

Press release

DATE & PLACE: Brussels, 28 November 2005

CONTACTPERSON: Robert Peirce, Partner PricewaterhouseCoopers
Tel.: 02/710.72.22, E-mail: robert.peirce@pwc.be

OR: Rudy Hoskens, Director PricewaterhouseCoopers
Tel.: 02/ 10 43 07, E-mail: rudy.hoskens@pwc.be

OR: Saskia Rademakers, Marketing & Communication
PricewaterhouseCoopers
Tel.: 02/710.72.48, E-mail: saskia.rademakers@pwc.be

61% of Belgian firms have been victims of economic crime

Economic crime in Belgium 16% higher than the worldwide average

According to a study by PricewaterhouseCoopers, in the last two years, 61% of Belgian firms have been victims of economic crime. That is 29% more than two years ago, and 16% above the worldwide average. But companies have the feeling that there is less fraud, probably because they place too much trust in their systems of internal control and risk control. The financial impact on Belgian firms is an average of 600 000 euro. In addition, there are indirect costs such as the tarnishing of business relationships, demotivation of employees and harm to the company's reputation. One-third of the crimes are still being discovered by chance, a fact that gives food for thought. Economic crime occurs in all sectors. The perpetrators are usually male, under 40 years of age, with higher levels of education and working for the company where they carry out the fraud.

This two-yearly study is based on a survey carried out between May and September 2005 among 3,534 companies in 34 countries including Belgium. The study was carried out in cooperation with Martin-Luther University in Germany.

“The reported increase in the number of economic crimes gives cause for concern. Firms have a false sense of security on this subject. There are more companies reporting embezzlement, and they are reporting more of it. Companies are still finding these crimes mostly by chance”, says Robert Peirce, Assurance Partner at PricewaterhouseCoopers in Belgium. “Economic crimes are not something that can be ignored. Companies must tighten up their controls to avoid direct financial loss, but also to prevent damage to their brand, to avoid demotivating their workforce or undermining relationships with customers, suppliers and partners”.

Fraud, where and how?

The 29% increase does not necessarily mean that there are more crimes. Fraud is also being reported more frequently, due to stricter market regulation, the introduction of better internal audit systems and the importance attached to "good governance".

The larger the company, the more fraudulent activities there are. Worldwide, 62% of larger firms (>5000 employees) have been victims in the last two years, compared with 36% of smaller firms (<200 employees).

The number of reported cases of fraud rose worldwide in all categories, with the most striking statistics in bribery and corruption* (+71%), money laundering* (+133%) and false presentation of financial accounts* (+140%).

In Belgium, asset misappropriation, in other words theft*, is the most common form of fraud (29%). False presentation of financial accounts * (21%) and deception* (16%) come in second and third place. Bribery and piracy account for 11% and 10% of cases respectively. The category of false presentation of financial results is the highest climber at 500%. Furthermore, companies listed on the stock market reported 15 cases of insider trading. No fewer than 77% of Belgian firms questioned had been victims of theft in the last two years. Deception, counterfeiting and false financial statements came second, third and fourth in Belgium, with 51%, 32% and 26% respectively.

Companies' perception about prevention of fraud is striking. Many organizations think that they have countered the risk of fraud by introducing complex controls, which make them feel rather secure. In Belgium, they are not so sure. Over 50% of respondents fear that they will be victims of fraud within the next 5 years.

The cost of economic crime

Overall, more than 10% of small firms estimate the direct loss through fraud at over 1 million dollars in the past two years. For 6% of large firms, this amount goes up as high as 10 million dollars. In addition, it appears that the indirect losses are greater for small firms than large ones. Of the companies surveyed, 43% reported that their brand had been tarnished, 42% said that fraud had soured business relationships and 54% cited a decline in employee motivation. Of course, the indirect damage is greater if the incident is leaked to customers and the media. Fraud can hypothecate the results of large companies, and even forms a threat to the survival of smaller firms.

For Belgium, the average direct loss is 600,000 euro. Only 31% of Belgian firms admit to having sustained indirect damage. The respondents quote demotivation of employees and a deterioration in business relationships as the most important form of indirect damage (both 46%). In 31% of cases, they reported damage to their reputation and brand.

Who are the fraudsters?

The fact that in half of the cases, the fraudsters are on the payroll is a bitter pill to swallow. But that is hardly strange, because anyone who works for a company is very well aware of the weaknesses in the organization. Employees are less inclined to defraud their employer if they identify with the company and the brand for which they are working. For someone to be able to commit fraud, three conditions need to be met:

- the individual needs a motive or incentive, such as a lifestyle that they cannot actually afford;
- the opportunity must be there;
- the individual must be able to rationalise the reason for committing fraud or in other words be able to convince himself that it is acceptable.

"Although fraud is being discovered with increasing frequency, there will always be individuals who have a particular motive or incentive to commit fraud and will find a weakness in the organization to do it. Companies must not drop their guard, and must continuously work on their detection system and the loyalty of their personnel. It will probably not be possible to rule out economic crime, but a company can at least create an environment where unethical behaviour is discouraged," says Rudy Hoskens, Director responsible for Dispute Analysis & Investigations at PwC Belgium.

The typical Belgian fraudster is a man (in 88% of cases), less than 40 years old (74%), and with at least one degree (44%). Although fraud occurs in all levels of the workforce, it is striking that members of senior management are involved in the fraud in over a quarter of cases.

Effectiveness of controls

34% of economic crime worldwide is still discovered by chance. This is an alarming figure when you consider that the respondents believe that the number of cases is falling, due to their internal controls and risk management systems. Within the systems, it is mainly internal audit that is considered effective (28%). The other measures to bring fraud to light, such as investigating compliance with laws, internal security, etc., introduction of whistle-blower systems, training in risk management and regular staff rotation all yield less effective results. The study showed that a good system for detection and control of fraud requires a combination of various elements.

If a company gets wind of a fraud, it must react to deter other potential fraudsters and to show the various stakeholders that such activities will not be tolerated. In Belgium, 73% do this by holding an internal investigation. 79% inform the Board of Directors. Many companies call in external investigators such as forensic auditors and lawyers. Something over 70% of Belgian companies follow up internal and or external investigations by calling in the law enforcement authorities.

Fraud usually leads to dismissal for the perpetrator (81%) and to a criminal (47%) or civil charge (27%). But members of senior management are often let off more lightly than other employees, while they usually cause more damage than other fraudsters. The reasons for this are damage to the brand or the reputation of the company, demotivation of the workforce, casting doubt on the competence and integrity of the senior management and distracting senior management from their work. PricewaterhouseCoopers knows from experience that apart from a consistent sanctions policy, the risk of arrest and respect for the company are more important in avoiding fraud than a harsh punishment.

75 % of fraud victims do not succeed in recovering part of the lost funds or assets. Therefore, it seems strange that only 33% take out insurance against economic crime.

Economic crime in the future

All over the world, companies who have been victims were sceptical about their prospects of avoiding a repeat experience. 90% of companies that reported no fraud do not expect to have to contend with it in the future. This percentage falls to just over 50% for companies who have already been victims. In Belgium, organizations appear very happy with the measures that they have implemented for the prevention of economic crime. Their intention to improve these measures in the next two years is correspondingly low.

The Dispute Analysis & Investigations (DA&I) department at PwC operates in 63 countries, has almost 1,500 experienced employees and uses cross-disciplinary teams with experience of business to investigate fraud and other economic crime. Furthermore, they advise on management of fraud risks and dealing with disputes of various kinds. By using forensic accountancy among other methods, and carrying out targeted investigations, they can safeguard companies against further losses to economic criminals, assist them in calculating and recovering the losses they have sustained, and ensuring that business continuity is guaranteed. The DA&I department employs staff with various expertise: forensic auditors, lawyers, specialists in forensic IT and experienced investigators from both the private and public sector.

#

Information for journalists:

*Definition of terms used in the PricewaterhouseCoopers Global Economic Crime Survey 2005:

Economic Crime or Fraud: Generic term used in this survey to denote wrongful or criminal activities to or in an organisation, intended to result in the gain of money or benefits for the perpetrator(s).

Asset Misappropriation (inc. embezzlement): The theft of company assets (including monetary assets/cash or supplies and equipment) by company directors, others in fiduciary positions or an employee for their own benefit.

False Pretences (inc. confidence game): The intentional action of a perpetrator to deceive those in fiduciary positions and make a personal or financial gain.

Financial Misrepresentation: Company accounts are altered or presented in such a way that they do not reflect the true value or financial activities of the company.

Corruption & Bribery (inc. racketeering and extortion): The unlawful use of an official position to gain an advantage in contravention of duty. This can involve the promise of an economic benefit or other favour, the use of intimidation or blackmail. It can also refer to the acceptance of such inducements.

Insider Trading (only asked to listed companies): Trading of securities by a person inside a company based on non-public information.

Money Laundering: Actions intended to legitimise the proceeds of crime by disguising their true origin.

Counterfeiting (inc. product piracy and industrial espionage): This includes the illegal copying and/or distribution of fake goods in breach of patent or copyright, and the creation of false currency notes and coins with the intention of passing them off as genuine. It also includes the illegal acquisition of trade secrets or company information.

The PricewaterhouseCoopers Global Economic Crime Survey 2005 was carried out on behalf of PricewaterhouseCoopers and eminent criminologists from Martin-Luther University in Halle-Wittenberg by TNS-Emnid in Germany.

The study was carried out in 34 countries between May and September 2005. More than 3,630 telephone interviews were held with CEOs, CFOs and other managers responsible for crime prevention and detection in their company. Over half of the respondents (52%) are members of the Board of Directors or management. 43% of them were mainly responsible for financial matters. The largest Belgian firms that participated employ over 5000 people, while 82% of respondents employed fewer than 1000 people.

The companies were chosen at random, with a preference for the 1000 largest companies in a country. The number of companies per country was based on that country's GDP.

The complete report can be found on: www.pwc.com/crimesurvey

The Belgian report can be found on: www.pwc.be

Both can be obtained on request:

- for journalists: from Liesbeth Driesen at Luna: 02 658 02 93 or liesbeth@luna.be;
- for other interested parties: from Valérie Vandenbenden at PwC: 02 710 71 36 or valerie.vandenbenden@pwc.be.