



Chamber of Commerce Economic Crime Survey 2006



In association with

RSM Cayman Islands



Chamber of Commerce

COMBATING ECONOMIC CRIME

A Report on the Issues of Financial Fraud in Cayman Resident Businesses

2005-06

Contents

| Section | Page |
|---|------|
| 1 Introduction | 3 |
| 2 Approach and Methodology | 5 |
| 3 Executive Summary | 6 |
| 4 General Findings | 7 |
| 5 Impacts and Trends of Economic Crime | 8 |
| 6 Methods Used To Detect and Prevent Economic Crime | 10 |
| 7 The Retail Sector | 12 |
| 8 Anti-Money Laundering Activities | 13 |
| 9 Education and Training | 14 |
| 10 Communications and Reporting | 15 |
| 11 Overall Findings | 17 |
| 12 Actions to Combat Economic Crime | 22 |
| 13 Appendix 1 | 24 |
| 14 Appendix 2 | 35 |

1 Introduction

Message from the Cayman Islands Chamber of Commerce



Mr. Morgan DeCosta
President
Cayman Islands Chamber of Commerce

I am pleased to present the findings of the recent survey on economic crime and financial fraud in Cayman resident businesses.

The Chamber of Commerce, with support of the Royal Cayman Island Police ("RCIP") and with the support of Cayman Islands Compliance Association ("CICA") commissioned the Cayman Islands first in-depth

survey into economic crime.

RSM Cayman Islands was appointed to conduct the survey. The detailed survey, covering 50 different aspects of economic crime, was sent to Cayman Islands businesses through the Cayman Islands Chamber of Commerce.

RSM Cayman Islands uses the term 'economic crime' to include asset misappropriation, bribery, cheque and credit card fraud, debit card fraud, corruption, cyber crime, identity theft (individual and corporate), insurance fraud, insolvency fraud money laundering and theft.

Economic crime is a serious and growing threat to all businesses, and one which larger businesses are particularly vulnerable. Its impact can be far-reaching, tarnishing reputations and diminishing hard-earned profits.

Projections based on the responses received indicate that Cayman Islands businesses may have lost an estimated \$20M in 2005 through acts such as fraud, asset misappropriation, cheque and credit card fraud, embezzlement and corruption, and spent a further \$40M seeking to prevent and combat the problem.

Over three quarters of the businesses surveyed acknowledged that economic crime could have a serious impact on their brand image and on shareholders' equity.

Despite these concerns, the survey revealed that a little more than half of Cayman Island businesses discussed the issue of economic crime at board meetings within the past year, indicating that Cayman boards are not doing enough to tackle this problem.

Our survey also indicates that businesses expect economic crime to increase.

This survey aims to discover just how prevalent each of the areas of economic crime are really becoming, and to determine to what extent they impact business.

Based on the findings, this report aims to provide new insights into recognizing economic crime and the acts required to prevent it. The results also provide an opportunity to benchmark a business's performance against its peers. This opportunity remains open to those who wish to identify specific areas against which they should take action and improve performance.

With the growth of economic crime expected to continue, now, more than ever, is the time to take action and move economic crime up the board agenda. This is not an issue to be taken lightly. Neither will it go away.

I hope that the publication of this report will raise awareness of the impact of economic crime and that our findings will help businesses to introduce systems, policies and procedures to prevent and detect economic crime in the future.

I would like to take this opportunity to thank all businesses that participated in the survey and the work carried out by RSM Cayman Islands in this important project.

Message from the Royal Cayman Islands Police



Mr. Stuart Kennihan
Commissioner
Royal Cayman Islands Police

The belief that economic crime is not significant in the Cayman Islands must be reconsidered. Clearly, we will be looking closely at the findings in this report and determine what additional steps we need to take to prevent and deter economic crime.

2 Approach and Methodology

Research Objectives

In the light of reported increases in economic crime and recent changes in legislation, we sought to determine:

- € the level of economic crime
- € the types of economic crime having the greatest impact
- € main concerns, including money laundering aspects
- € average financial loss per business
- € the extent of detection and prevention methods and
- € trends in economic crime

Collaboration

We are very grateful to the following organisations for their assistance in our research:

- € Chamber of Commerce
- € Royal Cayman Islands Police
- € Cayman Islands Compliance Association

Methodology

A postal survey containing statements and questions on over 50 aspects of economic crime was mailed to 525 corporate members in December 2005.

53 Cayman resident businesses responded to the survey. 55% of respondents were from the financial services sector, 30% from tourism/retail and 15% from professional services and other firms.

The survey results are presented in US dollars unless otherwise stated.

We appreciate the interest shown and time given by these respondents in discussing and completing the survey.

3 Executive Summary

The purpose of this survey is to establish both the prevalence of economic crime today and its impact on Cayman businesses, thereby raising awareness of the issue.

This survey brought to light a number of significant findings, listed below:

- € The main threats to Cayman businesses come from money laundering, embezzlement (asset misappropriation), cheque and credit card fraud, and cyber fraud.
- € Identity theft, bribery and corruption are also major concerns.
- € Over one third of Cayman businesses indicated they were involved in at least one instance of economic crime in the past year.
- € Annual losses for all Cayman businesses are estimated at \$20M with prevention costing a further \$40M.
- € Annual losses per business surveyed approximated \$60,000 with prevention costing on average approximated \$50,000.
- € Many businesses are still unaware of the extent of economic crime.
- € Only 39% of boards had formal risk management training and only 43% of Cayman businesses fully train their staff.
- € Only 47% of Cayman businesses admit their current crime prevention systems are sufficient.
- € 75% are concerned about the potential damage to their business' reputation; and 76% are concerned with impact on shareholder equity.
- € Just under half expect the threat of economic crime to increase over the next three years.
- € Many businesses believe that the government, law enforcement and industry associations can do more to combat economic crime.
- € Few businesses are prepared to share information relating to economic crime incidents.
- € Less than 4% encourage whistleblowing.

4 General Findings

Awareness and Board Responsibilities

The majority of respondents (69%) agreed that the Board of Directors has ultimate responsibility for managing the risks associated with economic crime, yet only 53% indicated that economic crime was discussed at board level more than once a year.

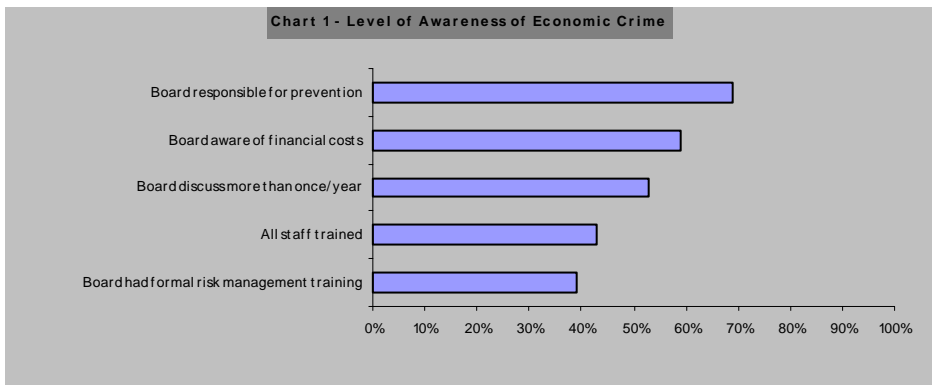
Only 39% of businesses surveyed had formal risk management training and only 43% reported having fully trained staff.

It would appear that formal risk management training might have been delegated below board level. Given that risk management is at the centre of combating economic crime, boards should be giving more attention to this matter.

Overall, only 59% of respondents admitted having a good understanding of the financial cost of economic crime on their businesses. This data is represented in Chart 1.

Everyone in a business needs to be fully aware of legislation, likely incidents, detection and prevention measures and how to identify and deal with suspicious transactions or activity.

Such awareness can only be developed by introducing specific policies, procedures and rules, which set out a businesses' approach to combat economic crime. However, to be successful, it has to be driven from the top down, commencing in the boardroom and extending to every department in the business and to every member of staff.



5 Impacts and Trends of Economic Crime

Impact of Economic Crime

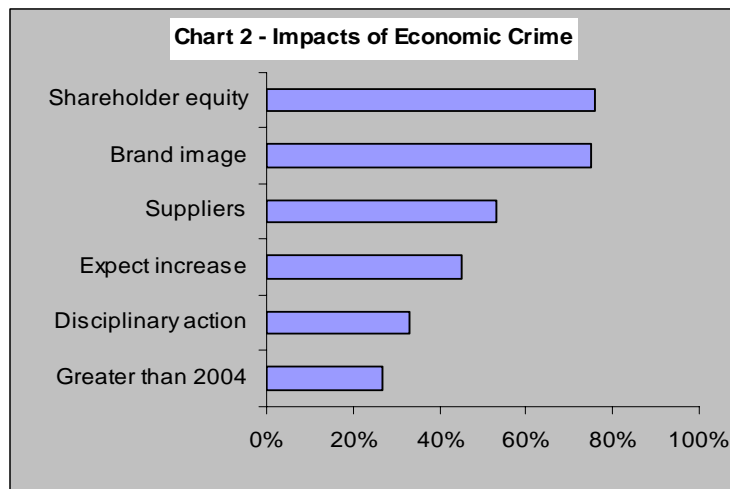
Respondents were asked to state which types of economic crime had the most impact on their business.

The three most common impacts were money laundering, embezzlement (asset misappropriation) and cheque and credit card fraud. Cyber fraud was only slightly behind.

Trends in Economic Crime

Approximately 27% of respondents stated that economic crime had a greater impact on them than in the previous year, and one-half of respondents expect the threat to increase over the next three years. One third of respondents reported taking disciplinary action against perpetrators in the past year.

Reputational aspects were questioned specifically. Overall, 53% of respondents were concerned about the effect of a disclosed fraud on supplier relationships, shareholder equity (76%) and on brand image (75%) as can be seen in Chart 2.



Forms of Economic Crime of Most Concern to Business

Respondents were asked to rank different types of economic crime of most concern to their business. The top ten are shown in **Table 1** below.

Losses from Economic Crime

Losses from financial fraud are hard to quantify with accuracy, but as part of the survey testing, respondents were asked to provide an estimate of the financial losses suffered during the past year. Unfortunately, many firms in some of Cayman's largest businesses were unaware of the exact cost and could give only approximate figures.

These losses approximated to about \$60,000 per business experiencing economic loss and the additional cost of prevention and insurance for businesses surveyed were estimated at approximately \$50,000.

Extrapolations on these figures gave the estimated loss from economic crime for Cayman business in 2005 to be approximately \$20M and the added cost of prevention at approximately another \$40M.

| TABLE 1 – Top Ten Rated Economic Crimes |
|---|
| 1. Money Laundering |
| 2. Asset Misappropriation |
| 3. Cheque Fraud |
| 4. Credit Card Fraud |
| 5. Cyber Fraud |
| 6. Debit Card Fraud |
| 7. Identity Theft |
| 8. Bribery/Corruption |
| 9. Insurance Fraud |
| 10. Insolvency Fraud |

6 Methods Used To Detect and Prevent Economic Crime

Chart 3 shows the type of investment in anti-fraud measures by respondents in 2005, which include staff training, additional systems established in the past two years and whether businesses have taken out specific insurance against fraud loss.

Sharing of Information

Of particular significance is the reluctance on the part of the business to share information with or provide details of economic crime to others operating in the same industry.

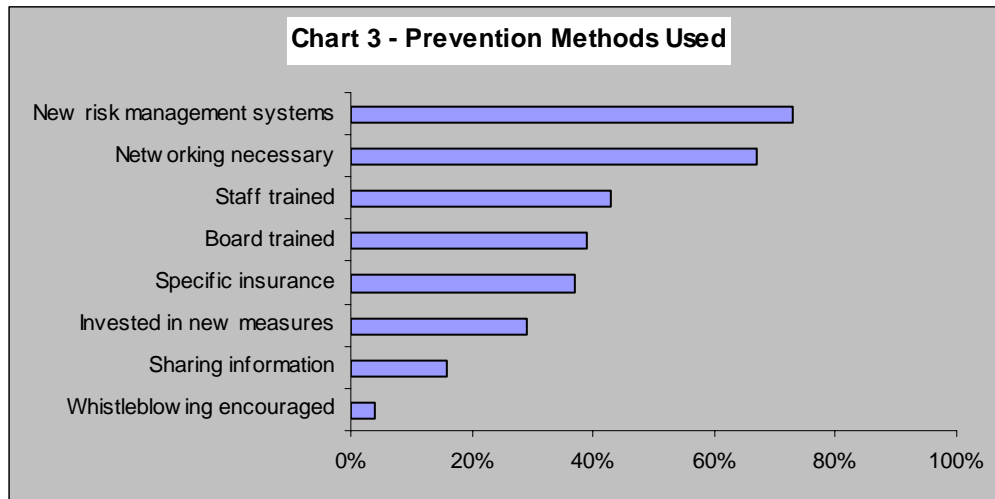
The introduction of community policing in areas affected by crime has shown that the more information that is shared between potential victims, the less likely that the perpetrator(s) will actually carry out their crime in that area or location.

Industry associations exist in many areas and directors and senior executives should ensure that some form of reasonable debate on economic crime takes place on a regular basis.

Invited guests from other industry sectors could make presentations and share their experiences in order to provide information on economic crime prevalent within their industry, and vice versa.

The perpetrators of economic crime are constantly sharing information and developing new methods to commit crime. Industry needs to do likewise to prevent economic crime from increasing.

Chart 3 shows this data.



Whistleblowing

In a similar survey conducted in the United Kingdom by RSM Robson Rhodes, it identified that 88% of respondent businesses encouraged whistleblowing. In Dublin, the percentage was lower, at one third. But our survey found that less than 4% of respondent businesses in Cayman encourage such behaviour by their staff.

It would appear that this is not so strange a phenomenon, but something that may be attributable to the Cayman psyche and the need for confidentiality engraved in Caymanian businesses (and in particular those in the financial services sector). As a result, there is probably a widespread inherent reluctance to provide information on the alleged wrongdoing.

However, staff should be encouraged to disclose information on any person(s) suspected of an economic crime against the business or its members. Simply put, the person carrying out such an act through the business impacts on the business, the Board and management, and the other members of staff.

All such disclosures should be made in the strictest of confidence to a member of senior management and thereafter the organisation should investigate the matter as if it were the original discoverer of the alleged activity itself.

Without a proper and identifiable policy in writing, many staff will still be reluctant to disclose any information on the suspicious activity of a colleague. However, if businesses were to be seen to encourage whistleblowing, this may deter individuals from carrying out economic crime for fear of being reported by a colleague.

7 The Retail Sector

Issues Facing the Retail Sector

The retail sector has particular issues with cheque fraud and internal employee fraud, and are implementing a number of measures to combat the growth of these economic crimes.

One third of respondents in the retail business indicated they had been a victim of cheque fraud within the past years; while, 38% of respondents indicated they had been a victim of internal employee fraud.

Respondents reported that average losses per retail business is just over \$4,000 for cheque fraud, and just over \$11,000 for employee fraud.

Despite the percentage of businesses that were victims to this fraud, only 38% are implementing or considering a system to detect cheque fraud, while three quarters are putting security systems or implementing other policies to detect employee fraud.

In comparing the quantity of losses from employee fraud and in-store fraud, approximately 30% of respondents thought that employee fraud losses were greater than in-store fraud losses. However, when comparing the actual averages incurred, respondents reported that the amounts on average were very similar, at around \$11,000.

8 Anti-Money Laundering Activities

Money Laundering Issues

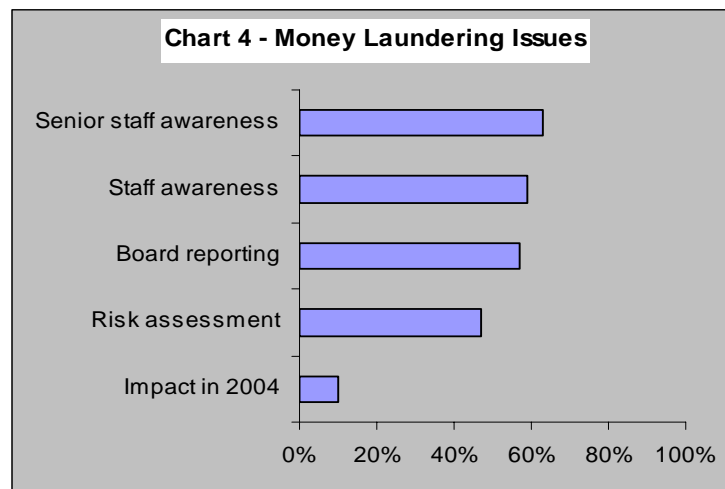
Money laundering has received significant exposure since Cayman was black-listed by the Financial Action Task Force on Money Laundering in 2000. New anti-money laundering legislation and guidelines were subsequently issued to assist financial services providers and the industry as a whole with international standards.

10% of businesses responding were impacted in some way by the effects of money laundering in the past year.

We asked respondents to give feedback on the extent of their anti-money laundering activities. These are shown in Chart 4.

The main money laundering risks faced by respondent businesses were reported as:

- € non-compliance with money laundering legislation having an adverse reputational impact:
- € involvement in third party transactions
- € payment for vehicles
- € inability to verify customers
- € problem with declaring source of funds
- € exchange transactions
- € insurance transactions and early surrenders
- € inadvertent involvement in money laundering transactions
- € not comprehending their customer base



9 Education and Training

Education in identifying and preventing fraud should be encouraged and be continuous; its scope and content should be regularly reviewed so that all employees are fully up to date and know what action to take if suspicion is aroused.

Training employees in awareness of legislation is insufficient to prepare businesses for identification and prevention of fraud. In our experience, the key to identifying suspicious transactions is employment of staff who understand the transactions and who have sufficient support to be able to investigate and allay their concerns when their suspicions are aroused.

Training should also incorporate case studies to demonstrate how unusual transactions or circumstances can lead to disasters. Hundreds of directors and managers attend fraud prevention conferences or training events every year, but many do not fully brief their staff upon their return.

Only 43% of respondents indicated they trained all their staff in awareness of economic crime.

A Culture of Sharing Information

The survey showed that only 16% of Cayman business share information about fraud in their locality. Yet experience shows that sharing information about fraud with local businesses and within one's industry sector can be a very effective way of combating fraud.

10 Communications and Reporting

Seeking Advice

With economic crime growing, it is expected that businesses would be more robust in seeking advice on crime prevention and subsequently reporting criminal activity. But our survey found this not to be the case.

46% of respondents stated they needed advice and training on economic crime and how it affects their business.

43% of respondents indicated that advice on crime prevention was not being sought. Of those that did seek such advice, the majority sought advice from business advisors, the police or security businesses.

Reporting Criminal Behaviour

29% of respondents indicated they would prefer to deal with economic crime in-house without police involvement. For those respondents who were victims to economic crime, only 26% reported all instances to the police. Reasons for not reporting included a lack of confidence in law enforcement, the difficulty in proving a crime had occurred, and the wish to avoid bad publicity.

Interestingly, 67% of respondents indicated that a firm networking system with the police and other prosecutorial agencies is a fundamental necessity for the prevention and detection of crime.

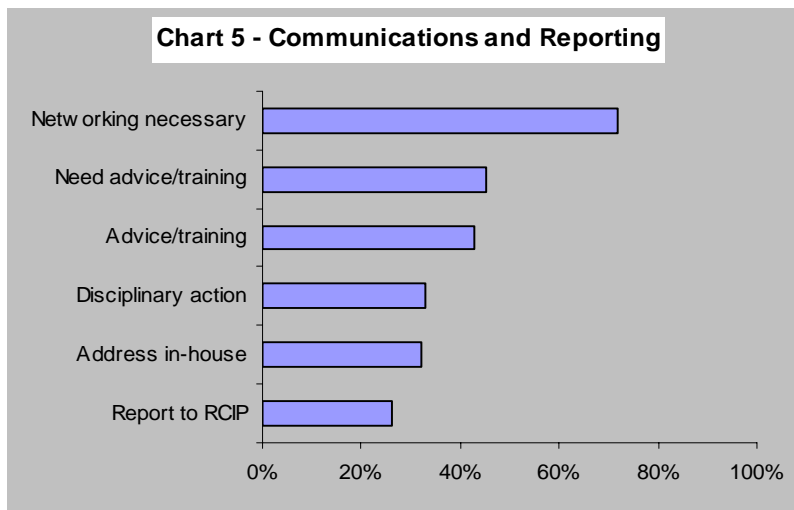
When asked what government or law enforcement are currently doing that is particularly helpful in fighting economic crime, some of the comments received were as follows:

- € additional police have been employed
- € increased communication and awareness of criminal activity with the private sector

However when asked what measures should government or law enforcement take to fight economic crime, respondents indicated the following:

- € tougher penalties for offences (59%)
- € provide more economic crime advice (49%)
- € greater involvement with industry associations (35%)
- € specialist units to conduct investigations and prosecutions (33%)

Chart 5 shows this data.



11 Overall Findings

A Serious and Growing Threat to All Businesses

Economic crime is growing around the world, and respondents expected it will be no difference in for Cayman; 45% of businesses surveyed expect it to increase during the next three years. All sectors were affected. Depending on the sector, the main concerns of respondents are the risks of money laundering, asset misappropriation, cheque and credit card fraud and cyber fraud. Only one third of respondents took disciplinary action against perpetrators in the past year.

All businesses are vulnerable to the increasingly sophisticated well-organised methods of fraudsters. 20% of the respondents surveyed thought that organised crime enterprises are responsible for most economic crime affecting their businesses.

Management needs to be increasingly vigilant internally (whistleblowing, staff training) and externally (reporting, and networking) to minimize the opportunities available to these criminals.

Losses are Significant: Size of Business Matters

The larger the business, the more it stands to lose. Larger businesses generally have more access points, large staff numbers, more complex business processes and systems, and widely spread operations, all of which contribute to potential vulnerability. In 2005, the annual loss due to economic crime Cayman businesses responding to our survey is estimated to be around \$60,000 per business. In addition, we estimate that around \$50,000 per business was spent by respondents on prevention and insuring against economic crime losses.

Reputation Suffers Too

53% of respondents were concerned about the effects that a disclosed financial fraud could have on supplier relationships; on shareholder equity (76%) and on brand image (75%). Economic crime can also impact stakeholders, management and staff. Businesses indicate that besides the monetary losses of fraud, other impacts are additional security measures required, lowered staff morale, increased insurance costs and damage to image/reputation. Yet only 37% of respondents have specific insurance to recover losses from fraud.

Not All Boards Are Up to Speed

Despite these significant losses and the concern for their impact, only 53% have discussed the issue of financial fraud at board level within the past year. Most executives on business boards we surveyed agreed that they have ultimate responsibility for managing the risks associated with economic crime yet only 59% admit to understanding the financial costs. Only 39% had economic crime included in their formal risk management training.

It is important that boards of Cayman businesses make the issue of the prevention and detection of economic crime a higher priority on this agenda. This should lead to implementation of plans to combat not only its potentially damaging financial impacts but also to protect the business' image and reputation with stakeholders, employees and customers.

Businesses should ensure that their risk assessments include economic crime are regularly reviewed. Management must ensure that employees are made aware of the potential impact of economic crime and what fraud response plans, procedures and processes are in place so that they can take appropriate action to prevent both financial and reputational losses.

Boards must therefore be prepared to seek relevant advice and make additional appropriate investment.

More Education and Training is Needed

Everyone in a business needs to be fully aware of legislation, likely incidents, detection and prevention methods and how to identify and deal with suspicious transactions or activity.

It is clear from our research that whilst boards are very concerned about potential threats, and despite some putting appropriate policies and systems in place, there is still a gap between intent and action.

Only 39% of boards say that they had formal training; and only 43% of the businesses surveyed had trained their staff in aspects of economic crime. Only 47% indicated the current economic prevention systems were adequate and 43% reported they needed training and advice on economic crime and how it affects their business.

More Help from Government, Law Enforcement and Industry Associations?

Respondents were asked to indicate what new measures should be taken to fight economic crime. 64% indicated that tougher penalties were needed for offenders and 53% thought that more crime prevention advice should be provided. 38% indicated that more involvement should occur between government, law enforcement and industry associations.

Culture and Sharing of Information

The culture of an organisation is determined by its openness, transparency and willingness to embrace and demonstrate ethical behaviour. We therefore researched the willingness to share information, take disciplinary action, involve the RCIP, or encourage whistleblowing.

We asked respondents whether they shared information on fraudulent activity with other local businesses; only 16% agreed. Of the respondents surveyed, less than 4% encouraged a whistleblowing policy. 61% of the respondents were unable to judge how their losses compared with others in their industry sector. Just over a quarter of the businesses responding contacted the RCIP upon discovery of any criminal wrongdoing and only one third took disciplinary action on economic crime issues during the past year.

There appears to be some form of head-in-the-sand approach by directors and senior executives of businesses that experience the effects of economic crime. The lack of reporting of detected economic crime indicates a reluctance to pursue the perpetrator(s) through the criminal courts.

An aspect of culture emanates from the leadership style of the board and management team. If top management has high ethical standards and demonstrates a zero tolerance attitude to fraud by clearly publicising this policy, a clear deterrent message is communicated to potential fraudsters.

However, many management decisions relating to internal frauds result in the perpetrator being dealt with without any comment to auditors or any publicity. What is even worse is that the fraudster then goes on to another unsuspecting employer without any apparent blemishes when references are checked.

A culture of sharing of information is obviously useful within the business community, but it is also important that sharing pervades within the business itself so that anything unusual is picked up quickly and preventative measures are taken to mitigate fraud.

Reviewing and Reporting

Economic crime's impact goes beyond the financial loss of the crime itself. It also impacts businesses in security measures taken, lowered staff morale, increased insurance costs and damage to image/reputation.

While 71% of respondents agree that all detected fraudulent activity should be reported to the board, only 27% of respondents report such issues to their external auditors and to the regulators.

In the financial sector, where regulatory controls are stricter, these figures are higher. Many businesses think that money laundering only impacts the financial sector. However, 36% of all respondents stated they suffered from economic criminal activities during the past year and many of these were outside the financial sector, for example, in construction and retailing.

Organised Crime Groups

Our survey revealed that 20% of respondents thought that organized crime enterprises (two or more people working together) are responsible for most of the economic crime affecting their businesses. Many of these organised groups may include business staff working with outsiders.

Many businesses are reluctant to report fraudulent activity for fear that it will affect their corporate reputation. Others simply believe that law enforcement and prosecution is insufficient and that the costs and time do not warrant pursuing it.

Investment is Needed to Combat Economic Crime

Tighter controls are being put in place and are expected to increase in sophistication. 29% of the businesses surveyed had increased their investment to combat fraud in 2005 compared with the previous year and 73% had implemented additional risk management systems in the past two years.

47% of respondents expect economic crime to increase during the next three years given recent investments in anti-fraud measures. 45% of respondents expect economic crime to increase during the next three years and that only 47% believe their current economic crime prevention systems to be adequate, it is likely that additional investment in training, IT systems and risk management procedures will continue.

Could Businesses do Better?

Based on the research for this report, it is clear that many businesses have taken action on some aspects of combating economic crime, but a high proportion are not adequately prepared for the potential threat of economic crime. Almost half indicate they need advice and training on economic crime and how it affects their business. The research demonstrates that more work needs to be done. Professional advisors like RSM Cayman Islands are able to provide guidance and direction on the deterrence, prevention and detection of economic crime, and assist in compiling policies and procedures or training. Specifically RSM has identified six identifiable factors that can be used a guide to organisations to assess their vulnerability to economic crime which we reference to as PCRIME™.

12 Actions to Combat Economic Crime

Introducing the PCRIME™ Framework and Profile to Aid Benchmarking

The PCRIME™ framework covers the deterrence, prevention and detection of economic crime by assessing the following:

- € Process and Systems
- € Culture
- € Reporting
- € Impact on organisation
- € Risk management disciplines
- € Education

RSM Cayman Islands will conduct an assessment of your organisation and provide a score as to how your organization compares back to best policy. Our assessment then guides your organisation of any deficiencies or weaknesses it may have in deterrence, prevention and detection of economic crime; and possible solutions to and a structured approach for improvement.

Possible measures that might be appropriate are set out below:

1. Assess the risk and potential impact in your sector and on your specific business.
2. Check if written anti-fraud policies and procedures are in place and are fully communicated as part of risk management.
3. Consider insurance against fraud loss.
4. Check when the last risk assessment was carried out and which areas of fraud prevention were covered, by carrying out regular health checks on business policies, process and procedures.
5. Use information technology to determine and highlight unusual patterns of activity
6. Provide regular training so that employees are fully briefed and know how to recognise fraudulent activity and what action to taken on discovery.
7. Because fraud often involves collusion with internal employees check whether human resources procedures deal with employee identify and pre-employment screening. CVs should be checked thoroughly during the recruitment process.
8. Segregate duties involving transactional matters.
9. Ensure managers who attend fraud prevent conferences or training events fully brief their staff upon their return.
10. Join local organisations related to crime prevention and be prepared to share information relating to fraud.

APPENDICES

Top Line Results

13 Appendix 1

Chamber of Commerce

Economic Crime Survey 2005-06

GENERAL

| | | Three Months | Six Months | 12 Months | Don't Know |
|----|---|--------------|------------|------------|------------|
| 1 | The most recent discussion at board level, or equivalent, on economic crime has occurred during the past. | 39% | 14% | 10% | 29% |
| | | Agree | Disagree | Don't know | N/A |
| 2 | This year, economic crime has had greater impact on our business versus last year. | 27% | 35% | 8% | |
| 3 | Our board (or equivalent) has ultimate responsibility for preventing economic crime. | 69% | 14% | 2% | |
| 4 | Our board (or equivalent) has had formal risk management training that included economic crime. | 39% | 29% | 10% | |
| 5 | Our business has invested more in anti-fraud measures in the past year than previously. | 29% | 35% | 8% | |
| 6 | We have trained all of our staff in awareness of economic crime. | 43% | 31% | 2% | |
| 7 | Economic crime could have a serious impact on our brand image. | 75% | 8% | 4% | |
| 8 | We always consult the police for advice upon discovery of any criminal wrong doing in our business. | 59% | 6% | 6% | |
| 9 | Economic crime could have an impact on the value of shareholder equity. | 76% | 12% | 2% | |
| 10 | Economic crime could have an impact on supplier relationships. | 53% | 12% | 6% | |

| | | Agree | Disagree | Don't know | N/A |
|----|---|-------|----------|------------|-----|
| 11 | We have established additional risk management systems during the past two years. | 73% | 12% | 2% | |
| 12 | We have a policy to encourage "whistle blowing" if an employee suspects internal malpractice. | 4% | 2% | 0% | |
| 13 | We have taken disciplinary action on economic crime issues during the past year. | 33% | 31% | 8% | |
| 14 | We consider our current economic crime prevention systems to be adequate. | 47% | 25% | 14% | |
| 15 | We need advice and training on economic crime and how it affects our business. | 43% | 29% | 14% | |
| 16 | All detected economic crime activity affecting our business should be reported to our: | | | | |
| | a) Board (or equivalent) | 71% | 8% | 0% | |
| | b) Audit Committee | 29% | 12% | 0% | |
| | c) Internal auditors | 41% | 10% | 2% | |
| | d) External auditors | 31% | 18% | 4% | |
| | e) Internal legal advisors | 41% | 6% | 4% | |
| | f) External legal advisors | 27% | 22% | 4% | |
| | g) Regulators | 27% | 22% | 4% | |
| 17 | We have sought crime prevention advice from the following organisations: | | | | |
| | a) Not sought | 39% | | | |
| | b) Police | 24% | | | |
| | c) Security company | 18% | | | |
| | d) Insurance company | 10% | | | |
| | e) Chamber of Commerce | 8% | | | |
| | f) Government/Regulators | 8% | | | |
| | g) Business advisors | 29% | | | |

| | | Agree | Disagree | Don't know | N/A |
|----|--|-------|----------|------------|-----|
| | h) Other: | | | | |
| | Attorneys | 2% | | | |
| | Bank advice | 2% | | | |
| | Head office | 8% | | | |
| 18 | We have taken out specific insurance to recover losses from fraud. | 37% | 25% | 18% | |
| 19 | Where there is no legal requirement to report the matter, we prefer to deal with economic crime in-house without police involvement. | 29% | 39% | 0% | |
| 20 | We know whom to contact in our local police force to discuss economic crime. | 51% | 22% | 16% | |
| 21 | We expect economic crime to increase during the next three years. | 45% | 12% | 37% | |
| 22 | A firm networking system with the police and other prosecution agencies is a fundamental necessity for the prevention and detection of economic crime. | 67% | 8% | 14% | |
| 23 | Organised crime enterprises (two or more people working together) are responsible for most of the economic crime impacting on our business. | 20% | 33% | 22% | |
| 24 | Our board (or equivalent) has a good understanding of the financial cost of economic crime to our business. | 59% | 4% | 22% | |
| 25 | My business will report to the police all employees engaged in fraud or internal malpractice. | 76% | 10% | 10% | |
| 26 | My business shares information on the fraudulent activity of staff with neighbouring and/or competing businesses. | 16% | 41% | 12% | |

| | | Agree | Disagree | Don't know | N/A |
|----|--|-------|----------|------------|-----|
| 27 | How would you assess your business' losses to economic crime in comparison with the rest of your sector? | | | | |
| | Higher | 4% | | | |
| | Similar | 14% | | | |
| | Lower | 22% | | | |
| | Unable to judge | 61% | | | |
| 28 | I estimate in the past year, our business had this number of instance of economic crime. | | | | |
| | One | 16% | | | |
| | Two | 4% | | | |
| | Three | 4% | | | |
| | Five | 6% | | | |
| | Ten | 2% | | | |
| | 15 | 2% | | | |
| | 25 | 2% | | | |
| | Nil | 2% | | | |
| | Don't know | 4% | | | |
| 29 | My business reported this percentage of instances of economic crime to the police. | | | | |
| | 100% | 26% | | | |
| | 67% | 3% | | | |
| | 60% | 3% | | | |
| | 50% | 3% | | | |
| | 33% | 3% | | | |
| | 0% | 63% | | | |

| | | Agree | Disagree | Don't know | N/A |
|----|--|-------|----------|------------|-----|
| 30 | The reason my business did not report the instances to the police is: | | | | |
| | Sample Answers: | | | | |
| | Difficulty in proving a criminal case. | | | | |
| | Lack of confidence/waste of time & effort. | | | | |
| | To avoid bad publicity. | | | | |
| 31 | Other impacts on our business as a result of economic crime are: | | | | |
| | a) Disrupts training | | 17% | | |
| | b) Lowered staff morale | | 49% | | |
| | c) Increased insurance costs/more difficult to obtain | | 43% | | |
| | d) Change in building layout | | 14% | | |
| | e) Damage to image/reputation | | 43% | | |
| | f) Lost business | | 34% | | |
| | g) Additional security measures required | | 69% | | |
| | h) None | | 14% | | |
| 32 | I estimate that in the past year our business spent this amount (US\$) in measures to combat, prevent and insure against economic crime: | | | | |
| | Average | | \$48,000 | | |
| 33 | I estimate that in the past year, in addition to the costs in the above question, economic crime cost our business US\$: | | | | |
| | Average | | \$58,750 | | |

| | | Agree | Disagree | Don't know | N/A |
|----|---|-------|----------|------------|-----|
| 34 | What forms of economic crime would you identify as being of most concern to your business? (Top 5 responses) | | | | |
| | Money laundering | 39% | | | |
| | Asset misappropriation | 22% | | | |
| | Cheque fraud | 20% | | | |
| | Credit card fraud | 18% | | | |
| | Cyber fraud | 16% | | | |
| | Debit card fraud | 8% | | | |
| | Bribery/corruption | 6% | | | |
| | Identity theft | 8% | | | |
| | Insurance fraud | 6% | | | |
| | Insolvency fraud | 6% | | | |
| | Online fraud | 4% | | | |
| | Procurement fraud | 4% | | | |
| | Counterfeiting | 2% | | | |
| | Accounts | 2% | | | |
| | Data Theft | 2% | | | |
| 35 | Is there anything which government or law enforcement are currently doing which you think is particularly helpful in fighting economic crime? | | | | |
| | Sample Answers: | | | | |
| | Additional police | | | | |
| | Broader communications/Practical workshops | | | | |
| | Continuing to increase awareness of such crimes | | | | |

| | | Agree | Disagree | Don't know | N/A |
|----|--|-------|----------|------------|-----|
| | Focus on awareness as a means of prevention | | | | |
| | Gather lists and help prosecute when happening to multiple businesses | | | | |
| | Organised meetings/tutorials re counterfeiting, money laundering and credit card fraud | | | | |
| | Sharing such relevant information as they are able to do, in order to heighten awareness | | | | |
| 36 | What new measures would like government or law enforcement to take in fighting economic crime? | | | | |
| | a) Tougher penalties for offenders | 59% | | | |
| | b) Provide more economic crime prevention advice | 49% | | | |
| | c) Greater involvement with industry associations | 35% | | | |
| | d) Specialist units to conduct investigations and prosecutions | 33% | | | |
| | e) Changes to legislation | 25% | | | |
| | f) No changes needed | 4% | | | |
| 37 | What more could your sector do in the fight against economic crime: | | | | |
| | <i>Sample Answers:</i> | | | | |
| | Continual vigilance & training. | | | | |
| | Educate public. | | | | |
| | Fraud squad forensic lab. Serious crime investigators. Remove fear of being ridiculed by lawyers and courts. | | | | |
| | Greater awareness amongst staff. | | | | |
| | Introduce stronger security measures. Train/educate staff. | | | | |
| | Learn more about it | | | | |

| | | Agree | Disagree | Don't know | N/A |
|--|---|-------|----------|------------|-----|
| | More inter-bank information. Sharing and cooperation. | | | | |
| | Report all offences. | | | | |
| | Share information. | | | | |
| | Simple checks & balances in place. | | | | |
| | Sound communication among the industry. | | | | |
| | Start industry associations. | | | | |
| | Stop covering up wrong doing by making disclosures, rather than providing false or vague references to subsequent or prospective employers. | | | | |
| | To encourage strong internal audit & compliance culture within the business. | | | | |

RETAIL

| | | | | |
|----|--|---------|-----|-----|
| 38 | We have been the victim of cheque fraud within the past year. | 33% | 42% | 4% |
| 39 | We are considering, or have implemented, a system to detect cheque fraud. | 38% | 46% | 13% |
| 40 | We are planning, or currently offer, customers the ability to transact online. | 54% | 29% | 4% |
| 41 | We have implemented fraud detection software to validate online customers and minimise online fraud. | 17% | 42% | 4% |
| 42 | We estimate that in the past year online fraud losses cost our business. | | | |
| | Average | \$4,125 | | |
| 43 | We have been a victim of internal employee fraud (e.g., inventory fraud, cash register losses) within the past year. | 38% | 29% | 17% |
| 44 | We have implemented security systems to detect and prevent internal employee losses. | 63% | 13% | 4% |

| | | Agree | Disagree | Don't know | N/A |
|----|---|----------|----------|------------|-----|
| 45 | We estimate that in the past year internal employee fraud losses cost our business: | | | | |
| | Average | \$11,444 | | | |
| 46 | We have implemented other policies and procedures to detect and prevent internal employee losses (e.g. inventory checks, surprise cash checks). | 71% | 4% | 4% | |
| 47 | Internal employee losses are greater than in-store fraud losses (e.g., shoplifting). | 29% | 17% | 13% | |
| 48 | We have implemented security systems to detect and prevent in-store fraud losses. | 33% | 17% | 4% | |
| 49 | We estimate that in the past year in-store fraud losses cost our business: | | | | |
| | Average | \$10,778 | | | |

MONEY LAUNDERING

| | | | | | |
|----|--|-----|-----|-----|--|
| 50 | Senior staff are aware of the risks and consequences of the business inadvertently committing money laundering offences. | 63% | 6% | 12% | |
| 51 | We have a written anti-money laundering policy and procedure. | 51% | 12% | 10% | |
| 52 | We have identified a money laundering risk assessment in the last two years. | 47% | 16% | 16% | |
| 53 | We train our staff to prevent and detect money laundering. | 59% | 16% | 4% | |
| 54 | We report annually to the board. | 57% | 4% | 8% | |
| 55 | Money laundering has impacted our business during the past 12 months. | 10% | 47% | 12% | |

| | | Agree | Disagree | Don't know | N/A |
|--|--|-------|----------|------------|-----|
|--|--|-------|----------|------------|-----|

56 What are the main money laundering risks that your business faces?

Sample Answers:

- Involvement in third party transactions.
- Theft, counterfeit money, cheque fraud.
- Account holders possible involvement.
- Inadvertent assistance to hide/change the nature of criminal proceeds/terrorism funding.
- Purchase of large volume of insurance with large sum for investment. Surrender of policy in a short time period.
- Deposit accounts & declaration of source of funds.
- Client identity - unable to verify - Life/annuity products.
- Exchange transactions.
- Not knowing our customer base.
- Cash payments for sale of cars which we will not accept.
- Reputational risk from money laundering activity within the funds we administer.

FIVE MOST IMPORTANT ISSUES (in order of importance)

- New measures that Government or Law Enforcement should take in fighting economic crime.
- Economic Crime of most concern to Respondents.
- Senior staff are aware of the risks and consequences of the business inadvertently committing money laundering offenses.
- Training staff to prevent and detect money laundering.

| | Agree | Disagree | Don't know | N/A |
|--|-------|----------|------------|-----|
|--|-------|----------|------------|-----|

Having written anti-money laundering policies and procedures.

Serious impact of Economic Crime on brand image.

Having a policy to encourage "whistle-blowing".

Other impact on the business as a result of economic crime.

Victim of cheque fraud within the past year.

Identifying a money laundering risk assessment in the last two years.

14 Appendix 2

Respondent Data

Number of Employees in Cayman

| | |
|----------|-----|
| 5 | 12% |
| 5 – 15 | 21% |
| 15 – 50 | 27% |
| 50 – 100 | 17% |
| 100+ | 10% |
| No data | 13% |

Turnover (\$1M)

| | |
|-----------|-----|
| 0.5 | 13% |
| 0.5 - 1 | 3% |
| 1– 5 | 22% |
| 5 – 20 | 31% |
| 20 - 100+ | 22% |
| > 100M | 9% |

Industry Sector

| | |
|---------------------------------|-----|
| Automobiles & Parts | 4% |
| Banks | 28% |
| Construction/Building Materials | 6% |
| Electronic/Electrical Equipment | 2% |
| Food & Drug Retailers | 2% |
| Household Goods & Textiles | 2% |
| Special/Other Finance | 2% |

Location

| | |
|-------|-----|
| GT | 80% |
| WB | 18% |
| EE/NS | 2% |

Type of Business

| | |
|-----------------|-----|
| Local | 47% |
| International | 53% |
| Chamber Members | 55% |

| | |
|--------------------------------|-----|
| Insurance/Insurance Management | 15% |
| MFA | 4% |
| Business Management | 6% |
| Utilities | 2% |
| Transportation | 2% |
| Other | 19% |
| Professional Services | 6% |