

# global economic crime survey 2005

## India

### Economic Crime in India: an ever increasing phenomenon

#### Introduction

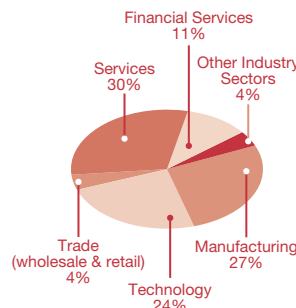
With a coverage of 3634 respondents in 34 countries, the PricewaterhouseCoopers Global Economic Crime Survey 2005 is one of the most comprehensive assessment of the nature and impact of economic crime around the world.

We take pleasure in presenting the survey results of the PricewaterhouseCoopers Economic Crime Survey 2005 in India.

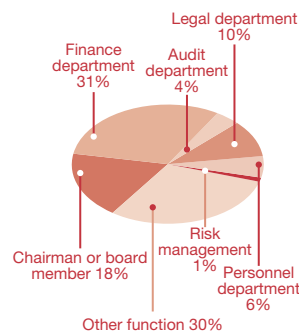
For the purpose of India Survey, we covered 75<sup>1</sup> respondents representing organisations across Financial, Manufacturing, Services, Technology and Trade sectors.

We hope that you find the results of the survey as enlightening as we did compiling it. We would also like to take this opportunity to thank the participants and readers for showing interest in the survey.

**Figure 1: Industry Group of Respondent Organisations**



**Figure 2: Function performed by respondents in the Organisation**



#### Key Findings

- Fraud is an ever growing phenomenon with 54% of the respondent organisations from India reporting economic crime in the last two years as compared to 24% in the previous survey
- Most prevalent economic crime experienced in the country is Counterfeiting followed by Corruption & Bribery
- A typical perpetrator of economic crime in India was a graduate or post graduate male between 31-50 years of age
- Most of the respondents initiated an internal investigation in response to the offence
- Only 18% of the respondents consider it likely to come across fraud in the near future.

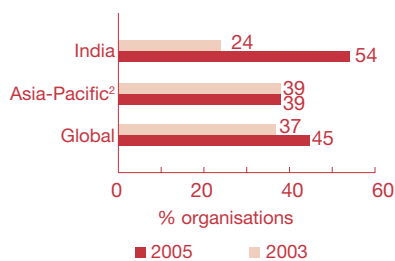
<sup>1</sup> The survey was conducted through telephonic interviews across a sample drawn from top 1000 organisations in the country.

The unusual rise in the number of reported incidents in India, viz. 54% against 24% in the last survey conducted in 2003, may be attributed to several factors, including greater awareness and introduction of new legislations on fraud prevention and detection.

### Fraud: a growing threat

54% of the respondent organisations from India reported having been victims of economic crime over the past two years - a significant increase over the previous survey which reported 24% of the respondents being subject to economic crime.

Figure 3: Victims of economic crime



While there has been a rise in the reported fraud world wide, the unusual rise in reporting the number of incidence in India could be the result of several factors, including:

- More stringent legislations on fraud prevention and detection, which has resulted in organisations reporting more incidents of fraud to demonstrate transparency and better governance



- A change in the perception of economic crime, from that of it being an inherent element of engaging in business to that of being a significant risk which could be brought to light and curbed
- Implementation of fraud risk control and management systems

The number of organisations that reported fraud has increased in most categories since our last survey.

With the exception of asset misappropriation, the reported incidence in the categories confirms the overall increase in the frauds from the last survey.

Despite the significant increase in the number of organisations reporting fraud as compared to last survey, only 18% of the respondent organisations considered it likely that their organisation will be subject to economic crime over the next five years.

Figure 4: Prevalence of fraud (among organisations who reported fraud)



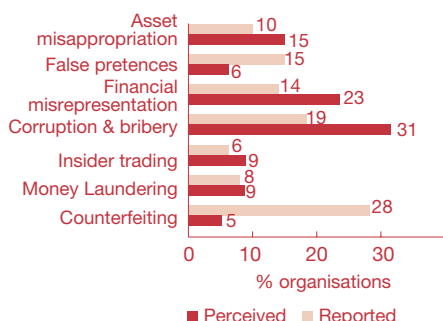
<sup>2</sup> In this survey Asia-Pacific refers to Australia, Hong Kong/China, India, Indonesia, Japan, Malaysia, Singapore and Thailand.

Corruption and Bribery are **perceived** as the most prevalent economic crime in the country, whereas, Counterfeiting is the most **experienced** economic crime by the respondent organisations

### Perceived Prevalence

31% of the respondents **perceived** corruption and bribery as the most prevalent economic crime in India. Surprisingly most prevalent economic crime **experienced** is Counterfeiting with 28% of the incidents reported in this category, followed by Corruption and Bribery (19% of the reported incidents).

**Figure 5: Perception Vs. Reported Incidence**



This perhaps highlights the fact that while people carry a perception about widespread existence of corruption and bribery, there is a reluctance to admit that they suffered from it. This may be due to fear of adverse implications and / or acceptance of corruption & bribery as everyday cost of doing business.

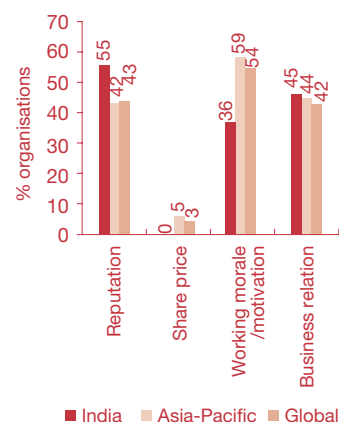


On the other hand False Pretence (6%) and Counterfeiting (5%) is perceived at much lower level in comparison to the actual reported incidents. The above disproportions may indicate the over optimistic view of the fraud controls and preventive systems vis. a vis. the actual threats, thus indicating a need for instituting higher controls and deterrents in these areas.

### Cost of economic crime

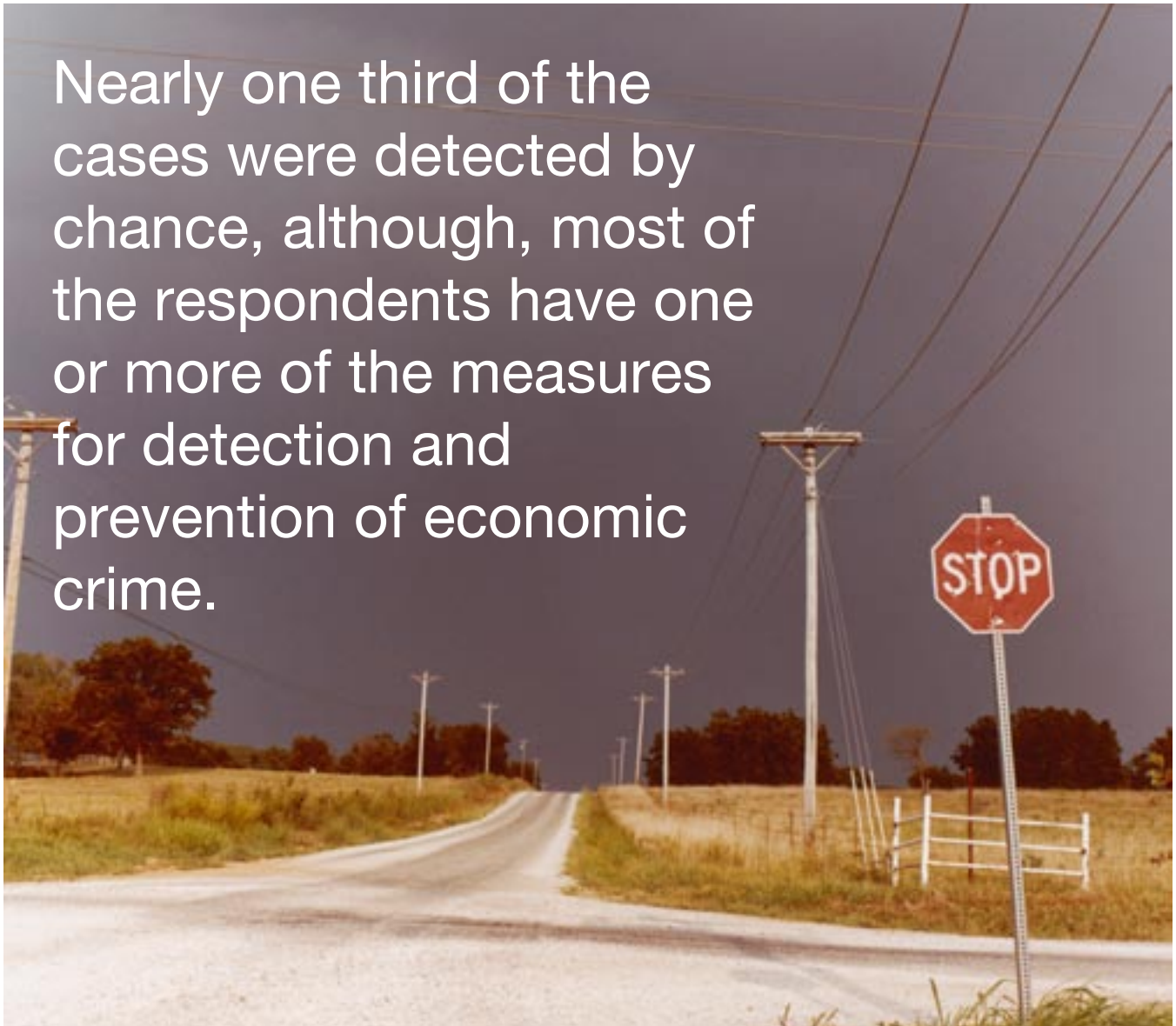
One would appreciate that it is difficult to quantify financial damage from economic crime. Most of the respondents from India were unable to quantify losses arising from economic crime. It is in fact even more difficult to estimate the intangible damage. Respondents, however, are very conscious of the intangible damage on the organisations as 47% of the respondents reported damage to their image, brand, or motivation as a result of the economic crime (all categories) they have been subject to.

**Figure 6: Intangible damage due to fraud**



None of the respondents, who reported suffering intangible damage from the offence, felt that the offence impacted their share price, is perhaps reflective of a higher tolerance for economic crime by the shareholders of the respondent organisations.

Nearly one third of the cases were detected by chance, although, most of the respondents have one or more of the measures for detection and prevention of economic crime.



### Fraud Controls – Prevention and Detection

Almost all (99%) respondents had instituted one or more measures (Internal/ External Audit, Internal Controls, Compliance Programmes, Code of Ethics etc.) for detection and prevention of economic crime.

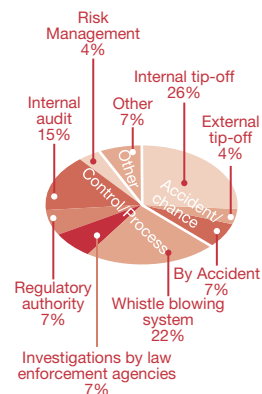
**Figure 7: Control Measure Instituted for preventing economic crime**



Figure total more than 100 as respondents were able to provide multiple answers

However, it is surprising to note that nearly one third of the cases were detected by chance (Internal/ External tip off and accidents), which is a cause of concern, as the known crimes may only represent the “tip of the iceberg” and that many other frauds remain undetected.

**Figure 8: How was fraud detected**



Nearly one third of the frauds in the country were perpetrated by Insiders, who had good knowledge of the systems of the organisation and its weakness

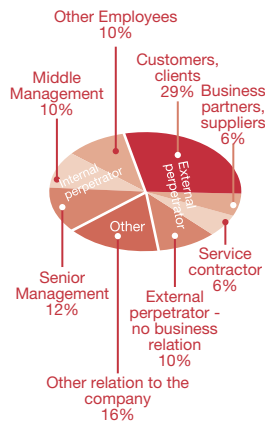


### Profile of the Perpetrator

For the first time, the survey covered the profile of the perpetrator of fraud and found that a typical perpetrator in the economic crime reported in India was male (in 100% of the cases) a graduate or post graduate (86%) and between 31-50 years of age (72%). Globally and in Asia Pacific region, the perpetrator was male (87% and 90% respectively), a graduate/ post graduate (52% and 62% respectively) and between 31-50 years of age (69% and 74% respectively). The readers are cautioned that a very high percentage of male perpetrators may be because of the male dominated workforce in the country.<sup>3</sup>

Nearly one third of the frauds in the country were perpetrated by insiders, i.e. persons involved in the day to day management of the organisation, who had good knowledge of the systems of the organisation and its weakness. In 37% of the cases, the internal perpetrator was a member of the senior management, and in 32% cases belonged to middle management.

Figure 9: Internal Vs External Perpetrator

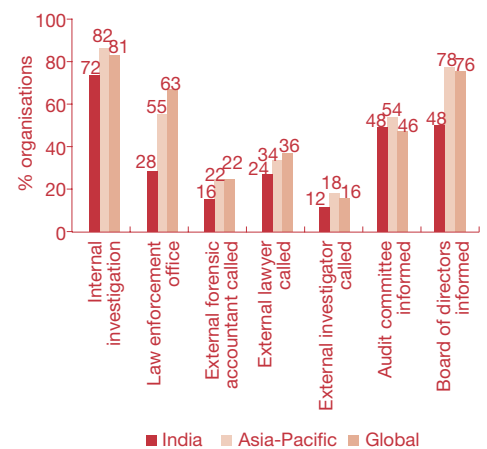


### Dealing with Frauds

Most of the respondents (72%) reported initiating an internal investigation in response to the offence as compared to 82% in case of Asia-Pacific and 81% in case of Global. The reporting of the case to the board of directors in India is significantly lower (48%), than in Asia-Pacific (78%) and Global (76%). Similarly calling a law enforcement office (28%) and external forensic accountant (16%) is lower as compared to Asia Pacific (55% and 22% respectively) and Global (63% and 22% respectively).

The trend of comparative lower action taken by the Indian organisations in reporting to audit committee/ Board of Directors and external agencies, appears to be a reflection of higher tolerance level in the country against the crimes. This may also be due to the desire to avoid adverse publicity, concerns regarding possible impact of such disclosures and lengthy recovery mechanism.

Figure 10: Reaction on detecting fraud



The higher tolerance is also reflected by the fact that in 17% of reported fraud in the country, no action was taken against the perpetrator.

<sup>3</sup> As per a recent survey conducted by National Sample Survey Organisation, the employment in the organised sector is dominated by male population in India (approx. 82%).

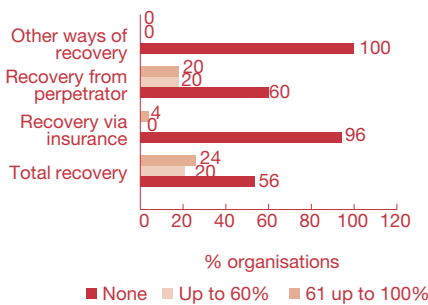
Despite the large number of incidence of fraud in the country, the likelihood of coming across fraud in the near future is considered to be lesser by the Indian respondents as compared to their counterpart in Asia-Pacific and Global

### Recoveries

It is interesting to note that in 40% of the cases in India it was possible to make recoveries from the perpetrator as against 31% in Asia-Pacific and 28% in Global.

Further, although in 47% of cases the respondent organisation that suffered fraud reported having taken an insurance cover for economic crime, in only 4% of the cases, recovery could actually be made from insurance.

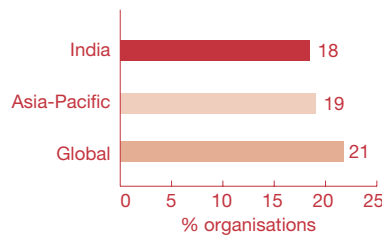
**Figure 11: Amount of lost Assets recovered**



### Future

It is interesting to note that despite the large number of incidence of fraud in the country (54%) against Global (45%) and Asia-Pacific (39%), the likelihood of coming across fraud in the near future is considered lesser by the Indian respondents (18%) as compared to their counterpart in Asia-Pacific (19%) and Global (21%).

**Figure 12: Perceived threat of suffering fraud over 5 years**



### Summary

The Indian organisations may have become complacent as they appear to be satisfied with the existing prevention measures despite an increase in number of frauds. With the increasing complexities of the business today, the fight against fraud is a constant struggle. Organisations must not drop their guard, but constantly develop controls and build on the loyalty of their employees to ensure that, even if it is impossible to eradicate fraud, they do not provide an environment in which it can flourish.

### Further Information about the Survey

More information on survey methodology and definitions of economic crime can be found in the Global Economic Crime Survey Report 2005.

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