



EDBS/KH/149/2013  
24<sup>th</sup> July, 2013

**Chief Executive Officer**  
All Retail Banks and Financing Companies (Conventional and Islamic)  
Manama  
Kingdom of Bahrain

Dear Sir,

**Recent cases of fraud in auto finance**

The purpose of this circular is to alert you to the possibility of concerted and organised attempts at fraud that may be attempted in respect of auto finance following a number of cases of fraud relating to auto theft that have recently come to the attention of the CBB.

Fraud is regrettably an ever-present threat to banks and financing companies ('licensees') and generally licensees have established sufficiently robust systems to minimise the likelihood and the impact of fraud upon their financial position. Fraud levels remain low in the Kingdom of Bahrain, however some recent cases relating to auto finance have revealed certain common features and patterns. This circular serves to make licensees aware of these features and patterns and to request that licensees review their KYC procedures, or ensure that their existing KYC procedures are being implemented fully and properly.

The key features that allowed a greater possibility of fraud included the following:

1. 'Outsourcing' of the collation of KYC information to third parties.

Licensees' staff were not reviewing and certifying original key income and identity documentation themselves but relying on staff at the car dealership. This allowed for alteration or manipulation of information. Furthermore such 'outsourcing' of KYC procedures to third parties in the Kingdom of Bahrain is only permitted where the introducer is a licensee of the CBB (See paragraph FC-1.9.1 and subsequent paragraphs).

2. No physical face-to-face meeting with the customer and licensee staff.

Licensees' staff were therefore not in a position to make any verification of information or to obtain a clearer picture of the customer, and to make the licensee's own reading of 'smart card' information, for example.

3. Ineffective segregation of customer acceptance staff at the licensee from marketing/new business staff at the licensee.

This lack of segregation allowed laxness of approach to points 1 and 2 above.

4. Inadequate implementation of Module FC requirements and internal procedures.

Certain KYC documents were out of date, or signatures did not match source documents, sometimes employment or other contact numbers were not taken, salary appeared to be paid in cash rather than into a verifiable bank account.

Given that aspects of these fraud cases are under investigation by the Public Prosecutor's Office, the CBB is not able to give more detailed information upon the exact nature of the frauds that have come to light. It is fair to say however, that if procedures had been followed closely and if face-to-face contact had taken place, then the scope for defrauding the licensee would have been significantly less. I trust that the information in this circular is helpful to you and your staff in assisting in the detection of fraud.

Yours faithfully,

  
Khalid Hamad