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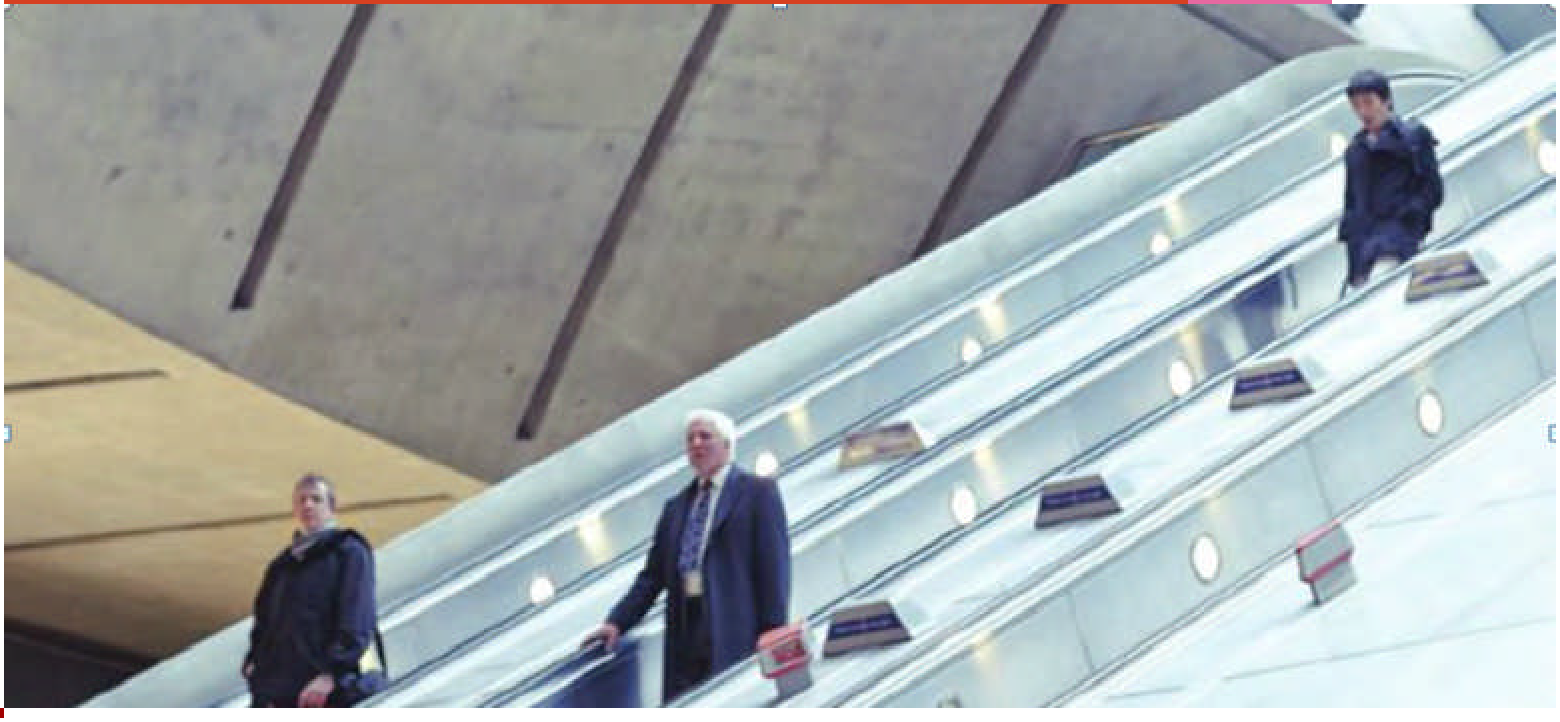
PwC's 2014 Global Economic Crime Survey
Latin America Supplement

Economic Crime: A Threat to Business Globally



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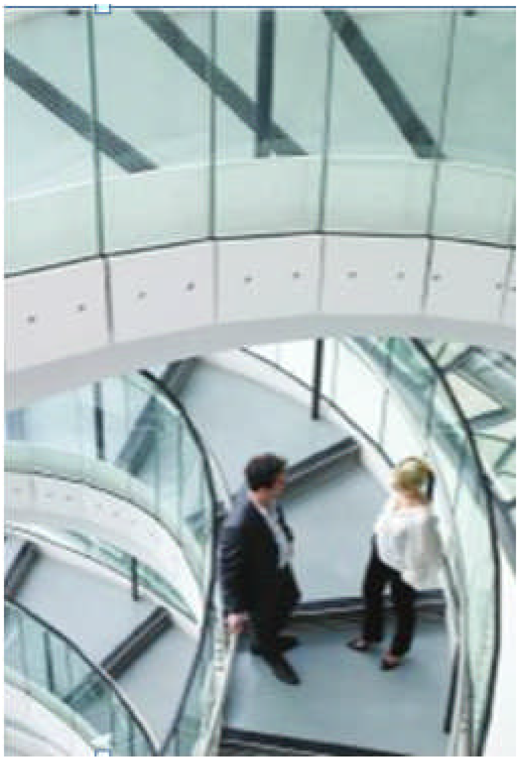
Introduction

We are pleased to present the Latin America results of the PricewaterhouseCoopers 2014 global economic crime survey, one of the broadest and most comprehensive economic crime surveys we have ever conducted.



Our 2014 survey included 5,128 representatives from 95 countries, comprised of 711 Latin America organizations in 12 countries, including Argentina, Brazil, Chile, Ecuador, Mexico, Peru and Venezuela.

Since our first survey in 2001, data shows that at any given time period, at least one in three of those surveyed reported suffering a significant economic crime event.

Like a virus, economic crime adapts to the trends that affect all organizations and threaten the basic processes common to all businesses – paying and collecting, buying and selling, hiring and firing.

This year's report is focused on the economic crime threat to your business processes, eroding the integrity of your employees and tarnishing your reputation.

One in three (35%) organizations in Latin America suffered from economic crime in the past two years.

The contents of this publication include:

1. *Economic crime in 2014*
2. *Business processes are under attack*
3. *Under the eye of the enforcement*
4. *Cybercrime – the risks of a networked world*
5. *The fraudster – know your adversary*

We provide this material with the objective of highlighting the continuing and evolving threats of economic crimes and as a reminder of the importance of periodic risk assessments, revaluation of controls and the need for maintaining an effective internal control system.

Economic crime remains a fact of life for every business

1. Economic crime in 2014

This year's survey confirms that economic crime remains a fact of life for every business in all industry sectors – 35% of our respondents reported that their organization experienced economic crime during the survey period.

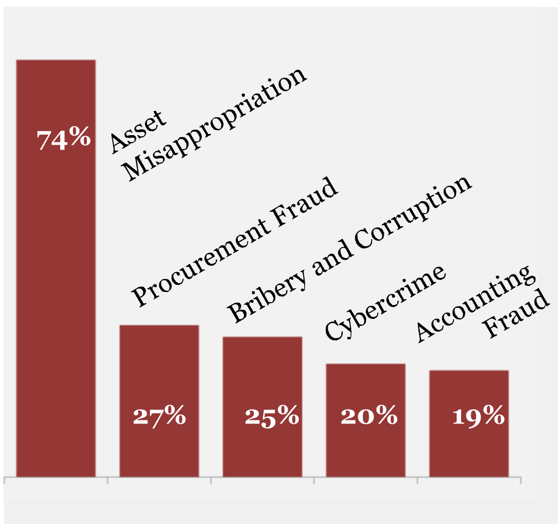


Figure 1.1

Five most prevalent types of economic crime reported in Latin America.

This year, we added procurement fraud, human resources fraud and mortgage fraud as new categories of fraud to our survey.

Procurement fraud received a significant response (27%), making it the second most type of fraud reported. Higher-than-average incidents of procurement fraud were reported in Brazil (44%), Peru (37.5%) and Mexico (31%). We believe this category is primarily driven by two trends – more competitive public tender processes from governments and state-owned businesses, and the increasing integration of supply chain into core business activities.

The percentage of respondents who reported asset misappropriation and cybercrime incidents increased slightly when compared to the 2011 survey results. Conversely, 25% of respondents reported experiencing bribery and corruption during the current survey period, an increase of 6% from the 19% of respondents who reported suffering this type of crime in 2011.

The percentage of respondents who experienced bribery and corruption increased from 19% in 2011 to 25% in 2014.

Higher-than-average incidents of bribery and corruption were reported in Brazil (28%), Mexico (31%) and Venezuela (36%). The industries that reported the highest levels of bribery and corruption in Latin America were energy, utilities and mining, manufacturing, transportation and logistics, retail and consumer and financial services.

Concurrently, the percentage of respondents who experienced accounting fraud increased from 13% in 2011 to 19% in 2013. As bribes and related payments are not usually recorded accurately in financial statements, a corruption issue can quickly turn into an accounting issue as well.

The financial and collateral effects of economic crime

2. Business processes are under attack

The most basic business processes- sales, distribution, logistics, vendor selection, procurement, payments, etc.- rest on the basic process of exchange of cash or other consideration. These points of contact are generally the vulnerable points where economic crime can threaten.

A quarter (24%) of respondents who experienced economic crime in Latin America reported financial losses between USD100,000 and USD1million.

Losses between USD1million and USD5million were reported by 10% of the organizations that suffered economic crime, while 3.6% of respondents reported financial losses higher than USD5million.

While economic crimes related to a single episode cause losses, having your organization compromised by a bribery and corruption scheme is a more systemic assault on your company and has a greater impact.

Not only may these crimes lead to substantial fines and a blemish on your reputation, they can cause a lasting damage. They erode the integrity of employees and exploit weaknesses in internal control structures in a company's sales, marketing, distribution, compliance, supply chain, payments processing, government relationships, and accounting and financial reporting.

Our respondents pointed at damage to employee morale, corporate and brand reputation, and business relations as some of the most severe non-financial impacts of economic crime.

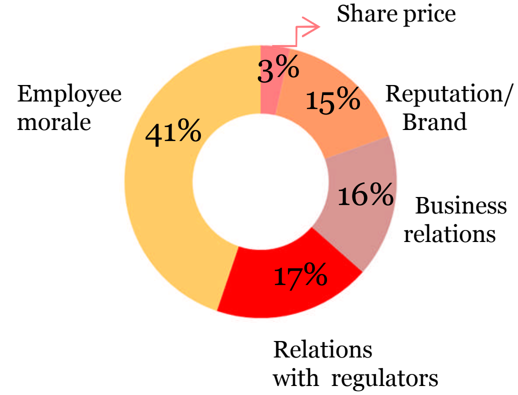


Figure 2.1 Collateral effects of economic crime. Percentage of Latin America respondents who experienced economic crime over the survey period.

It is worth noting that respondents from Latin America reported a significant higher impact on employee morale (41%) compared to the 31% reported by overall global survey respondents.

Bribery and corruption, money laundering and anticompetitive behavior

3. Under the eye of the enforcement

Some types of economic crimes- bribery and corruption, money laundering and anticompetitive behaviour- attract significantly more attention from government enforcement agencies than others.

In addition to financial losses, the greatest effects perceived by survey respondents across these three areas of economic crime are damage to reputation, as well as disruption and distraction.

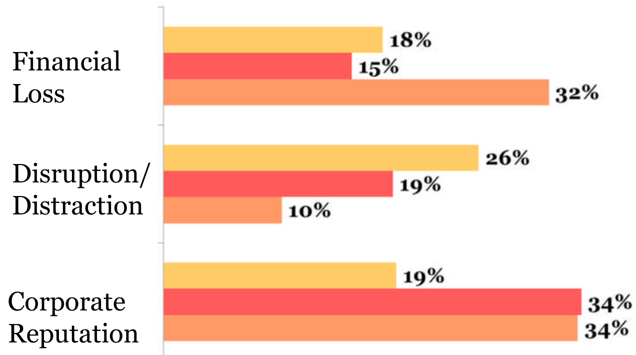


Figure 3.1 Perceived severe impact, by highlighted economic crime.

Colombia

Article 433 of the Colombian Penal Code, amended by the new Anti-Corruption Statute (Law No. 1474 of 2011) Effective July 12, 2011

Chile

Law No. 19,829, amending the Chilean Criminal Code Effective October 8, 2002

Mexico

The Mexican Federal Penal Code and the Mexican Criminal Code Effective June 2009

Brazil

Brazil's Clean Companies Act (BCCA) Effective January 29, 2014

Figure 3.2 Latin American countries that adhered to the OECD Anti-Bribery Convention.

These crimes arise from the failure of businesses to adhere to the expected code of conduct established by countries around the world. Several countries are committed to enforcement programmes with increasingly stringent standards and stiff penalties.

In Brazil, a new federal anti-corruption law, Brazil's Clean Companies Act (BCCA), came into effect on January 29 2014, increasing the number of Latin American countries with specific legislation on this issue.

Money laundering continues to be a great concern for the financial services industry. Half (50%) of the money laundering incidents in Latin America were reported by organizations in the financial sector.

Only 2.8% of respondents in Latin America reported suffering Anti-Trust/Competition Law incidents, compared to 5.2% of respondents globally.

Data confidentiality under threat

4. Cybercrime – the risks of a networked world

Cybercrime continues to rank high on the list of economic crimes reported. One in five respondents (20%) reported experiencing a cybercrime in the last 24 months.

It is also important to consider that a significant percentage of those who did not report cybercrime may also have suffered an event and not even known about it. That underscores the challenge of the threat. Many entities do not have clear insight into whether their networks and the data contained therein have been breached, and they don't know what has been lost- or its value.

The magnitude of a cybercrime may not be felt for years. If R&D information, intellectual property, trade secrets, or other high level information is compromised, the business impact may not be felt immediately. It may take months or years before the business feels the full effect on competitive advantage or degradation of cash flows.

Further complicating the picture is a third aspect of the lack of transparency into cybercrime events: even when it is detected, cybercrime often goes unreported. Outside of privacy breaches in regulated areas such as identity theft, there are few regulatory conventions requiring disclosure. And often- such as in the case of theft of key intellectual property- there may be compelling competitive reasons for organizations to keep such losses confidential.

Sixty per cent (60%) of the cybercrime incidents reported were experienced by organizations in the financial services industry. Why such a large percentage? Large, regulated financial institutions often have more and better system safeguards- which may increase the chance of a breach's being detected. In addition, banks are where the money is.

Finally, financial institutions are an appealing target because they provide large amounts of customer and personal financial information online, which can potentially be accessed- and sold on the black market- as a precursor to organizing a theft of funds.

Cybercrime threatens technology-enabled business process, including:

Privacy of customers (health care industry)

Expansion into new markets

Email

M&A

ATM transactions

Research, development and engineering

Supply chain

Point of sale purchases (debit and credit cards)

Consumer incentives

Infrastructure weak points

E-commerce or on-line sales processes

5. The fraudster – know your adversary

We asked respondents whose organization experienced economic crime to profile the main perpetrator of the most serious fraud faced. Seventy per cent (70%) of respondents from Latin America reported that the perpetrator was internal, and 23% reported the main perpetrator as external.

The financial services sector reported a different profile- 46% of respondents cited external perpetrators as their greatest fraud adversaries, while 21% reported the main perpetrators as internal. This is likely due to the high rate of cybercrime affecting financial services and to the fact that cybercrime tends to involve external fraudsters.

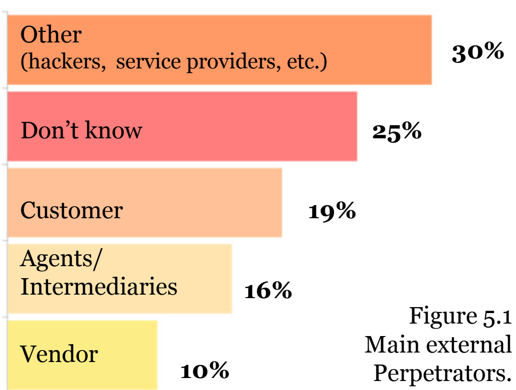


Figure 5.1 Main external Perpetrators.

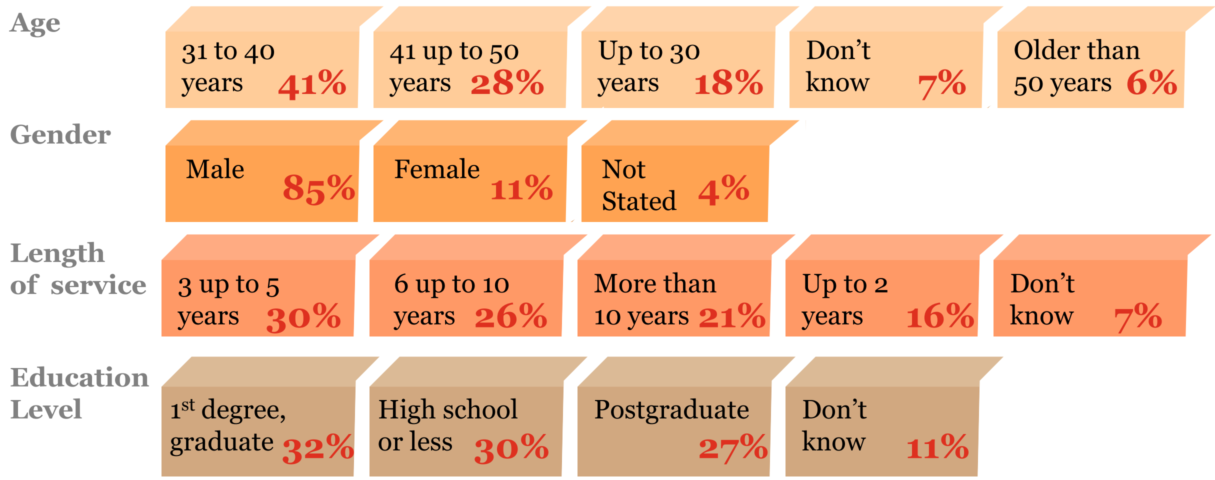


Figure 5.2 Age, gender, length of service and education level of internal perpetrator.

Respondents from Latin America reported that the main actions taken against external perpetrators were to notify the relevant regulatory authorities (42%), take civil action including recoveries (28%), inform law enforcement (21%) and terminate the business relationship (19%).

The main actions reported against internal perpetrators were dismissal (80%), civil action including recoveries (42%) and notification to relevant regulatory authorities (22%).

Sixty two per cent (62%) of respondents reported that fraud was detected through the corporate controls, including data analytics, internal audit, suspicious transaction reporting, corporate security and fraud risk assessment. Twenty three per cent (23%) reported that fraud was detected through the corporate culture, including tip-off and whistle-blowing system. Eleven per cent (11%) reported that fraud detection occurred through methods beyond the influence of management, including investigative media, law enforcement and by accident.

Latin America Forensic Services

United States

Mona Clayton
Partner
Miami, FL
+1 305 347 3510
mona.m.clayton@us.pwc.com

Frank Badalamenti
Managing Director
New York, NY
+ 1 646 471 1460
frank.badalamenti@us.pwc.com

Vanessa Salinas Beckstrom
Director
Chicago, IL
+1 312 298 4274
vanessa.salinas.beckstrom@us.pwc.com

Alberto Orozco
Director
Houston, TX
+1 713 356 8421
alberto.orozco@us.pwc.com

Argentina

Jorge Bacher
Partner
Buenos Aires, Argentina
+54 11 4850 6801
jorge.c.bacher@ar.pwc.com

Brazil

Martin Whitehead
Partner
Sao Paulo, Brazil
+55 11 3674 2141
martin.j.whitehead@br.pwc.com

Canada

Peter Vakof
Partner
Toronto, Canada
+1 416.814.5841
peter.vakof@ca.pwc.com

James Pomeroy
Director
Caribbean/Halifax
+1 902.491.7416
james.a.pomeroy@ca.pwc.com

Chile

Colin Becker
Partner
Santiago, Chile
+56 2 940 0016
colin.becker@cl.pwc.com

Colombia

Stephen Anderson
Manager
Bogota, Colombia
+571 634 0555 - Ext 363
stephen.anderson@co.pwc.com

Ecuador

Gonzalo Argandona
Partner
Guayaquil
+593 4 3700220
gonzalo.argandona@ec.pwc.com

Mexico

Luis Vite
Partner
Mexico City, Mexico
+52 55 5263 6084
luis.vite@mx.pwc.com

Peru

Humberto Salicetti
Partner
Lima, Peru
+51 1 411-5850
humberto.salicetti@pe.pwc.com

Venezuela

Roberto Sanchez
Principal
Caracas, Venezuela
+58 212 7006 222
roberto.sanchez@ve.pwc.com