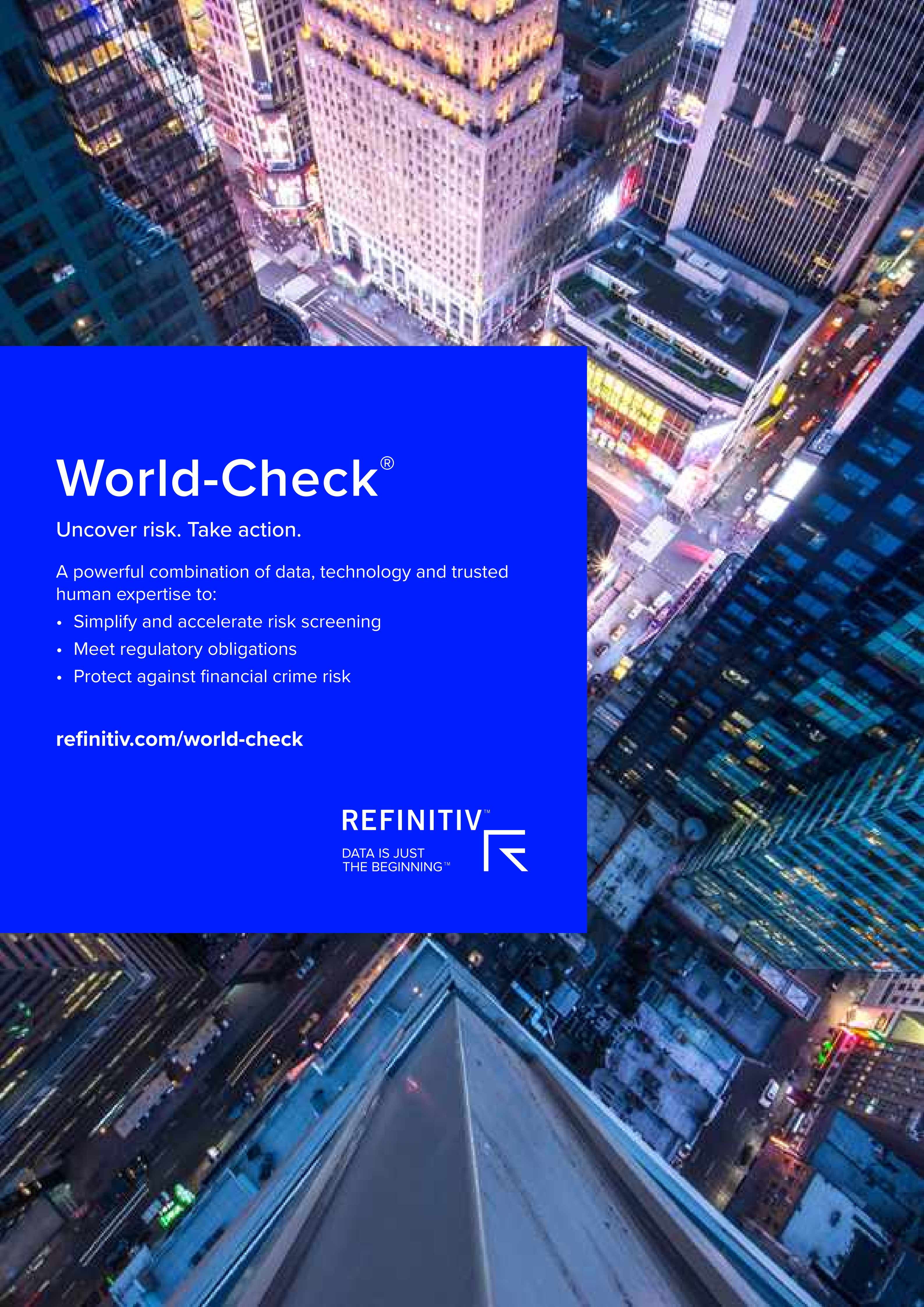
Revealing the true cost of financial crime

2018 SURVEY REPORT

What's hiding in the shadows?

REFINITIV™

DATA IS JUST
THE BEGINNING™



INTRODUCTION

Revealing the true cost of financial crime

Phil Cotter
Managing Director, Risk, Refinitiv

Financial crime is multi-faceted, multi-national and very often invisible, making it hard to identify, measure and combat. Its impact is felt in many ways.

For those forced into slave labor by criminals infiltrating supply chains, or the victims of sex trafficking gangs who launder their profits through the financial system, the cost is catastrophic. For others, it is wrongly seen as a victimless crime, only impacting big businesses, and even having benefits for some such as cheaper goods. Organizations are paying a heavy financial cost, collectively spending billions trying to prevent financial crime, yet they are seeing ever greater amounts disappear from their businesses as a result of money laundering, fraud, theft and corruption. At a national level, revenues lost through financial crime mean governments collect less tax revenues and fewer schools and hospitals are built, causing disarray due to the criminal and terrorist activities it funds.

At Refinitiv we are committed to uncovering the true scale of the challenge to raise awareness and create the data and coalitions that will increase our ability to fight financial crime together, more effectively around the world. To this end, we have commissioned an independent survey of over 2,300 senior executives in large companies, across 19 countries, to identify the true cost of the problem. We also conducted interviews with leading NGOs (Education Endowment Foundation, Transparency International UK, Walk Free Foundation) and the European Union's law enforcement agency to reveal the wider economic, social and human impact.

Finally, we identified ways in which business, governments and Refinitiv are working together to lead the fight against financial crime.

Join the conversation: #FightFinancialCrime

What is financial crime?

The usual focus of financial crime is on the illicit money flows from crimes such as money laundering, bribery and corruption that support human abuses including modern slavery, drug trafficking and prostitution. For the purpose of this report we have taken a wide definition covering all financial crimes, which goes beyond those with which Refinitiv is traditionally involved, to provide as complete a picture as possible on the social and financial impact:

1. **Fraud**
2. **Money laundering**
3. **Theft**
4. **Bribery & corruption**
5. **Cybercrime**
6. **Slavery/human trafficking**

RESPONDENTS SPEND ON AVERAGE
3.1%
OF ANNUAL TURNOVER COMBATING FINANCIAL CRIME

About this survey

This report is based on research commissioned by Refinitiv that was conducted online by an independent third party in March 2018. A total of 2,373 senior managers at large global organizations completed the survey.

2,373 **RESPONDENTS**

100% **SENIOR MANAGEMENT/ C SUITE**

$17.4BN **AVERAGE ANNUAL TURNOVER**

19 **COUNTRIES**

This research was conducted across 19 countries, but the research shows that the survey respondents are global. Weighting was applied to each country to ensure each was equally represented. Please note that the standard convention for rounding has been applied, and consequently some totals do not add up to 100%. The country-specific breakdown of companies surveyed is as follows:

USA	240
Canada	120
China	120
India	120
Singapore	117
Australia	119
UK	120
Germany	120
The Netherlands	109
Spain	120
France	120
Russia	120
Poland	120
UAE	119
Saudi Arabia	120
South Africa	123
Nigeria	107
Brazil	119
Mexico	120

Highlights from the report

OUT OF 2,373 RESPONDENTS

47%

HAVE BEEN A VICTIM OF FINANCIAL CRIME OVER THE LAST 12 MONTHS

The scale of the challenge

It is too easy for perpetrators to slip through the net.

9% of organizations have dealt with **over 10,000 third party vendors, suppliers or partners** during the last 12 months.

41% of survey respondents have never screened their third party vendors, suppliers or partners.

49% of all detected financial crime is reported internally and, for the most part, reported externally.

Measuring the impact

The cost is high for companies, governments and individuals.

$1.45 TRILLION is the estimated aggregate lost turnover as a result of financial crimes, according to the organizations we surveyed around the world, **representing 3.5% of their global turnover.**

40.3 MILLION people are victims of modern day slavery according to the Global Estimates of Modern Slavery (ILO and Walk Free Foundation).

Fighting back

Working together is vital to winning the war against financial crime.

94% of companies are supportive of more initiatives to tackle financial crime, 'sharing intelligence' being the most important.

3.1% of annual turnover is spent combating financial crime, **representing an aggregate of $1.28 trillion** for organizations surveyed.

"Forced prostitution, child slavery, drug trafficking and numerous environmental crimes are all made possible by our ***inability to disrupt and dismantle the crime networks*** *that attack weaknesses in the international financial system every year."*

PHIL COTTER
Managing Director, Risk, Refinitiv

40.3M

MILLION PEOPLE ARE VICTIMS OF MODERN DAY SLAVERY

Source: LLO and Walk Free Foundation

The scale of the challenge

Financial crime is difficult to measure and hard to combat.

Rapid developments in financial information, technology and communication allow the movement of money anywhere in the world with speed and ease. At the same time, globalization has increased the size, geographical reach and complexity of supply chains. This makes it harder than ever before for even the best resourced and most committed organizations to identify and prevent financial crimes, which we classify for the purposes of this report as money laundering, bribery and corruption, cybercrime, theft, slavery/human trafficking and fraud.

Screening shortfall

Adequately screening all business relationships to uncover criminal connections is vital in the fight against financial crime. Yet, according to the survey, 41% of global customers, third party vendors, suppliers or partner relationships were never screened for financial crime-related issues.

Number of relationships

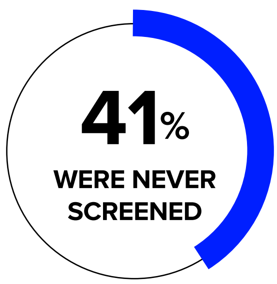
One reason for the screening shortfall may be the sheer number of relationships that businesses need to monitor. The survey reveals that just under 1 in 10 (9%) of respondents have dealt with over 10,000 third party vendors, suppliers or partners during the last 12 months.

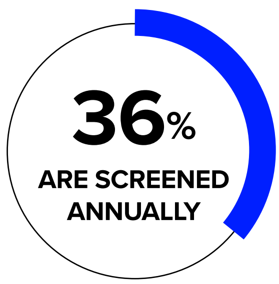
Three quarters had under 1,000 relationships. The number of relationships differs by industry, with those companies involved in financial and insurance activities having twice the number of relationships as those in the construction sector. Those who have been a victim of ‘financial crime’ have 25% more relationships to monitor than those who have not.

When asked how many clients or customers their company had directly transacted with over the last 12 months globally, the average was over five million, reflecting the vast scale and size of the companies many of our respondents work within.

The screening challenge

The need to screen regularly, rather than just at the onboarding stage, is widely recognized as being an important tool in the continuing fight against financial crime. Here, the survey revealed that 41% of relationships were never screened for financial crime risk and only 36% of these relationships are screened on an ongoing basis.





Under pressure

Another way to understand the scale of the challenge is by looking at the multiple pressures businesses face. While 71% describe their organizations as being under extreme or significant pressure to improve regulatory safeguards (Figure 1), this issue ranks below the 80% who feel a similar need to improve profit, or the 83% in connection with turnover. The survey found that regulatory pressure was particularly high for organizations in India (88%), UAE (85%) and Nigeria (85%).

Returning to the global picture, 77% felt extreme or significant pressure from government regulators and 74% from corporate boards to improve regulatory safeguards. There are some regional nuances, such as in Nigeria, where 91% claim the pressure from institutional investors is extreme or significant.

One further challenge is the fact that organizations must protect themselves from both internal and external perpetrators, and there are significant variations according to each aspect of financial crime (Figure 2).

For example, bribery and corruption had the highest incidence (69%) of internally perpetrated crime over the last 12 months, while cybercrime topped the list for external involvement at 75%.

The bigger picture in the EU

The survey reveals the scale of the challenge for individual organizations, but according to the EU's law enforcement agency, Europol, this is being magnified by systemic failure. Their research reveals that, despite tighter regulation and major investment in compliance procedures, on average only:

1%

of criminal proceeds generated in the EU are confiscated by authorities.

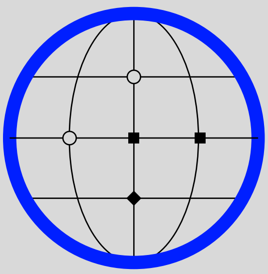
0.5%

of all transactions reviewed by bank compliance officers lead to a criminal investigation.

OUT OF
1,000
TRANSACTIONS FLAGGED

50 ARE REFERRED TO LAW ENFORCEMENT

5 LEAD TO AN INVESTIGATION



Rising to the challenge

Refinitiv helps businesses overcome the complex challenges identified by the survey. Our risk management solutions support customers from the initial screening and due diligence stage through to onboarding and training. We leverage our breadth of risk intelligence coverage, human expertise and sophisticated technology to help you identify risks when conducting business with your customers and third parties.

FIGURE 1: BUSINESS VS REGULATORY PRESSURES

Q: How would you generally rate the pressure upon your company to achieve the following over the next 12 months?

Those answering 'Extreme or significant pressure'

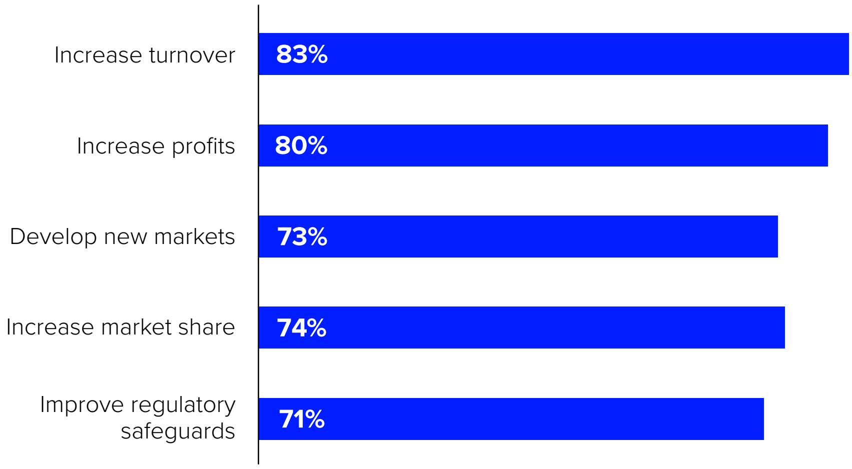
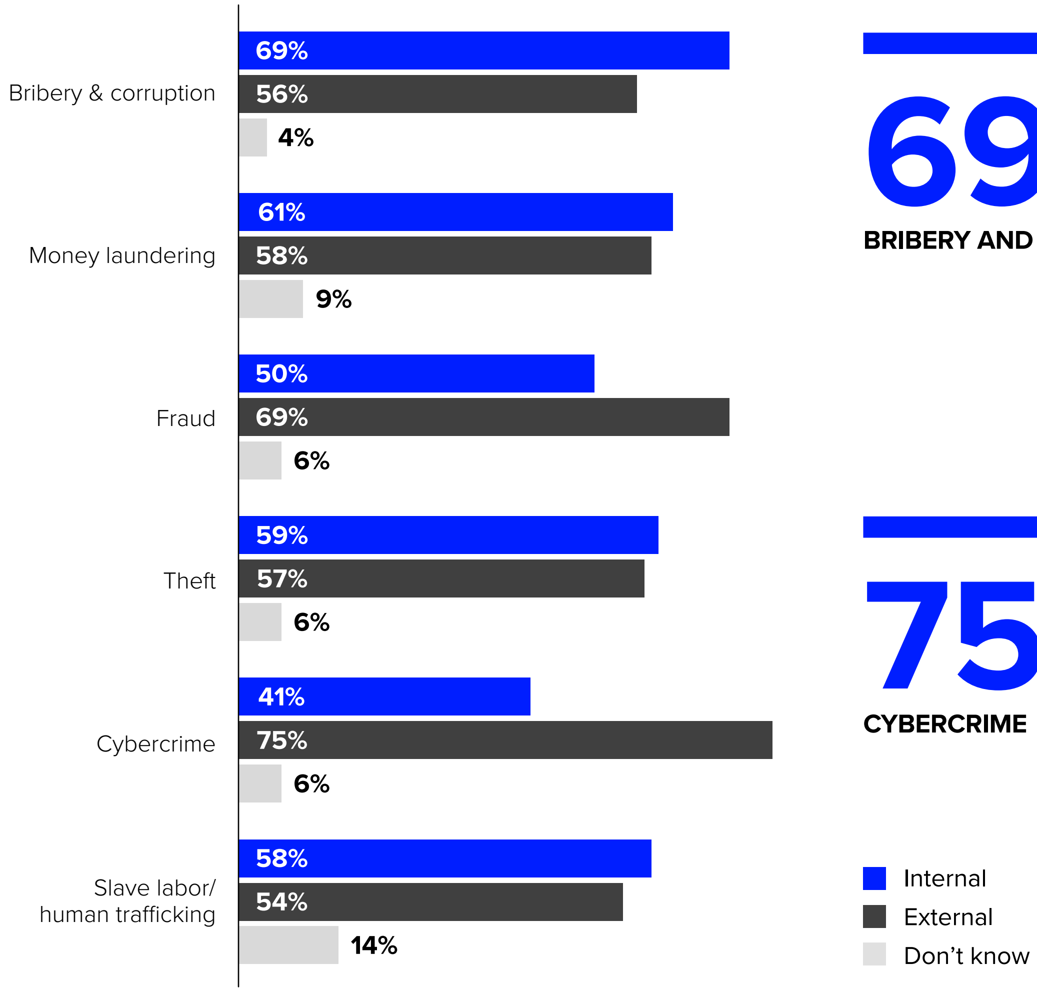


FIGURE 2: INTERNAL VS EXTERNAL PERPETRATORS

Q: Was this [financial crime experienced] from within your company or external?

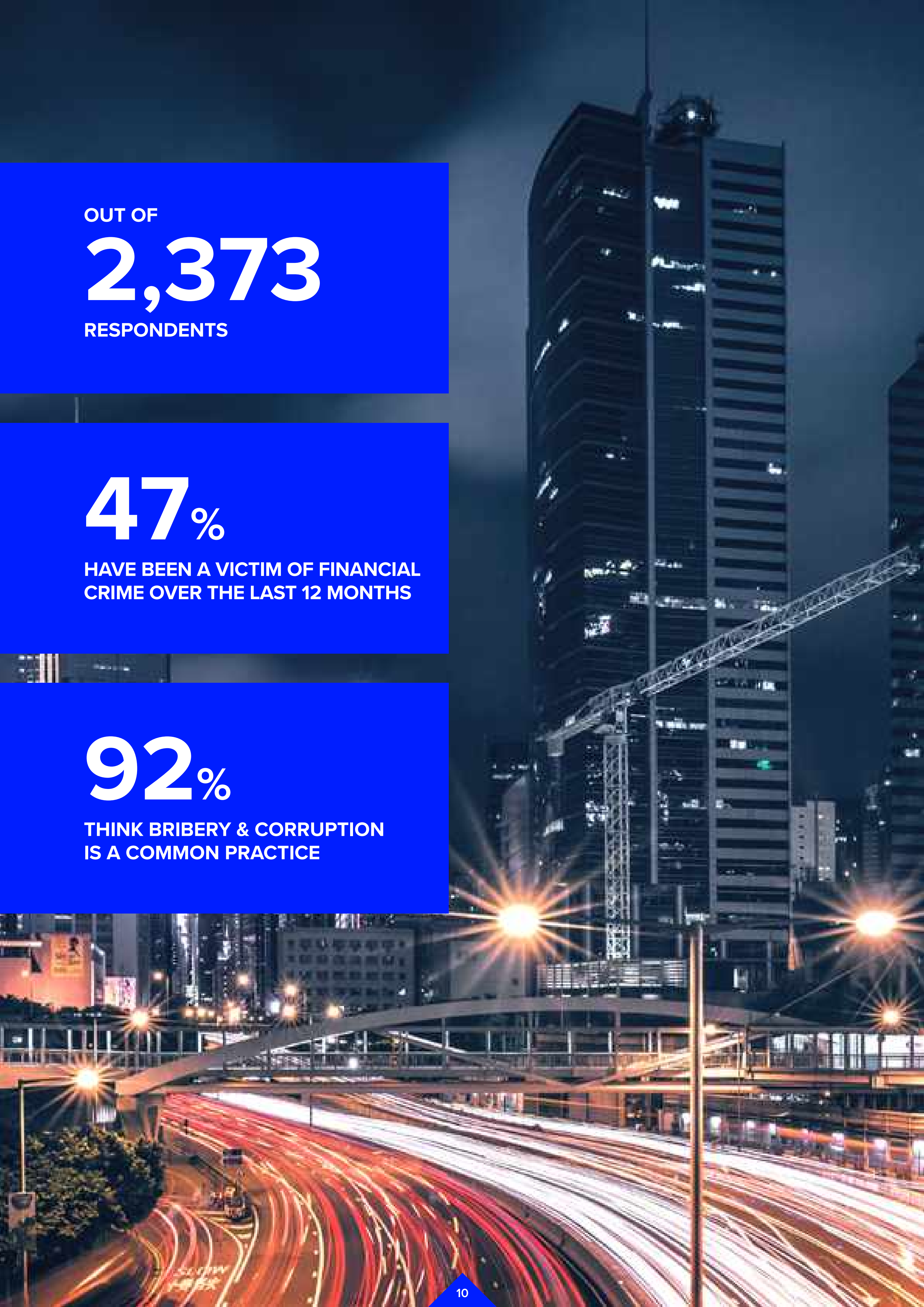


69%

BRIBERY AND CORRUPTION

75%

CYBERCRIME



OUT OF
2,373
RESPONDENTS

47%
HAVE BEEN A VICTIM OF FINANCIAL CRIME OVER THE LAST 12 MONTHS

92%
THINK BRIBERY & CORRUPTION IS A COMMON PRACTICE

Measuring the impact

The damage done by financial crime extends well beyond companies to governments, national economies and individuals.

A common experience

The survey revealed that 47% of organizations participating in this research have been a victim of at least one type of financial crime in the last 12 months, with 66% of German companies experiencing financial crime and 20% in Russia. Globally, fraud and cybercrime both had a 20% incidence, closely followed by 19% of companies who have been the victims of theft.

This high level of incidence means that financial crime is regarded as being a depressingly common practice. Taking bribery and corruption as an example, 59% strongly agree that it is a common practice in some of the regions that they operate in.

Looking across sectors, the highest incidence where bribery and corruption was strongly considered to be common practice was in the agriculture, forestry and fishing industry (73%).

Regionally, 72% of those operating in Canada strongly agreed money laundering was a common practice, followed by 67% of those in Latin America and the Caribbean. For financial cybercrime, those operating in southern Asia led the way, with 56% strongly agreeing this was a common practice.

FIGURE 3: INCIDENCE OF FINANCIAL CRIME OVER LAST 12 MONTHS

Q: Has your company been the victim of the following 'financial crimes' throughout your global operations over the last 12 months?

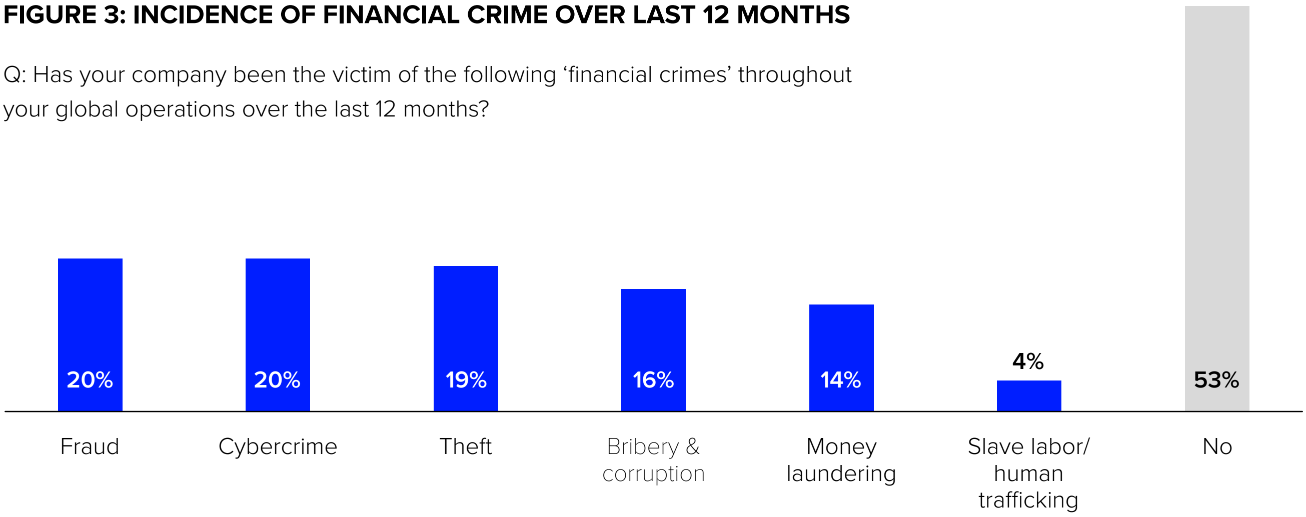
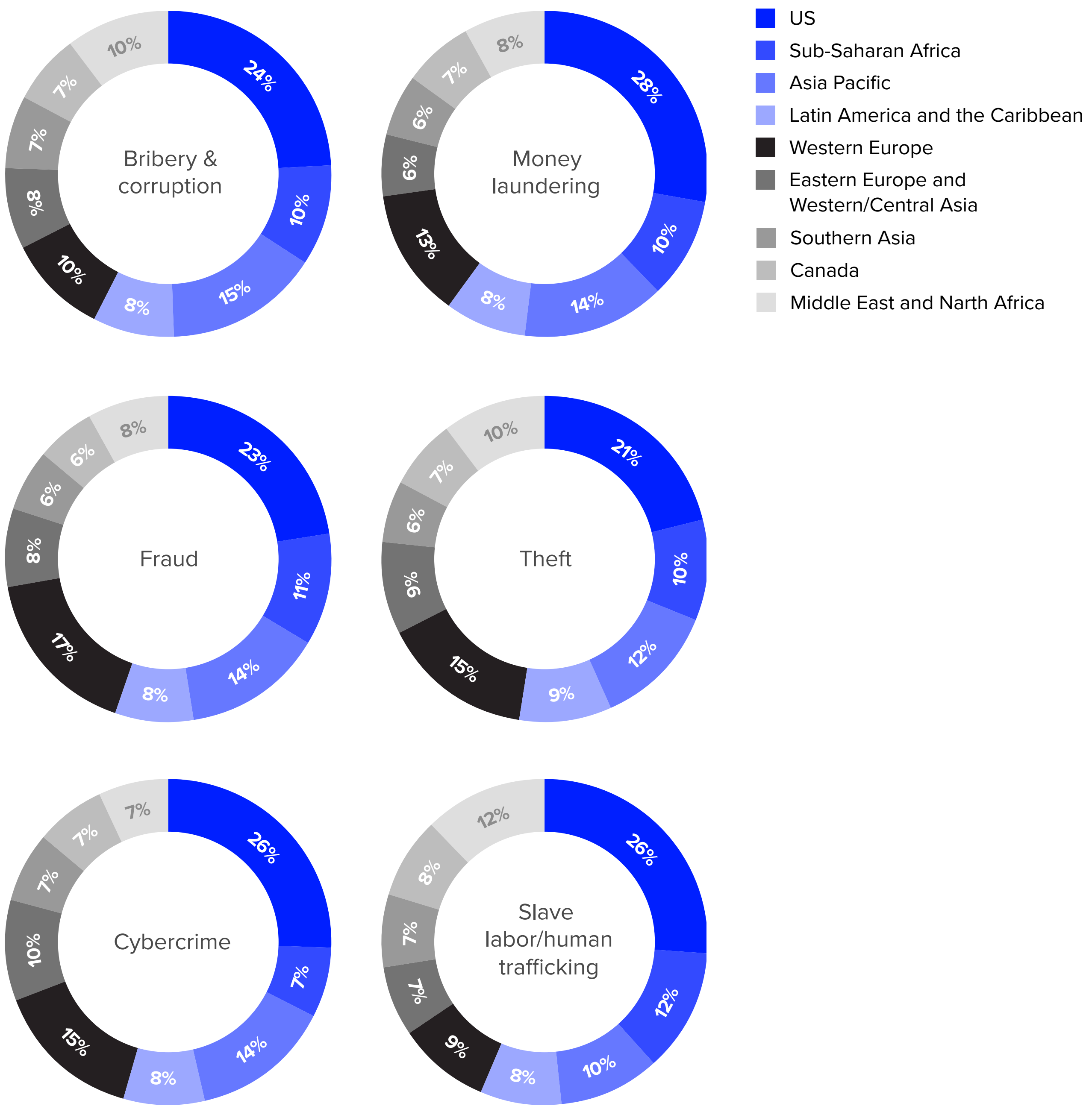


FIGURE 4: FINANCIAL CRIME SEGMENTS BROKEN DOWN INTO REGIONS

Q: How would you divide the incidence of [the financial crimes experienced] by the following regions?



Public companies suffer more

55%

PUBLICLY LISTED COMPANIES

45%

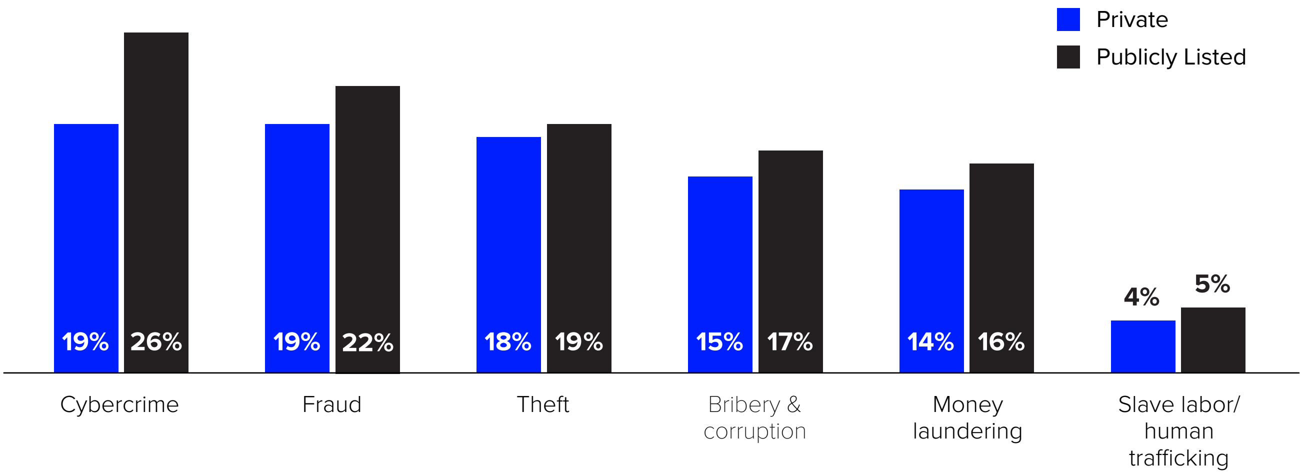
PRIVATELY LISTED COMPANIES

While 55% of publicly listed companies had experienced some form of financial crime in their global operations over the last 12 months, this fell to 45% for private companies (Figure 5). Looking at the different types of financial crime, there was generally more incidence in publicly listed companies.

The standout was cybercrime, with 26% of publicly listed companies having been the victim of financial cybercrime over the last 12 months, compared to 19% of private companies. This gap may reflect the greater external scrutiny that public companies face, making them more transparent about the risks their organizations face and more likely to report incidents.

FIGURE 5: INCIDENCE OF FINANCIAL CRIME OVER LAST 12 MONTHS

Q: Has your company been the victim of the following 'financial crimes' throughout your global operations over the last 12 months?



Further costs

Fear and de-risking

For many organizations, the costs do not stop there. Those found, knowingly or unknowingly, to be involved in money laundering or other financial crimes risk regulatory fines, reputational damage and even prosecution. The survey reflects this, showing that approximately half of respondents believe that being convicted of undertaking or facilitating financial crimes would have a significant negative impact on their organization.

Perhaps unsurprisingly, financial loss was the biggest concern that respondents considered likely to happen and that it would have a significant negative impact on their company at 31%, closely followed by damaged reputation and client churn/loss at 29%. This latter figure rose to 35% for respondents in the information and communication services industry, possibly due to the premium placed on information integrity in this sector.

This fear of financial and reputational damage due to regulatory breaches is having another, unintended consequence. Fearing that prevention alone may not be able to limit exposure to financial crime, organizations are deliberately avoiding customers, suppliers, regions or industries that they perceive as being most exposed to financial crime. The survey supports this view, with 72% saying they de-risk by avoiding, rather than managing, heightened risk customers. The impact in terms of lost opportunities at both organizational and national level is difficult to quantify, but it is likely to impact productivity and economic development.

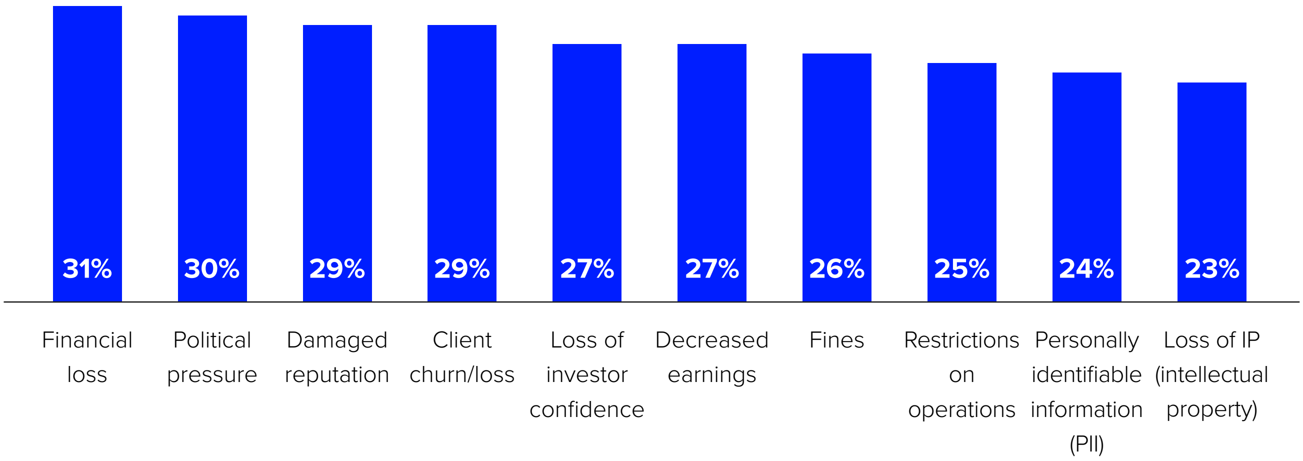
31%

believe financial loss would be likely and would have a significant negative impact should they be convicted of financial crime

FINANCIAL LOSS BEING BIGGEST CONCERN

FIGURE 6: IMPLICATION IF CONVICTED OF FINANCIAL CRIME

Q: How likely and what sort of impact do you consider the following implications are on your company should it be convicted of undertaking or facilitating 'financial crimes' such as bribery, money laundering or fraud?
Those answering 'Likely and significant negative impact on organization'



72%

SAY THEY DE-RISK BY AVOIDING RISKY CUSTOMERS

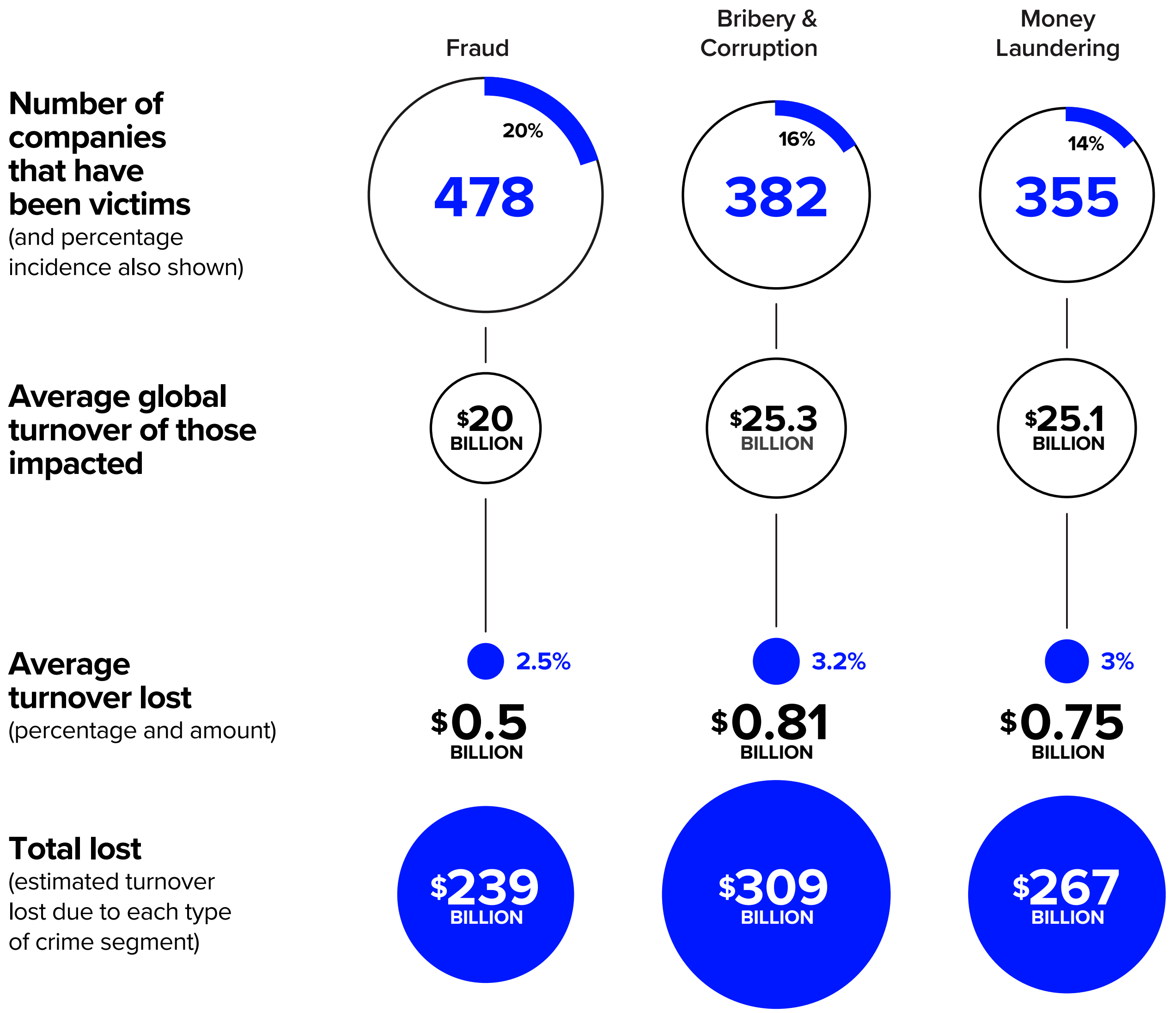
Counting the true cost

Putting a cost on financial crime is notoriously difficult; historically, many organizations have been reluctant to publicize losses. To address this issue we asked anonymized survey respondents to estimate the impact of each type of financial crime on their organization.

By adding together the estimated turnover lost due to each type of financial crime over the last 12 months, the aggregate figure is a staggering USD1.45 trillion.

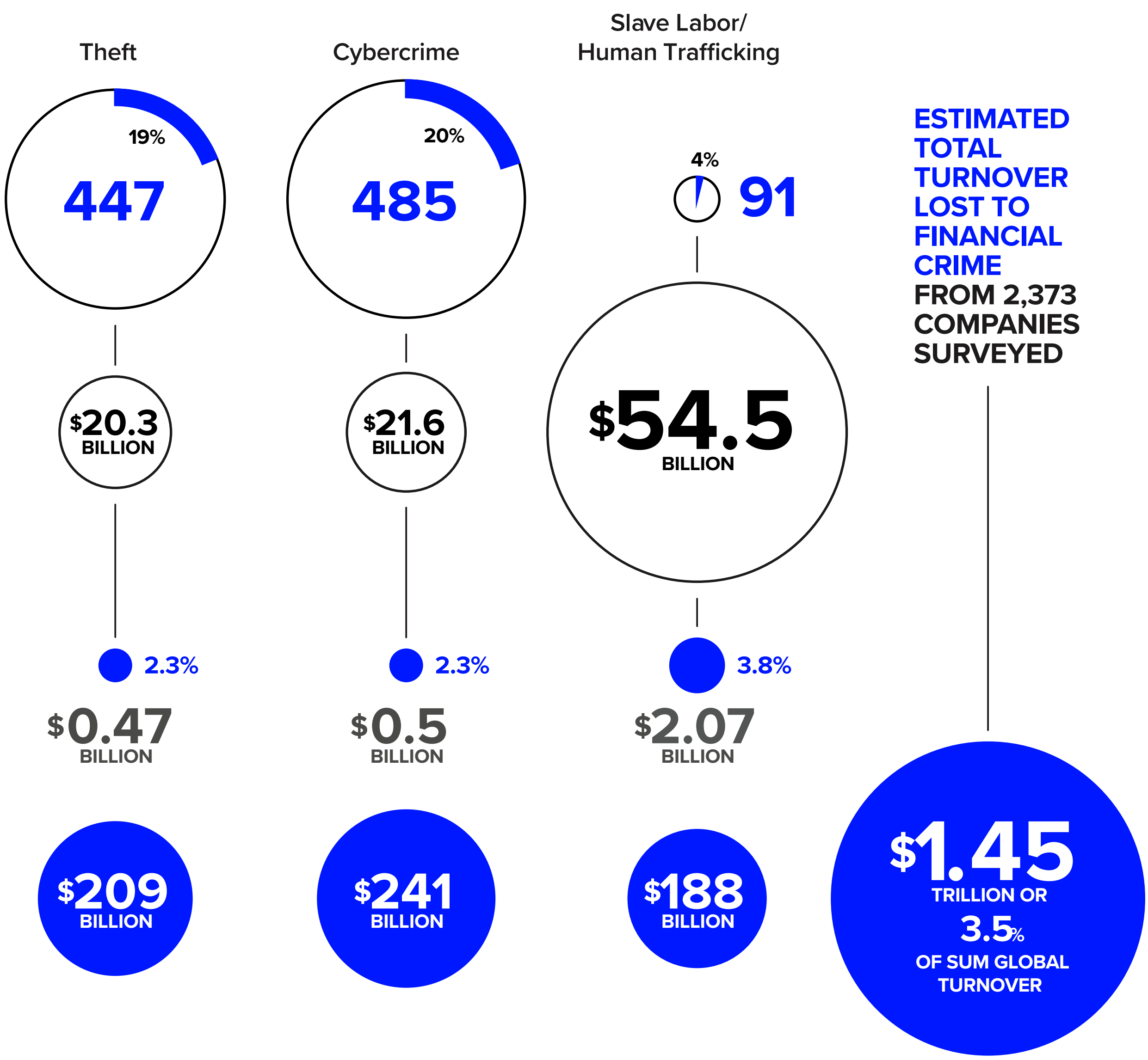
For a breakdown of individual crimes, please see the graphic below (Figure 7).

FIGURE 7: ESTIMATING THE BUSINESS COST OF FINANCIAL CRIME



"Ordinary people everywhere in the world ***unwittingly meet victims of modern slavery every day*** *– we might walk past a young woman trapped in a forced marriage, a hotel cleaner that has had her passport confiscated, or touch this crime through clothes we wear that were made through illegal forced labor."*

Fiona David
Executive Director of Global Research, Walk Free Foundation



Awareness of the real victims

Organizations are all too aware that financial crime has a wider societal impact and is not a victimless crime. Taking money laundering as an example, 46% think that the consequence of this is higher prices for end users and 42% believe it leads to less government revenues. Asked to identify the real victims of money laundering, 48% believed it was the economy of that nation and 38% its people.

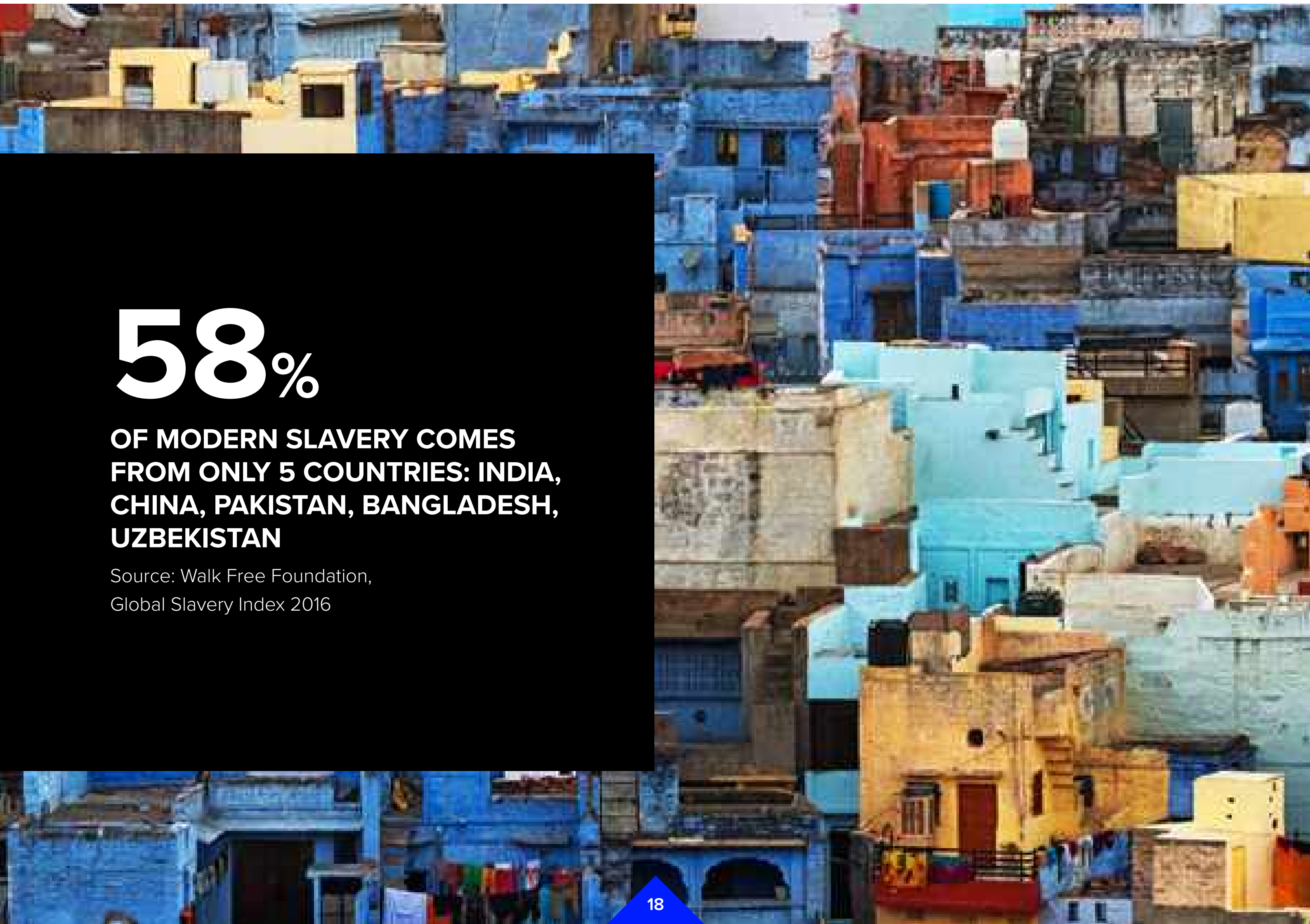
Overall, just 3% believed that there were no consequences from money laundering and the same percentage considered that there were no victims.

Calculating the human cost

With an estimated 40 million people living in modern slavery, the human and economic costs are enormous. A 2014 report by the ILO puts the cost at $150 billion. It is likely that the real numbers are far higher.

In the EU, a survey into the total economic cost of organized crime put the cost of slavery/ human trafficking at €30 billion. If we assume that the EU represents approximately 20% of the global economy and that other areas of the world have a similar prevalence, this puts the global cost at €150 billion.

See page 24 for comment by the Walk Free Foundation.



58%

OF MODERN SLAVERY COMES FROM ONLY 5 COUNTRIES: INDIA, CHINA, PAKISTAN, BANGLADESH, UZBEKISTAN

Source: Walk Free Foundation, Global Slavery Index 2016

40.3M VICTIMS AT

€150BN

TOTAL ECONOMIC COST

€99BN

FROM COMMERCIAL SEXUAL EXPLOITATION

€9 BN
IN AGRICULTURE
(INCL. FORESTRY & FISHING)

€8 BN
SAVED ANNUALLY BY PRIVATE HOUSEHOLDS
(EMPLOYING FORCED LABOR DOMESTIC WORKERS)

€34 BN

CONSTRUCTION, MANUFACTURING, MINING & UTILITIES

The educational cost

Criminals don't pay tax, so every dollar lost to financial crime generally results in a loss of revenue to the public funds that pay for vital services. **The Education Endowment Foundation** calculates that each billion US dollars in missing tax revenues lost due to financial crime could pay for:

FOR EACH

$1 BILLION

IN MISSING TAX REVENUES

USA
COULD EMPLOY

21,000

TEACHERS

Which would improve the school system profoundly

Poland
COULD EMPLOY

64,000

TEACHERS

Which would improve the school system profoundly

Russia
WOULD PAY FOR

180,000

TODDLERS

To gain the foundation to acquire key learning skills

Mexico
WOULD PAY FOR

327,000

CHILDREN

To have a place in primary & secondary school

Spain
WOULD PAY FOR

150,000

TODDLERS

To have a high quality early years education

India
COULD BUILD

2,000

SCHOOLS

Giving hundreds of thousands a good learning space

"Financial crime causes incalculable harm around the world. The proceeds of bribery, corruption, fraud, narcotics trafficking and other organized crime have all been implicated in the financing of ***terrorism, human rights abuses such as slavery and child labor, and environmental crime.*** *This has serious economic and social costs in terms of the lost revenues to national exchequers that could be invested in social development, and in terms of the impact on individual lives."*

CHE SIDANIUS
Global Head of Financial Crime and Industry Affairs, Refinitiv

48%

OF RESPONDENTS BELIEVE ECONOMY OF A NATION TO BE REAL VICTIM OF MONEY LAUNDERING

LEADING NGO INTERVIEW

The billion dollar education dividend

Sir Kevan Collins
Chief Executive, Education Endowment Foundation

One billion dollars may not sound like much in comparison to the trillions that are lost to global fraud each year. But when you look at how much some countries spend on education each year, it's immense.

Schools and teachers know how to make a little go a long way, and one billion dollars has the potential to make a real difference. If we took this much cash back from the fraudster and invested it in schools, we could drastically improve life chances for hundreds of thousands of young people across the world.

In Spain it could pay for high-quality early years education for 150,000 toddlers – 180,000 in Russia – providing them with the foundations they need to become fluent learners at school. If Mexico had another billion dollars it could pay for placing 327,000 children in its primary and secondary schools. In India, the same amount could build 2,000 more schools, giving hundreds of thousands of pupils the right environment to learn.But access to schools and early education is only part of the story. What matters most is great teaching, and one billion dollars could go a long way to recruiting and retaining teachers across the globe. In Poland, this much money could employ 64,000 more teachers, or 21,000 in the USA.

While the overall benefits of investing in education are almost impossible to put a price on, the rewards that come from investing an extra one billion dollars in a country's schools benefit not just the individual, but the country as a whole. An educated population is wealthier, healthier and more law-abiding. Investing in education isn't just good for children, it's good for economies and societies too.

TRILLIONS

ARE LOST TO GLOBAL FRAUD EACH YEAR

Endowment Foundation Estimate

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*"An educated population is wealthier, healthier and more law-abiding. Investing in education isn't just good for children, **it's good for economies and societies too.**"*

SIR KEVAN COLLINS
Chief Executive, Education Endowment Foundation

LEADING NGO INTERVIEW

Matching the penalty to the crime

Robert Barrington
Executive Director, Transparency International UK

There are two key take-aways from this report. First, it lifts the lid on the fact that more work needs to take place on the question of scale. Secondly, companies and the public have very different views.

Regarding scale, financial crime may be on the increase, but so is the legislative framework and law enforcement action. That is good news, but knowing the scale is vital to knowing whether it is an adequate response. This enables an assessment of whether resources allocated to law enforcement agencies are sufficient; and also helps corporates to know what they are up against. They can assess how much their competitors may be cheating, how much their own staff may be contributing to the problem, and what internal resources may need to be allocated to detect and deter financial crime.

However, the better understanding that has developed about scale at the macro-level has not been matched by understanding company-level scale in calculating the impact and the gain. When a case comes to settlement or prosecution, the size of the benefit and the size of the harm are critical factors in arriving at the penalty. These are imprecise arts, with scope for both miscalculation and misinformation. This is the next frontier in discussions about scale.

For example, the benefit to an aerospace company that has paid a large bribe to win a contract will obviously be the profit on the contract, but it will also be the free cash flow and enhanced enterprise value it generates, raising the ability of the company to undertake R&D and M&A activity. If the contract and bribery extend over decades, underpinning the company's financial health, this can be a very significant gain.

Regarding impact, even at the most basic level, it is often difficult to determine immediate victims. The impact of corruption is often felt at macro-level. For example, if a construction company pays a bribe to a local politician to build a bridge, the bridge may be not built or poorly built (impact obvious) or it may be a perfectly decent bridge. If it is a decent bridge, the question becomes what is the impact of the bribe on enriching a corrupt local politician - who might, for instance, use the bribe to fund a political campaign and get elected as a national politician, still corrupt, and with control over much larger budgets and many more lives.

And what of the mis-match between corporate and public views of this problem? The key point is that companies think of themselves as victims; the public think of them as perpetrators. The usual defense of the 'rogue employee' somewhat neglects the concept of corporate accountability and responsibility. Is it a coincidence that more of these rogue employees are apparently found in companies with poor governance, weak compliance, a culture of misaligned incentives and over-aggressive sales targets?

"Regarding scale, financial crime may be on the increase, but so is the legislative framework and law enforcement action."

ROBERT BARRINGTON
Executive Director,
Transparency International UK

LEADING NGO INTERVIEW

Breaking the chains of slavery

Fiona David
Executive Director of Global Research, Walk Free Foundation

Ordinary people everywhere in the world unwittingly meet victims of modern slavery every day – we might walk past a young woman trapped in a forced marriage, a hotel cleaner that has had her passport confiscated, or touch this crime through clothes we wear that were made through illegal forced labor.

Yet, despite this prevalence, awareness of slavery is worryingly low. This survey showed that four percent of companies surveyed knew they had been victims of modern slavery in the last 12 months. The real figures are likely far higher. It is therefore very welcome that this survey commissioned by Refinitiv includes slavery in its questions, and that the accompanying report looks beyond the monetary impact of financial crime and towards its human cost.

That cost is high, with the Global Estimates of Modern Slavery - produced by Walk Free Foundation and the International Labour Organization, in partnership with the International Organization for Migration - estimating that 40.3 million people are in some form of modern slavery. More than 25 million of these people are subject to forced labor in the private economy. Behind these numbers, are the individual stories of the men,women and children who are being forced, through threats and violence, to work on fishing vessels, construction sites or in agriculture.

That suggests a real need to focus on global supply chains. While they create employment and opportunities for economic and social development, when poorly managed the demand for cheap labor and the dynamics of production in informal, unregulated markets create a fertile territory for modern slavery to grow. Although many of these abuses occur in the supply chains of major global corporates, cases of blatant and deliberate corporate abuse are rare. Most corporates do not even know what modern slavery looks like or just how susceptible their own supply chains are to it.

Much more work needs to be done in this area, not only by companies improving their processes, but also by the banks who unwittingly allow slave masters to launder their profits. But it would be wrong to focus all the attention on the private sector. Governments are also implicated. At one extreme, state-sanctioned forced labor is still widespread in countries that include North Korea, Eritrea, Burundi and Turkmenistan. At the other, even though many countries have legislation covering all forms of exploitation, stronger steps need to be taken on implementation, collaboration and research. Governments and business each have an important role to play to combat this heinous crime.

40.3M

PEOPLE ARE IN SOME FORM OF MODERN SLAVERY IN

199

COUNTRIES

EUROPOL INTERVIEW

How to get better at fighting financial crime

Rob Wainwright
Former Executive Director, Europol

We estimate that barely 1% of criminal proceeds generated in the European Union are confiscated by relevant authorities. Yet global banks spend billions of dollars each year meeting stringent anti-money laundering regulations. So why isn't this level of investment yielding better results?

One major reason identified by global banks, law enforcement agencies and the Financial Action Task Force (FATF), which sets international standards for anti-money laundering arrangements, is that the regulatory regime is highly inefficient. To be compliant, banks monitor millions of transactions, producing high quantities of alerts for individual review by compliance officers. According to a senior executive in one global bank, only some 5% of those reviewed ever reach the standard of being filed as a suspicious transaction report to law enforcement. The rest are discarded.

But it gets worse. Europol's research has shown that, over a period stretching back to 2006, an average of only 10% of all suspicious transaction reports received by law enforcement agencies across Europe ever lead to any meaningful investigation.

It means that only some 0.5% of all transactions reviewed by the huge number of compliance officers in the banking sector ever lead to a criminal investigation. That's a very small dividend from the multi-billion dollar investment made and goes a long way to explaining why such a small amount of criminal proceeds are ever confiscated.

So what can be done about it? This question has framed a new initiative, led by Europol and the Institute of International Finance (IIF), to bring some of the world's biggest banks closer to the law enforcement community to improve the systemic impact of financial crime compliance efforts.

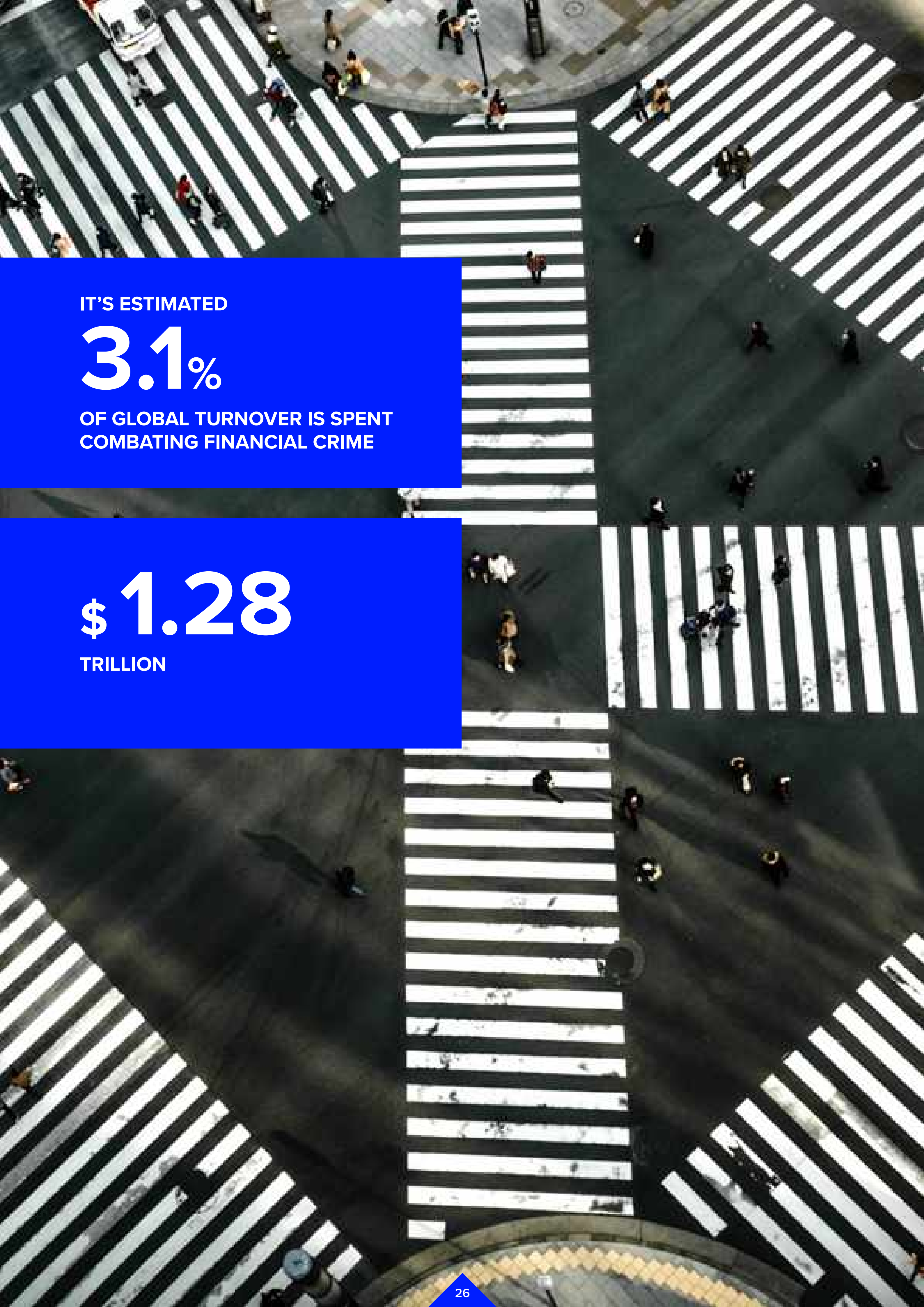
It found that the primary reason was the general paucity of good-quality intelligence delivered by the system. Redirecting the considerable resources of the regime to a more targeted approach would almost certainly yield greater benefits.

Greater co-operation is also vital. Where there have been cases of systematic co-operation the outcome is positive. The Joint Money Laundering Intelligence Taskforce (JMLIT), launched in the UK in 2016, has brought together law enforcement agencies and 20 major banks in an initiative to improve intelligence sharing and co-operation. The first results are good, with the project leading to over 1,500 proactive investigations by the banks in cases identified by law. This is encouraging, but there is still a long way to go in the fight against financial crime. With support from the Institute of International Finance, Europol is working with major global banks and European law enforcement agencies to improve the cross-border sharing of financial intelligence and make the AML/CTF regime more efficient and effective.

1%

OF CRIMINAL PROCEEDS GENERATED IN EU ARE CONFISCATED

Europol estimate



IT'S ESTIMATED

3.1%

OF GLOBAL TURNOVER IS SPENT COMBATING FINANCIAL CRIME

$ 1.28

TRILLION

Fighting back

Organizations are committed to fighting financial crime, but there are gaps in training and resources.

Putting resources to work

It is a common misconception that high levels of financial crime are due to a lack of efforts in fighting it. The reality is very different, with respondents estimating they spent an average 3.1% of global turnover over the last 12 months to prevent such issues occurring around their global operations. This adds up to a collective spend of USD1.28 trillion and reflects the complex regulatory challenges they face, particularly in relation to KYC requirements.

Identifying weaknesses

Bribery and corruption and cybercrime are the two areas of financial crime that companies find most challenging to prevent throughout their global operations (60%), with approximately 9 in 10 recognizing the importance to their company of finding solutions to these issues.

Closing the education gap

To mitigate the risk of financial crime, 6 out of 10 of survey respondents say they operate formal training for their colleagues around the globe for briberyand corruption, money laundering, fraud, theft and cybercrime, although less than half (46%) operate this training for slave labor/human trafficking. This suggests more could be done, with approximately 4 in 10 strongly agreeing that they struggle to educate and influence colleagues on bribery and corruption, money laundering, fraud, theft and cybercrime in some regions; with 6 in 10 strongly agreeing that they are struggling to educate and influence colleagues about slave labor/human trafficking.

“At Davos this year, the ***World Economic Forum, Refinitiv and Europol*** *launched a coalition to improve awareness of the extent of financial crime, promote more effective information sharing and establish enhanced processes to share best practice.”*

DAVID CRAIG
President, Financial & Risk, Refinitiv

Taking action

The survey suggests that organizations are well aware and highly supportive of a range of actions to tackle financial crime. Two of these stood out, with 94% supportive (of which 59% were very supportive) of 'sharing of financial intelligence/information on specific cases by companies', closely followed by 93% (58% very supportive) of 'working with companies that follow best practices'.

The vital role of data, intelligence and technology

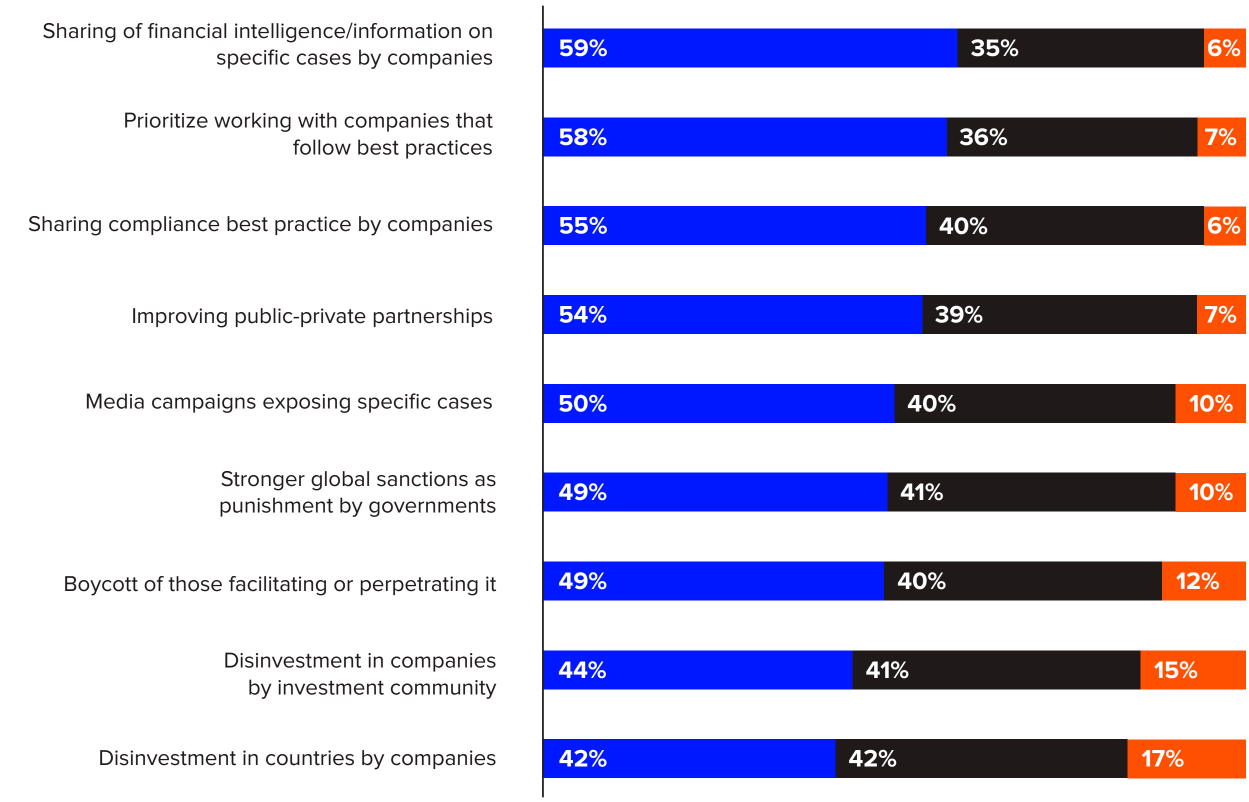
When looking for solutions to identify and mitigate financial crime, advanced technological capabilities are the most valuable area for companies, with 66% saying they have this already and 31% considering it.

Data plays a key role in fighting financial crime in terms of detection, compliance and monitoring, with many recognizing the need for support in this area. Approximately half the survey respondents cite the importance of subject matter expertise, research methodology and breadth and depth of information when selecting a financial crime data partner. 4 in 10 of those who currently do not have this resource would consider using a vendor who could demonstrate these skills.

Refinitiv strength in all these highlighted areas has helped us establish ourselves as the world's trusted and accurate source of risk intelligence, used by law enforcement agencies, regulators, banks and corporations globally, regionally and locally, to help ensure the world is safe from financial crime and corruption, making it a better place in which to live and do business.

FIGURE 8: TAKING ACTION AGAINST FINANCIAL CRIME

Q: How supportive are you of the following actions to tackle global financial crime?



Why is it that despite our best efforts, businesses successfully detect and recover so little of the estimated amount of criminal and terrorist funds assessed to be flowing through the international financial system?

Part of the problem is that organizations, governments and law enforcement agencies have failed to share the information and data needed to combat crime.

To address this problem new public-private financial information-sharing partnerships (FISPs) are being created. FISPs now exist in Hong Kong, Singapore, Canada, the USA and Australia, as well as the UK – and the partnerships are paying dividends.

In Hong Kong, in the first four months of activity alone, 65 people were arrested and HK$2m seized. In the UK, there were over 60 arrests and more than £7m in suspected criminal funds seized. There is a human side too. Senior members of a human trafficking gang were convicted after information was shared and analyzed collectively through the UK FISP.

Refinitiv is also playing a key role in a new partnership in the fight against financial crime. Launched at Davos 2018, it is a powerful public/private coalition comprising Europol, Refinitiv and the World Economic Forum.

*"**Collaboration** is key to fighting financial crime."*

Che Sidanius
Global Head of Financial Crime and Industry Affairs, Refinitiv

TOOLS TO FIGHT FINANCIAL CRIME

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

Screening
World-Check Risk Intelligence database – comprising millions of records of individuals, entities and vessels – reveals risks that may be hiding in business networks.

Screening as a managed service
Screening and remediation can be outsourced to Refinitiv, reducing the overall costs and time associated with risk mitigation.

Geopolitical risk ranking
Our solution reveals the geopolitical, social and economic risks associated with any country in which customers and third parties are based.

Enhanced due diligence (EDD)
EDD reports deliver detailed background information on any entity or individual to help organizations protect themselves against regulatory and reputational damage.

Appliance planning interface (API) to partners
We partner with market-leading third party software providers that can integrate with our suite of products and services.

Transaction monitoring
Screen for suspicious financial activity, while supporting KYC and onboarding processes, all on a single transaction monitoring platform.

Conclusion

Our survey reveals that, despite ever tightening regulation and significant spending on preventative measures, the impact of financial crime across the globe remains huge.

From the IMF to the WEF to FATF, global organizations have made fighting financial crime a priority. We already know that financial crime blights individual lives and undermines the ability of governments to provide key services such as education and health. The IMF has shown that it reduces economic growth and social cohesion. For the first time our research has put a price on financial crime: three and a half percent of corporate turnover. For the 2,373 large companies in our survey alone, that adds up to a staggering $1.45 trillion.

So what can be done? The positive news is that awareness is being improved slowly but surely and regulators, police forces and businesses are increasingly coming together to fight back more effectively. New technology offers new solutions, with machine learning and artificial intelligence already being deployed to highlight and predict suspicious activity. The potential is there for these technologies to play a much bigger part in the fight against financial crime.

Better data and smarter techniques are making it easier to form a complete picture of risk across global supply chains. But with 10% of the companies in our survey having more than 10,000 third party relationships, the challenges remain huge.

To be truly effective, anti-corruption strategies may require broader regulatory and institutional reforms. As Christine Lagarde, Managing Director of the IMF, puts it, "The most durable 'cure' for corruption is strong, transparent, and accountable institutions". Weak governance goes hand in hand with corruption. Only by working together with renewed determination at a global, national and individual level, in both public and private sectors, can we create an environment in which there is nowhere for criminals abusing the financial system to hide. Right now, according to our survey, it is hidden even from the very companies which are victims of it, with a quarter of our survey respondents reporting less than half of detected financial crimes internally.

At Refinitiv, we are firmly committed to the fight against financial crime, working with businesses, financial institutions, governments and in strategic partnerships to shine a light on hidden practices. As a trusted and accurate source of risk intelligence,

Refinitiv continues to work across borders to help prevent businesses and financial institutions falling prey to financial crime and by doing so, inadvertently contributing to the human cost paid by its victims.

Join the movement to fight financial crime
#FightFinancialCrime

Enhanced due diligence

Enhance. Simplify. Protect.

Advanced background and integrity checks on any entity or individual, anywhere in the world.

Protect your reputation, meet regulatory obligations and understand exactly who you are doing business with.

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