

Revealing the true cost of financial crime

What's hiding in the shadows?

Focus on **North America**

REFINITIVTM

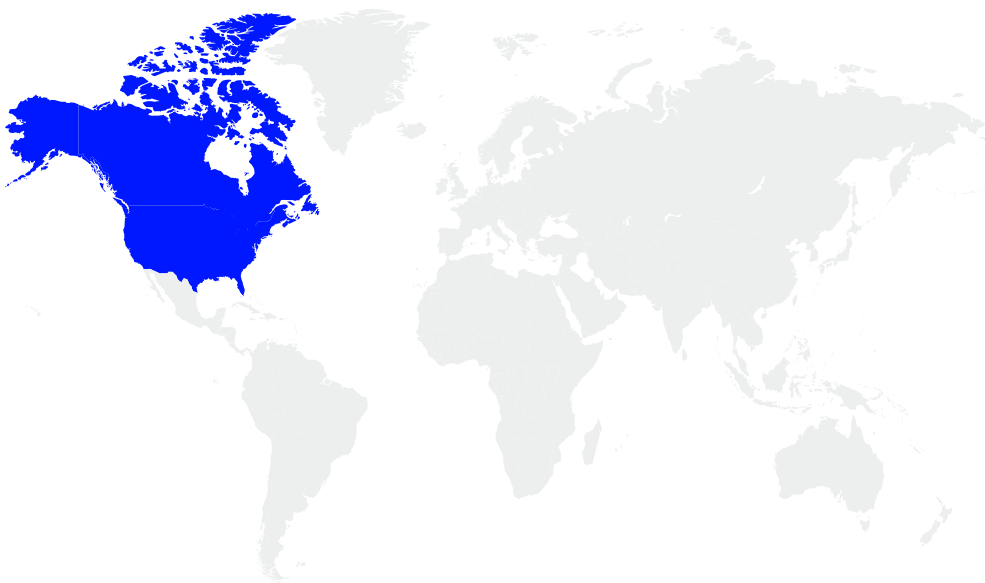
DATA IS JUST
THE BEGINNING

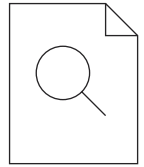


In March 2018, Refinitiv commissioned a global survey to better understand the true cost of financial crime and to raise awareness of its wider impact on business, individuals and society as a whole.

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 [North America](#).





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 Refinitiv 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 the USA and Canada.

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

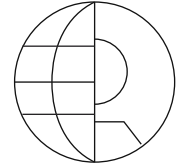
RESPONDENTS

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



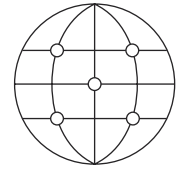
The true cost of financial crime extends far beyond pure economics. Critical social consequences include the proceeds of financial crime being used to fund the financing of terrorism; human rights abuses such as slavery and child labor; and environmental crime.

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
AFFECTS
EVERYONE**



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, but North American responses revealed even more extensive networks, with USA respondents recording an average of 8,975 relationships and Canadians an even higher number at 10,580. These figures begin to lift the lid on the true extent of the challenge facing organizations in the fight against financial crime.

Ever-increasing pressure

On top of managing vast global networks, there is growing pressure on organizations to increase turnover, grow profits, develop new markets, increase market share and improve regulatory safeguards. When asked about these issues, the highest percentage of respondents in every region expected 'pressure to increase turnover' to be either extreme or significant over the 12 months post-survey. Globally, 83% were of this opinion and the figure grew to 86% in both the USA and Canada.

Initial screening and ongoing monitoring

These factors, added to a host of global regulations and legislation to combat financial crime, have led to a situation where compliance teams often struggle to fully screen and monitor the vast networks identified above.

Across the globe, an average of just 59% of respondents confirmed that they screen their global customers, third-party vendors, suppliers or partner relationships with regard to the financial crimes of bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking. Whilst the percentage of respondents who are screening was slightly higher in North America – 61% in both the USA and Canada – that still means that nearly 40% of relationships are not being screened for financial crime risk.

The situation is even less favorable when looking at the percentage of relationships initially screened that are monitored and reviewed on at least an annual basis. Again, the global average was 59%, compared to 62% in both the USA and Canada. This means that, within the region, only 38% of relationships are screened both at the initial stage and on an ongoing basis.

NEARLY

40%

**OF RELATIONSHIPS ARE
NOT BEING SCREENED
FOR FINANCIAL CRIME
RISK RESPONDENTS**



Measuring the impact of financial crime

Respondents were asked whether their companies had been victims of financial crime 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 somewhat higher percentages in the USA (51%) and Canada (53%).

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 just over USD\$1.45 trillion.

On the same basis, we analyzed 2,206 listed companies in North America 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. When asked whether their organizations consider de-risking appropriate in order to avoid, rather than manage, heightened risk customers, 72% across the globe agreed, compared to a higher 77% in both the USA and Canada. 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.

GLOBALLY

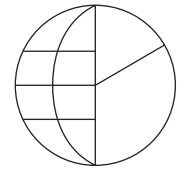
47%

HAVE BEEN A VICTIM OF FINANCIAL CRIME

OUT OF

2,373

RESPONDENTS



Different aspects of financial crime

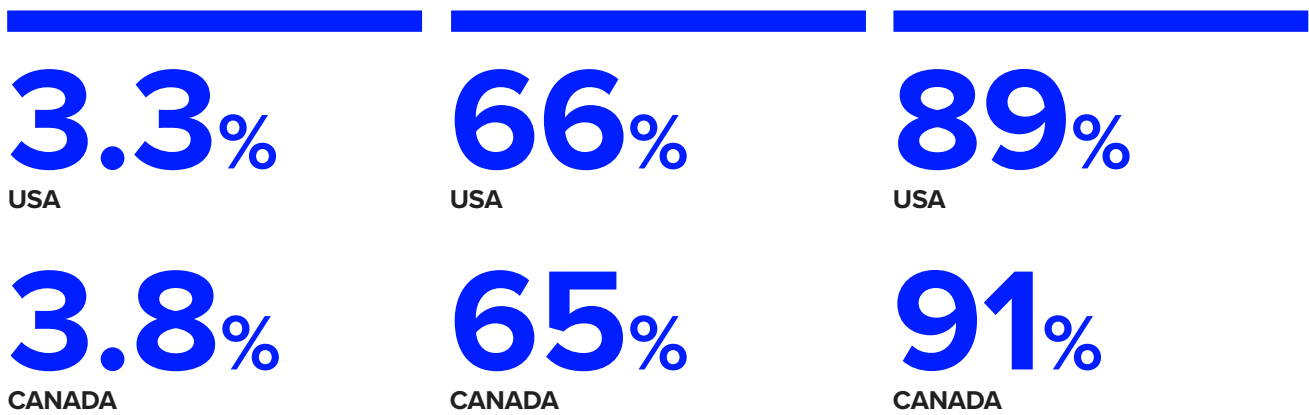
Perceived relative importance

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 labour/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.

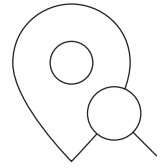
Conversely, two areas – bribery and corruption; and cybercrime – stood out across all regions, with the highest percentage across the globe (94%) selecting bribery and corruption as an important issue to tackle. In the USA, both bribery and corruption and cybercrime were selected as important by 95% of respondents and, in Canada, 96% selected both these categories.



In the 12 months preceding the survey, the percentage of **turnover lost to bribery and corruption** was an average of 3.3% in the USA and 3.8% in Canada (the global figure was 3.2%).

66% in the USA and 65% in Canada believe that the consequence of this bribery and corruption will be **higher prices for end users**.

89% in the USA and 91% in Canada 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?

According to respondents, as a percentage of global turnover, companies spent an average of 3.1% to prevent financial crime around their global operations during the 12 months preceding the survey. The figure was marginally higher at 3.4% in the USA and rose to 3.5% in Canada.

Shortcomings in formal compliance

Respondents were further 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 records.

Within the region, some notable gaps were also evident, as follows:

- In the USA, just 55% fully implement workflow and process reports and 56% fully conduct due diligence
- In Canada, only 57% fully implement workflow and process reports and 58% fully train and educate their customers, third-party vendors, suppliers or partners

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

IN THE USA, ONLY

55%

FULLY IMPLEMENT WORKFLOW AND PROCESS REPORTS

IN THE USA

3.4%

IN CANADA

3.5%

OF THE REGIONAL TURNOVER IS SPENT ON COMBATING FINANCIAL CRIME

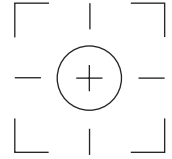
Training gaps

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. That means that over half of global respondents' organizations either don't undertake training in this important area or they are unaware that such training exists, once again highlighting the need to raise awareness. A lack of training in this area was evident within every region surveyed, with only 51% in the USA and 53% in Canada confirming that such training is undertaken.


49%

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 Refinitiv 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 financial intelligence/information on specific cases and sharing compliance best practice, pointing to a clear appreciation of the importance of collaboration in the fight against financial crime.

In both the USA and Canada, the highest percentage (96%) were supportive of sharing compliance best practice by companies.

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 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 World-Check, the trusted and accurate source of risk intelligence.

Join the conversation: [#FightFinancialCrime](#)

Conclusion

Our survey results reveal that companies across North America have extensive global networks that must be fully screened for potential links to any form of financial crime. Yet within the region, only approximately 38% of relationships are screened both at the initial stage and on an ongoing basis, highlighting a clear need for improvement in this crucial area.

Moreover, in the 12 months preceding the survey, 51% of respondents across the USA and 53% across Canada revealed that their companies had been a victim of at least one form of financial crime, despite the fact that, during the year preceding the survey, they had spent an average of over 3% of global turnover to prevent this form of crime within their operations.

Those surveyed indicated that both bribery and corruption and cybercrime are considered important issues to tackle and, in both the USA and Canada, a high percentage of respondents (96%) are supportive of sharing compliance best practice by companies.

Many 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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