



Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-80-2005
August 16, 2005

FRAUD HOTLINE

Guidance on Implementing a Fraud Hotline

Summary: The FDIC is providing guidance to financial institutions on implementing a fraud hotline to minimize potential and actual fraud risks as part of a bank's governance and enterprise risk management program.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Compliance Officer
Internal Auditor
Fraud Prevention
Personnel/Human Resources
Legal Counsel

Related Topics:

FIL-46-2005 – Pre-employment Background Screening

FIL-17-2003 – Corporate Governance, Audits, and Reporting Requirements

Attachment:

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Note:

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2005/index.html.

To receive FILs electronically, please visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (1-877-275-3342 or (202-416-6940).

Highlights:

- The FDIC encourages financial institutions to consider the benefits of implementing a fraud hotline as a confidential communication channel to identify fraud and reduce fraud-related losses.
- The Association of Certified Fraud Examiners – in its “2004 Report to the Nation” – stated that organizations without mechanisms to report fraud suffered financial losses that were more than twice as high as organizations with anonymous fraud-reporting mechanisms.
- Awareness of the fraud hotline by employees, customers, contractors, service providers, suppliers and other third parties is an important component in ensuring a hotline's effectiveness.
- Confidentiality of tips reported on fraud hotlines must be guaranteed to ensure that those reporting suspected wrongdoing can do so without fear of retribution or reprisal.

Guidance on Implementing a Fraud Hotline

The Federal Deposit Insurance Corporation (FDIC) encourages financial institutions to consider implementing a fraud hotline to assist in their enterprise risk management, corporate governance and fraud protection efforts. The FDIC has established the following guidelines for institution management to consider when implementing a fraud hotline to ensure its overall effectiveness.

Awareness

For maximum effectiveness of the fraud hotline, institutions should advertise and market the hotline's existence to employees, suppliers, third-party service providers and customers. Suggested channels are bank newsletters, memoranda, written policy, and internal and external bank Web sites.

Define Reportable Events

To minimize inappropriate calls or complaints to the hotline that do not involve wrongdoing, institutions should communicate the hotline's purpose. Institutions should also define guidelines about what types of improprieties are reportable events. Risk-awareness training about situations and suspicions that merit reporting will help to create a corporate culture that supports this type of confidential reporting mechanism.

Operations

Institutions should analyze the cost/benefit of operating a fraud hotline internally or contracting with a third party. Banks should recognize that they may initially incur start-up costs; however, once the hotline has been established, the savings in loss prevention should outweigh the cost. Factors to consider are budget, staffing and the expected volume of calls to the hotline. Some of the communication channels for operating a fraud hotline include a toll-free telephone line, a secure e-mail address, a designated mailing address or a combination of methods. Planned hours of operation should be extensive to ensure availability. Hotlines should be operated by experienced interviewers who can ask pertinent follow-up questions to determine whether an investigation should be initiated.

Independence

Regardless of whether the hotline operates internally or by a third party, operations should be independent from bank management. The more independently the hotline is administered, the more confidence the complainants will have in reporting misconduct.

Privacy

Institutions should consult with legal counsel on privacy/whistleblower protections to ensure the source of the information remains confidential. Avoid implementing features such as caller ID or call-back functions that could intimidate callers. Confidentiality should be assured to avoid callers fearing possible reprisals.

Tracking

Institutions should assign a secure tracking system to the complaints, the follow-up, the investigation, the disposition, and the final closure of the complaint. Regular status updates on each complaint should be reviewed with internal audit and personnel in charge of fraud prevention.

Investigations and Reporting

Decisions to investigate should be made on a case-by-case basis. Investigations and their conclusions should be included in reports to the audit committee. Once a fraud scheme is identified, management should develop internal control procedures to avoid future incidents.