

# *Global Economic Crime Survey Italian Addendum 2016*



# 2016: Economic crime evolution

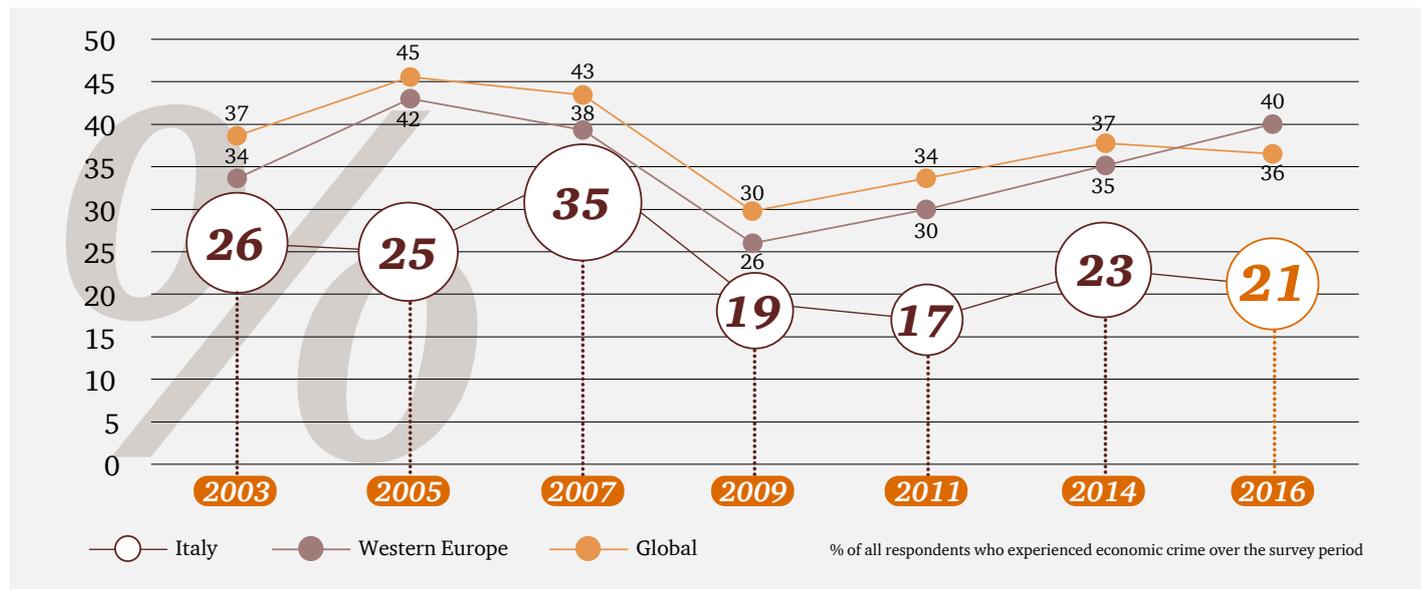
PwC's Economic Crime Survey 2016 shows a significant awareness of companies on issues relating to economic crime, reflected also by the increase of respondents to the survey: in Italy an increase of 41% and globally 27%.

**In Italy about one in five organisations (21%) claimed to have been a victim of economic and financial frauds, a slight decrease compared to the 2014 edition (23%).**

**Globally, 36% of the survey respondents has suffered at least one fraud, a small decrease in comparison to the 37% in 2014** (in particular, Africa is the country with the highest economic crime rate in the world: 57 % in 2016, against 50% in 2014).

**These results are due to the combined effect between the benefits derived from an increased awareness regarding the prevention and battle against economic and financial crimes, and the growing difficulty in detecting frauds as a result of more sophisticated techniques used by fraudsters, as well as new technologies.**

**Figure 1:** The percentage of frauds reported during the period 2003-2016, reported in PwC's Economic Crime Survey (Italy - Western Europe - Global)



**In Italy, asset misappropriation is still the most common type of economic crime which represents about 70% of all frauds declared (65% in 2014), with a 5% increase.**

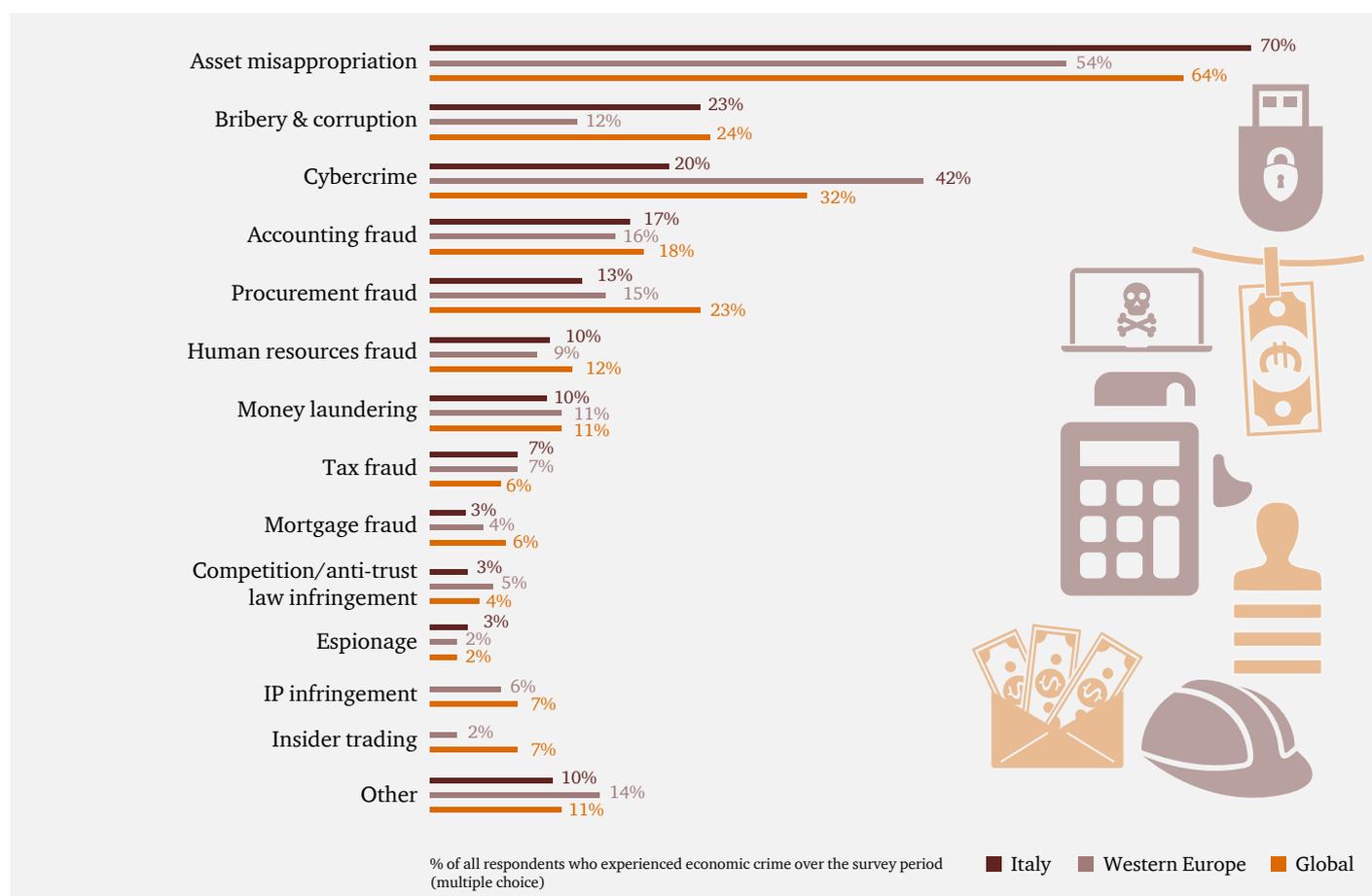
**Bribery and corruption show the most significant increase. In 2016, 23% have been a victim of this crime, a 10% increase from 2014 (13%).**

**In third place, Cybercrime results the most dangerous crime, affecting 20% of respondents (22% in 2014).**

Accounting fraud decreases, with 17% of organisations reporting on this (against 22% in 2014), procurement fraud is steady at 13%, while both money laundering and HR fraud have victimised 10% of respondents.

Also at a global level we see that asset misappropriation is the most common economic crime type, affecting 64% of respondents (69% in 2004); followed by cybercrime (32%) and bribery & corruption 24% (unchanged from 2014).

**Figure 2:** Types of economic crime experienced by Italian organisations compared to Western Europe and Global



If we look at the industries with the largest response rate (\*), we see that those most affected by economic crime are: Energy, Utilities & Mining (50%), Financial Services (35%), Manufacturing (17%), and Professional Services (11%).

\* based on the sectors that have a minimum of 10 respondents.

## How are frauds been detected in Italy?

Over a third (36%) of frauds has been detected through out of control methods and under influence of management. In particular, one in five economic crimes (24%) has been detected by local authorities. This result shows, on one hand, a greater commitment by police, administrative and judicial authorities, but, on the other hand, that **companies do not identify economic crimes on time and for this reason they are not able to address the caused financial and reputational damages.**

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**Underestimating fraud risks can be the start of a great crisis or result in the closure of a company.**

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## Are companies current prevention systems adequate?

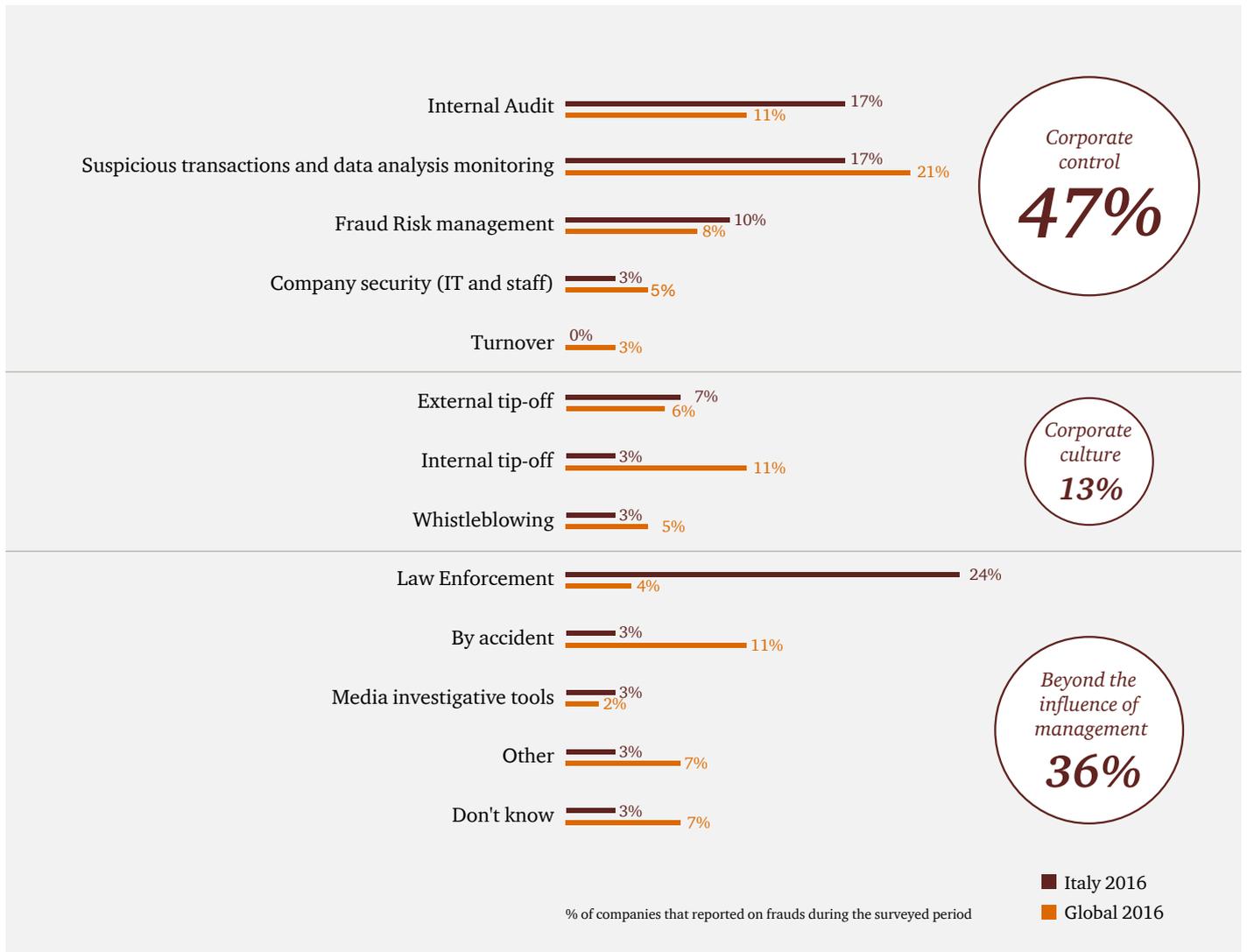
**Strategically, prevention and defence systems should be enhanced by Italian companies.** Our *survey* shows that less than half of Italian companies – that is 47% of respondents - have detected a case of economic crimes through their internal control system (50% in 2014) and, in particular:

- i) Internal Audit control activities in 17% of cases;
- ii) suspicious transactions and data analysis monitoring system in 17% of cases;
- iii) Fraud Risk management systems in 10% of case;
- iv) Security Department in 3% of cases.

Methods of fraud detection usually fall into one of the following three categories: corporate controls, corporate culture, beyond corporate control. If we look at corporate culture, economic crimes identified through *whistleblowing* and the so called internal and external tip-offs (that is information received through non-formal channels on internal procedures) account for 13% of the cases, a significant decrease in comparison with 2014 (35%).

**Thanks to the guidelines by ANAC (Italian Anti-corruption Authority) and the new Government regulations, *whistleblowing* tools are getting essential in the battle against economic and financial crimes.** However, our results show that there is room for improvement: in fact only 3% of all frauds reported in Italy have been identified through *whistleblowing*, this is probably due to the fact that *whistleblowing* is not yet protected in Italy. More should be done to develop a whistleblower protection program. Currently, the reporting still happens primarily through traditional channels, (e.g. anonymous letters). Following new regulations to strengthen this tool, implementing a system able to manage reporting will increase *whistleblowing* effectiveness from a precautionary and investigative perspective.

**Figure 3: Methods of detecting economic crimes**



As a consequence of a greater acknowledgment on fraud prevention, the number of companies that has never carried out a single fraud risk assessment has decreased (**24% in 2016, compared to 25% in 2014 and to 37% in 2011**).

## What is the real cost of economic crime?

In the last two years, economic crimes have provoked huge financial losses: 7% of Italian organisations have suffered losses between 5 million and 92 million Euro. The real damage, however, is difficult to estimate, especially considering that financial loss related directly to a fraudulent event is often only a small component of the fallout from a serious incident.

## How significant are employee motivation, reputation and the strength of the brand?

Collateral damages due to economic crimes can have a significant impact not only on business relations, but also on long-term business performance. Italian organisations that have reported to be a victim of economic crimes have cited that the main impacts are noticed on employee morale (24% of respondents) reputation/brand strength (23%), business relations (14%) and the relations with regulators (14%).

Figure 4: Financial losses caused by economic crime

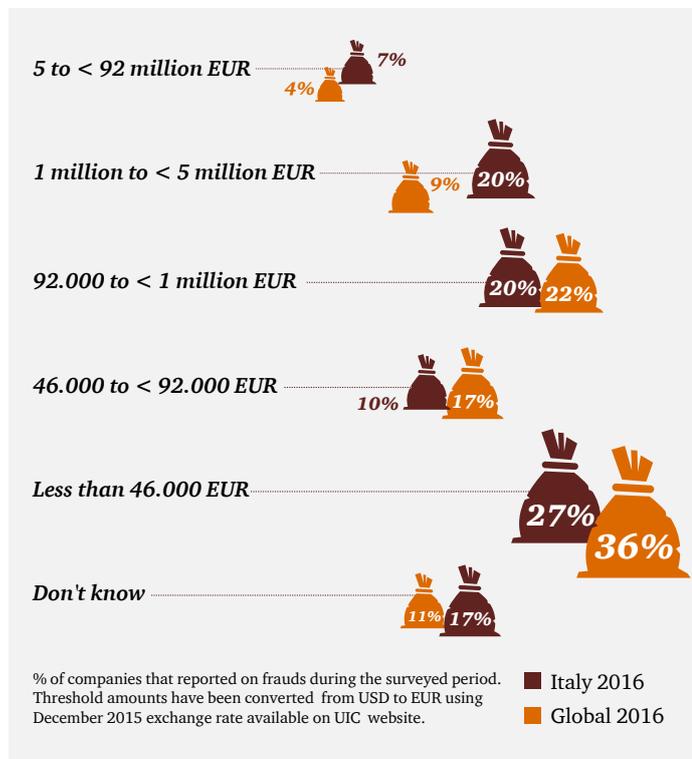
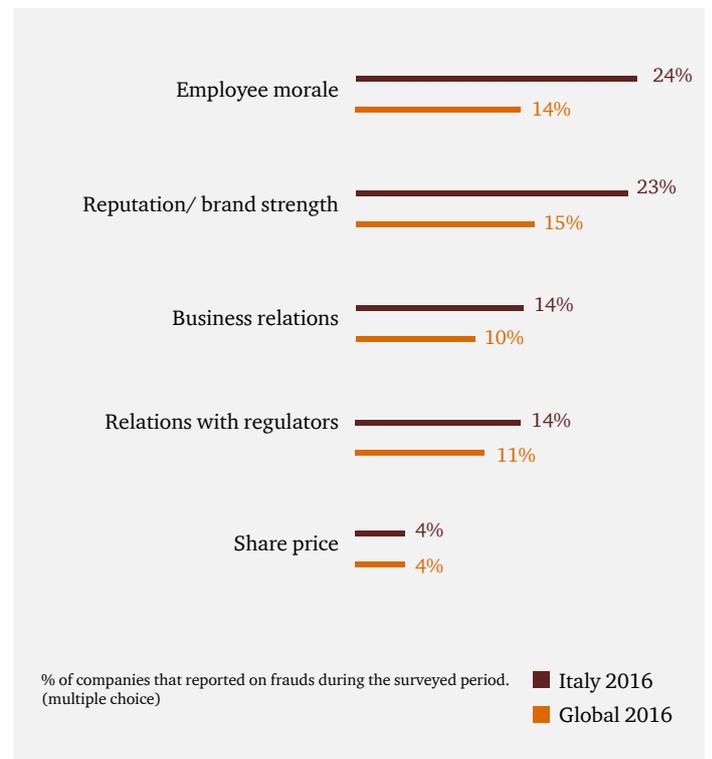


Figure 5: Collateral effects of economic crime on the business



## Who is the fraudster?

In Italy, the fraudster, when detected, is a subject on the inside of the organisation in 43% of the cases (61% in 2014), and an external subject in 30% of the cases (39% in 2014). Compared to the 2014 survey, the percentage of respondents not able to identify the fraudster has increased (+13%).

On a global level, we see that in 46% of the cases the fraud perpetrator is an internal actor (56% in 2014) and in 41% of the cases reported it concerns a subject external to the company (40% in 2014).

**The Italian Fraudster profile has changed in 2016 compared to the profile drawn up in 2014: male, graduated, between 31-40 years old and with 3-5 years of professional experience, in a middle management rather than senior management role.**

While in 2014 the fraudster was male, college/university graduate, between 41-50 years old, with more than 10 years of professional experience, and part of senior management.

### ► Identikit of the fraudster

#### Characteristics of the fraudster



Male



University graduate



31-40 years old



3-5 years of service

# Cybercrime, a serious danger for the future

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In Italy, one in five organisations (20%) has been affected by *cybercrime*, third most commonly reported economic crime, right after asset misappropriation and bribery & corruption. *Cybercrime* continues to expand so much that for 30% of respondents it represents a serious danger for the future.

The adoption of behaviours and countermeasures that can hinder the growth of this threat are therefore an essential element to help protect companies, professionals and firms. In Italy the damages deriving from cyber attacks and the cost of recovery heavily impact organisations. In today's scenario it is necessary to put IT security at the centre of every single project that involves IT systems, due to the elevated risk related to and resulting in the development of *cybercrime*.

## Does Cyberspace scare?

For 60% of Italian organisations *cybercrime* is seen as a threat increasingly coming from outside the organisation (55% in 2014). Hackers, terrorists and organised crime are the biggest threats, as they use the income obtained through *cybercrime* as a financial resource.

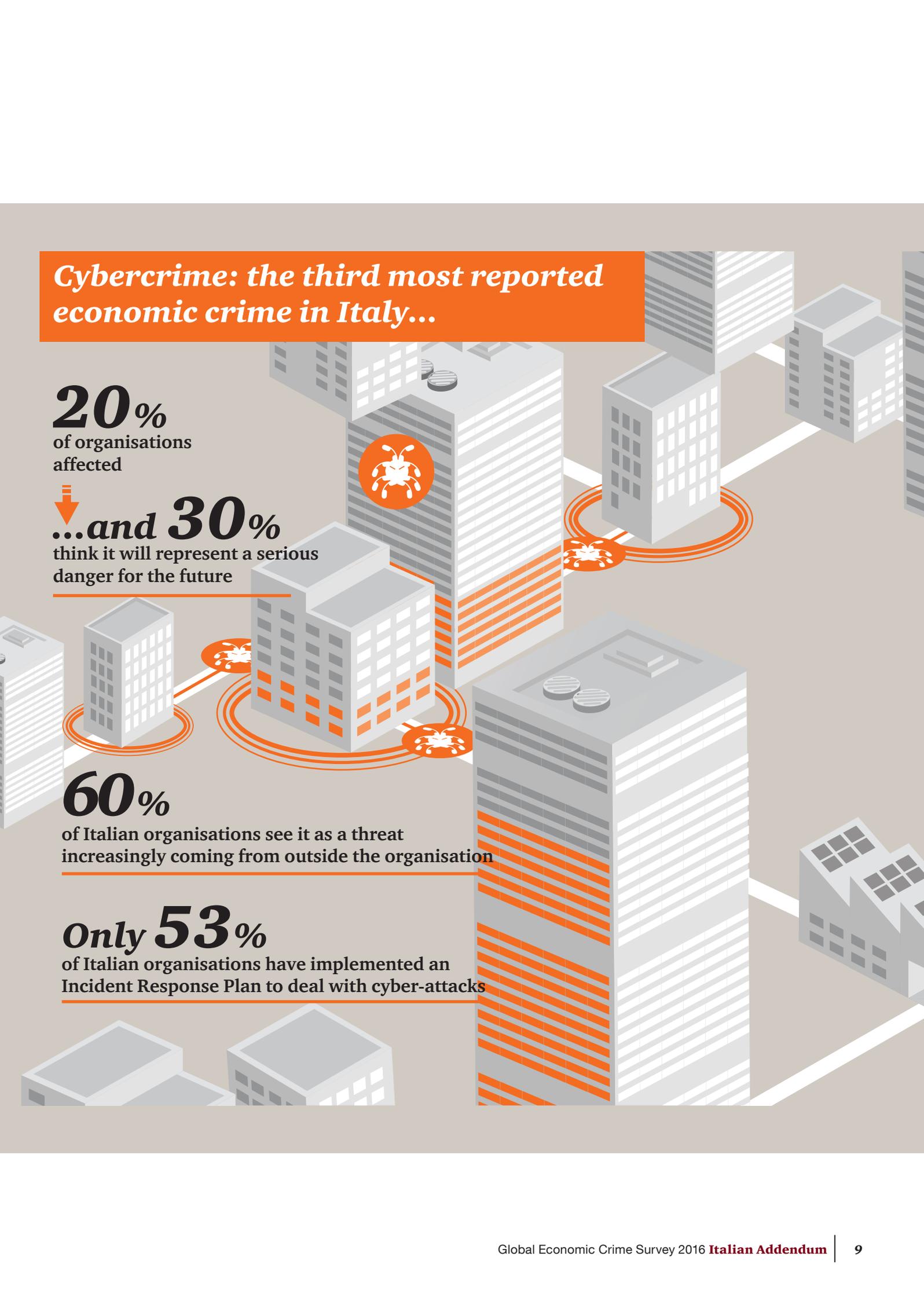
According to 25% there is a complicity between internal and external factors. Only 6% think that the threat originates from inside the organisation.

## How do we face IT attacks?

Only 53% of organisations have implemented an Incident Response Plan to deal with cyber-attacks. Even if Italy is above the global average of 37%, nearly half of Italian companies is still vulnerable from an IT security perspective.

Italian organisations that have personnel “fully trained” to act as first responders in case of a cyber attack are 42%, while 20% has outsourced this to the IT Security Department.

In Italy there is more trust in the authorities committed to fighting *cybercrime*, than on a global level: nearly half of organisations (46%) find that our authorities are properly equipped and able to neutralize IT crimes, such as hacker attacks and malwares, compared to 23% globally.



**Cybercrime: the third most reported economic crime in Italy...**

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↓  
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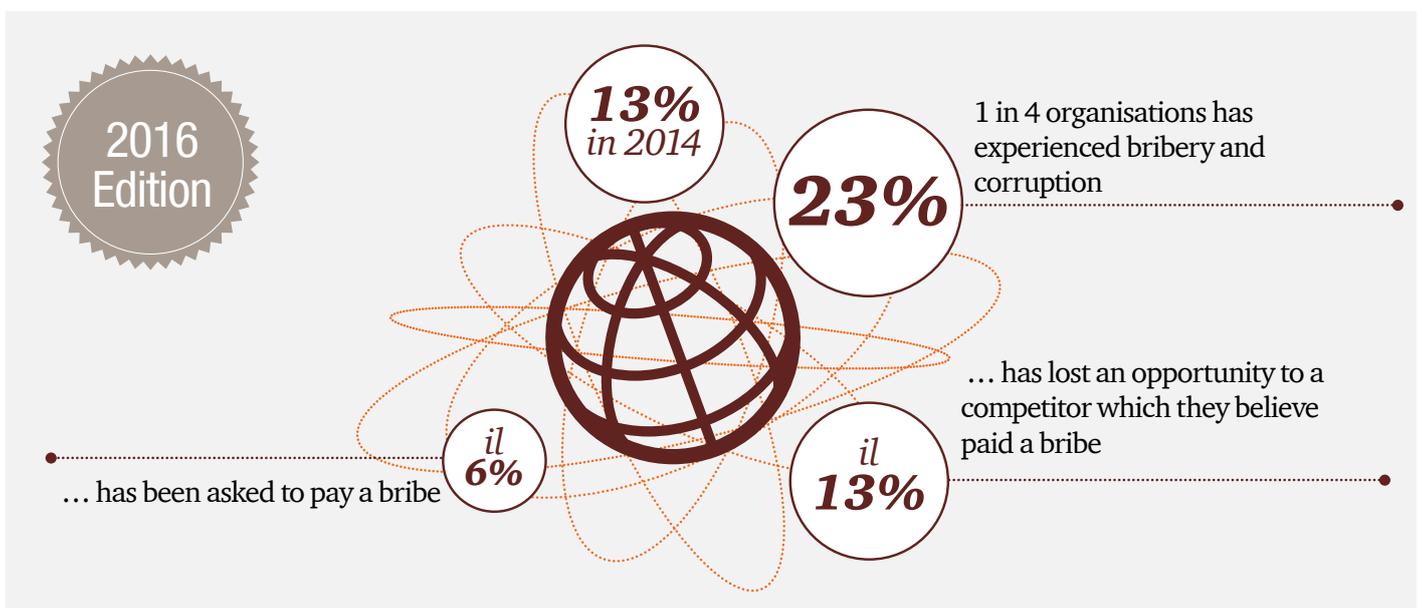
# Bribery & corruption, a threat without boundaries

The most significant result of the 2016 survey is represented by 23% of Italian organisations that reported to have been victims of bribery and corruption, showing a 10% increase compared to 2014 and a 13% increase compared to 2011. In Italy corruption is a worrying phenomenon in spite of the constant and increasing monitoring performed by the judicial and administrative authorities. The increase in cases detected this year not only highlights the spread and seriousness, but also the even greater commitment of organisations in implementing control programs able to identify, isolate and battle against this crime.

**Bribery twists competition and slows down development.** Even if this malpractice is spread, it is not easy to detect and to identify it. 6% of Italian organisations have admitted that they have been asked to pay a bribe, while one in four companies has not been able to answer the question. In addition, 13% of respondents claimed they lost business opportunities, probably following a bribe paid by competitors, while half of them has not been able to answer the question. These results show that respondents are hesitant to share information on this topic.

The 2015 *Transparency International*, covering the "perceived" corruption, places Italy at number 61 in the world, rising 8 positions compared to last year's global ranking (number 69), with a score that has slightly improved (from 43 out of 100 to 44 out of 100). Unfortunately, Italy is at the bottom of the European list (followed only by Bulgaria), while internationally it is ranked alongside countries such as South Africa, Senegal, Montenegro, and Lesotho.

**Therefore a culture based on ethics and transparency must remain a fundamental goal for Italian companies:** the 2016 survey shows that, on the question "How do you think your colleagues perceive the way your top level management deals with corruption?", 77% replied that bribery is not considered a legal practice, while 64% would rather allow a business transaction to fall through rather than having to use bribery.



## Ethics and compliance programs

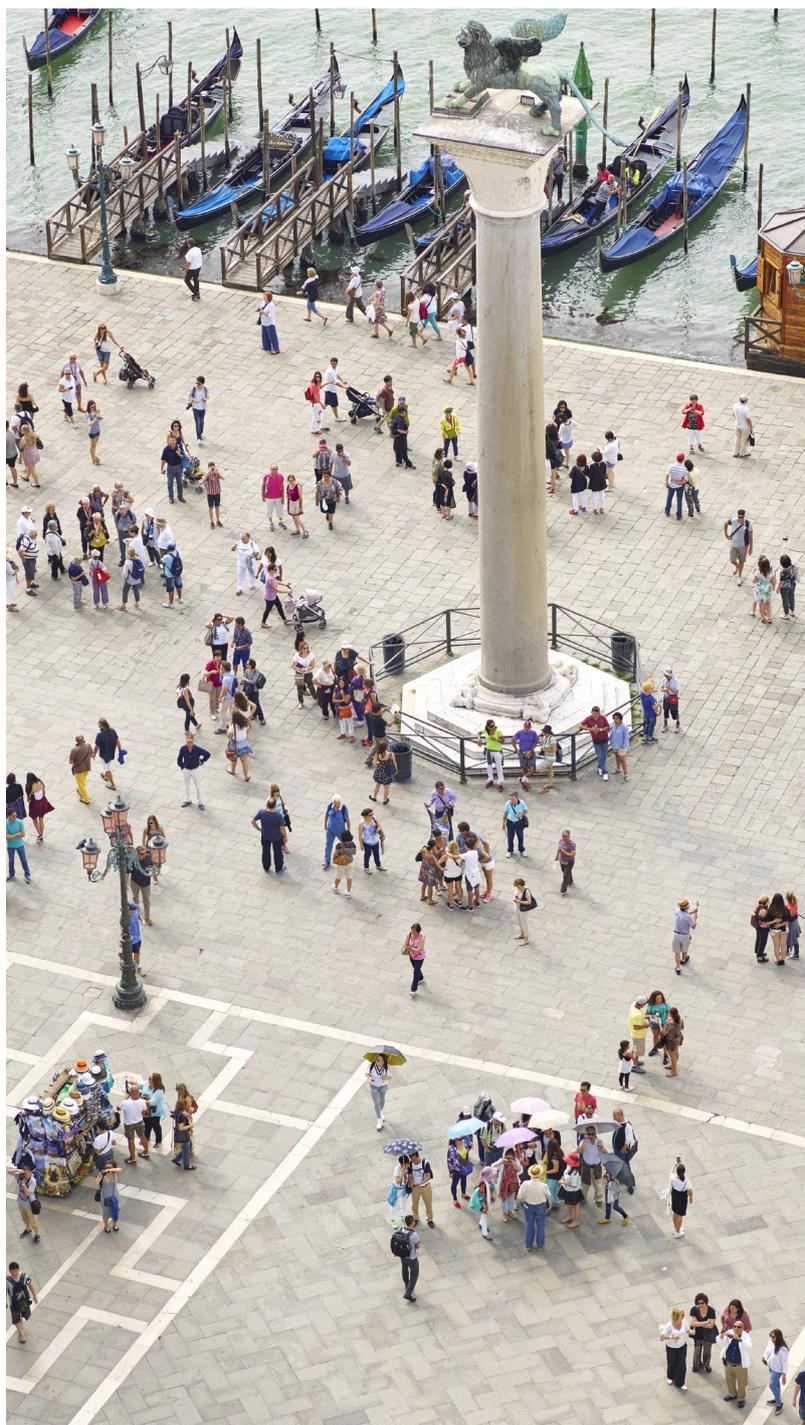
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At the heart of each crime, independent from the reason why it has been committed, is a decision driven by human behaviour. For this reason organisations should create and share a company culture based on ethics and compliance. Only in this way the barriers against economic and financial crimes can protect our business from serious side effects.

### *Have Italian companies implemented ethics and compliance programs?*

In Italy emerges the awareness that people and culture are the first line of defence against economic and financial crimes. In fact, **86% of respondents have implemented an ethics and compliance program within their organisation, overtaking the global average of 82%.**

In this ever-changing society, a well-designed ethics and compliance program can offer strategic benefits to the business. It has to motivate and award people and be able to measure the results. But in order to be effective it must be more than an updated code of conduct, it must address the deep connection among values, behaviour and decision-making.





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