

FINTECH & FRAUD

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PRESIDENT, PROSPER MARKETPLACE
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ACFE FINTECH FRAUD SUMMIT
MARCH 17, 2017

Fraud

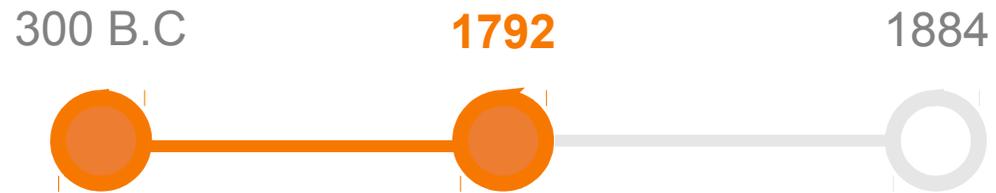
Since the Dawn of Commerce



- 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

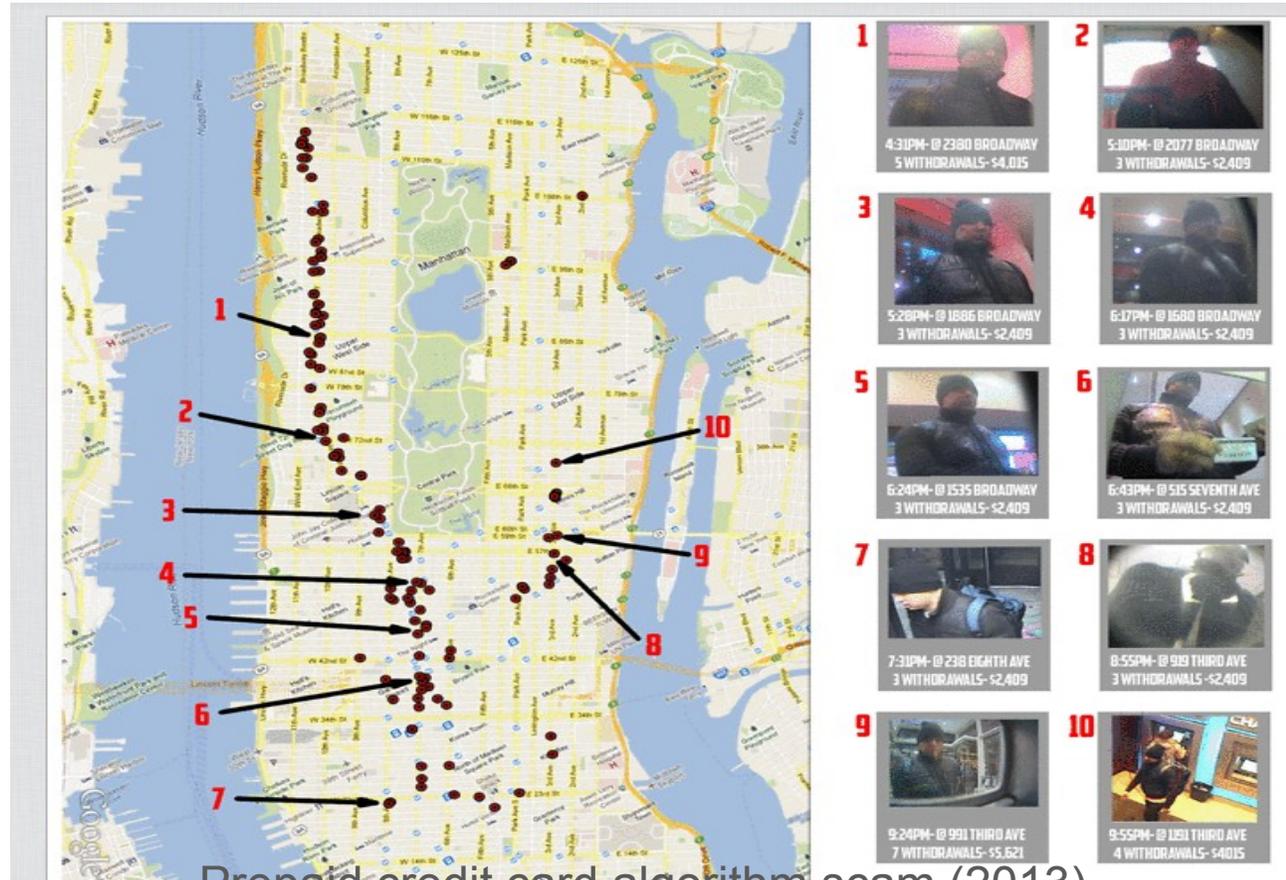
- Local
- Slow
- Methodical
- Manual

Fraud Today

- Global
- Real-time
- Changing Fast
- Automated

The New York Times

In Hours, Thieves Took \$45 Million in A.T.M. Scheme

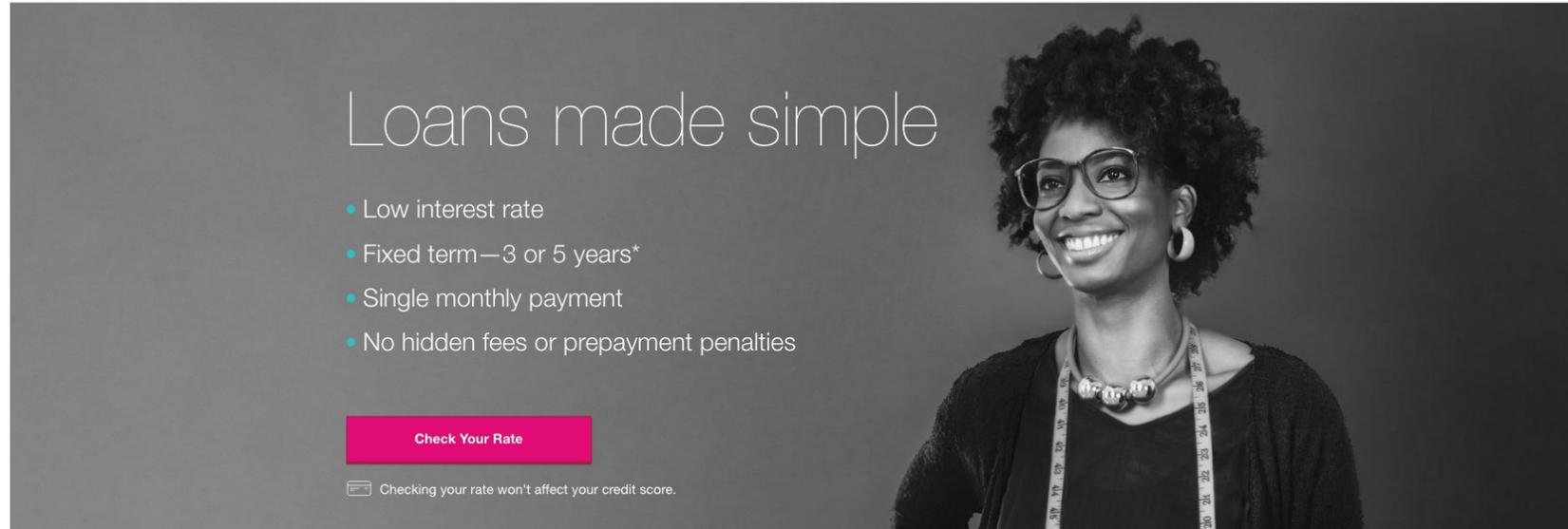


Prepaid credit card algorithm scam (2013)

Advancing Financial Well-Being

PROSPER

[Borrow](#) [Invest](#) [Sign In](#)

A screenshot of the ProSPER website's loan page. The background is dark grey. On the right side, there is a black and white photograph of a smiling woman with curly hair, wearing glasses and a necklace, with a measuring tape around her neck. On the left side, the text 'Loans made simple' is written in a large, white, sans-serif font. Below this, there is a list of four bullet points in a smaller white font: 'Low interest rate', 'Fixed term—3 or 5 years*', 'Single monthly payment', and 'No hidden fees or prepayment penalties'. At the bottom left of the banner area, there is a bright pink rectangular button with the text 'Check Your Rate' in white. Below the button, there is a small icon of a credit card and the text 'Checking your rate won't affect your credit score.' in a very small white font.

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)

*Directly impacts borrowers

*Directly impacts investors

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



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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