

Study Shows Financial Services hardest Hit by Fraud

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Kroll, a risk consulting company, released its 2009 Annual Global Fraud Report in Boston on October 19, and it concludes the global financial services industry saw the worst spike in fraud activity, with companies losing an average of \$15.2 million over the past three years.

Based in New York, Kroll is a subsidiary of Marsh & McLennan Companies, and for its annual report the company commissioned The Economist Intelligence Unit to conduct an international survey on fraud and its effect on businesses in 2009. The Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist* magazine.

There were 729 senior executives participating, with about one-third from North and South America, one-quarter from Asia-Pacific countries, a little over a quarter from Europe, and 11% from the Middle East and Africa. There were 10 industries examined: consumer goods; travel, leisure, and transportation; natural resources; retail, distribution, and wholesale; financial services; professional services; technology, media and telecommunication; manufacturing; healthcare, pharmaceuticals and biotechnology; and construction, engineering, and infrastructure.

The types of fraud examined included: information theft, loss, or attack; regulatory or compliance breach; management conflict of interest; financial mismanagement; vendor, supplier, or procurement fraud; theft of physical assets or stock; IP theft, piracy, or counterfeiting; corruption and bribery; internal financial fraud or theft; and money laundering.

Of all the industries surveyed, financial services saw a much higher growth in fraud than the others. More than half (53%) of those reporting from the financial services sector recorded an increase in fraudulent activity. The other industries reported only a 27% increase. Some industries reported a decrease in fraud (6%). Sectors like the construction industry have experienced a marked decrease in new work, and, consequently, there's a decrease in opportunity for fraud.

The survey also has an interesting breakdown in types of fraud by sector. The areas experiencing the greatest number of regulatory compliance violations are healthcare, pharmaceuticals, and biotechs. The highest rate of money laundering is, as you would expect, found in financial services, but the sector most vulnerable to internal financial fraud is the travel and leisure industry. Technology, media, and telecoms have the highest rate of information theft or attack, and the area with the highest rate of conflict of interest turns out to be the natural resources industry.

You can read the 2009 Kroll Annual Global Fraud Report online at www.kroll.com/fraud.

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