

The Profound Impact on HSBC and the Financial Industry after HSBC's Involvement in Fraud

Zhiyi Lin

Lingnan University, Hong Kong 999077, China.

Abstract: The report outlooks fraudulent cases in that HSBC allowed fraudsters to transfer 80 million dollars from the US to China, all of which were money from the 'Ponzi Scheme'; the report proffers a stance that this case was fraudulent. To begin with, the report stipulates that the bank failed to close any of the fraudsters' accounts. As a result of fraud, the report asserts that HSBC has a profound result. The report posits the company lost money. On the other extreme, the bank lost its integrity. A company's reputation, logistical, regulatory, and intensity concerns are examples of interconnected negative effects, and each has an effect. The effects of this fraud in the financial sector are also discussed in the report. The report shows that due to the fraudulent case, the laws have been inflicted on financial institutions to ensure monitoring of internal activities.

Keywords: HSBC; Fraud; Banks

Introduction

Banks have a lengthy history of being implicated in fraudulent activity. Fraudulent actions are characterized by, based on, or carried out fraudulently. Bank fraud can take many different forms. Cheque fraudulently, debit and credit card fraud, secure deposit box fraud, and ACH theft are some of the more typical embezzlement kinds; however, numerous other types of financial crimes fall into and exceed these fundamental classifications. In banks, fraud is given top emphasis. The financial manager takes a tremendous endeavour to identify, deter, and handle occurrences of fraud within the institution. Furthermore, fraud analysts and inspectors are primarily responsible for managing and detecting crime in institutions. While there are several reasons why fraud occurs in banks, the accessibility of opportunity for fraud is the most prominent. The chance to perpetrate fraud is the most frequent cause of fraud in banks (Asmah et al., 2019).

Other elements highlighted include the pressure to perpetrate fraud and justification of the fraudulent behaviour. Financial fraud may originate on various levels. Corporate fraud, computer crimes, the creation and managerial staff of fraudsters, the use of forged checks to withdraw money, the redirection of finances to intrigue reports, the misspending of financial assets, the claim of completely undeserved incentives and reimbursements, loaning to under qualified and fictionalized clients, and even top managerial fraud, such as understating expenses, understating debts, and overstating resources are just a few examples (Avotri & Agbanyo, 2020). Third-party fraud constitutes yet another type of fraud. Although rare, third-party breaches are common at banks. Third parties committing fraud can involve administration, strangers, personnel, and external stakeholders. For example, it can be stated in this report that the fraudulent activity in our scenario involved corporate administration. The presented report aims to analyze a 2013 scandal where HSBC allowed cheaters to transfer 80 million dollars from the US to China, all of which was money from a "Ponzi scheme."

1. Fraudulent Case at HSB

Banks are required by law to abide by the Pro-government Laundered money and other Felony Proceeds and Terrorist Finance Laws, which contain a system for detecting suspicious banking activities and their responsibility to alert Credit Information Units. The

financial sector transfers funds from one institution to another inside the nation or overseas after receiving them in the banks of natural or legal persons. This is typically done by inputting unlawful money via transactions to avoid the legal obligation of notifying the banks. Banks must report any illicit activities if they have reason to believe there is laundering concerning big amounts of cash. Alerts about money transfers that may be used for identity theft, organized crime, criminal enterprises, and other illicit behaviour originate from several groups. Since bank employees are among the first to discover approximately unlawful operations and dubious users that have entered dirty money into the banking markets, institutions play a crucial part in identifying financial fraud. Banks must use the indications for proven possible fraud. The degree to which banks are educated about and work with economic planning divisions to control and identify abnormal behaviour largely depends on how successfully they adhere to statutory requirements. The detection, explanation, and verification of a felony that transpired in the unlawful earnings being retrieved are either utilized to convict perpetrators or put in the banking markets for legalization—requiring the prompt reporting of anomalous activities or suspicious behaviour.

In the matter at hand, even after becoming aware of the fraud scheme, HSBC permitted the theft of millions of dollars. For instance, in the "Ponzi scheme," HSBC permitted the theft of \$80 million. The worldwide investment company WCM777, which Chinese scammers advertised as being able to guarantee 100percentage return in just three months, had indeed been notified by HSBC bank. The scammer created a false persona as a Los Angeles-based Evangelical pastor and used Christian imagery to entice adherents and the needy from the Latino and Asian neighbourhoods in the area. More than \$80 million was raised through adverts, conferences, and symposia that the grafter used to promote what he called an investment prospect in cloud services systems. The fraud affected thousands of people, including nationals of the United States and inhabitants of Columbia, Peru, and even the United Kingdom. According to a BBC story, HSBC was made aware of suspected illegal behaviour by fraudsters in September 2013, when the administration discovered that WCM777 was bogus. When a bank in Hong Kong was informed of a potential scam concerning \$6 million being moved to banks situated in Hong Kong, it immediately submitted its first Suspicious Activity Reports (SAR) on the plan (Mellor, 2022).

At the moment, this bank executive claimed that there didn't seem to be any obvious economic, commercial, or legal reason for the operations, and they were suspected of being part of a Ponzi scheme. More than \$15 million in questionable money transfers were the subject of a second SAR lodged in February 2014, and a third inquiry was submitted in March 2014 (Mellor, 2022). For several reasons, this bank was a part of the fraud. To begin with, despite getting a Suspicious Activity report, the bank did not close any of the fraudsters' accounts. Banks and other financial institutions are obliged by the Bank Secrecy Act. To issue Suspicious Conduct Notices on all dubious operations over a specified threshold. Typically, any unusual activity for that particular bank statement is brought on the warning. SARs are submitted online using a standard form through the BSA E-filing program of the Financial Fraud Investigation Agency. The company submitting the SAR is required to maintain a copy of the SAR and any supporting records about the practices conducted for five years.

2. Effects of HSBC's Involvement in Fraud

The bank suffered a financial loss due to the scam. Due to fraud, HBSC was fined 1.9 million dollars (GMP, 2012). Furthermore, the integrity and sustainability of an HBSC's banking institutions were harmed by financial fraud. A company's reputation, logistical, regulatory, and intensity concerns are examples of interconnected negative effects; each affects a bank's reputation. Financial firms risk losing customers' belief in their trustworthiness by receiving bad press on a bank's business methods and affiliations. Clients, lenders, savers, and speculators quit doing business with an institution once claims or suspicions of supporting terrorism undermine its brand. As said, it appears from several sources that HSBC disregarded repeated warnings about a potential scam while permitting the transaction of millions of dollars as part of a funds plan. The credibility and reliability of HSBC as a leading financial organization will unavoidably be tarnished due to this crisis. The bogus example demonstrates that the systems intended to alert users to potentially harmful behaviour are broken. Even as the quantity of money involved kept rising quickly, HSBC refused to close the funds despite repeated warnings concerning WCM777's possibly illegal character. Being a fraudster affects how comfortable and safeguarded clients feel at the institution. As a result, fraud could harm the connection between a bank and its customers by shattering their sense of confidence and increasing their level of unhappiness over perceived service failures. This could thus have a detrimental impact on

client devotion and encourage switching behaviour, harming the institutions' image and making it more difficult for new consumers to communicate with them (Githae et al., 2018). Lack of client confidence and a negative perception of HSBC's protection could result in long-term revenue losses and the company's incapacity to remain competitive in a rapidly evolving field.

3. Effect on Financial Sector

A five-year accord with the US department of justice was a component of the HSBC compensation following the HSBC fraud. It required the institution to appoint impartial monitoring to evaluate improved internal measures. There was also a requirement for proper oversight of several banks. Therefore, banks were required to have independent personal monitors after the fraud. The Baseline Level should be expanded to ensure that high standards are ingrained in banking practice and that public confidence is increased. Financial institutions and the Banking Institution's Professional Standards Team (PST) oversee oversight. Banks carry out particular facilities, checking up on the methods used to put performance ethics into practice and verifying the number of people who have successfully complied with such requirements. The PST is in charge of this, with an emphasis on whether or not corrective action is necessary if the activity goes off course. Within the PST, selected team members assist with implementation and oversight.

The disclosures have exposed a customs among large banks of largely turning a blind eye to illicit conduct, which has permitted criminal organizations to convert and replenish finances that help their cause improve. It is, therefore, more challenging for authorities to deconstruct in the future. The banking portion of the economy currently appears to be persistently being impacted by the staff turnover of thefts, thefts, defalcations, and counterfeiting in the banking industry, which has the potential to undermine the expansion, progress, and sustainability of banks. Dependent on its extent and recurrence, the phenomenon has the potential to trigger a deflationary spiral throughout the whole financial system and even a banking crisis. Banks and their clients are both harmed by accounting fraud. The Ponzi scheme concludes that ethics and transparency were structurally broken. These entities' financial health depends on the banks' honesty and the government's confidence in those marketplaces. Common law, accountability, and openness are key concepts for the stability and long-term profitability of the banking markets and banks. Unfortunately, HSBC's deteriorating moral and ethical values can contribute to the hazards associated with privatization efforts. The expansion of illegal enterprises by drug traffickers, smugglers, and other offenders is one of the societal costs of financial fraud, as is the movement of economic dominance from the market, the state, and people to thieves. Criminal activity can, in extreme situations, result in the overthrow of the legal government. Anti-crime initiatives must include anti-money fraud measures since they are both essential and successful.

Conclusion

The presented report shows that banks have a lengthy history of being implicated in fraudulent activity. The presented report has analyzed a 2013 scandal where HSBC allowed cheaters to transfer 80 million dollars from the US to China, all of which was money from a "Ponzi scheme". As stipulated by the report, banks are required by law to abide by the Pro-Government Laundered money as well as other Felony Proceeds and Terrorist Finance Laws, which contain a system for detecting suspicious banking activities and their responsibility to alert Credit Information Units; however, in the presented case upon being alerted of Fraudulent HSBC the bank did not close any of the fraudsters' accounts. Therefore, the report asserts that the presented fraud affects both HSBC and other financial sectors. The report stipulates that the company lost money. For instance, Due to fraud, HBSC was fined 1.9 million dollars. On the other extreme, the bank lost its integrity. A company's reputation, logistical, regulatory, and intensity concerns are examples of interconnected negative effects, and each has an effect. The company also lost its' trustworthiness. Financial firms risk losing customers' belief in their trustworthiness by receiving bad press on a bank's business methods and affiliations. As the report argues, being a fraudster affects how comfortable and safeguarded clients feel at the institution. As a result, fraud harmed the connection between a bank and its customers by shattering their sense of confidence and increasing their level of unhappiness over perceived service failures. This led to a detrimental impact on client devotion and encouraged switching behaviour, harming the institutions' image and making it more difficult for new consumers to communicate with the bank. On the other hand, the fraud also impacted other financial sectors. For instance, a policy was instigated that required financial institutions to appoint impartial monitoring to evaluate improved internal measures.

References

- [1] Asmah AE, Atuilik WA, & Ofori D. (2019). Antecedents and consequences of staff-related fraud in the Ghanaian banking industry. *Journal of Financial Crime*.
- [2] Avortri C, & Agbanyo R. (2020). Determinants of management fraud in the banking sector of Ghana: the perspective of the diamond fraud theory. *Journal of Financial Crime*.
- [3] Githae L, Gatauwa J, & Mwambia F. (2018). Factors Affecting Uptake of Agency Banking Services among Customers in Rural Kenya: A Case of Narok County. *European Scientific Journal, ESJ*, 14(16), 224-245.
- [4] A Gray Media Group (GMP). (2012, December 12). *HSBC was fined \$1.9 billion for ignoring signs of drug cartel money laundering*. Available from: <https://www.wmbfnews.com/story/20329610/hsbc-bank-fined-19-billion>
- [5] Mellor J. (2020, September 20). *UK bank allowed fraudsters to transfer millions of dollars worldwide after it knew of the scam*. The London Economic. Available from: <https://www.thelondoneconomic.com/business-economics/uk-bank-allowed-fraudsters-to-transfer-millions-of-dollars-around-world-after-it-knew-of-scam-202252>.