We are now Refinitiv, formerly the Financial and Risk business of Thomson Reuters. We've set a bold course for the future – both ours and yours – and are introducing our new brand to the world.

As our brand migration will be gradual, you will see traces of our past through documentation, videos, and digital platforms.

Thank you for joining us on our brand journey.

REFINITIV™

Revealing the true cost of financial crime

Focus on the Middle East and North Africa

What's hiding in the shadows?

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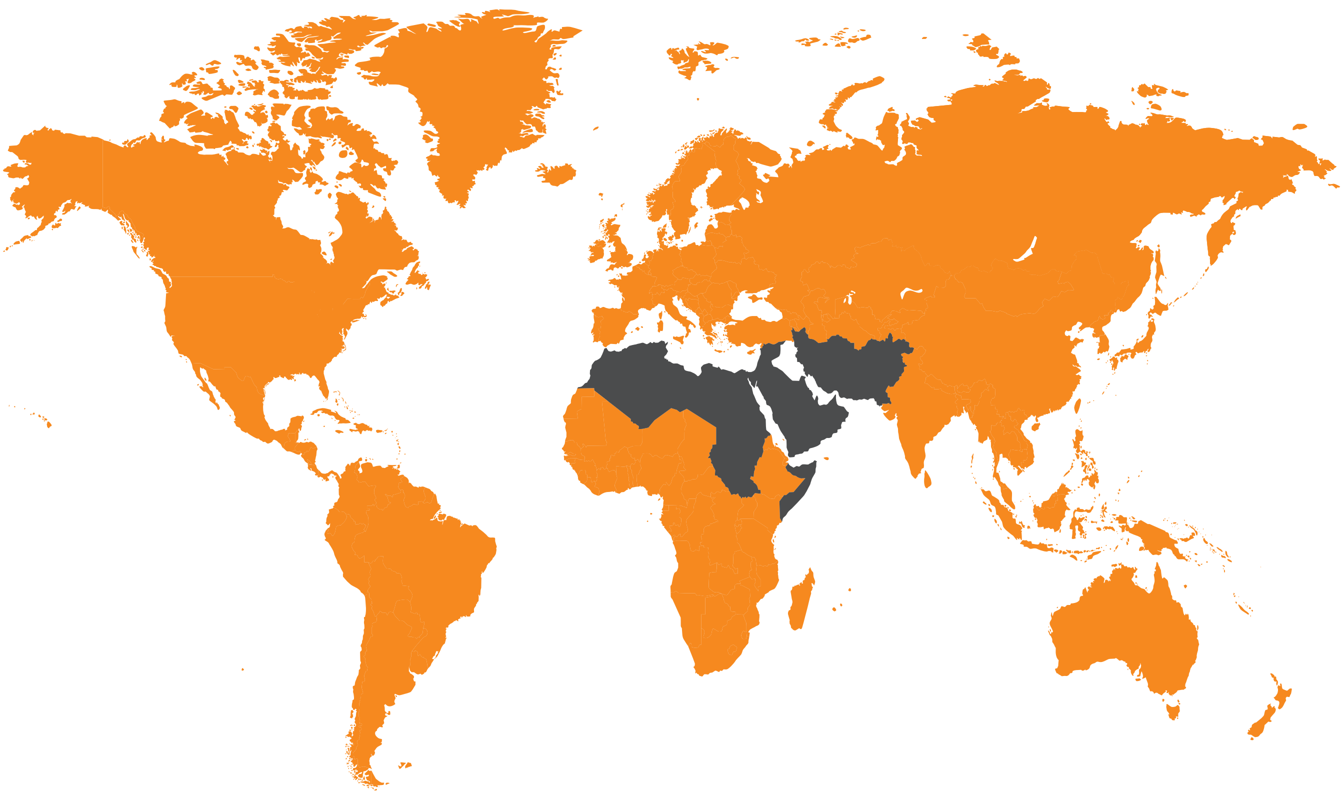
In March 2018, Thomson Reuters commissioned a global survey to better understand the true cost of financial crime, and to raise awareness of its wider impact on business, individuals and society as a whole.

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 the Middle East and North Africa.



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[1] 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 includes statistics covering the Middle East and North Africa.

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 to 'hide' undetected in organizations' third party networks. These networks are often extensive and can span the globe. To better understand the scale of this issue, 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 rose to 9,007 in the Middle East and North Africa. Whilst this figure is substantially higher than the global figure, it remains some way off the numbers reported across Latin America and the Caribbean, where companies have an average of 12,985 relationships, the highest reported across all regions surveyed.

Ever-increasing pressure

Organizations face a range of ever-increasing pressures, including pressure to increase turnover, grow profits, develop new markets, increase market share and improve regulatory safeguards.

We asked survey respondents how they would rate the pressure on their companies to achieve these expectations during the 12 months post-survey and globally 83% reported that pressure to increase turnover will be either extreme or significant. Respondents in the Middle East and North Africa were in agreement, with a significant proportion of 89% also citing the same issue.

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.

Globally, an average of just 59% of these relationships are screened with regard to the issues of bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking. In the Middle East and North Africa, this figure rises to 65%.

Ongoing monitoring to identify potential risk is also of critical importance, but the survey once again revealed that, after initial screening, an average of just 59% of relationships are monitored and reviewed on at least an annual basis. In keeping with the trend, this figure rose to 64% in the Middle East and North Africa. Whist these higher percentages are encouraging, it nonetheless means that just 42% of relationships in the region are fully screened at both onboarding stage and on an ongoing basis.

Measuring the impact of financial crime

Financial crime is pervasive: survey responses revealed that, globally, 47% had been a victim of at least one form of financial crime within their global operations during the 12 months preceding the survey. The figure was slightly lower in the Middle East and North Africa, at 45%.

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 198 listed companies in Middle East and North Africa with a total sum turnover USD$255 billion, and the estimated loss amounted to USD$8 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. In order to avoid, rather than manage heightened risk customers, 72% of those surveyed said that their organization considers de-risking appropriate. In the Middle East and North Africa this percentage was even higher at 77% and reflects that companies are aware that any connection, even unwitting, to any form of financial crime could potentially result in regulatory fines, reputational damage and even prosecution.

GLOBALLY

47%

HAVE BEEN A VICTIM OF FINANCIAL CRIME

OUT OF

2,373

RESPONDENTS

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. Within the Middle East and North Africa region, 96% of respondents were of the same view.

In the 12 months preceding the survey, the percentage of **turnover lost to bribery and corruption** was an average of **3.6% in the Middle East and North Africa** against a global figure of 3.2%.

Within the region **57% believe that the consequence of this bribery and corruption will be less government revenue**. The Middle East and North Africa was the only region where the highest proportion of respondents selected this answer. In all other regions the greatest percentage believed that the consequence of bribery and corruption would be higher prices for end users.

90% of respondents 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'**.

3.6%
TURNOVER LOST TO BRIBERY AND CORRUPTION

57%
OF RESPONDENTS BELIEVE THAT THE CONSEQUENCE OF BRIBERY AND CORRUPTION 'WILL BE LESS GOVERNMENT REVENUE'

90%
STRUGGLE TO EDUCATE AND INFLUENCE COLLEAGUES ON BRIBERY AND CORRUPTION

The current state of play

How much are companies spending?

As a percentage of global turnover, the average that companies spent to prevent financial crime issues around their global operations in the 12 months preceding the survey was 3.1%, but this rises to 3.8% in the Middle East and North Africa – the highest reported percentage across all regions surveyed.

Shortcomings in formal compliance

Respondents were asked how well their companies presently undertake a range of formal compliance procedures in relation to customers, third party vendors, suppliers or partner relationships, including:

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

The survey uncovered some shortcomings, with respondents globally indicating 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 the Middle East and North Africa, only 59% fully implement workflow and process reports and just 60% fully conduct due diligence. Even though companies across the region are spending an average of 3.8% of their global turnover to fight financial crime, gaps in compliance remain.

IN THE MIDDLE EAST AND NORTH AFRICA

59%

FULLY IMPLEMENT WORKFLOW AND PROCESS REPORTS

ACROSS THE REGION

3.8%

OF THE REGIONAL GLOBAL TURNOVER IS SPENT ON COMBATING FINANCIAL CRIME

Training gaps

Gaps in training are evident and suggest an opportunity for organizations going forward. For example, globally, just 46% confirmed that formal training is undertaken by colleagues 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, although the Middle East and North Africa fared better than average, with 54% confirming that they have formal training in this important area.

54%

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% or 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 the Middle East and North Africa, a strong majority of 97% were 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 the Middle East and North Africa, extensive third party networks – substantially higher than the global average – are evident, but just 42% of these relationships are fully screened at both onboarding stage and on an ongoing basis. Whilst this percentage is higher than the global average, it is still very low and indicates that more work needs to be done in this important area.

Just under half (45%) of respondents had been a victim of at least one form of financial crime within their global operations during the 12 months preceding the survey. Moreover, those surveyed reportedly spent 3.8% of turnover to prevent financial crime issues around their global operations over the same period. This was the highest reported percentage spend across all regions surveyed.

Across the region, 96% believe that bribery and corruption is an important issue to tackle and 97% are supportive of sharing compliance best practice by companies. In fact, the majority of respondents across the region support the idea of collaboration in the ongoing fight against all forms of financial crime, but undoubtedly lifting the lid on its true extent, impact and cost – economic, social and humanitarian – 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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