

The Importance of Anti-Fraud Efforts During COVID-19 and the Current Economic Environment

Every year, businesses, government agencies and nonprofits throughout the world lose trillions of dollars due to fraud. The COVID-19 pandemic and the resulting economic recession have raised the level of risk, which is expected to bring a dramatic increase in fraud levels in the coming months. Here is what Certified Fraud Examiners (CFEs) and organizations must know about fraud risk and what they can do to mitigate it.



Fraud creates enormous losses for organizations.

According to the ACFE's 2020 *Report to the Nations*:

- ▶ The average loss in an occupational fraud case is **\$1.5 million** and the median loss is **\$125,000**.
- ▶ CFEs estimate a typical organization loses **5% of annual revenue** due to fraud. Applied to 2019 GWP, that translates to global fraud losses of more than **\$4.5 trillion** each year.
- ▶ Small businesses are hit especially hard, with an average loss of **\$1.1 million** and median loss of **\$150,000** per case.

Pressures driving fraudulent behavior are increasing.

With record unemployment levels and widespread concerns about the reopening of the economy, the pressure to commit fraud is remarkably high.

- ▶ The two most common behavioral red flags for occupational fraud perpetrators are **living beyond their means** (42% of cases) and **financial pressure** (26%).
- ▶ **61%** of fraudsters exhibit signs of **financial distress** at the time of their crimes.
- ▶ **30%** of fraudsters had concerns about their **jobs or compensation** at the time of their crimes.

Opportunities to commit fraud are extremely high.

New and unprecedented challenges to the global financial system have created a target-rich environment for fraudsters. For example:

- ▶ Trillions of dollars in government loans and subsidies are being rapidly injected into the global economy, raising the risk of **loan and procurement fraud**.
- ▶ Millions of companies and employees are quickly adapting to virtual work environments, leading to a heightened risk of **hacking, phishing and data breaches**.
- ▶ Companies cutting back on staff or spending may be **weakening their anti-fraud controls** and opening the door for both internal and external fraudsters to attack.

ANTI-FRAUD EXPERTS AND PROGRAMS ARE CRITICALLY IMPORTANT IN THIS ENVIRONMENT.

According to data from the ACFE's 2019 *Global Fraud Survey* and 2020 *Report to the Nations*:

- ▶ **More than 50%** of all occupational frauds resulted from an internal control deficiency.
- ▶ All 18 **anti-fraud controls** analyzed in the report correlated with **lower fraud losses** and **faster detection**.
- ▶ Organizations that had **CFEs on staff** saw a **59% lower median loss** per case and detected fraud **40% faster** than those without CFEs.
- ▶ Organizations that had an **internal audit or dedicated fraud department** experienced 50% lower median losses and **50% faster** detection.