

# TRENDS IN TRAVEL INDUSTRY FRAUD

Scams, Schemes and Shenanigans

#### **PRESENTER**



- Brad Bonnell, Director, Security Fraud Risk Management, InterContinental Hotels Group (IHG)
- 20 Years in Risk Management with IHG
- Served as:
  - Chief of Staff, Georgia State Patrol
  - Special Agent, Georgia Bureau of Investigation
  - Special Agent, US Army Criminal Investigation Command





#### **OBJECTIVES**

## To raise awareness of the risks associated with fraud in the hospitality industry

To review recent investigations into incidents of travel industry fraud

To enable the development of a pro-active, coordinated and consistent fraud risk management program

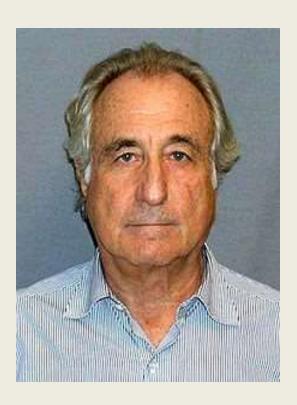




## WHAT IS FRAUD?

### "A SKIN OF TRUTH STUFFED WITH A LIE."









### FRAUD DEFINED

Crime for gain that uses deception as its principal method of commission.

Intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means.





### FRAUD DEFINED

Intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.

Use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the organization's resources or assets.





### CATAGORIES OF FRAUD

<u>ASSET MISAPPROPRIATION</u> – The most frequently occurring but on a per incident basis the least costly form of fraud

<u>FALSE STATEMENT</u> – The least occurring type of fraud but on a per incident basis the most costly

<u>CORRUPTION</u> – Defined as the abuse of power for personal gain: Kickbacks, Bid Rigging, Billing Schemes



## WHAT ARE WE LOSING TO FRAUD?



## 5% OF GROSS ANNUAL REVENUE

Research by the Association of Certified Fraud Examiners and the University of Portsmouth has consistently revealed that an organization will lose on average approximately 5% of its gross annual revenue to fraud.\*

- the 2010 and 2012 Global Fraud Study, Report To The Nations prepared by the Association of Certified Fraud Examiners
- "Resilience to Fraud of the UK Hotel Sector", University of Portsmouth







#### The "FRAUD TRIANGLE" of:

NEED

RATIONALIZATION

THE PERCEPTION OF A RISK FREE OPPORTUNITY TO STEAL





### **VULNERABILITIES**

- Virtual Travel Agencies and Commission Fraud
  - Frequency Marketing Program Fraud
    - Money Laundering
    - Direct Billing Fraud
      - Refund Fraud



## FREQUENCY MARKETING PROGRAM FRAUD



Using the computers in a public library, Mr. Giddens accessed legitimate Priority Club Reward accounts from which he depleted and transferred points that he then redeemed for airline tickets that were sold over the internet.

The loss to IHG was Exceeded \$198K.





## FREQUENCY MARKETING FRAUD - FALSE REPORTING



It was discovered that several hotels were routinely falsifying their occupancy rates in order to collect a higher rate of compensation from IHG for Priority Club Reward Redemptions.

Losses exceeded \$2.2M



## TRAVEL AGENCY COMMISSION FRAUD



The owner of an obscure travel agency operating in a remote region of the Middle East collected \$1.1M in fraudulent travel agency commissions through fraudulent "no-show" reservations.





## **ASSET MISAPPROPRIATION**

The Front Office Manager at a Crowne Plaza in Japan confesses to theft of \$198K in cash over a period of 5 years.







## InterContinental Voyages, LTD, LLC















InterContinental Voyages, LTD, LLC generated a loss in excess of \$500K through fraudulently obtained travel agency commissions.



"Joystar Travel" collected \$163K in fraudulent commissions through their "agent" who was adding the "Joystar" IATA to existing reservations.



## THE INDONESIAN MONEY LAUNDERING SCHEME



With no notice, \$75K is electronically deposited into the bank account of a London hotel by an individual claiming to be an event manager for the Indonesian Embassy.

The event is then canceled and a refund requested.



## A COMMON SENSE APPROACH TO MANAGING FRAUD



The Association of Certified Fraud Examiners recommends a Fraud Risk Management Program consisting of:

- Governance Counter Fraud Policy Statement
  - Prevention
    - Detection
  - Investigation
  - Threat Assessment





### FRAUD GOVERNANCE

- A policy statement detailing the expectations of the senior executive concerning the management of fraud:
  - Define and describe fraud
  - Articulate a "Zero Tolerance" position concerning fraud
  - Require that all fraud be reported to a single organization within the business
  - That "Whistle Blowers" will be protected from retaliation
    - Require affirmation of compliance





#### **PREVENTION**

Prevention encompasses policies, procedures and training that will **MINIMIZE** the likelihood of fraud occurring while **MAXIMIZING** the possibility of detecting any fraudulent activity that may transpire.







- Pre-employment Background Investigations
  - Mandatory job rotation
    - Mandatory vacation
- Regularly scheduled change of all information management system passwords and property access codes



## **PREVENTION**





## **PREVENTION**



- Proper Segregation of Financial Duties
  - Spending Authorization Limits
- Regularly scheduled audits, inventories & inspections
  - The "unannounced" audit
- Re-keying of all electronic locks to establish the integrity of your "master" card keys



#### **DETECTION**



Detection involves activities and programs designed to identify fraud or misconduct that is occurring or has occurred when preventive measures fail or unmitigated risks are realized.



## **DETECTION**



- Recognition of the indicators of fraud
  - Data mining of your "top tens"
    - "Mystery Shoppers"
- Systematic and on-going analysis programs
   of large data bases
- A confidential fraud "whistle blower hot line"



## **INVESTIGATION & CORRECTION**



A coherent fraud risk management program requires a system for prompt, competent and confidential review, investigation and resolution of allegations involving potential fraud or misconduct.



## **INVESTIGATION & CORRECTION**



Legislation in the form of the UK Bribery Act, FCPA, and Dodd-Frank now require that management of fraud be transparent and auditable.





## **INVESTIGATION & CORRECTION**



"We're prepared to offer you a deal...immunity from prosecution in exchange for some hot stock tips."





## FRAUD THREAT ASSESSMENT

Essentially the process of identifying known and potential loss to fraud in order to determine how much to invest in a counter fraud strategy.





## QUESTIONS, COMMENTS OR COMPLAINTS?



"he difference between genius and stupidity is that genius has its limits." – lbert instein