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Global Economic Crime Survey 2016



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Agenda

1. About the Global Economic Crime Survey
2. Overview of the Survey
3. Key Observations
4. The Big Picture
5. Ethics & Compliance
6. Lessons Learnt

About the Global Economic Crime Survey

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Economic crime

“In business, the promise of opportunity is often tempered with the reality of risk”

- Economic crime:

“Illegal acts committed by an individual or a group of individuals to obtain a financial or professional advantage. In such crimes, the offender’s principal motive is economic gain”*

- Asset misappropriation, bribery and corruption, accounting and tax fraud, cybercrime, procurement fraud
- Economic crime is a persistent threat to business and business processes

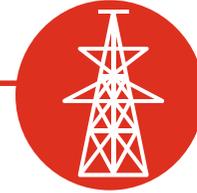
*Definition by US legal definitions: <http://definitions.uslegal.com/e/economic-crime/>

PwC Global economic crime survey

Conducted by PwC globally since 2001



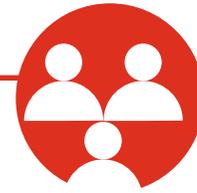
One of the premier thought leadership publications on economic crime



Broad and comprehensive economic crime survey



Useful reference point and a useful tool for stakeholders and companies



Overview of the survey 2016

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Methodology of the survey 2016

- Carried out between July 2015 and February 2016
- Comprised six sections dealing with the following areas:

Organisational profile

Economic crime trends

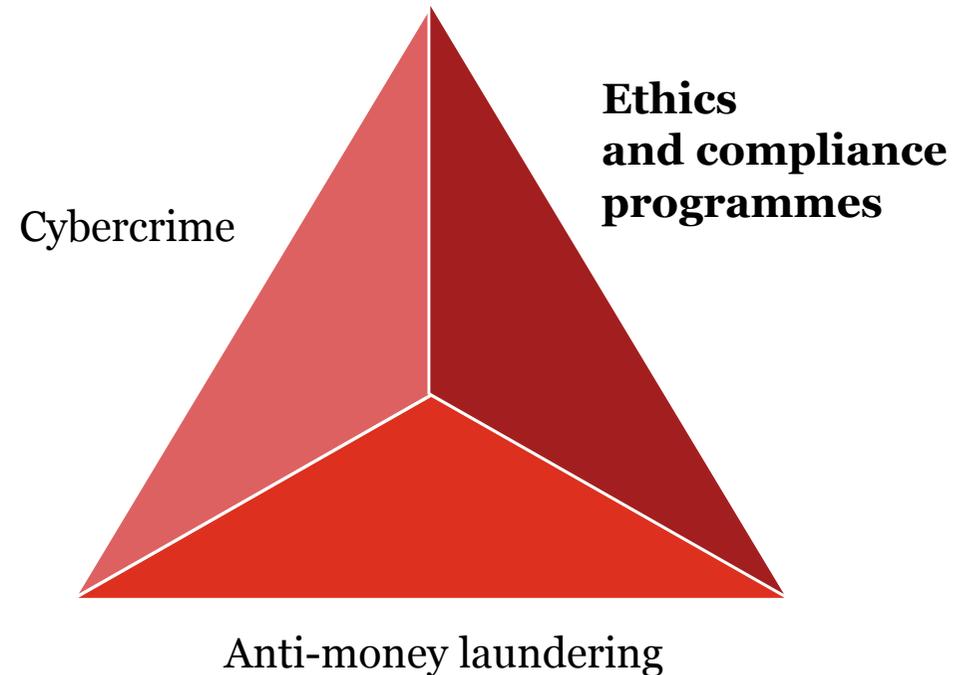
Technology

Profile of the fraudster and economic crime detection methods

Business ethics and compliance programmes

Anti-money laundering and counter financing of terrorism

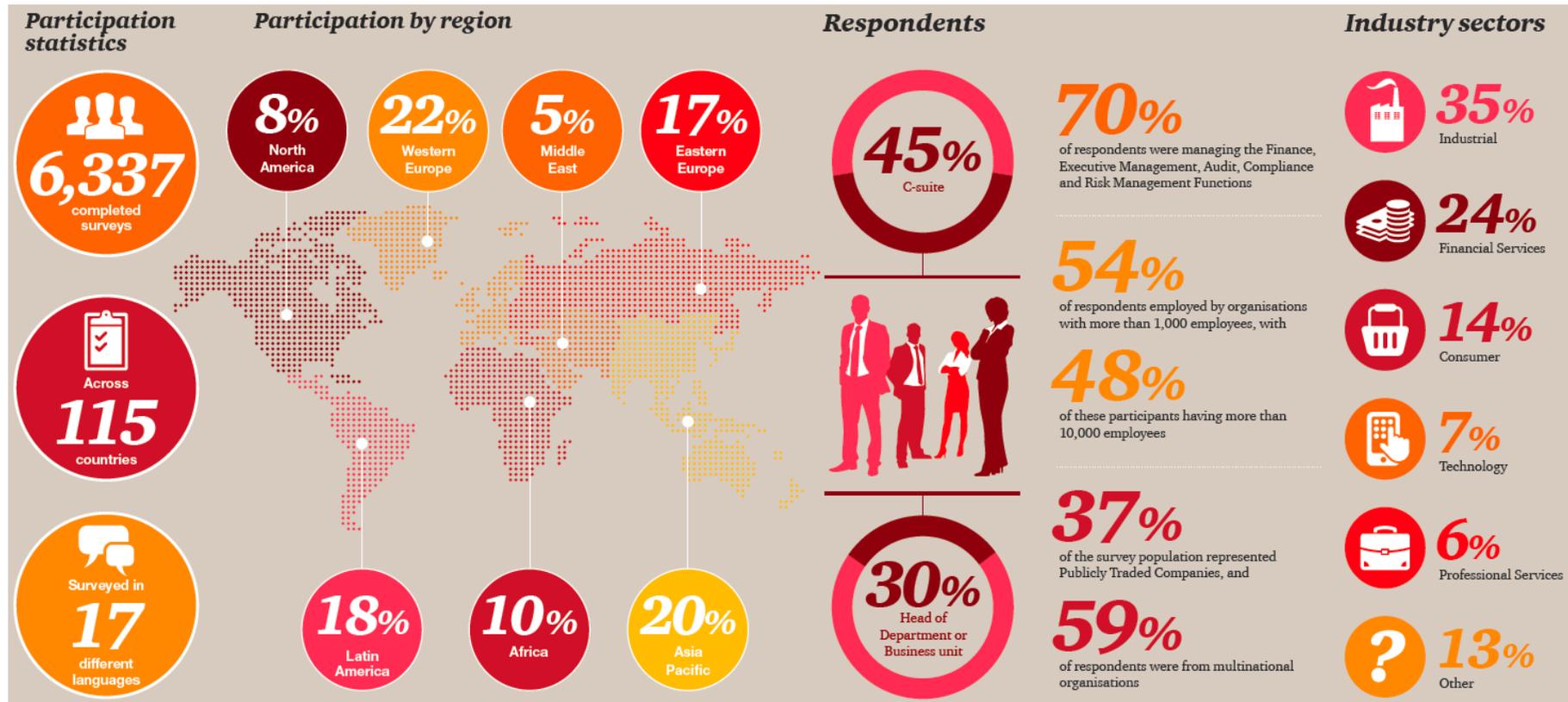
- Focus on three areas:



Research techniques



Size, scale and depth of the survey 2016



Key observations

3

Economic crime an obstinate threat

Affecting both developed & emerging markets

Percentage of responding organisations that experienced economic crime



Economic crime is a diversified global issue

36%

Need for controls to be embedded in culture

Threats come from both within and outside organisations

1 in 5 organisations have not carried out a fraud risk assessment in the past 24 months



Financial damage extending to the hundreds of millions of US dollars in some cases

22%

Cyber threats climb

Call for preparation and greater leadership involvement

Cybercrime is the 2nd most reported economic crime



*Cyber preparedness
should be viewed as an
organisational stress test*

32%

Disconnect between management view and reality

Alignment of business strategy and values needed

Proportion of serious economic crime perpetrated by internal parties



***People and culture are
your first lines of defence***

46%

Anti-money laundering under greater scrutiny

Skills shortage and poor data quality are major challenges

1 in 5 banks have experienced enforcement actions by a regulator



*The cost of compliance
(and of non-compliance)
continues to rise*

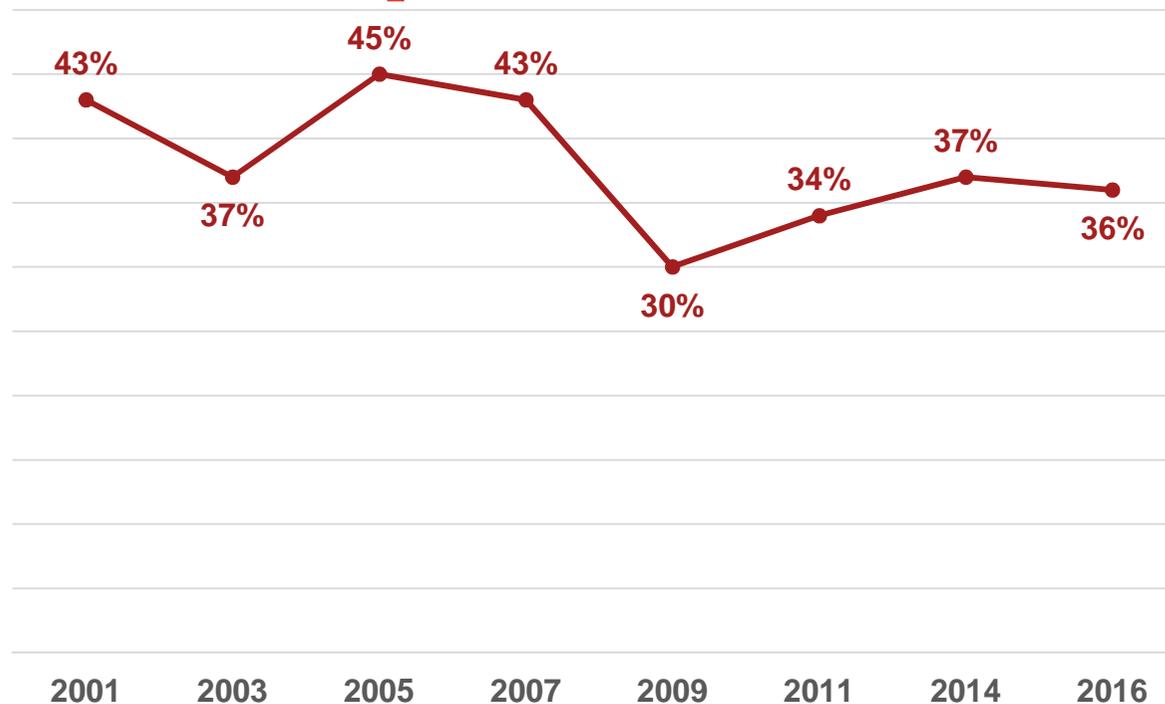
18%

The Big Picture

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Economic crime is evolving but preventative measures are lagging behind

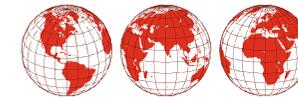
Overall reported rate of economic crime



A worrying trend may be getting masked: Economic crime may be changing significantly, but detection and controls programmes are not keeping up with the pace of change.

A global problem, but not the same everywhere

Regions with increased levels of economic crime



14% period on period increase

- 57% in 2016
- 50% in 2014

1

Africa

14.2% period on period increase

- 40% in 2016
- 35% in 2014

2

Western Europe

19% period on period increase

- 25% in 2016
- 21% in 2014

3

Middle East

Top three most commonly reported types of economic crime 2016



Asset misappropriation



Cybercrime

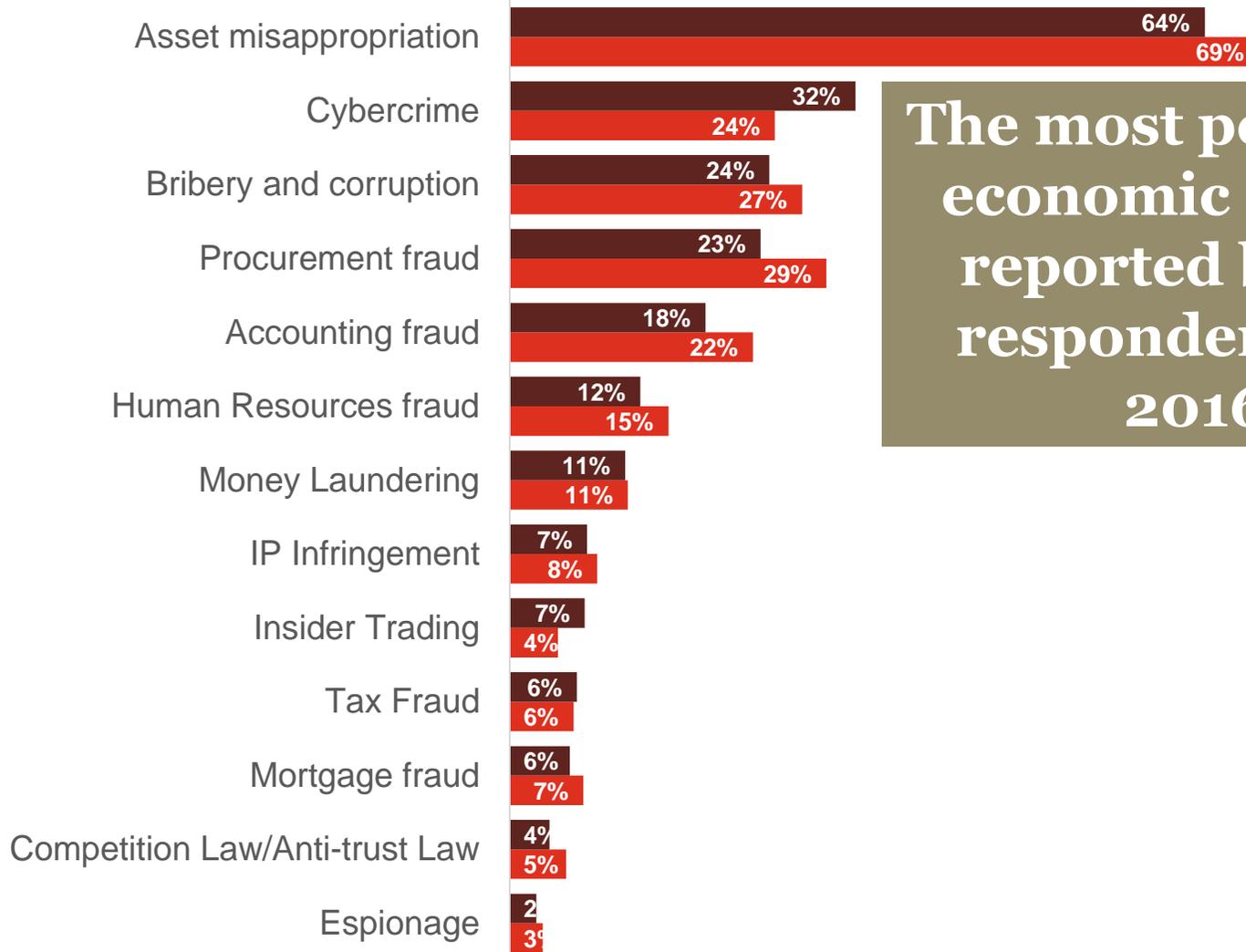


Bribery & corruption

Age-old crimes lead, but one pervasive enemy jumps ahead

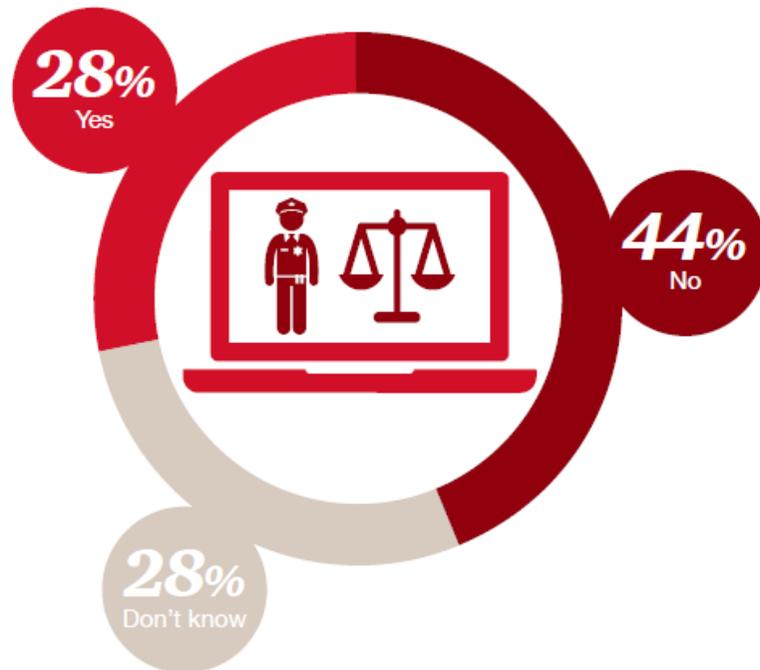
While asset misappropriation, bribery and corruption, procurement fraud and accounting fraud – the traditional leaders in this category – all showed a slight decrease this year over 2014’s statistics, one crime has been on a steady increase everywhere since it first appeared in our survey back in 2011- Cybercrime has now jumped to **2nd** place.

Types of economic crime experienced



The most pervasive economic crimes reported by our respondents for 2016

Perception of law enforcement



Do respondents believe local law enforcement agencies are adequately resourced and trained to investigate and prosecute economic crime?

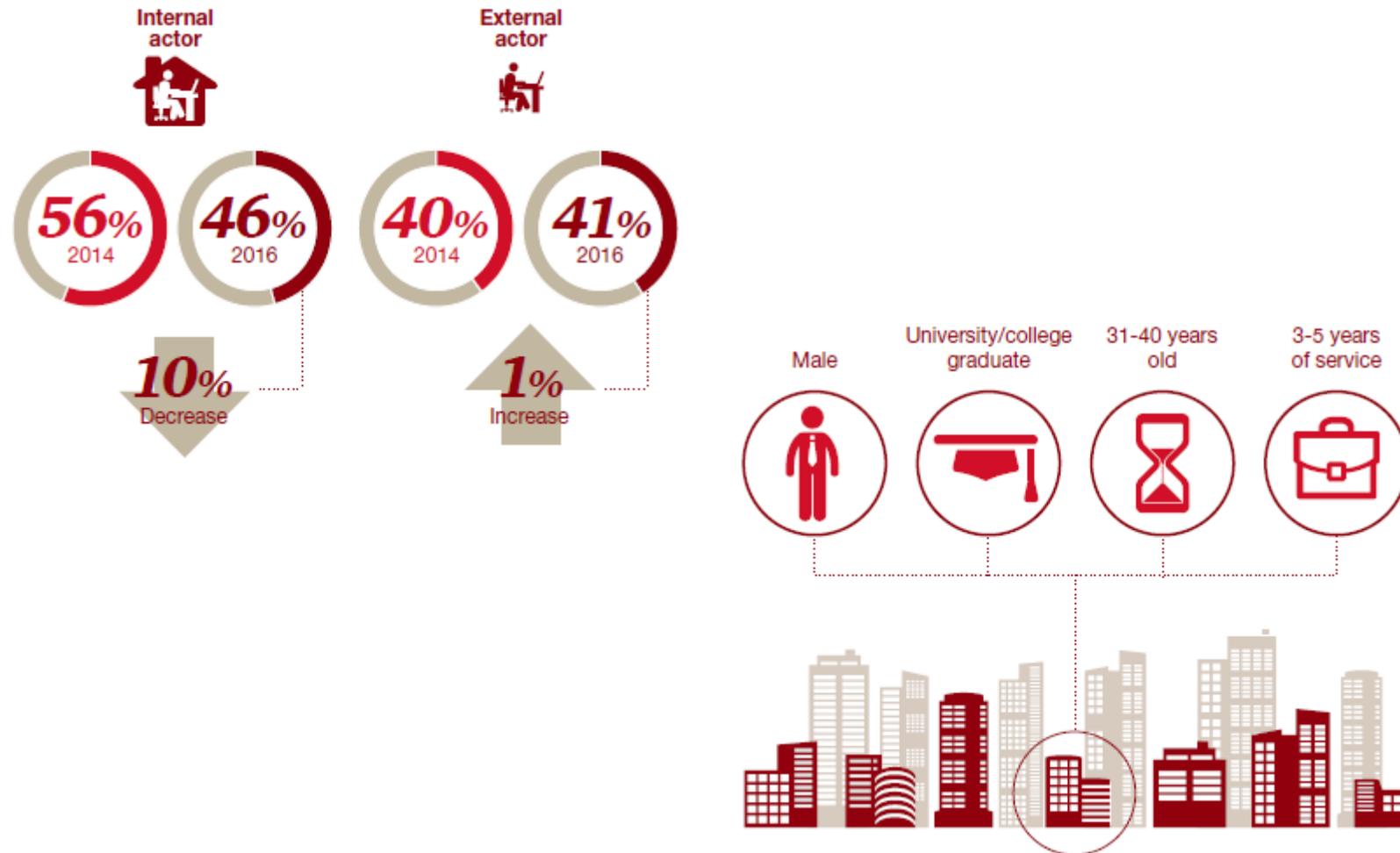
We asked respondents to give us their views on whether they believe local law enforcement to be adequately resourced and trained to investigate and prosecute economic crime.

A resounding majority – **44% to 28%** – expressed doubts on this point, while a further 28% could not answer. This metric could result from several divergent factors.

These could include the countrywide rate of economic crime, the extent to which law enforcement in the respective country publicises or downplays its expertise in certain areas like cybercrime, and the extent to which law enforcement is perceived to be above political interference.

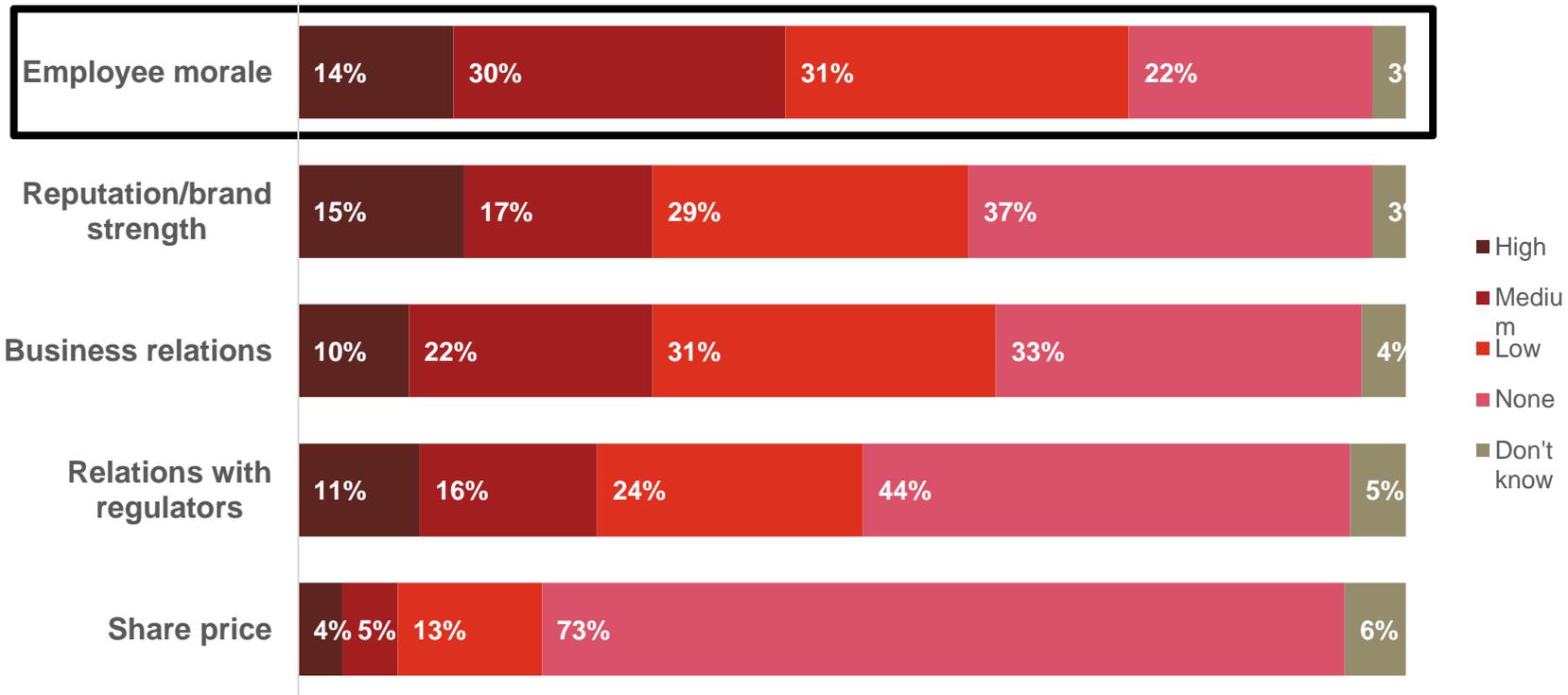
Profile of the fraudster

Gap between internal and external fraud actor closing



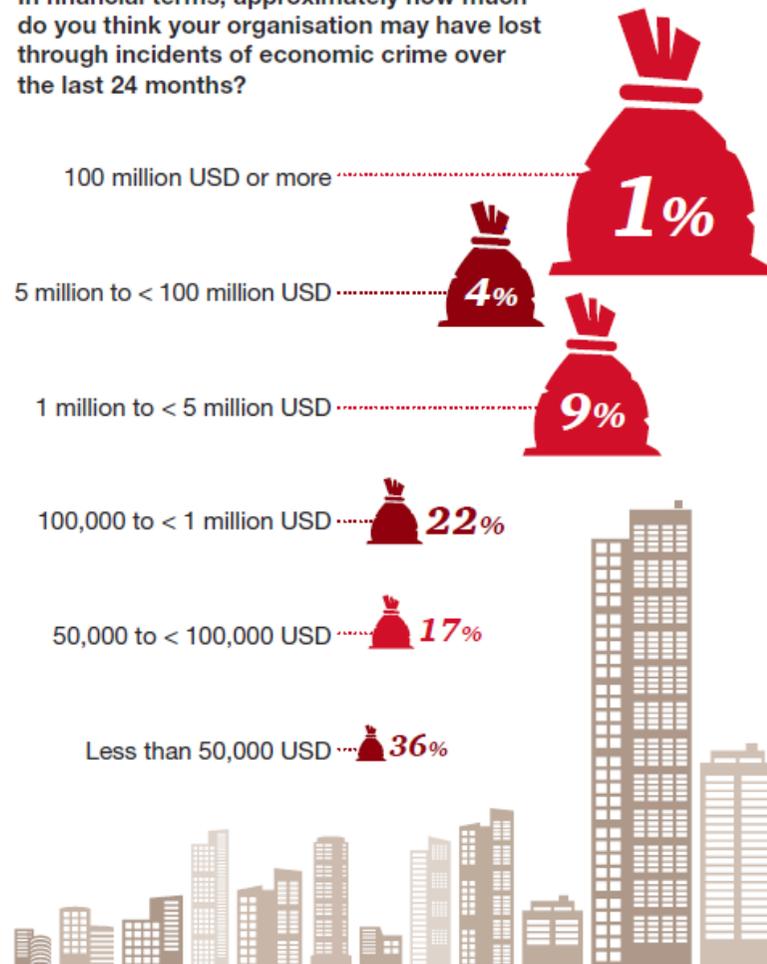
Impact of economic crime

Our respondents told us that the greatest organisational damage they experienced as a result of economic crime was not to their share price or even in relations with regulators. It was reflected in damaged employee morale – with **44%** of respondents experiencing medium or high impact.



Financial impact of economic crime

In financial terms, approximately how much do you think your organisation may have lost through incidents of economic crime over the last 24 months?



Rising financial & collateral damage

Losses can be stiff...

22% of respondents experienced losses of between **\$100,000 & \$1 million**

14% of respondents suffered losses of **more than \$1 million**

and

1% of respondents (primarily from North America and Asia-Pacific) reported losses in **excess of \$100 million**

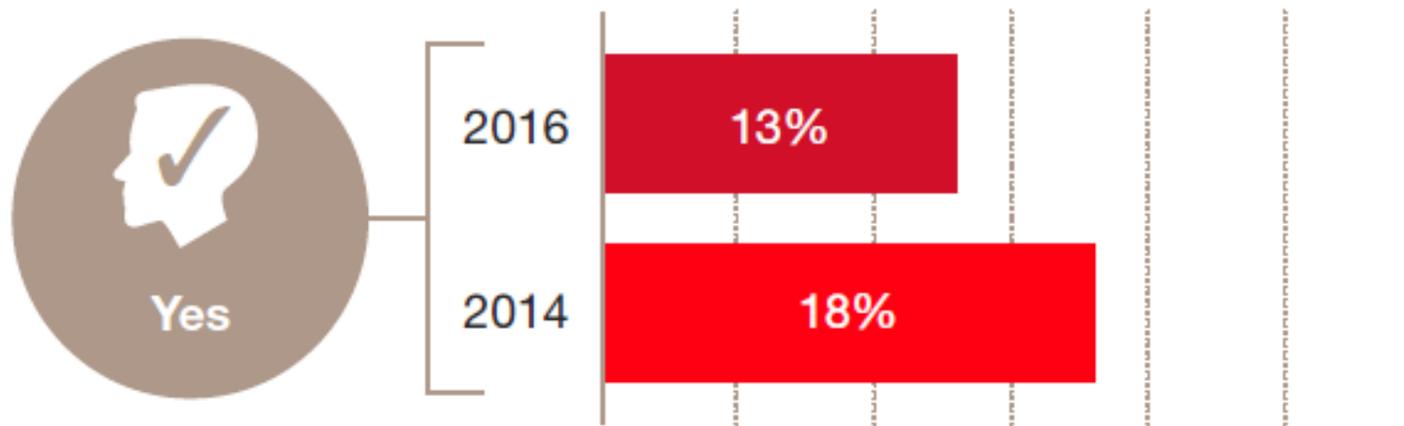
These are substantial sums of money and are representative of a trend of the rising costs of individual frauds

Ethics and Compliance

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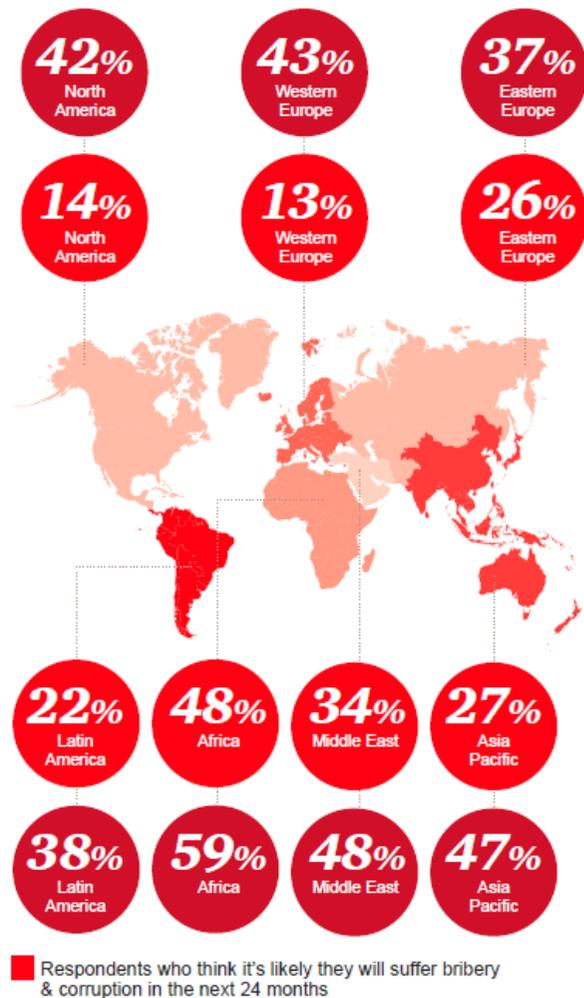
Bribery and corruption

Percentage of organisations asked to pay a bribe



Large organisations remain more susceptible to procurement fraud and bribery and corruption

Bribery and corruption over the next 24 months



■ Respondents who think it's likely they will suffer bribery & corruption in the next 24 months
■ Respondents planning an increase in their compliance spend over the next 24 months

Overall, **91%** of respondents believe their top management makes it clear that **bribery is not a legitimate practice**.

This was consistent across all regions and all industries.

However, we're still seeing a large number of reported incidents – and, in many regions, an ever larger number of organisations who expect to experience bribery and corruption in the next 24 months.

Aligning decision-making with values

A worrying **22%**
of organisations have not
carried out a fraud risk
assessment in the past 24
months...

However, the number of
organisations reporting
fraud overall has, at
36%, remained
fairly consistent in recent
years

Our survey results show that not only are the number of economic crime risks increasing, so too are the **complexity** of those risks and the role that technology plays. This is hardly a surprise in a business environment characterised by growing globalisation, increasingly vigilant enforcement and greater demand for public accountability. That's why your ability to identify and mitigate compliance risks needs to evolve at a rapid pace.

A **risk-based approach** to ethics and compliance – one that begins with a holistic understanding of your economic crime risk, and an understanding of where your compliance weaknesses are – is a **must-have**.

From that position of clarity, you can create an effective programme that mitigates those risks, and positions you for reaching your business goals.

Responsible people want to work for responsible companies

44%

**claim employee morale is the largest
casualty of economic crime**

***1 in 5* respondents are not
aware of a formal ethics and
compliance programme**

**...though *82%* of companies say
they have a formal plan in place**

***76%* of companies rely on internal
audit to ensure effectiveness of their
programmes...**

**But is this the most effective path
given that almost half of the incidents
of serious economic crimes were
perpetrated by internal parties**

?

Lessons Learnt

6

Is your compliance programme is fit-for-purpose?

4 KEY AREAS OF FOCUS FOR ENHANCING THE EFFECTIVENESS OF ETHICS AND COMPLIANCE PROGRAMMES

1. People and culture

Maintaining a values-based programme, measuring and rewarding desired behaviour

2. Roles and responsibilities

Ensuring they are correctly aligned with current risks

3. High-risk areas

Better implementation and testing of the programme in high-risk markets and divisions

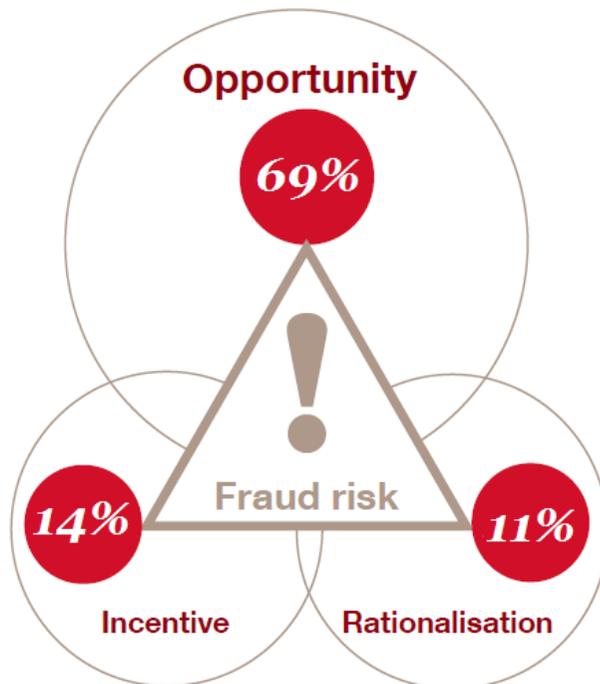
4. Technology

Better use of detection and prevention tools, including big data analytics

Opportunity (for crime) knocks But who's listening?

7 in 10 organisations believe that opportunity is the main driver of internal economic crime. This far outweighs the other two elements of the “fraud triangle”, which are incentive/ pressure to perform and rationalisation of the crime.

Factors contributing to economic crime committed by internal actors



A large majority seem to favour stronger control environments as a means of reducing this opportunity, but our top-line results show corporate control environments are 7% less effective in detecting and preventing economic crime than two years ago. Over three quarters (76%) of respondents told us they are relying on their internal audit function to assess the effectiveness of their compliance programmes.

Thank you!

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