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**REFINITIV**<sup>TM</sup>

The Refinitiv logo, which is a blue L-shaped graphic with a diagonal line extending from the bottom-right corner of the vertical bar.

Revealing the **true cost**  
of **financial crime**

Focus on  
Latin America and  
the Caribbean



What's  
hiding in the  
shadows?

The intelligence, technology and human expertise  
you need to find trusted answers.



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**THOMSON REUTERS®**

In March 2018, Thomson Reuters commissioned a global survey to better understand the true cost of financial crime, and to raise awareness of its wider impact on business, individuals and society as a whole.

In total, over 2,300 senior managers from large organizations across 19 countries participated. We also supplemented the survey findings by conducting in-depth research and holding interviews with leading NGOs (Education Endowment Foundation, Transparency International UK and Walk Free Foundation) and the European Union's law enforcement agency to gain perspective on the human cost of financial crime.

**This report specifically examines the findings in Latin America and the Caribbean.**





## About the survey

For purposes of this report we have used a wide definition of financial crime, one that goes beyond the scope with which Thomson Reuters is traditionally associated. In order to provide as complete a picture as possible on the social and financial impact of financial crime, we have included bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking.

A total of 2,373 C-suite/senior management in large organizations across 19 countries<sup>1</sup> completed the survey.

Respondents' feedback was grouped according to the regions in which their companies operate in order to deliver a global opinion of those regions, based on first-hand experience and knowledge. This report focuses on Latin America and the Caribbean.

The survey sought feedback from both publicly listed and privately owned organizations.

A range of industries was consulted, including agriculture; mining; construction; retail; manufacturing and financial.

*Please note that the standard convention of rounding has been applied and consequently some totals do not add up to 100%.*

**2,373**  
RESPONDENTS

**19**  
COUNTRIES

1. Respondents were based in the following individual countries: The USA, Canada, China, India, Singapore, Australia, the UK, Germany, the Netherlands, Spain, France, Russia, Poland, the UAE, Saudi Arabia, South Africa, Nigeria, Brazil and Mexico. Please note, however, that research shows that the operations of respondents' organizations are global, meaning that the regional statistics included in this report do not only reflect information relating to the individual countries listed above. Rather they reflect broader regional perspectives according to the respondents' firsthand knowledge and experience in those regions.



## The **hidden face** of financial crime

The true cost of financial crime extends far beyond pure economics. Critical social consequences include the proceeds of financial crime being used to fund the financing of terrorism; human rights abuses such as slavery and child labor; and environmental crime.

Loss of revenue to national governments has a host of knock-on effects, too, including the fact that lower tax revenues mean that less money is available to fund schools, hospitals and other essential services.

On a macro level, raising awareness is a key tool, as is collaboration and the sharing of information and ideas on the best methods to combat financial crime. On an organizational level, invaluable tools include access to reliable risk data that offers breadth of risk intelligence coverage, and finding the right partners to enable a holistic approach to effective risk mitigation throughout the compliance process.

**Financial crime affects everyone and gaining insight into its true magnitude and devastating effects is of paramount importance.**





# Financial crime: some background to the challenge

## Extensive networks

Financial crime can flourish if it is allowed the opportunity to 'hide' in organizations' third party networks – networks that are often extensive and can span the globe. To better understand the magnitude of these networks, our survey asked respondents to estimate how many third party vendor, supplier or partner relationships their company had, globally, over the 12 months preceding the survey.

The average across the globe was reported as 7,693, but in Latin America and the Caribbean, the figure rose substantially to an average of 12,985 relationships, the highest reported across all regions surveyed.

## Ever-increasing pressure

Organizations are operating against a backdrop of growing pressure – pressure to increase turnover, grow profits, develop new markets, increase market share and improve regulatory safeguards – but when asked to rate these different pressures (as expected in the 12 months post-survey), the highest percentage across the globe (83%) reported that pressure to increase turnover is either extreme or significant. This view was echoed in Latin America and the Caribbean, with 87% of the same opinion.

## Initial screening and ongoing monitoring

This pressure, added to a host of global regulations and legislation to combat financial crime, has led to a situation where compliance teams often struggle to fully screen and monitor the vast number of customers, third party vendors, suppliers and partners identified above.

The consequences of compliance failure are significant, and compliance teams are aware of their responsibilities, but nonetheless often struggle with the task at hand.

Survey results indicate that, across the globe, an average of just 59% of relationships have ever been screened with regard to issues including bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking. This percentage was the same across Latin America and the Caribbean.

Ongoing monitoring to detect potential or emerging risk is also of paramount importance, but survey results again revealed that, once they are initially screened, an average of just 59% of relationships across the globe are monitored and reviewed on at least an annual basis. The corresponding figure in Latin America and the Caribbean was marginally higher at 60%.

This means that only approximately 35% of relationships in the region are fully screened – both at the initial onboarding stage and on an ongoing basis.



## Measuring the **impact** of financial crime

Respondents were asked whether their companies had been victims of any of the identified financial crimes throughout their global operations during the 12 months preceding the survey. Responses revealed that, globally, 47% had been a victim of at least one form of financial crime, compared to a proportionally higher 54% across Latin America and the Caribbean.

The true cost of such crimes must be measured in terms of their financial, social and humanitarian impact. Within each country surveyed, we calculated the sum of the published turnover (last 12 months) of listed companies with a turnover of USD\$50 million or more and applied a global estimate of lost turnover as a consequence of financial crime at 3.5%, giving a global estimated loss of turnover of just over USD\$1.45 trillion.

On the same basis, we analyzed 386 listed companies in Latin America and the Caribbean with a total sum turnover USD\$1.19 trillion, and the estimated loss amounted to USD\$38 billion.

In concrete terms, what could this lost revenue have meant? By way of example, let's look at how much \$1 billion can buy in the vital area of education in different countries across the globe.

In Spain, this amount could pay for high-quality early years education for 150,000 toddlers, whilst in Russia \$1 billion could provide 180,000 toddlers with the foundations they need to become fluent learners at school. In Mexico, it would mean 327,000 additional children placed in primary and secondary schools; and in India 1\$ billion could build 2,000 more schools. In Poland, this money could pay for 64,000 additional teachers, or 21,000 in the USA.

These examples just begin to illustrate the real-life consequences and impact on individual lives as a direct result of every dollar of revenue lost to financial crime.

Moreover, there is a further 'hidden' cost – the opportunity cost that results when organizations avoid doing business with high risk customers because they feel unable to identify actual risk. When questioned whether, in order to avoid rather than manage heightened risk customers, their organizations consider de-risking to be appropriate, 72% across the globe agreed. In Latin America and the Caribbean, this percentage rose substantially to 82%, the highest across all regions surveyed.

This is unsurprising, given that any connection, even unwitting, to any form of financial crime could potentially result in regulatory fines, reputational damage and even prosecution.





# Different aspects of financial crime

## Perceived relative importance

**What aspects of financial crime do organizations feel are the most important to prevent?**

In every region surveyed, the lowest percentage of respondents considered slave labor/human trafficking to be important, suggesting a widespread lack of appreciation of the importance of addressing and eradicating these crimes against humanity. With an estimated 40 million people living in modern slavery, the human and economic costs are enormous. A 2014 report by the International Labour Office (ILO) puts the cost at \$150 billion. It is likely that the real numbers are far higher.

Conversely, two areas – bribery and corruption; and cybercrime – stood out across all regions, with the highest percentage across the globe (94%) selecting bribery and corruption as an important issue to tackle. Respondents in Latin America and the Caribbean were of the same opinion, with bribery and corruption selected by a significant 97%.

In the 12 months preceding the survey, the percentage of **turnover lost to bribery and corruption** was an average of 3.2% globally, and in **Latin America and the Caribbean** this figure rose to 3.6%.

**63%** of respondents in the region believe that the **consequence of this bribery and corruption will be higher prices** for end users.

A vast percentage (**92%**) within the region agreed (either strongly or slightly) with the statement **‘we struggle to educate and influence colleagues on bribery and corruption in some regions’**.







## The current state of play

### How much are companies spending?

Globally, survey results revealed that companies spent an average of 3.1% of global turnover to prevent issues relating to financial crime during the 12 months preceding the survey. In Latin America and the Caribbean this percentage rose to 3.6%.

### Shortcomings in formal compliance

There is a range of formal compliance procedures in relation to customers, third party vendors, suppliers or partner relationships that companies can undertake, including:

- Screening and classifying risk
- Conducting due diligence
- Monitoring and refreshing
- Implementing workflow and process reports
- Training and educating

When asked how fully their organizations perform these procedures, gaps were evident, with respondents globally revealing that just 57% fully screen and classify risk; 52% fully conduct due diligence; and 52% fully monitor and refresh.

Within the region, some notable gaps were also evident – in Latin America and the Caribbean, just 57% of respondents fully:

- Monitor and refresh
- Implement workflow and process reports
- Train and educate their customers, third party vendors, suppliers or partners

Even though companies across the region are spending an average of 3.6% of their annual global turnover to fight financial crime, gaps in compliance remain.



## Training gaps

Gaps in training suggest an opportunity for organizations going forward. For example, globally, just 46% confirmed that formal training is undertaken by colleagues around the globe in identifying, preventing and reporting breaches in slave labor/human trafficking, meaning that over half of global respondents' organizations either don't undertake training in this important area, or they don't know that they do, raising another important issue – one of awareness.

A lack of training in this area was evident within every region surveyed, but in Latin America and the Caribbean, the highest percentage across all regions surveyed (56%), respondents were able to confirm that formal training on this important issue is undertaken. Whilst this suggests a greater relative awareness on the topic by organizations in the region, there is still a sizable gap of 44% who are not undertaking – or are unaware of – such training.



**44%**

**CONFIRMED THAT FORMAL TRAINING IS  
UNDERTAKEN BY COLLEAGUES AROUND THE  
GLOBE IN IDENTIFYING, PREVENTING AND  
REPORTING BREACHES IN SLAVE LABOR/  
HUMAN TRAFFICKING.**



# Finding solutions

## The importance of data

When it comes to rooting out financial crime, reliable and complete data is a critical requirement needed to develop a 360 degree view of risk. Additional Thomson Reuters research has revealed a plethora of challenges that organizations encounter, specifically relating to third party risk data. These include unreliable risk data sources, insufficient availability of risk data and poorly connected data sources.

Respondents were asked what they consider most valuable when selecting a financial crime data vendor, including advanced technology capabilities; subject matter expertise; research methodology; and breadth and depth of information.

Respondents across all regions overwhelmingly (95% or above) either already have or would consider a vendor with all of these attributes.

## Collaboration as a tool to fight financial crime

There is a range of different actions that could be employed to tackle global financial crime, including:

- Sharing of financial intelligence/ information on specific cases by companies
- Sharing compliance best practice by companies
- Improving public-private partnerships
- Stronger global sanctions as punishment by governments
- Disinvestment in companies by the investment community

- Disinvestment in countries by companies
- Prioritizing working with companies that follow best practices
- Boycotting of those facilitating or perpetrating such crimes
- Media campaigns exposing specific cases

Globally, 94% of respondents were either very or slightly supportive of sharing of financial intelligence/information on specific cases by companies and sharing compliance best practice by companies, pointing to a clear appreciation of the importance of collaboration in the fight against financial crime.

In Latin America and the Caribbean, similar views were expressed, with 97% supportive of 'sharing compliance best practice by companies'.

## Tools to fight financial crime

Thomson Reuters offers a holistic approach to help businesses identify, mitigate and act upon the risk associated with financial crime. Our broad range of solutions encompasses:

- Risk intelligence screening
- Screening as a managed service
- Geopolitical risk ranking
- Enhanced due diligence
- Transaction monitoring

We provide a centralized, scalable and integrated suite of solutions, powered by Thomson Reuters World-Check, the trusted and accurate source of risk intelligence.

**Join the conversation: #FightFinancialCrime**

# Conclusion

In Latin America and the Caribbean, respondents reported extensive networks – in fact the most extensive across all regions surveyed. Only approximately 35% of these relationships, however, are fully screened – both at the initial onboarding stage and on an ongoing basis.

Over half (54%) of those surveyed in the region had been a victim of at least one form of financial crime in the 12 months preceding the survey, even though they had spent an average of 3.6% of global turnover to prevent issues relating to financial crime during this period.

Bribery and corruption was considered by respondents in the region, to be an important issue to tackle and, as part of this, 97% are supportive of sharing compliance best practice by companies in the ongoing fight against financial crime.

The majority of respondents across the region are clearly supportive of the idea of industry collaboration as an important tool going forward, but undoubtedly lifting the lid on the full extent, impact and multi-faceted cost of financial crime is the first step to combating this global scourge.

The insights delivered by our survey bring into sharp focus a global scenario in which inefficient, costly compliance processes are simply inadequate when it comes to screening vast international third party networks for any links to financial crime. The result is that such crime continues to flourish, with high percentages of respondents confirming that their organizations had fallen victim to at least one form of financial crime in the last year. Moreover, Europol research reveals that, since 2006, an average of only 10% of all suspicious transaction reports received by law enforcement agencies across Europe have ever resulted in any meaningful investigation, with the primary reason behind this cited as a general lack of quality intelligence. Access to reliable, quality data and actionable intelligence, as well as industry-wide collaboration, lie at the heart of any future solution to a plethora of issues that continue to cause incalculable harm to industry, society and the millions of individuals across the globe who collectively shoulder the true cost of financial crime.

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