



Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.

PROXIMAL CONSULTING WHITE PAPER 8 AN OVERVIEW OF THE GLOBAL LEVEL OF FRAUD & FINANCIAL CRIME

In 1996 Peter Ondera of the Slovak Interior ministry commented that "most financial crime is invisible". There is very little reliable data on the overall global level of fraud - and what does exist almost certainly underestimates the real level of criminal activity and resultant losses (because one key factor is that many losses caused by fraud on corporate bodies are never reported). One can only begin to appreciate the true scale of fraudulent activity by bringing together various national estimates and surveys. What follows, then, is a random selection of fraud loss figures collected from across the world which should be taken with the above caveats in mind - the real losses and extent of fraud are definitely much higher. The under reporting of fraud losses is nothing new: for example bank robberies make good press but in the distant past which was 1993, United States banks lost \$53 million as a result of such incidents: reported bank fraud losses for the same year were \$815 million.

- In the United States 30% of all business failures are caused by white collar crime
- As far back as 1992 EC investigators confirmed that during that year £360 million worth of fraud against the European Community had been discovered. Crime cost the European Union 1.3 billion ECU in 1996 - the equivalent of £10 for every taxpayer: the largest individual cases involved transnational organized crime
- Die Woche: 75% of Germans believe that corruption has grown to a level where it poses a danger to business and industry
- Germany: fraud and bad investment advice costs up to DM 40 billion per annum
- Canada: 55% of respondents from 1000 largest companies reported that fraud had taken place in their organization within the last year (1998) - total losses \$121 million
- UK: 70% of top companies have been the victim of frauds (MORI: Security Gazette) - 60% of frauds are carried out by company's own management
- 1996 Federal Reserve Board Governor Edward Kelley confirmed that criminal activity is costing US banks more than \$1 billion each year: The FBI and other federal agencies estimate that the total US fraud losses are between \$60 and \$200 billion annually
- In the aftermath of the US Savings and Loan disaster, studies show that criminal fraud had been perpetrated in 60% of all savings and loans seized by the government - and in June 1990 it was estimated that the S&L rescue would cost \$500 billion, which was equivalent to \$2,000 for every person (man, woman and child) living in the United States
- US Justice Department estimated that between 1 October 1988 and 30 June 1992 the losses attributable to major financial institution offences they prosecuted was \$ 11.5 billion
- Prime Bank instrument fraud may be costing \$10 million per day but less than 10% of these incidents are reported to law enforcement agencies
- FBI figures put losses sustained in some 100 investment scams investigated by the agency since 1987 at over \$350 million
- United States: The IRS have determined that on US tax returns 60,000 citizens had claimed 4 or more fictitious dependants whilst several million had claimed 1 or more fictitious dependants
- Worldwide credit card fraud losses are so massive that a recent survey dispensed with a financial estimate and concluded that the most reliable approximation is "out of control". In the United Kingdom alone in 1998 there was an 11% increase in plastic card fraud from the previous year to a recorded loss of £135 million
- UK mobile phone fraud is running at £200 million per annum
- Russian investors have lost \$11 billion through investment in delinquent/fraudulent companies since 1991
- Medical fraud is estimated at 10% of health care costs

- Netherlands: the total costs of all types of fraud in 1993-5 was ECU 476 million
- The Swedish National Criminal Intelligence Bureau estimates that international investment frauds cost ECU 12 million pa in Sweden and 8 million of that goes to fraudsters in the USA
- The Ethic Resource Center in the US concluded that employees lie on reports and falsify records (41%) or steal (35%)
- As far back as 1974 the US Chamber of Commerce estimated that the cost of white collar crime in the United States alone was not less than \$40 billion
- US experts have concluded that staff fraud costs \$200 billion per annum
- Canada: according to the Fraser Institute Canadian citizens "are exposed to crime each year at a cost of at least \$15-30 billion"
- In 1996 SPI, the industry body for UK insolvency practitioners, reported that 15% of insolvencies were due to fraud
- Estimates are that 60% of all offices will suffer computer related crimes and up to 50% of these will be employee related
- A KPMG survey in 1996 showed that 52% of the companies surveyed had been defrauded with Malawi being the worst for domestic fraud with 80% of companies having suffered losses
- In the United States in 1997 the Department of Health and Human Services revealed that a formal audit had revealed Medicare (the federal health insurance scheme for the elderly and severely disabled) suffers annual losses of \$23 billion through fraud and mismanagement. The number of FBI investigations into health care fraud have tripled in the five years up to 1996, with 2200 cases in that year
- Meanwhile in the UK in 1997 fraud inside the National Health Service was estimated by inside experts to be running at £100 million - but much of it up to now had been undetected
- In 1999 the US State Department expressed concern about the level of fraudulent entry visa applications being received. They revealed that a fifth of the visa petitions examined at the US consulate in Chennai India listed fraudulent previous employment and work experience
- In 1996 of the 776 investigations into organized crime in Germany, 17% involved attempts to influence politics, big business or government administration. The main activities of organized crime were drug trafficking, weapons smuggling, money laundering and gambling. In 1992 police uncovered crime in these areas totaling DM 700 million
- In 1997 100 complaints were received a month by the US National Consumers League which related to fraudulent Internet companies or investments. The amounts lost range from \$10 - \$10,000. This was a dramatic rise on 1995 when the total number of complaints for the year was 389
- During 1996 the numbers of detected local government frauds in the UK rose 25% to 208,000 cases with a total loss of £76 million - benefit fraud accounted for \$68 million of this. In 1997-98 this figure increased to £89 million. BUT the Audit Commission which reported these figures then went on to state in 1996 that most fraud is still undetected and is not included in these totals (however one detected case involved a sub-contractor submitting almost 1,000 false invoices!!)
- Today it is estimated that one million fraudulent cheques enter the US banking system every day

And a final one I just love....

1995 travel claims by UK based travellers totalled 465,000 with a financial value of £140 million. Based on these claims Britons lose more Luis Vuitton luggage abroad than is ever sold in the UK....even better there must be so many Ray-Ban sunglasses and Rolex watches scattered over the beaches of the Mediterranean that you would do well to take a metal detector the next time you visit there.

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Proximal Consulting have unrivalled experience in providing KYC enhanced due diligence background reports on individuals and companies on a global basis. We also offer a complementary range of services including AML training, country risk reports and bespoke investigations.

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfil their AML obligations.

We work with a variety of global clients including regulatory agencies, law firms, individual companies, private banks, trust companies and other firms in the financial sector.