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

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REFINITIVTM 

The Refinitiv logo, featuring the word 'REFINITIV' in a bold, black, sans-serif font, followed by a trademark symbol (TM). To the right of the text is a blue graphic element consisting of two perpendicular lines of equal length, forming an L-shape, which is the Refinitiv logo.

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

Focus on Europe



What's
hiding in the
shadows?

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



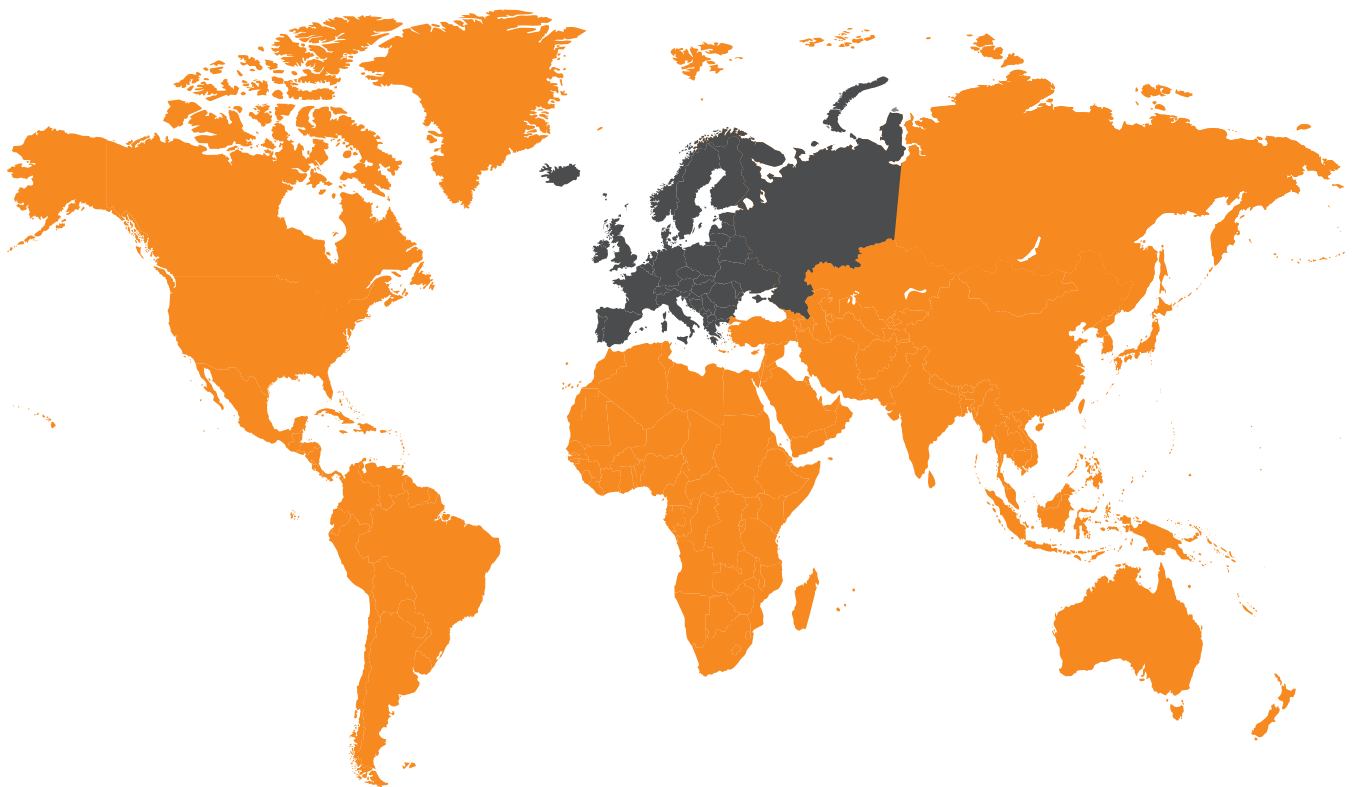
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In March 2018, Thomson Reuters commissioned a global survey to better understand the true cost of financial crime, and to raise awareness of its wider impact on business, individuals and society as a whole.

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 Europe.





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 countries¹ 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 Western Europe, Eastern Europe and Western/Central Asia.

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

One of the ways in which financial crime can flourish is to 'hide' in organizations' third party 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 such relationships, against a proportionately higher number in Western Europe of 8,591 and an even higher number – 10,207 – in Eastern Europe and Western/Central Asia.

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. When asked how they would generally rate the pressure upon their companies to achieve in these areas in the 12 months post-survey, 83% across the globe reported that pressure to increase turnover is either extreme or significant. The same pressure was evident across Europe, with 82% in Western Europe and 83% in Eastern Europe and Western/Central Asia also citing pressure to increase turnover.

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.

Across the globe, respondents revealed that an average of just 59% of global customers, third party vendors, suppliers or partner relationships were ever screened with regard to financial crime issues, including bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking. In Western Europe, this figure drops to 58% (the lowest percentage across all regions surveyed), but rises slightly to 60% across Eastern Europe and Western/Central Asia.

We then asked respondents what percentage of those initially screened are monitored and reviewed on at least an annual basis. The global average was once again 59%, but lower in both Western Europe (57%) and Eastern Europe and Western/Central Asia (58%). This means that only about a third of relationships are fully screened (initially and on an ongoing basis) across the region.



Measuring the **impact** of financial crime

Survey responses indicate that large percentages of companies have been victims of some form of financial crime within their global operations during the 12 months preceding the survey. Globally, 47% had been a victim of at least one form, with Eastern Europe and Western/Central Asia on par and slightly higher numbers reported in Western Europe at 49%.

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 2,376 listed companies in Europe with a total sum turnover USD\$9.9 trillion, and the estimated loss amounted to USD\$319 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% indicated that their organization considers de-risking appropriate. A similar percentage in Western Europe agreed (71%), but this rose to 76% in Eastern Europe and Western/Central Asia, indicating a greater risk aversion – and a higher opportunity cost – most likely the result of the knowledge 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?

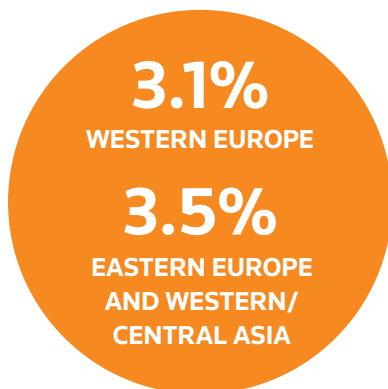
In every region surveyed, the lowest percentage of respondents considered slave labor/human trafficking to be important, suggesting a widespread lack of appreciation of the importance of addressing and eradicating these crimes against humanity. With an estimated 40 million people living in modern slavery, 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. Within Europe, 93% of respondents in Western Europe indicated that both bribery and corruption and cybercrime are important aspects to tackle, whilst in Eastern Europe and Western/Central Asia bribery and corruption was selected by 94% of respondents.

In the 12 months preceding the survey, the percentage of **turnover lost to bribery and corruption** was an average of **3.1% in Western Europe** and **3.5% in Eastern Europe and Western/Central Asia**. The global average was 3.2%.

In **Western Europe 56%** believe that the consequence of this bribery and corruption will be **higher prices for end users**, a view echoed by **57% of respondents in Eastern Europe and Western/Central Asia**.

90% in Western Europe and **91% in Eastern Europe and Western/Central Asia** 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?

As a percentage of global turnover, how much did companies spend to prevent financial crime issues around their global operations during the 12 months preceding the survey? Responses indicate that this figure is 3.1% across the globe; slightly lower at 2.9% (the lowest percentage across all regions surveyed) across Western Europe and 3.2% across Eastern Europe and Western/Central Asia.

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.

The list included:

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

Shortcomings 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 evident as follows:

- In Western Europe under half (49%) fully monitor and refresh; and the same percentage fully implement workflow and process reports
- In Eastern Europe and Western/Central Asia 54% fully monitor and refresh; and the same percentage implement workflow and process reports

Even though companies across Europe are spending in the region of 3% of their global turnover to fight financial crime, significant gaps in compliance procedures remain.

IN WESTERN EUROPE

49%

FULLY MONITOR AND REFRESH
AND FULLY IMPLEMENT
WORKFLOW AND PROCESS
REPORTS

IN EASTERN EUROPE
AND WESTERN/
CENTRAL ASIA, IT'S

54%

Training gaps

Gaps in training across all the sub-sections of financial crime covered in this report were revealed by survey respondents 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. Within Europe under half – 46% in Western Europe and 49% in Eastern Europe and Western/Central Asia – confirmed that formal training in this regard is undertaken. A lack of training in this area was evident within every region surveyed.

46%

WESTERN EUROPE

49%

**EASTERN EUROPE
AND WESTERN
CENTRAL ASIA**

**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. This view was echoed by 95% of respondents in Eastern Europe and Western/Central Asia. In Western Europe, 94% were supportive of sharing compliance best practice.

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

Across Europe, companies revealed extensive third party networks, but only approximately a third of these relationships are fully screened, both initially and on an ongoing basis.

During the 12 months preceding the survey, 47% in Eastern Europe and Western/Central Asia and 49% in Western Europe had fallen victim to at least one form of financial crime, despite the fact that they spent between 2.9% (Western Europe) and 3.2% (Eastern Europe and Western/Central Asia) of turnover to prevent these issues around their global operations during the same period.

Within Europe, 93% of respondents in Western Europe indicated that both bribery and corruption and cybercrime are important aspects to tackle, whilst in Eastern Europe and Western/Central Asia bribery and corruption was selected as important by 94% of respondents. As part of tackling these crimes, sharing of financial intelligence/information on specific cases by companies and sharing compliance best practice by companies were supported by 95% of respondents in Eastern Europe and Western/Central Asia, whilst 94% in Western Europe were supportive of the latter initiative.

These sentiments highlight the fact that, across Europe, collaboration is viewed as an important tool in the ongoing fight against financial crime. First, though, it is necessary to lift the lid on the true extent and impact – economic, social and humanitarian – of this global scourge, and to raise awareness of the real victims of these pervasive crimes.

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.

Thomson Reuters Risk Management Solutions

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