

# Economic Crime Survey 2003 Hungary

## Introduction

**It was our pleasure to present the results of the PricewaterhouseCoopers Global Economic Crime Survey 2003. Because of the importance of this subject, we have commissioned additional research in order to provide details specific to Hungary. Our findings are based on more than 100 interviews with leading Hungarian organisations.**

Across the globe, and elsewhere in Central and Eastern Europe, 37% of companies have been the victims of economic crime in the last two years. In Hungary, the overall figure is 39%. However, does this mean that economic crime is more of a problem in Hungary than elsewhere? The answer lies in companies' abilities to identify and report economic crime and – once the risks are detected – to take appropriate measures to counter the threat.

## Key findings for Hungary

- Economic crime continues to be a significant threat; 39% of companies have been subject to economic crime over the past two years.
- The most widely reported crime is asset misappropriation. Interestingly, it is also the easiest to detect, with 51% of victims citing this as one of the frauds they had suffered.

- Corruption and bribery are perceived to be the greatest threat with 58% of the respondents considering it prevalent. However, only 14% of the respondents reported incidence of such activity.
- The average cost of economic crime per company around the globe was USD 2.2 million. In Hungary, 7% of companies surveyed had losses in excess of USD 1 million.
- 30% of respondents that reported some form of economic crime said they have been subject to industrial espionage. The global average is only 7%.
- Collateral damage includes a significant detrimental impact on staff morale and business relationships, both of which can be as (or even more) devastating to a company as monetary losses.
- More than half of the respondents would report fraud to the management board. However, only 7% have specific fraud training for management.
- Prevention is better than cure – statistics from our survey show that those who set in place tangible systems to mitigate the risks from fraud suffer fewer incidences. Those who insure against loss from fraud retrieve more of their losses.
- 41% of relevant respondents expect the risk of economic crime

to decrease. However, the number of companies applying preventive measures against it remains low.

## Economic crime: a growing threat in Hungary?

Economic crime remains a significant threat to organisations in Hungary. 39% of companies interviewed said that they had suffered one or more incidences of economic crime in the last two years. This figure represents an increase of 12% from that reported in 2001.

The increase in reported incidence can be attributed to various factors, including:

- A greater awareness of economic crime within organisations and therefore an increase in its reporting;
- Improved control mechanism in companies; and/or
- More successful detection processes.

Of course, the increase could also be due to an actual increase in the incidence of economic crime. The level of crime reported in Hungary is higher than for Western Europe (34%) and the rest of the world including Central and Eastern Europe (37%).

By far the most commonly reported fraud is asset misappropriation,



reported by 51% of respondents who had suffered from economic crime. This contrasts with the perception of this crime; only 18% of respondents believed it to be a problem.

In Western Europe, 65% of companies had experienced asset misappropriation. As this type of crime is, generally, the easiest to detect (because it involves the theft of assets with a defined value), it

provides a clear indication of where management should concentrate its immediate attention in order to manage avoidable losses.

Conversely, the perception of corruption and bribery far outweighs the reported incidence, reflecting the high degree of focus and publicity generated on such issues.

A staggering 58% of respondents highlighted this as major concern – yet only 14% of companies admit to having either solicited or been offered a bribe.

This re-emphasises our findings of two years ago, when the perception was similar but only a third of companies acknowledged corruption or bribery.

At a global level, 14% of companies acknowledged suffering bribery and corruption, as did 11% of companies in Western Europe and 15% of companies in Central and Eastern Europe.

Our own experience indicates that the true level lies between the two. This is because:

- Corruption and bribery is difficult to detect, as outside parties are involved;
- It may be initiated at the direction of senior management who do not want to acknowledge their involvement; and/or
- It may be (wrongly) considered a necessity for doing business and therefore is not considered by respondents to be a crime.

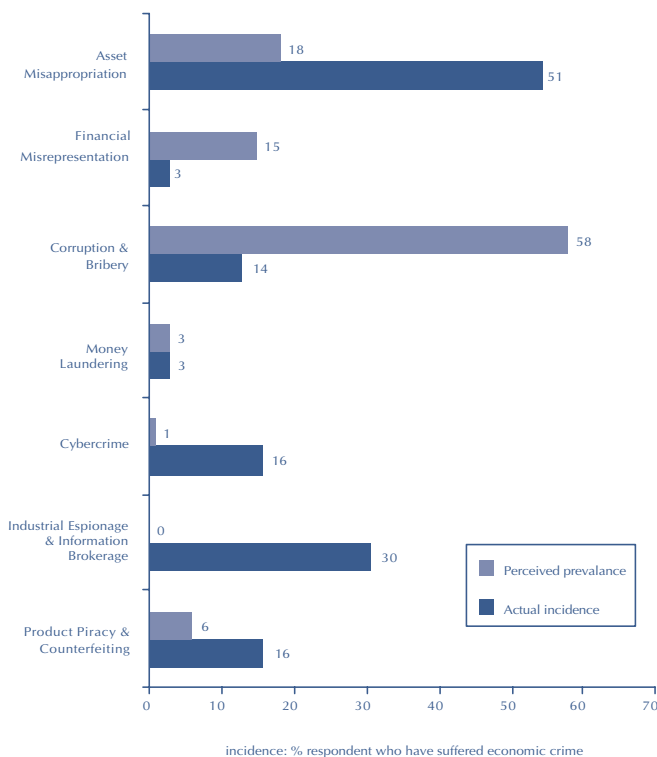
Corruption may also be seen as a victimless crime, but this is not the case. It allows funds and talent to be misallocated; companies declare lower profits and tax revenues suffer accordingly, and false or misleading investment decisions can have far-reaching impact on the economy as a whole.

### The key to success: detecting and preventing economic crime

Fraudsters invariably take great pains to conceal or remove evidence of their crimes. As companies can only report crimes that have been detected, it is not possible to judge how much fraud goes unnoticed. What we can analyse is the means by which fraud is brought to light.

53% of respondents in Hungary

**Fig 1. Frauds considered to be most prevalent compared to their actual incidence**





reported that economic crime was detected accidentally. If chance is a major variable in the detection of fraud, a concern remains that known crimes may only represent the “tip of the iceberg” and that much other fraud remains undetected.

The smaller companies detected a far greater proportion of economic crime through audit processes than by other means. This suggests that smaller companies may be paying little, or no, attention on the development of effective controls and alternative checks and balances.

Only one fifth of the cases were detected by risk management systems in Hungary, which is below both the regional and the global average. This, combined with the high ratio of crime detected by chance brings into light the necessity of the introduction of proper control measures within Hungarian organisations.

In overall terms, 80% of Hungarian companies believe they have taken steps to ensure that their organisations are less exposed to economic crime. However, on further analysis, there is still room for improvement:

- Only 47% of companies have a code of ethics or conduct; this compares to 60% in Western Europe and 64% globally;
- “Whistle-blowing” is not yet an accepted technique in the fight against economic crime, only used

by 4% of companies. Perhaps this is for cultural reasons as, elsewhere, this proves an effective tool and is used by 27% of companies in Western Europe and 28% globally;

- Only 5% of companies had organised fraud awareness and training for staff, again significantly lower than the global average;
- In only 7% of cases is there specific training for management. This is surprising, given that nearly 53% of companies say that management is ultimately responsible for addressing fraud risk; and
- 12% of companies in Hungary reported no confidence that controls are stronger than a year ago, this is a worrying high proportion compared to 5% in Central and Eastern Europe and 8% globally.

In summary, prevention is better than cure. Organisations that take practical measures to combat fraud, and that effect change on the ground rather than creating the appearance of addressing the problem, will develop a stronger culture of prevention.

Accordingly, companies need to consider:

- Understanding the real fraud risks faced by their organisations;
- Implementing and encouraging codes of conduct, and

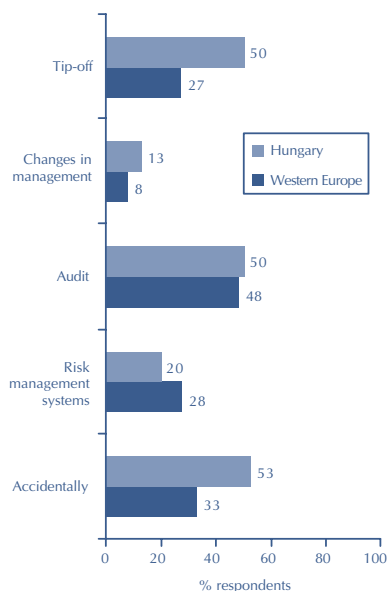
communicating these to all stakeholders;

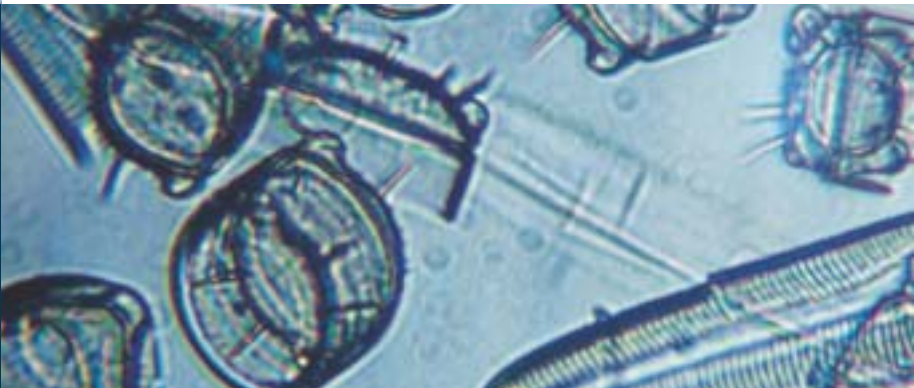
- Introducing the use of whistle-blower policies;
- Not waiting until it happens, but developing a robust fraud response plan before disaster strikes.

## Impact and recovery of damages from economic crime

The average cost per company of economic crime over the last two years is approximately USD 2.2 million. In Hungary, 7% of

**Fig 2. How economic crime is detected?**





companies suffered losses in excess of USD 1 million.

However, it is not just the direct costs that cause concern; organisations subjected to economic crime suffer damages other than financial loss. This “collateral damage” is difficult to quantify, yet remains a serious matter that organisations must tackle.

Two thirds of Hungarian companies reported that economic crime within their organisation had a detrimental effect on staff morale and motivation. Other companies reported damage to their reputations (40%) and their business relationships (33%).

majority of fraud is perpetuated internally, this is another area where organisations should carefully review their strategy.

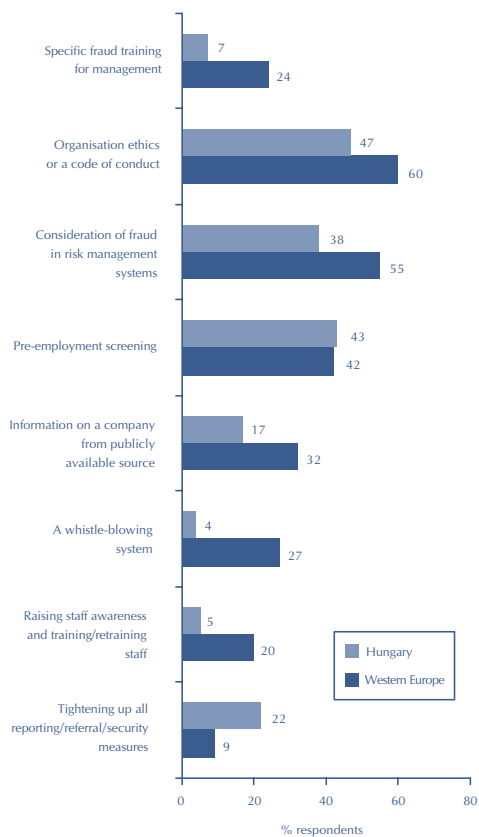
As we highlighted at the beginning of this survey, the level of fraud detected by companies in Hungary is slightly above the European average.

Economic crime is, and will remain, a serious and costly problem. It is, however, a confinable problem that can be countered by effective controls, a strong culture of prevention and deterrents, together with decisive action when cases arise. In our view, it is unrealistic to expect decreases in economic crime risks without substantial actions to tackle the roots of all economic crime: motive, opportunity and a clearly perceived benefit of reward over detection and punishment.

#### Note about methodology:

The global survey consisted of 3,400 interviews in 50 countries of all continents. The size of most participant companies was between 200 and 1,000 employees. 25 Hungarian companies took part in the global survey. Representatives of 108 leading Hungarian organisation took part in the supplementary survey conducted in Hungary.

Fig 3. Types of preventive measures



Collateral damage from economic crime affects companies globally and in some cases may be more costly than the financial damage suffered. Companies throughout the world rely on solid business relationships, high employee morale, and positive reputations to ensure the success of their organisations. Once any of these are negatively affected, long-term problems can arise – and become persistent if solutions are not found.

Most Hungarian companies seem to be aware of these threats, as only 17% of respondents thought economic crime did not result in such consequences. A higher proportion of respondents were able to put a value on their losses, with only 7% being unable to estimate their losses compared to a global average of 33%.

However, only 39% of Hungarian companies say they have appropriate insurance in place (9% lower than the global average), and generally do not have cover against theft by employees, theft by third parties, or malicious attacks. Given that the