Global Economic Crime Survey 2016
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
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
**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:
  - Ethics and compliance programmes
  - Cybercrime
  - Anti-money laundering
Research techniques

Survey of executives

Questions on:
Cybercrime
Business ethics
Compliance
Money laundering

Analysis of trends over time
Size, scale and depth of the survey 2016

Participation statistics
- 6,337 completed surveys
- Across 115 countries
- Surveyed in 17 different languages

Participation by region
- 8% North America
- 22% Western Europe
- 5% Middle East
- 17% Eastern Europe

Respondents
- 45% C-suite
- 70% of respondents were managing the Finance, Executive Management, Audit, Compliance and Risk Management Functions
- 54% of respondents employed by organisations with more than 1,000 employees, with
- 48% of those participants having more than 10,000 employees
- 30% Head of Department or Business unit
- 37% of the survey population represented Publicly Traded Companies, and
- 59% of respondents were from multinational organisations

Industry sectors
- 35% Industrial
- 24% Financial Services
- 14% Consumer
- 7% Technology
- 6% Professional Services
- 13% Other
Economic crime an obstinate threat
Affecting both developed & emerging markets

Percentage of responding organisations that experienced economic crime

36%

Economic crime is a diversified global issue
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

22%
Financial damage extending to the hundreds of millions of US dollars in some cases

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Cyber threats climb
Call for preparation and greater leadership involvement

Cybercrime is the 2\textsuperscript{nd} 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

46%

People and culture are your first lines of defence

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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%
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

14.2% period on period increase
• 40% in 2016
• 35% in 2014

19% period on period increase
• 25% in 2016
• 21% in 2014

1. Africa
2. Western Europe
3. Middle East
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

<table>
<thead>
<tr>
<th>Crime</th>
<th>2016</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset misappropriation</td>
<td>64%</td>
<td>69%</td>
</tr>
<tr>
<td>Cybercrime</td>
<td>24%</td>
<td>32%</td>
</tr>
<tr>
<td>Bribery and corruption</td>
<td>24%</td>
<td>27%</td>
</tr>
<tr>
<td>Procurement fraud</td>
<td>23%</td>
<td>29%</td>
</tr>
<tr>
<td>Accounting fraud</td>
<td>18%</td>
<td>22%</td>
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<tr>
<td>Human Resources fraud</td>
<td>12%</td>
<td>15%</td>
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<tr>
<td>Money Laundering</td>
<td>11%</td>
<td>11%</td>
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<tr>
<td>IP Infringement</td>
<td>7%</td>
<td>8%</td>
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<tr>
<td>Insider Trading</td>
<td>7%</td>
<td>4%</td>
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<tr>
<td>Tax Fraud</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Mortgage fraud</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Competition Law/Anti-trust Law</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Espionage</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

The most pervasive economic crimes reported by our respondents for 2016

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April 2016

2016
2014
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

Internal actor
- 56% in 2014
- 46% in 2016
- 10% decrease

External actor
- 40% in 2014
- 41% in 2016
- 1% increase

Male
University/college graduate
31-40 years old
3-5 years of service
**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**

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.
Bribery and corruption
Percentage of organisations asked to pay a bribe

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

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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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