

Sharp increase of reported economic crime in Singapore

The rise is consistent with the global trend



Key highlights

35%



more than 1 in 3 Singapore based organisations reported being a victim of economic crime in the last 24 months

39%



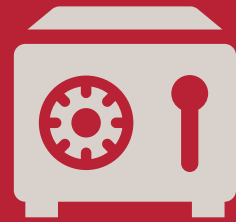
of Singapore based organisations confirmed that their formal business ethics and compliance programme include specific policies addressing **bribery and corruption** risks

32%



of Singapore respondents reporting fraud may have lost **at least US\$ 1M** through their most disruptive crime, up against 18% globally

28%



of Singapore respondents have a dedicated anti-money laundering team compared to 16% at the global level

How does the profile of Singapore respondents differ from the global average?

From an industry perspective, Singapore participants have a higher representation of pharmaceutical and life sciences companies (13% in Singapore against 5% globally) and lower representation of manufacturing companies (7% in Singapore against 11% globally).

Significantly higher proportion of Singapore based participants (64% against 41% globally) belong to organisations with global revenue above USD 500 million. 31% of Singapore respondents have global revenue of USD 10 billion and above against only 15% globally.

Regulated and larger size organisations would typically have more sophisticated business operations and financial flows, but also more structured control systems.

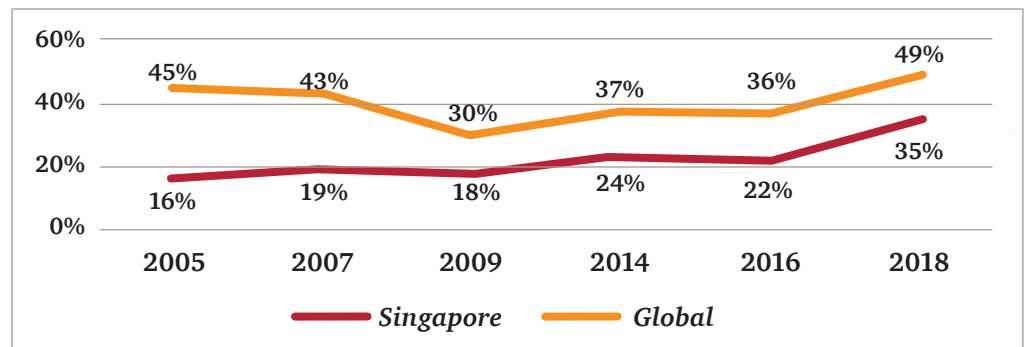
Contents

<i>Reported economic crime in Singapore hits record high</i>	4
<i>Most prevalent economic crimes in Singapore</i>	7
<i>Taking the fight against bribery and corruption to new heights</i>	8
<i>Anti-Money Laundering - Singapore regulators baring their teeth</i>	11
<i>Dealing with threats: Proactive detection is key</i>	12
<i>Contacts</i>	15

Reported economic crime in Singapore hits record high

According to our survey, more than one third of Singapore-based organisations (35%) experienced economic crime, up from 22% reported in 2016. The level of reported economic crime is at a record high not only in Singapore but also globally (49%).

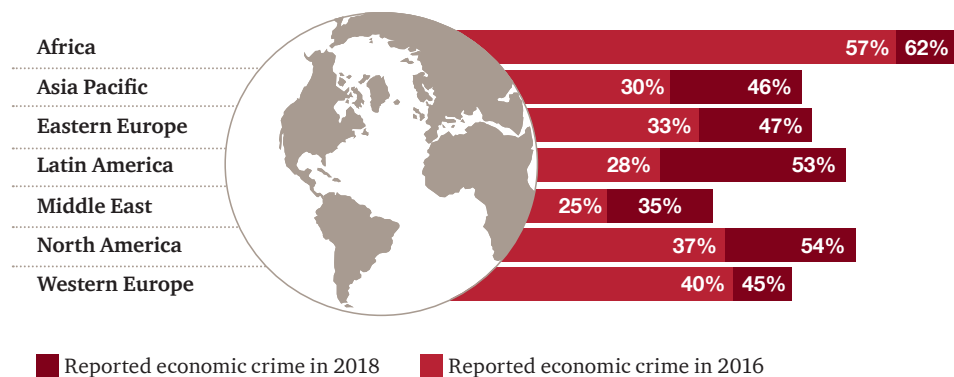
Figure 1: Reported economic crime rates – Singapore vs Global



Compared to our previous survey conducted in 2016, all regions in the world reported higher levels of economic crime.

This rise underscores the extent of the threat. Fraudsters continue to use opportunities and control gaps created by fast changing business environment and technological sophistication. In parallel, growing fraud risk awareness among organisations has translated into more structured fraud prevention and detection frameworks which include enhanced fraud risk monitoring techniques and detective controls relying on technology. This approach is helping organisations discover fraud faster and take action more effectively.

Figure 2: Region by region comparative (2016 vs 2018)

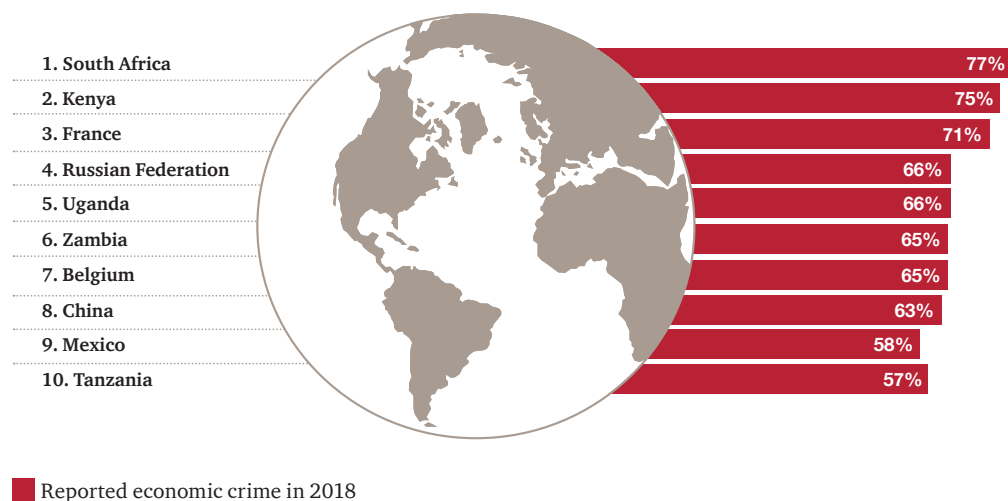


Do you have business operations in the top 10 countries with the highest rates of reported fraud?

Whether the level of reported fraud is due to higher occurrence or to better detection, the following statistics showcases the extent of the threat of economic crime faced by organisations doing business in these locations.

Organisations looking to expand operations abroad need to be aware of the high reported incidents in these locations, and ensure that mitigation steps are considered in their expansion strategy.

Figure 3: Top 10 countries where respondents reported the most economic crime



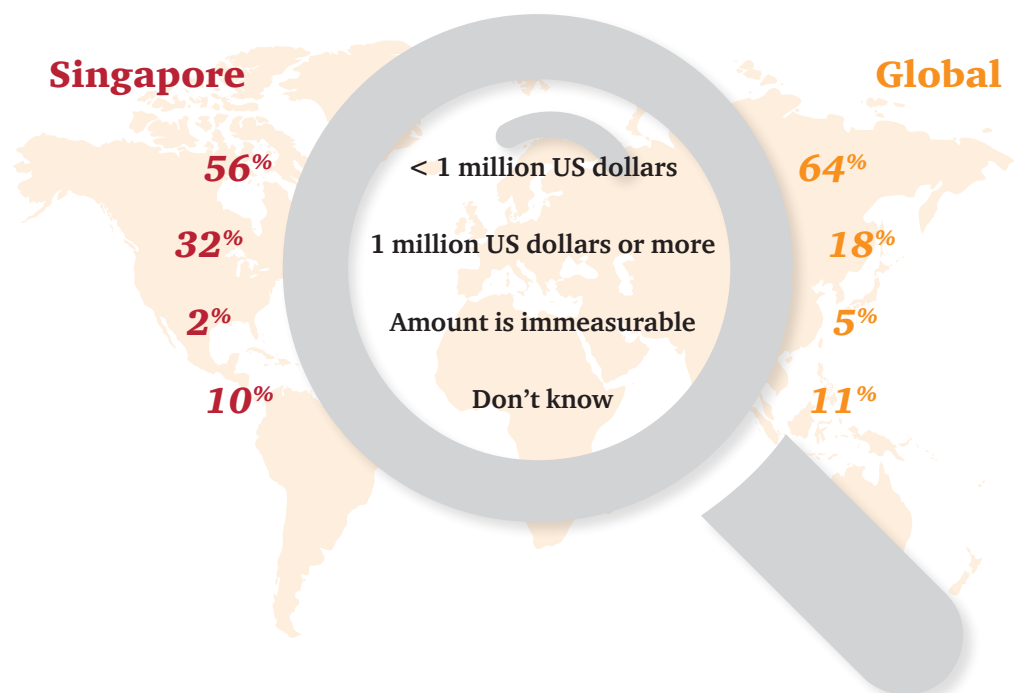
While the reported rate of fraud in Singapore has been consistently below the global average, when it comes to financial losses the situation is different. Based on our survey, 32% of Singapore-based organisations reporting fraud indicated that they may have suffered financial losses of more than USD 1 million from the most disruptive economic crime that occurred during the last 24 months, significantly higher than global average (18%).



However the good news is that Singapore-based organisations are taking a serious stance on responding to economic crime, spending more resources than their global counterparts when the need arises.

Our survey results show that half of the organisations based in Singapore (51%) spent more on investigations and/or other interventions than what was lost through their most disruptive crime, compared to 28% globally. In our view this suggests a longer term holistic view where incidents are used by organisations as a “lesson learnt” and an opportunity to implement broader prevention measures moving forward. This statistic also suggests that more organisations are realising that adopting a proactive approach such as investing in fraud prevention and ongoing detection tools/resources is more cost efficient than a reactive approach in the long run.

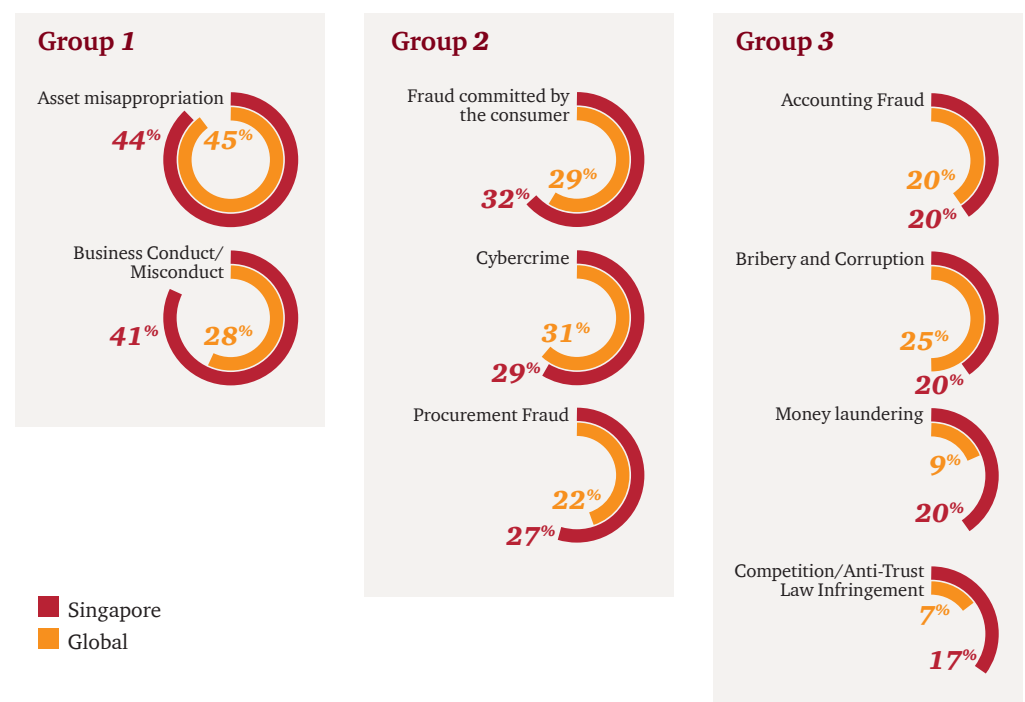
Figure 4: Potential financial losses from the most disruptive fraud



Most prevalent economic crimes in Singapore

The continuously changing landscape of economic crime suffered by organisations requires an adjustment of the fraud categories used in our survey. In this respect, two types of fraud – business misconduct and consumer fraud – have grown in prominence resulting in them being measured separately for the first time.

Figure 5: Most common types of economic crime and fraud



Focus on business misconduct

We define business misconduct as frauds by companies with conscious deceptive intentions acted upon by the market or general public. Such practices are associated with the manufacturing, sales, marketing or delivery of a company’s products or services to its clients, consumers or the general public.

In our experience, one of the common business misconducts are found in the sales function. For example, vendors may misrepresent products and services to entice potential buyers. The facts presented during the sale may also be incomplete. The conscious omission of details or window dressing only serves to mislead customers.

Business misconduct and asset misappropriation are the **two most prevalent frauds in Singapore** with the proportion of organisations reporting business misconduct in Singapore (41%) significantly higher than the global average (28%).

Fraud committed by consumer, cybercrime and procurement fraud form **the second group of most frequently experienced frauds in Singapore**. While in general, the occurrence of these crimes are at levels comparable with the global average, the frequency of procurement fraud incidents continue to be higher in Singapore.

The third group of the most frequently experienced frauds include accounting fraud, bribery and corruption, money laundering and competition/anti-trust laws infringement. The occurrence of competition/anti-trust laws infringement in Singapore is substantially higher compared to global average (17% vs 7%). The step up in enforcement activities by the Competition and Consumer Commission of Singapore appears to have driven this increase.

Taking the fight against bribery and corruption to new heights

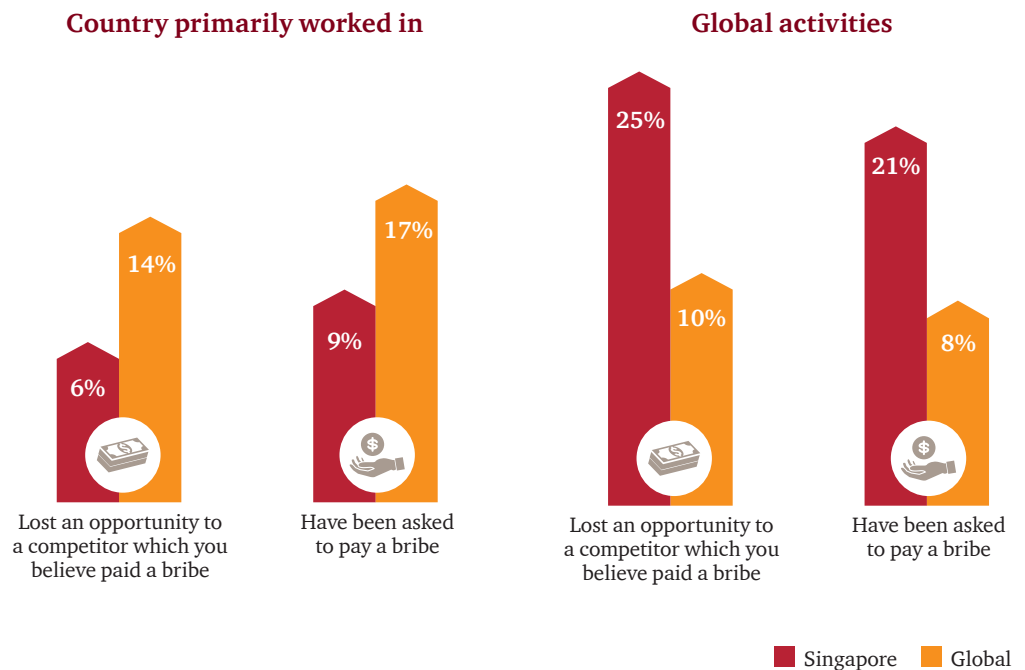
Singapore has consistently stayed high on the rankings of the international anti-corruption indices over the years. We are however under no illusion that corruption has been completely eradicated as incidents continue to be reported in Singapore periodically.

While the domestic business environment in Singapore has remained generally stable for the past decades, the internationalisation of business activities carried out by Singapore based companies has unavoidably brought in new risks and increased the inherent risk of corruption.

In this respect, results of our survey underscore this developing trend:

- While Singapore based companies have historically reported lower incidence of bribery and corruption compared to global average, we still observe an increase from 17% to 20% over last 24 months.
- The threat of bribery and corruption faced by Singapore based companies appears, to a larger extent, to come from outside of the country:

Figure 6: Threat of bribery and corruption



Our experience shows that corrupt practices occur through an extended period of time, and in some cases for five years or more before getting uncovered. This raises the question – why have these events occurred repeatedly and remained undetected for years?



Recent international corruption incidents involving Singapore corporations have highlighted the extent of risks that Singapore based companies may be exposed to. Many of these incidents involve using third party intermediaries/agents to win contracts in high risk territories.

From our experience, there are still awareness gaps in relation to potential legal exposure faced by companies for improper actions taken by their agents, for example paying bribes, even without the organisation's knowledge. In these circumstances, robustness of controls over relationship with third parties including due diligence and monitoring mechanisms is an area where some critical upgrades may need to be implemented.

In September 2017, SPRING Singapore and Singapore's Corrupt Practices Investigation Bureau (CPIB) launched the Singapore Standard ISO 37001. This standard is designed to provide guidelines to help Singapore companies strengthen their anti-bribery compliance systems and processes and ensure compliance with anti-bribery laws. Although the standard is voluntary, its endorsement and promotion by government structures clearly indicate the expectations set by the authorities.

The principles embedded in the Singapore Standard ISO 37001 are not new and are consistent with the various international guidances in relation to the US Foreign Corrupt Practices Act, the UK Bribery Act and the OECD Convention on Combating Bribery.

While only 5% of Singapore based companies which suffered fraud in the last 24 months considered bribery and corruption to be the most disruptive/serious in terms of impact on the organisation, compared to global average of 10%, a significantly larger proportion of Singapore respondents (11%) consider bribery and corruption to be potentially the most disruptive/serious fraud in the next 24 months (close to global average of 12%). This may not be a big number but it indicates that organisations are waking up to the seriousness of the threat and are becoming more aware of the disruption to business arising from multi-jurisdictional investigations by local and foreign authorities as well as the potential financial implications.

To execute a successful international expansion strategy, organisations should consider embedding anti-bribery and anti-corruption compliance into their overall business strategy.

What works at home may be too soft for the outside world

Despite 81% of Singapore based respondents indicating that they have a formal business ethics and compliance programme (against 77% of global respondents), only 39% of organisations in Singapore confirmed that this program includes specific policies addressing bribery and corruption risks. This figure is significantly lower compared to 50% of organisations globally.

Without specific guidelines, employees may find themselves in an ethical dilemma when the situation involves potential bribery and corruption. For example, how should employees decide whether the cost of a gift is high enough to be considered an act of bribery? What is the local culture in respect of gift giving? Organisations need to consider having a tailored anti-bribery and anti-corruption policy for each territory that they operate in, to address the local business culture. The gaps in compliance programme create grey areas which present opportunities for fraudsters.

The risk of bribery and corruption arising from these gaps increases significantly particularly in cross-border operations involving higher risk countries.

While Singapore is widely recognised as a country with zero tolerance for corruption, this may not be the case beyond our shores. Surprisingly, only 50% of Singapore based companies confirmed that they perform additional anti-bribery and corruption due diligences as part of their acquisition process.

Typical risks related to insufficient due diligences during the acquisition include “inheritance” of pre-existing non-compliant practices which may continue after the acquisition. What if your acquisition price include contracts historically obtained/won through bribes? Costs necessary to align the compliance structure of the target to the standards of the acquirer also need to be factored in when analysing the attractiveness of the anticipated transaction.

Merger and acquisition

Have you considered both pre- acquisition anti-bribery/ corruption due diligence and post-acquisition reviews to align the target’s practices and compliance with laws and regulations?



Anti-Money Laundering - Singapore regulators baring their teeth

Relatively higher levels of AML related crime in Singapore

Although Singapore based participants have generally experienced lower incidence of economic crime, among those who suffered a fraud the occurrence of AML incidents was substantially higher compared to global average (20% vs 9%). This disparity remains striking, even after taking into account the fact that a higher percentage of Singapore respondents, 45% vs 34% globally, are involved in AML sensitive businesses¹.

When you look, you are more likely to find

Singapore respondents were subject to more regulatory inspections in the last 24 months, 71% vs 54% globally.

In addition, 69% of Singapore based participants reported that, as a result of the inspections, they had major feedback, including enforced remediation to deal with findings, higher than 58% reported globally. For Singapore respondents, this also marks a significant increase from 53% reported in our last survey in 2016.

Given the frequency and impact of regulatory inspections in Singapore, it is not surprising that Singapore respondents seem to be more focused on assessing their AML risk. In this respect, 36% of respondents in Singapore indicated they had performed an AML risk assessment in the last 24 months, compared to only 23% of global respondents.

We also saw other indications of increased AML focus in Singapore, with 28% of Singapore respondents having a dedicated AML team, compared to 16% of global respondents. We saw the same trend in relation to sanctions, a related area of regulatory scrutiny, with 23% of Singapore respondents having a dedicated Sanctions team compared to just 16% of global participants.

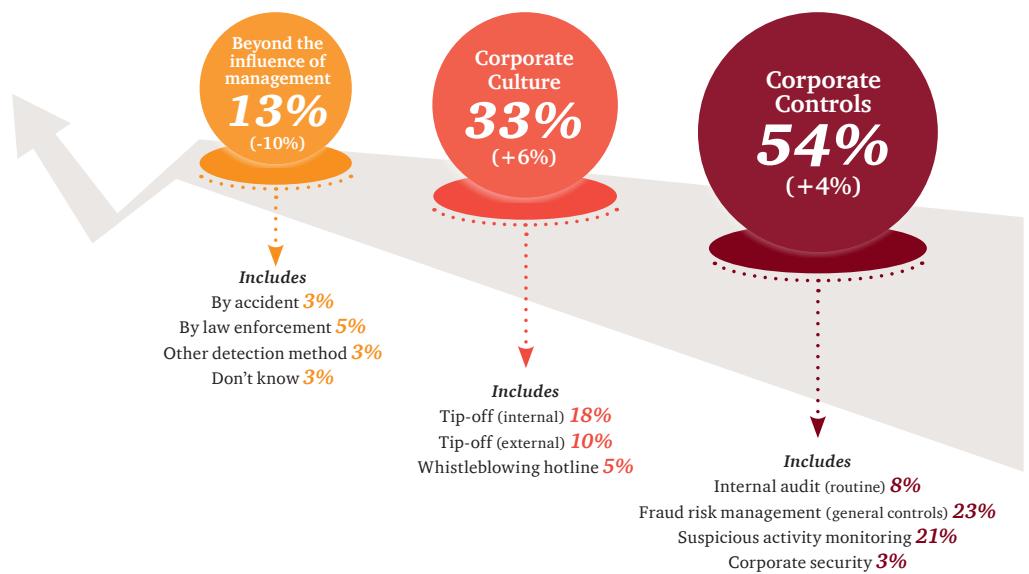


¹ Money movements and/or Financial Institutions, Mutual Funds, Money Service Business, Broker Dealer, Insurance Company, Dealers in Precious Metals, Stones or Jewels.

Dealing with threats: Proactive detection is key

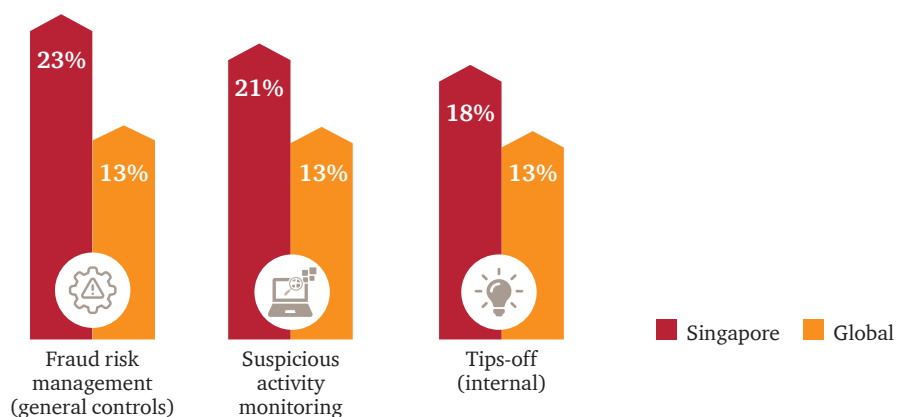
Detection of fraud in Singapore appears to be more proactive. Our study revealed that 87% of the most disruptive fraud incidents experienced by Singapore based organisations were initially detected by strong corporate controls or corporate culture. This is higher than the global average of 78%.

Figure 7: Detection of the most disruptive economic crime/fraud



The fact that the three main detection methods are fraud risk management (23%), suspicious activity monitoring (21%) and internal tip-off (18%) provides strong evidence that proactive internal measures undertaken by organisations produce tangible results. In these areas, Singapore-based organisations performed better than their global peers.

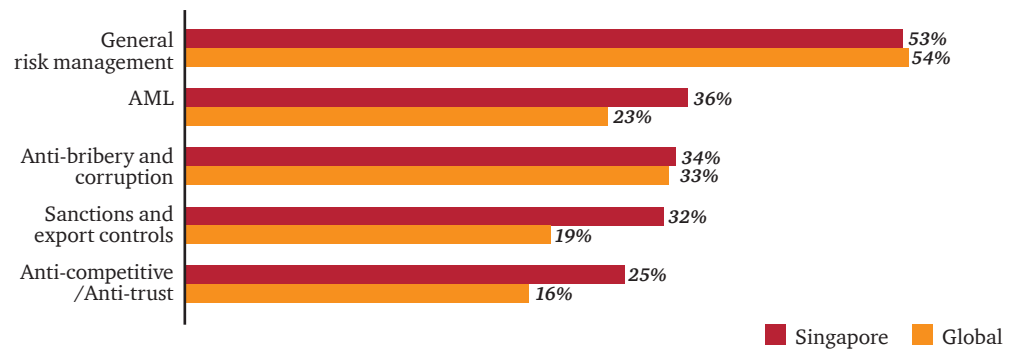
Figure 8: Top three fraud detection methods



Going beyond traditional fraud risk management

In our view, fraud risk management is most effective and achieves the highest rate of detection when fraud risk assessments are more focused targeting specific risk areas such as anti-bribery and corruption, sanctions and export control, anti-competition/anti-trust and AML. Indeed, our survey results show that a higher proportion of Singapore-based organisations compared to the global average performed these specialised risk assessments.

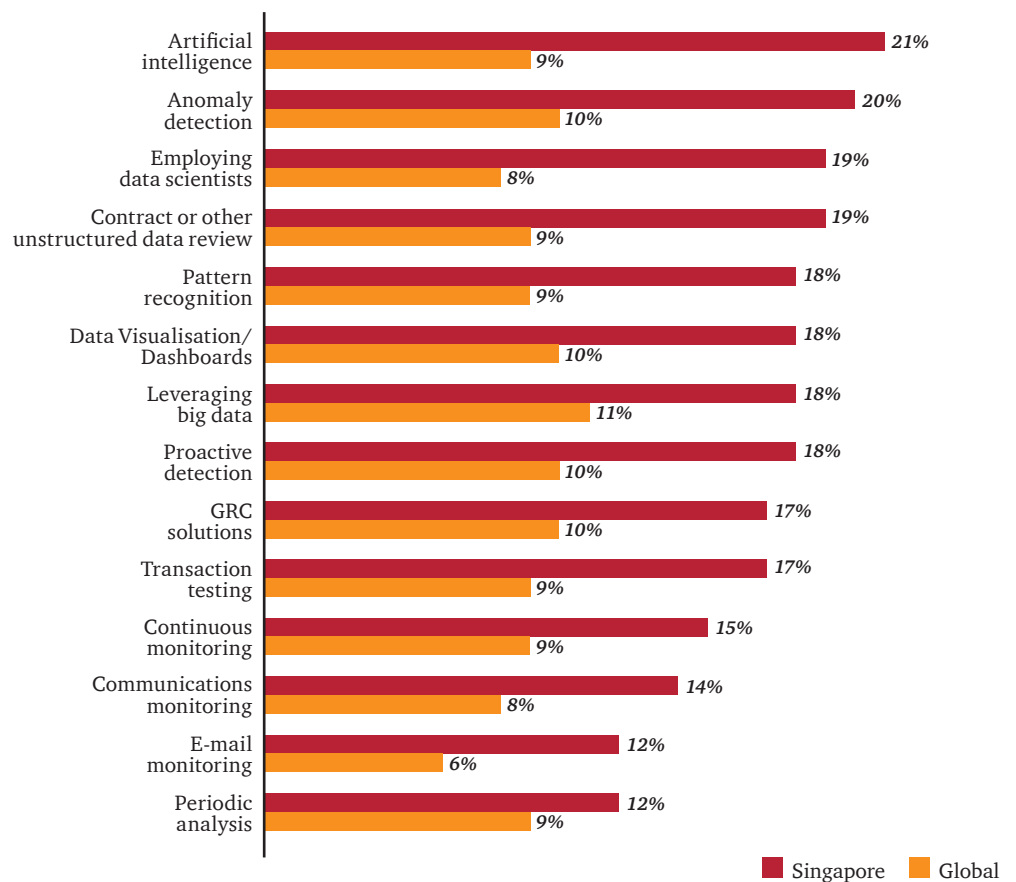
Figure 9: Specialised risk assessments performed by organisations



Embracing technology enabled techniques for suspicious activity monitoring

In Singapore, detection of the most disruptive frauds through the use of suspicious activity monitoring appear to be at a much higher level compared to global average. Our survey shows that higher proportion of Singapore respondents are considering or planning to implement various alternative/disruptive technologies and techniques to detect fraud in the next 12 months, ahead of global average. It is encouraging that Singapore based organisations are embracing technology to detect fraud, indicating a more proactive approach in the fight against fraud.

Figure 10: Organisations planning to implement the following technology enabled detection methods



A strong organisational culture pays off

Internal tip-off as a fraud detection method indicates that employees within the organisation have a good level of situational awareness to assess and make judgement calls on transactions/behavior at risk of fraud or potential wrongdoing. When issues are escalated through internal tip-offs, it indicates an underlying level of trust employees place on management that the potential fraud or wrongdoing will be managed appropriately, and investigated thoroughly where necessary.

A culture where employees want to do the right thing by reporting suspicious behavior voluntarily is encouraging. An employee who fails to act today may result in significant losses to the organisation tomorrow. It is in the interest of management to ensure this strong ethical culture of reporting without fear of retaliation thrives within the organisation.

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