

How the fraud investigation unfolded

Wirecard AG (Wirecard) was founded in Germany in 1999 and established itself as one of the first providers of digital payment processing solutions. In 2018, Wirecard became the fourth most valuable company in the German financial sector and joined the blue-chip DAX 30 stock market index as its market value reached EUR 22.5 billion (USD 25.3 billion).

Despite Wirecard's seemingly meteoric rise in the German fintech market, journalists and short-sellers repeatedly raised questions about the company's money laundering compliance checks and its accounting practices.

In March 2010, Market Watch, an online stock market news source, cited the FBI's finding that Wirecard's subsidiary Wirecard Bank facilitated the transfer of USD 5.7 million in illegal online gambling proceeds into the US in 2009. The Munich prosecutors confirmed that they had been notified of the allegation.

In April 2015, the Financial Times (FT) newspaper launched a reporting series on Wirecard, which points out alleged inconsistencies in the company's balance sheets from 2008 to 2014.

In February 2016, a report by Zatarra, a boutique firm of investment professionals and researchers, claimed that it had found evidence that a UK-based subsidiary of Wirecard helped to launder offshore betting proceeds back into the US, and that Wirecard helped its merchant clients in Asia to bypass money laundering controls of payment networks.

The next year, the German newspaper Süddeutsche Zeitung and public broadcaster NDR, relying on the leaked "Paradise Paper" documents, reported that Wirecard Bank maintained accounts for offshore gambling operators and processed payments for German gamblers.

In January 2018, the US-based Southern Investigative Reporting Foundation questioned the whereabouts of the fund that Wirecard, in 2015, was supposed to use to acquire an India-based payment processing business.

From early 2019 onward, the FT newspaper published a series of articles citing whistleblower allegations of accounting fraud related to Wirecard's use of third-party payment processors. In January 2019, an internal investigation by Wirecard reportedly found potential evidence that the company's Asia Pacific office had forged contracts and allowed potentially fraudulent money transfers amounting to EUR 37 million (USD 41 million).

The Singaporean Police initiated an investigation the following month, and the Singapore Commercial Affairs Department raided the offices of Wirecard Asia and Wirecard Singapore in March.

In April, the FT reported that three partner companies of Wirecard in the Philippines, Singapore, and the United Arab Emirates contributed EUR 290 million (USD 327 million) in profits in 2016, representing 95 percent of the company's pre-tax profits in the same year.

RepRisk has published a series of Case Studies that demonstrate the materiality of environmental, social, and governance (ESG) issues – and how RepRisk can serve as an early warning system before these issues translate into reputational, compliance, and financial risks. For more Cases, please visit www.reprisk.com/news-research or contact us at media@reprisk.com.

Case study timeline

2010

March 30

Market Watch reports that Munich prosecutors have been notified of a money laundering complaint against Wirecard Bank, a subsidiary of Wirecard AG. Wirecard's RRI¹ reaches RepRisk's medium risk category (RRI 32 in March 2010).

2015

August 17

As part of its "House of Wirecard" series, the Financial Times (FT) questions Wirecard's accounting practice and financial position.

2016

February 24

Zatarra publishes a report which claims Wirecard laundered offshore betting proceeds in the US, among other allegations. The FT picks up the report the following day. Wirecard's RRI is 38.

2017

November 7

Süddeutsche Zeitung and NDR link Wirecard's subsidiary, Wirecard Bank, to illegal online gaming operators.

2018

January 23

In an article, the Southern Investigative Reporting Foundation questions the legitimacy of Wirecard's business acquisition in India in 2015.

In October, the FT questioned the authenticity of Wirecard's key clients and reported on claims that Wirecard might have overstated sales and profits through its units in Ireland and the United Arab Emirates from 2016 and 2017.

Throughout 2019, Wirecard denied the allegations reported by the FT and in March filed a lawsuit against the newspaper alleging misrepresentation of confidential information. In April, the German Federal Financial Supervisory Authority (BaFin) launched an investigation against two FT journalists on suspicion of manipulating the share price of Wirecard.

In April 2020, Wirecard announced a delay in the publication of its 2019 annual report after disclosing that its auditors, KPMG, had been unable to complete a special audit, as Wirecard's partners had failed to provide the necessary financial documentation.

Following the announcement of the delay, a Wirecard investor, Deka, called for the removal of the company's CEO. Another investor, Effecten-Spiegel, filed a lawsuit against Wirecard, seeking to recoup losses from the sharp decrease in share price due to what Maximilian Weiss, attorney with the TILP Group, referred to as the company's "massive compliance problem."

On June 5, German authorities raided Wirecard's headquarters as part of its investigation into allegations of market manipulation by the company's board of directors.

Two days later, private investors in Germany sued Wirecard's auditors Ernst & Young Germany for failing to detect Wirecard's 2018 improperly recorded assets worth EUR 1 billion (USD 1.13 billion).

On June 18, Wirecard announced a further delay in the publication of its 2019 financial report and admitted that EUR 1.9 billion (USD 2.15 billion) in cash balances had gone missing from the company's trust accounts. The company's CEO resigned the following day.

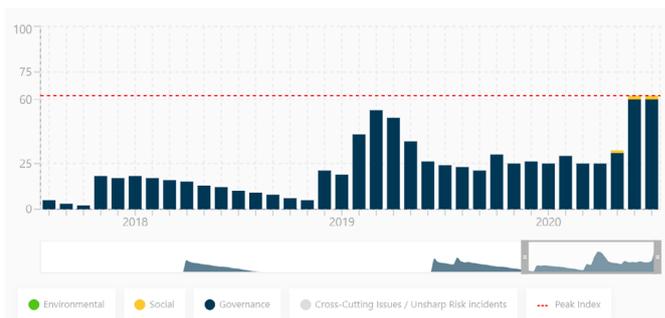
On June 22, the CEO was arrested in Munich on suspicion of presenting false information to investors and customers. The head of BaFin described the fallout as a "total disaster" while admitting that the agency had made mistakes in handling the case.

On June 25, trading in shares for Wirecard was suspended in Germany and the company announced that it had initiated insolvency proceedings. The Wall Street Journal reported that Wirecard's fall could be one of Europe's biggest corporate scandals since 2014.

Were there prior indicators of risk?

Compared to other available market information, RepRisk's unique research approach and methodology allowed investors to consistently and systematically track key ESG risk information associated with Wirecard over an extended period of time, and therefore identify potentially material risks from an early stage.

Wirecard had three significant jumps in its RRI in 2010, 2015, and 2016 when it was linked to allegations of money laundering and misleading accounting. RepRisk linked Wirecard eleven times to issues related to fraud and nine times to issues related to corruption and money laundering between 2010 and February 2019 before the company reached its high-risk RRI of 54. Wirecard sits at a Peak RRI of 62 as of June 2020.



2019

January 30

The FT reports on allegations of possible forgery and account falsification in Wirecard's Asia-Pacific operations. Wirecard's share price closes at EUR 145.15 (USD 163.82.)

February 8

Singaporean Police raids Wirecard's offices in response to the FT's report on allegations. First investor lawsuit filed against Wirecard in the US, alleging misleading statements and forgery. Wirecard's share price drops to EUR 96.86 (USD 109.32). Wirecard's RRI more than doubles compared to the previous month and reaches 41 at the end of February.

March 5

The Singapore Commercial Affairs Department raids Wirecard's offices in Singapore on suspicion of account fabrication. Wirecard's RRI reaches 54 by the end of March and enters RepRisk's high risk category.

April 24

The FT reports on Wirecard's questionable accounting practices through overseas partner companies.

October 15

The FT reports that Wirecard overstated its sales and profits for 2016 and 2017.

2020

April 28

Wirecard announces delay in publication of its 2019 financial report. The company's share price falls to EUR 97.6 (USD 110.15) from EUR 132.1 (USD 149.31) on April 27, 2020.

May 14

First investor lawsuit filed against Wirecard in Germany, alleging accounting irregularities and balance sheet manipulation.

June 5

Munich prosecutors raid headquarters of Wirecard due to suspected market manipulation.

June 18

Wirecard announces further delay in publication of its 2019 financial report due to cash deficit of EUR 1.9 billion (USD 2.14 billion.) Company's share price falls to EUR 39.9 (USD 45.03).

Conclusion

RepRisk data allows investors to better identify and assess ESG and reputational risk exposure related to their investments, enabling them to take steps to mitigate their exposure to such risks.

Wirecard's Code of Conduct

ir.wirecard.comir (last accessed on June 23, 2020)

“Transparency, independence and trust are fundamental principles of what we do and are the basis for our commercial success. Unlawful business practices do not only harm specific business relationships but also business and competition as a whole in the medium term. What we do is therefore governed by the imperative guideline that all business decisions and actions should be taken in accordance with the applicable laws in each case and our internal policies. We also demand that our business partners meet these requirements. In our business relationships therefore, we work towards our business partners also complying with the guidelines set out in our Code of Conduct.”

¹ The RRI is a proprietary risk metric that quantifies a company's reputational risk exposure related to ESG issues. The RRI facilitates an initial assessment of the ESG risks associated with investments or business relationships, allows the comparison of a company's exposure with that of its peers, and helps track risk trends over time. It reflects a company's actual risk management performance as opposed to its communicated goals and policies. The RRI ranges from zero (lowest) to 100 (highest). The higher the value, the higher the risk exposure. A value between 75 and 100 denotes extremely high risk exposure. The Peak RRI is the highest value over the last two years.

June 22

Wirecard CEO, who resigned four days earlier, arrested in Munich, Germany. Company's share price closes at EUR 14.44 (USD 16.3), a nearly 90% drop.

June 25

Wirecard suspends trading on the Frankfurt Stock Exchange and initiates insolvency proceedings in Germany. Wirecard's Peak RRI is 62 at the end of June 2020.