of \$250.