

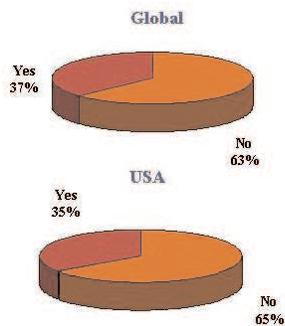


Economic Crime: The U.S. is Not Immune

In the United States, economic crime is prevalent, has a highly negative impact on business organizations of all sizes, and is viewed as likely to increase over the next 5 years.

Over one third of U.S. respondents to the Economic Crime Survey report significant economic crimes during the previous two years.

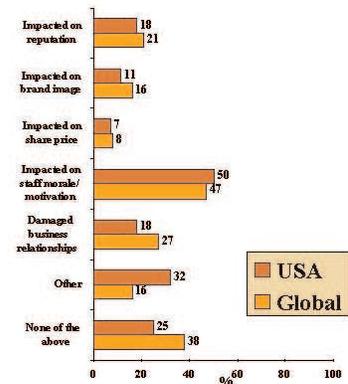
Figure 1. Have you been subject to any type of economic crime in the last two years?



Asset misappropriation is the most prevalent at an incidence of 25 percent, followed by cybercrime at an incidence of eight percent. Most worrisome to respondents, however, is financial misrepresentation, which respondents believed was prevalent in half of all companies, despite the fact that the actual instances of this crime were reported by only 2% of respondents.

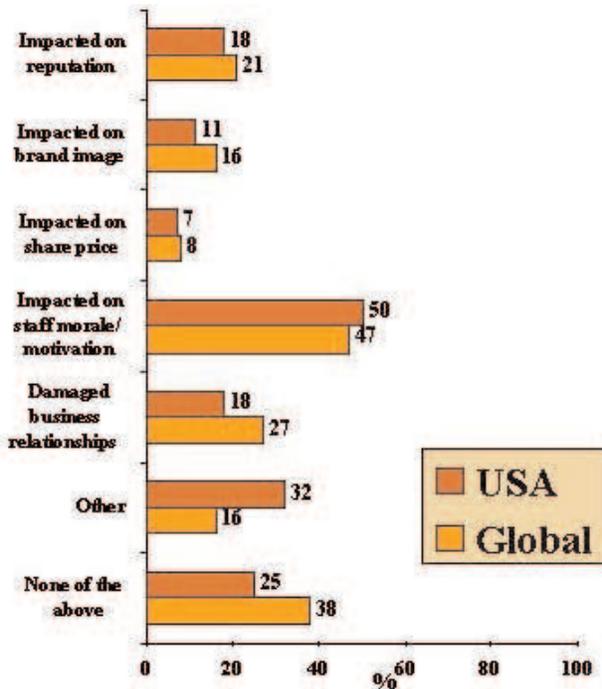
Economic crime is consistently harmful to a company's intangible assets. Over 68 percent of the incidences of economic crime had an impact on staff morale and motivation, and damaged business relationships.

Figure 2. What impact would you estimate that economic crime has had on your business in terms of the following?



Over 84 percent of U.S. respondents believe their risk of fraud will be the same or greater in the coming five years, and that the greatest incidence of economic crime will be in three primary areas: asset misappropriation, cybercrime, and financial misrepresentation.

Figure 3. Which types of economic crime do you think your organization will be most vulnerable to over the next five years?



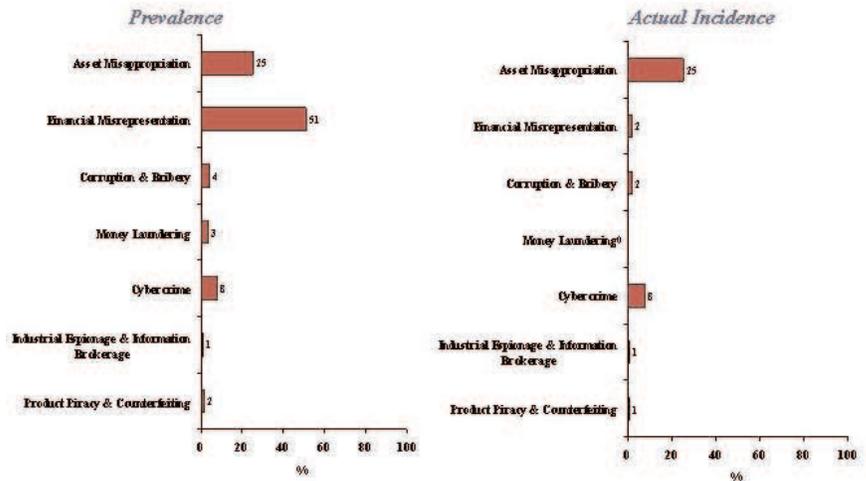
Yet, despite the heightened awareness of the existence of fraud, its negative impact on an organization and a widespread sense of continuing vulnerability in the future, the perception of where the greatest risk of economic crime exists and the perceptions of how economic crime is detected are the areas of greatest inconsistency among U.S. respondents:

Whereas U.S. respondents believe the prevalence of financial misrepresentation to be over 50 percent, the actual reported incidence is far lower at a mere 2%. These findings suggest that the media attention surrounding some of the large, high-profile cases of financial misrepresentation in the U.S. has exaggerated the perceptions of the instance of financial misrepresentation, and that only a small percentage of public companies actually suffer



from financial reporting abuses. This no doubt also reflects the fact that while the instances are low, approximately 2% of respondents, the harm to corporate reputations and the actual cost of investigating and resolving allegations of financial misrepresentation and related investor lawsuits are very high, commonly in the \$10 of millions and sometimes in the \$100 of millions or more. Because of this, impressions about the prevalence of such matters appears to reflect the inordinately high risk of monetary and reputational loss attached to them, as opposed to their actual frequency of occurrence.

Figure 4. The type of economic crime considered to be most prevalent vs. actual incidence of economic crime.

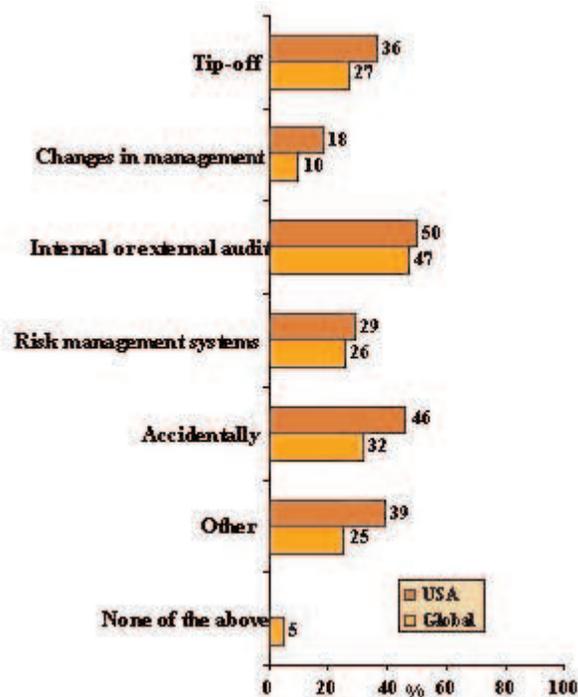




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Confidence in controls appears to be misplaced in comparison with how economic crimes are actually discovered. Ninety-five percent of respondents believe they have adequate risk management systems. Yet respondents reported that risk management systems detected only about one-third of the instances of, suggesting that internal systems are co-opted, circumvented or overridden in a majority of instances of economic crime. In our experience, this reflects the fact that economic crimes often are schemes based on collusion and deceit among corporate employees or between employees and outside parties, or that the economic crimes are committed by executives of sufficient rank and seniority to override control and risk management mechanisms.

Figure 5. Was economic crime detected by..?



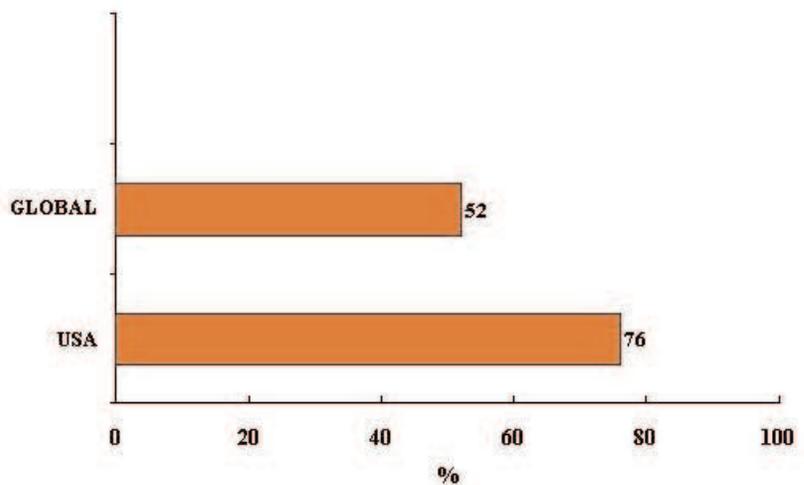
In reality, half of all detected economic crime came from internal or external audits, suggesting that the much maligned auditing process in the U.S. actually discovers a greater percentage of economic crime than any other aspect of corporate control efforts. Another 36 percent of economic crime detection came from whistleblowers (in contrast to 27 percent globally), suggesting U.S. companies have provided a high degree of access to audit committees and auditors, as well as a regulatory structure that encourages and rewards tip-offs.

Less than half of those who suffer economic crime recover damages, and these recoveries are small. Eighty-one percent of recoveries are for less than 40 percent of damages. Only nineteen percent of recoveries are for more than 40 percent of damages. While three-quarters of U.S. respondents report having insurance, only 37 percent report

receiving damages through insurance.

The survey reveals that 76 percent of U.S. respondents have some form of insurance versus only 52 percent globally.

Figure 6. Has your organization established insurance to cover for economic crime losses?



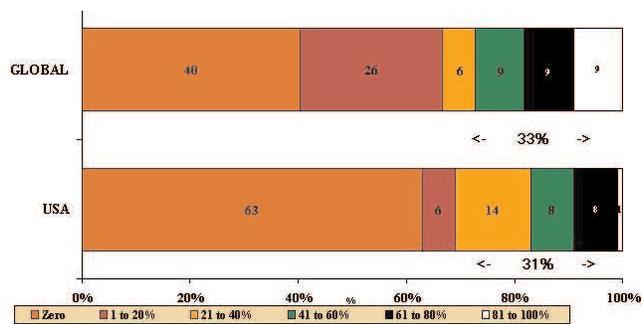
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U.S. companies that are insured report recoveries of more than 20 percent of the amount lost in 31 percent of instances.

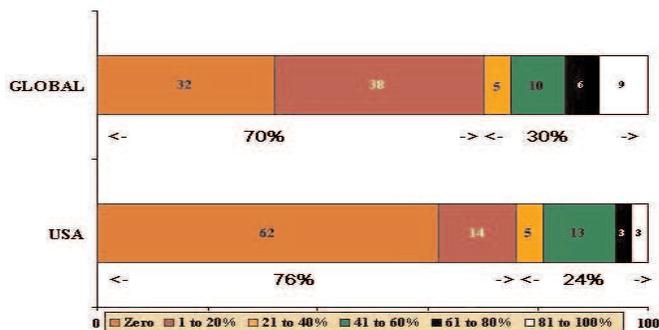
Figure 7. How much would you estimate has been recovered through insurance policies only in percentage terms to the amount lost?



On an overall basis recoveries as a percentage of the amount lost are smaller, with respondents reporting 20 percent or more recovered in only 24 percent of instances. Despite the enhanced recovery obtained by companies with insurance, overall recoveries are relatively low both globally and in the U.S. being less than 20 percent in 70 percent and 76 percent of instances, respectively.

These statistics appear to suggest that many instances of economic crime are small and fall below insurance coverage levels.

Figure 8. How much would you estimate has been recovered overall in percentage terms to the amount lost?



TERMINOLOGY

Fraud/Economic Crime. The intentional use of deceit to deprive another of money, property or a legal right.

Asset misappropriation (inc. embezzlement by employees). The theft of company assets (including monetary assets/cash or supplies and equipment) by company directors, others in fiduciary positions or an employee for their own benefit.

Financial misrepresentation. Company accounts are altered or presented in such a way that they do not reflect the true value or financial activities of the company.

Corruption & Bribery (inc. racketeering & extortion). Typically, the unlawful use of an official position to gain an advantage in contravention of duty. This can involve the promise of an economic benefit or other favor, the use of



intimidation or blackmail. It can also refer to the acceptance of such inducements.

Money Laundering. Actions intended to legitimize the proceeds of crime by disguising their true origin.

Cybercrime (e.g. hacking, virus attacks, denial of service, electronic theft of proprietary information). The illegal access to a computer or computer network to cause damage or theft.

Industrial espionage & information brokerage. The acquiring of trade secrets or company information by secretive and illegal means and/or the selling of these secrets or information to interested parties.

Product Piracy/Counterfeiting. The illegal copying and/or distribution of fake branded goods in breach of patent or copyright. This also

includes the creation of false currency notes & coins with the intention of passing them off as genuine.

Whistleblowing. The disclosure by an employee of malpractice in the workplace.

Tip-off. A hint or indication about goings-on in the organization.

Audit. The formal examination and review of a company's accounts and/or practices.

Risk management systems. Systems put in place to assess, identify and respond to risks in the company.

Soliciting or receiving a commission. Being offered or given money or other incentives to help influence a business decision in the donor's favor.

Offering or paying a commission. Having to offer or give money or other incentives to help influence a business decision in your favor.

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