# Fraud: The overlooked competitor

## 2018 Global Economic Crime and Fraud Survey

KENYA REPORT

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# Foreword

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Forensics Leader,
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The Global Economic Crime Survey ("GECS") is a biennial PricewaterhouseCoopers survey that receives and analyses feedback from stakeholders in various economic sectors of focus. In this current survey, the Global Economic Crime Survey 2018 ("GECS 2018"), we received responses from over 7,000 respondents across 123 countries in 18 languages. This makes it one of the largest and most comprehensive surveys on economic crime in the world.

Since our last GECS, which was conducted in October 2015 and launched in February 2016, there have been a number of significant events on both the global and the local scenes that have shaped the backdrop against which the results of our most recent survey can be viewed. The period from October 2015 to October 2017 was marked by landmark votes in key Western economies.

The United Kingdom voted in favour of "Brexit" in June 2016. In November of that year the United States elected Donald Trump, who ran on an "America First" policy platform, as President. Subsequently, perhaps more predictable elections took place in both France and Germany. Despite significant political change, the global economy grew by 2.6% in 2016[1] and is estimated to have grown at 3% in 2017[2].

On the African stage, during the same period, Presidential elections took place in a number of Africa's "market hub" countries, such as Tanzania, Uganda, Rwanda, Zambia, Ghana and Kenya. In some cases the elections resulted in some uncertainty, but matters are gradually returning to normal.

In addition, commodity prices fell for most of 2016 on the back of reduced Chinese demand, before showing some recovery in 2017. The effect of this drop and subsequent rise was to dramatically lower and then somewhat increase the value of African commodity exports, so that sub-Saharan Africa's GDP growth dropped to 1.3% in 2016[3] before rising to 2.4% in 2017[4].

In Kenya, the significant contribution by the services sector to GDP (49% in 2016[5]) inured Kenya from commodity pricing shocks to some extent. However from August 2016, legislation capping interest rates at 4% above the Central Bank Benchmark Rate began to have an impact on the financial services sector. While this legislation lowered lending rates, domestic credit growth decelerated from 20.8% in 2015 to 6.4% in 2016[6], as a result of the sector's reduced ability to price for risk. Various stakeholders are advocating for the abolishment of the rate cap law as it has stifled lending to the private sector.

The first phase of Kenya's Standard Gauge Railway was operationalized in May 2017. The railway has reduced transit times and improved safety on the Mombasa-Nairobi route for passenger traffic, while efforts to increase cargo traffic are ongoing.

Despite these important interventions, however, inflation picked up in 2017, averaging 8%, up from 6.3% in 2016[7]. By August 2017 two-thirds of listed companies had reported either losses or reduced earnings in their last financial year[8]. An extended election period led to a prolonged slowdown in business activity for most of the second half of 2017.

***Overall, three-quarters of Kenyan respondents reported having experienced at least one form of economic crime in the past two years. This maybe an indication of increased awareness on the part of Kenyan organisations***

It is against this global, pan-African, and Kenyan backdrop that we release our GECS 2018 report.

The Kenya GECS 2018 report contains some key differences from our past reports. This year we have introduced a new fraud classification: Fraud Committed by the Consumer. This distinction proved important because this form of economic crime ranked as the second-most prevalent form of economic crime in Kenya, after Asset Misappropriation. We are also, for the first time, comparing Kenya's results to those of other Eastern African countries (i.e. Tanzania, Uganda, Rwanda and Zambia).

Overall, three-quarters of Kenyan respondents reported having experienced at least one form of economic crime in the past two years. This figure is higher than the global average (49%) and the African average (62%). It also marks a 23% increase from Kenya's 2016 figure. In addition, 37% of respondents stated that the most disruptive economic crime over the past two years cost them at least USD 100,000 (c KES 10M). In an already challenging economic environment, losses attributable to economic crime continue to prove a challenge for Kenyan organisations.

The GECS is an important tool for measuring the global and local economic crime environment(s). Our Kenyan report contains some valuable lessons for Kenyan organisations. For example, the margin of difference between the prevalence rate of economic crime in Kenya and the global / African averages and the margin of growth from Kenya's 2016 figure, together suggest that economic crime in Kenya continues to be a pervasive problem requiring serious, well thought out and even societal interventions to both prevent and control it.

However, the rise in prevalence rates also suggests an increased awareness of fraud presumably due to concerted investments in the necessary systems, processes and people that have been effective in detecting fraud. This is also an indication that fighting fraud has progressed from an operational or legal matter to a central business issue. As awareness of the pervasiveness of economic crime continues to persist, and Kenyan organisations set out policies to prevent and control fraud, we can hope that the number and costliness of fraud incidents will reduce.

[1]World Trade and GDP Growth in 2016 and early 2017, World Trade Organisation

[2]Global Economic Prospects Broad-Based Upturn, but for How Long?, World Bank

[3]April 2017; "Africa's Pulse" (published by the World Bank)

[4]Kambou, G. (January 2018) The outlook for Sub-Saharan Africa in five charts: Striving for recovery. World Bank Blog

[5]Economic Survey 2017, Kenya National Bureau of Statistics

[6]Economic Survey 2017, Kenya National Bureau of Statistics

[7]Source: Central Bank of Kenya statistics

[8]Two in three NSE listed companies report tough times, Business Daily Africa

# Contents

# Introduction

We are pleased to present the ninth global biennial GECS Report and the fifth Kenya report. The report aims to give you insights on the prevalence of economic crimes in the last 24 months as drawn from a survey of multi-sectoral pool of organisation leaders from across the world.

Globally, the 2018 GECS Survey Report analyses feedback from over 7,000 stakeholders in the economic sectors of focus across 123 countries in 18 languages. This makes it one of the largest and most comprehensive surveys on economic crimes in the world.

**7,000**

Respondents from 123 countries in 18 languages

In Kenya, the report draws insights from the experiences, perceptions and knowledge of economic crime from 116 respondents, a 17% increase from the 99 responses received in 2016. The 116 respondents are Board Members and Senior Managers who are part of Executive Management, Finance, Audit, Risk Management and other core functions in large, medium and small organisations. Of the 116 respondents, 38% represented listed companies, 42% private organisations and 20% public or non-governmental institutions.

**116**

Respondents in Kenya and 379 in East Africa

In the age of globalization, the prevalence, control and effects of economic crimes in Kenya is to a significant extent affected by the geopolitical and socioeconomic conditions of the regional blocks it inhabits. This report compares the survey results in Kenya to those observed in the East African Region (consisting of Kenya, Uganda, Tanzania, Rwanda and Zambia), Africa and globally putting them in the context of social, political and economic developments of the last two years. It is the first time that we have sufficient responses for Tanzania, Uganda and Rwanda and the insights gleaned from comparing the trends in Kenya to its neighbours is profound.

Whereas as in previous surveys Asset Misappropriation continues to be the most prevalent economic crime experienced by our survey respondents both in Kenya and globally, we observed a marked year-on-year drop in the likelihood of occurrence of the crime, with 48% of Kenyan respondents reporting having experienced Asset Misappropriation in the last 24 months against the 72% in 2016 and 77% in 2014. This could be an indication that organisations continue to tighten their internal controls around the handling, custody and transfer of key organisation's assets.

For the first time, the 2018 Survey included Fraud Committed by the Consumer as a new economic crime classification. This classification relates to a fraud where a consumer in the course of undertaking a legitimate transaction with an organization, exploits the governance and control weaknesses of the organisation to commit fraud.

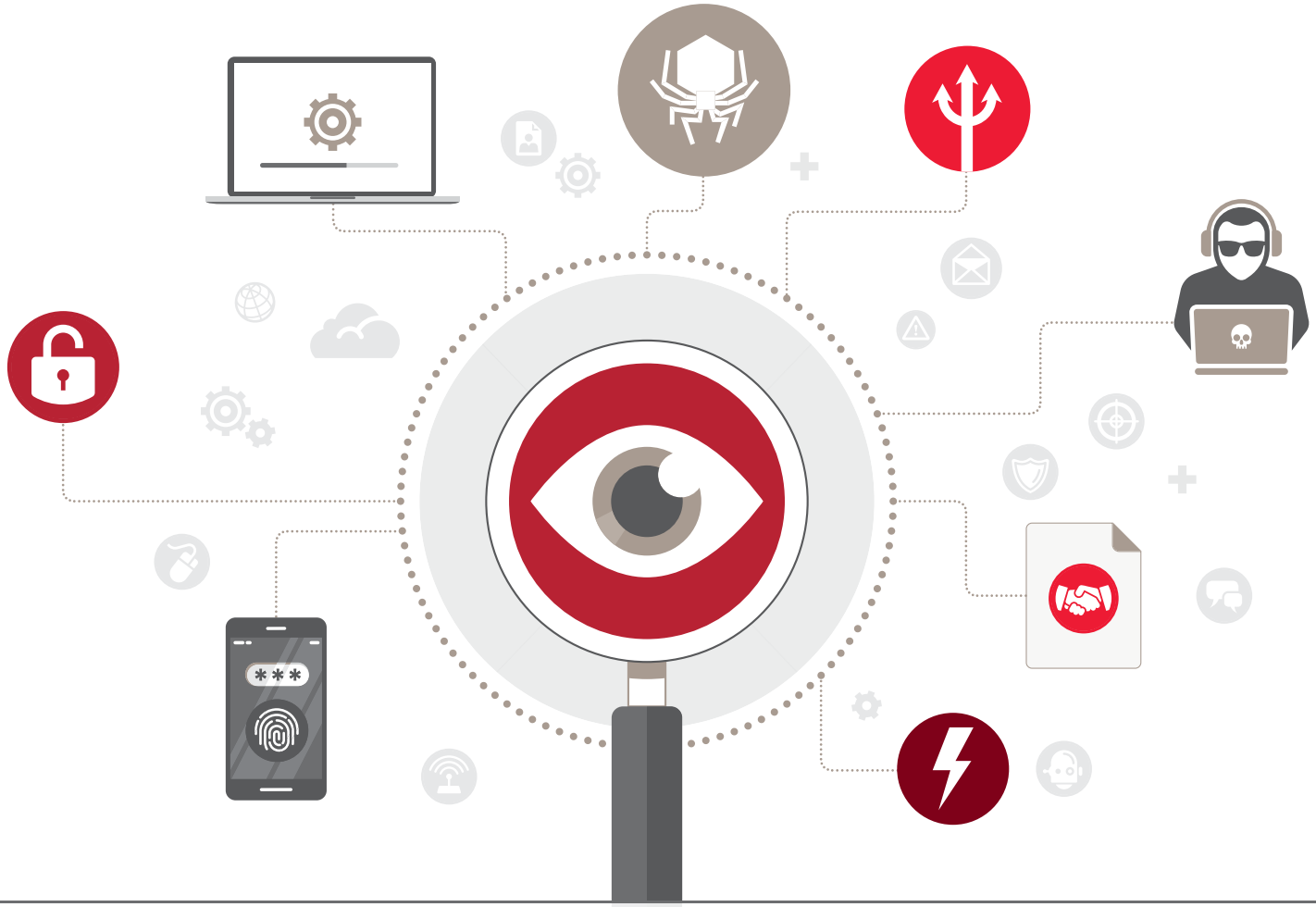
The results of the survey showed that this crime had a 37% incidence rate, becoming the second most prevalent form of economic crime in Kenya behind Asset Misappropriation. The vice was especially prevalent in the Financial Services industry where it had an incidence rate of 65% becoming the most prevalent form of economic crime, ahead of Asset Misappropriation and Cybercrime which have traditionally been the leading forms of economic crime in that industry.

In previous publications, we took a special focus on economic crimes that are often under the microscope of the respective regulators and which are often systemic in nature with 2014 and 2016 reports providing an in-depth analysis on money-laundering, competition/anti-trust law and Cybercrime.

In this report, we take a closer look at Fraud Committed by the Consumer which is often an episodic crime that occurs after a perpetrator finds themselves in a set of circumstances that present the opportunity to commit fraud. As episodic crimes do not typically have many shared attributes, they are harder to regulate outside the realm of the laws of the land, making them harder to suppress.

As such, organisations must work harder to come up with solutions and deterrents that are customized to their unique set ups and governance frameworks to manage and eliminate these crimes.

# Economic Crime – painting the picture



**75%**

An increase from the 61% reported in 2016; this could be an indication of a worsening situation or of increased awareness of fraud incidences by Kenyan organisations

## Kenya versus the World

Globally, the 2018 Survey saw an increase in the proportion of respondents who reported having experienced an economic crime in the last 24 months of operations. Half (49%) of our global respondents reported experiencing an economic crime in their area of work compared to 36% who reported the same in 2016. Similarly in Kenya, 75% of our respondents indicated that they had experienced at least one form of economic crime in the last two years, a 23% increase from 2016.

The marked rise in incidences of economic crime is seen to transcend regional blocks. Whereas Africa continues to take the lead in the pervasiveness of economic crimes in the last 24 months at 62% in 2018 up from 57% in 2016, other regions were also not immune to the brunt of the vices. Indeed, in terms of percentage increase in incidence of crime Africa had the lowest increase (9%) with Latin America recording the highest increase (89% increase from 2016).

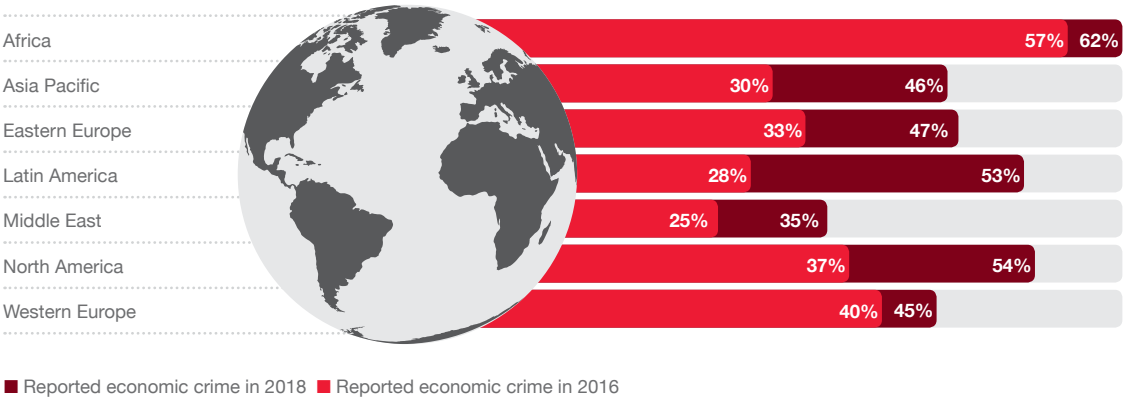
In Kenya, in Africa and globally, the prevalence of economic crimes appear to be at its peak as compared to the survey reports of the last decade. In our assessment, a number of factors could have contributed to this phenomenon including the widening wealth inequality between the rich and the poor, increased connectivity brought about by the ICT revolution coupled with a poor understanding of the controls needed in a highly inter-connected environment and poor enforcement of existing regulations.

Of the 10 countries that reported the highest incidence rate of economic crimes globally, we observe that 5 (50%) are African Countries, once again bringing into focus Africa as a region that is most severely affected by economic crimes. Of the remaining five, three were European and a country each from Asia and Central America.

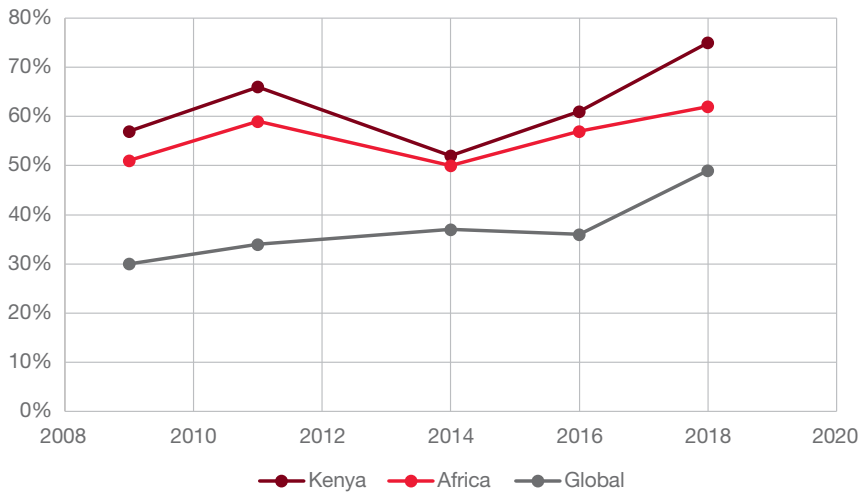
It is not however necessarily all doom and gloom. The significant jump in reported fraud and the high prevalence in our region is not the whole story. In fact, it may be the opposite of the story. That is because fraud practitioners know that the real percentage of economic crime victimisation is significantly higher than the reported incidents — not 49% globally or 75% in Kenya.

The reality is more likely that this statistic measures not actual fraud, but awareness of fraud. Either way however, the high prevalence rate in some countries and regions is a good measure of just how big a problem economic crime is seen to be in these countries.

**The reported rate of economic crime has increased across all territories**



**Incidence rates of economic crimes**



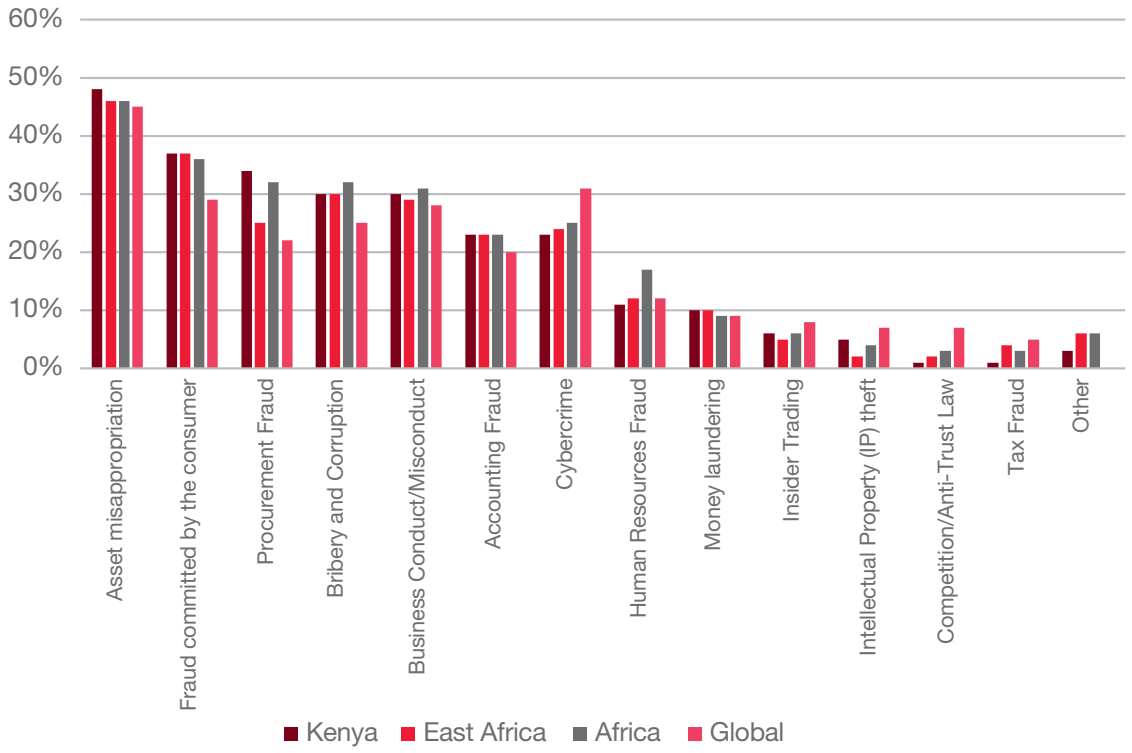

***The prevalence of economic crime is the highest ever globally since the inception of the GECS***

Despite falling by 25%, Asset Misappropriation continues to be the leading form of economic crime globally

## Types of economic crimes

As already noted, Asset Misappropriation continues to be the highest form of fraud experienced by survey respondents.

**Incidences of Economic crime**



We discuss the 'new kid on the block', Fraud Committed by Consumers, in more detail later. In this section, we briefly discuss some of the other forms of economic crime that we found to be widely experienced in Kenya.

## Asset Misappropriation – the falling giant

Asset Misappropriation is a form of economic crime that involves the theft or embezzlement of company assets by directors, employees or other fiduciaries. The distinguishing feature of Asset Misappropriation from other forms of theft is that Asset Misappropriation does not involve the use of force.

Rather, the perpetrator of the fraud relies on trickery and deceit to exploit the organisation's controls and transfer, without knowledge or consent, the organisation's assets to themselves or to the ownership of a third party. This crime covers a wide range of nefarious acts ranging from embezzlement of physical assets such as cash to embezzlement of non-cash proprietary information and intellectual property such as patents and copyrights.

As indicated in the foreword section to this report, we have included in this year's survey Fraud Committed by the Consumer as a new classification.

We believe the inclusion of this category is partially responsible for the decrease in the prevalence of Asset Misappropriation from 72% in 2016 to 48% in 2018 as it's possible that some of the forms of crimes previously reported under Asset Misappropriation were also crimes committed by the consumer. This reduction in the reported level of Asset Misappropriation was also reflected globally from 64% to 45%.

In a highly technologically advanced society, Asset Misappropriation is still widely considered to be a traditional "brick and mortar" form of crime and therefore often overshadowed by other economic crimes that often involve highly sophisticated technological tools. This lack of interest may have contributed to the incorrect perception that Asset Misappropriation is not as big a threat going forward as other non-traditional forms of economic crimes for example Cybercrime.

Indeed, in stark contrast to the 21% of Kenya respondents that indicated that Asset Misappropriation was the most disruptive form of economic crime suffered by their organisations in the past 24 months, only 14% of the respondents indicated that they perceived Asset Misappropriation to the be form of crime likely to be most disruptive to their organisations in the next 24 months.

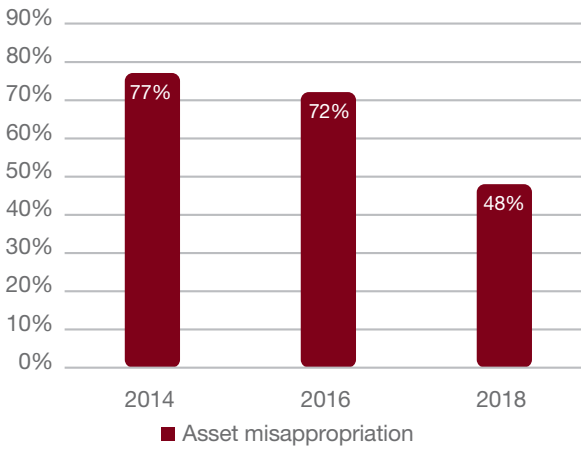
This perception is also held globally, where only 11% thought that Asset Misappropriation is going to be the most disruptive form of economic crime in the next 24 months trailing Cybercrime at 26% and Bribery and Corruption at 12%.

Viewing Asset Misappropriation exclusively through the lens of theft of physical assets overlooks an important correlation between Asset Misappropriation and acts of Cybercrime. This is a costly oversight in an age where information is increasingly becoming many organisations' most valuable asset. Indeed, our survey reveals that 24% of our global respondents and 22% of our Kenya respondents reported that they suffered Asset Misappropriation resulting from acts of Cybercrime. Given that a majority of our respondents also view Cybercrime as the form of economic crime likely to be most disruptive in the next 24 months, it is also likely that incidents of Asset Misappropriation

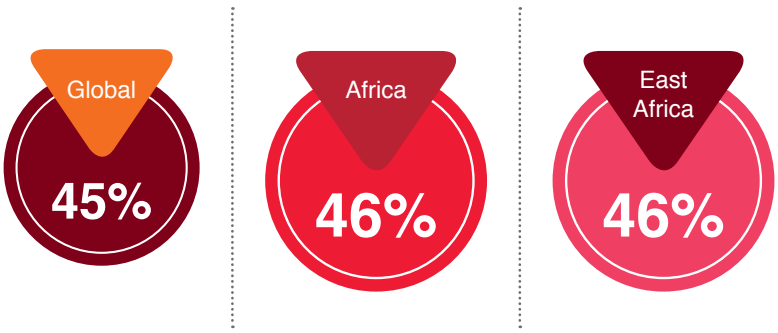
**1 in 2**

Respondents that suffered economic crime suffered Asset Misappropriation

**Asset Misappropriation trend in Kenya**




**Asset Misappropriation in 2018**



through Cybercrime and theft of information and data is likely to increase in both prevalence and cost.

Against an average incident rate of 52% for all forms of economic crimes, 75% of the global respondents who cited Asset Misappropriation as the most disruptive form of economic crime in the past 24 months also cited an internal actor as the perpetrator of the fraud. To curb Asset Misappropriation therefore, it's imperative to invest resources into hiring people with a high level of integrity and accountability. Organisations seeking to recruit the right people must conduct rigorous background checks into the prospective employees' professional and criminal history as well as confirm general conduct with credible references.

## Procurement Fraud – is it just a public sector problem?

In Kenya, respondents reported a 34% incidence rate in Procurement Fraud making it the third most prevalent form of economic crime according to the results of the survey. This incidence rate is only 8% lower than that reported in 2016 and higher than the East African average of 25% and global average of 22%.

Under article 227, the Kenyan constitution expressly requires the enactment of an Act of Parliament to "prescribe a framework within which policies relating to procurement and asset disposal shall be implemented". Following this prescription, the Kenyan parliament in 2015 passed into law the Public Procurement Act (2015), which came into effect in 2016 following assent by the President.

**34%**

Incidence rate of Procurement Fraud in Kenya is highest in East Africa

Further, Kenya has in place the Public Private Partnership Act (2013) which provides explicit guidelines on the procedures to be followed when a public private partnership entity procures goods or services. The Government of Kenya has taken significant steps to put up a regulatory framework that manages and punishes the commitment of Procurement Fraud in public entities.

The gap therefore lies in the enforcement of these regulations in accordance with the set laws to ensure that whenever there is suspicion of Procurement Fraud, it is diligently investigated, prosecuted and punished in line with the law. The laws should also be reviewed to identify areas where there is scope to tighten them further.

For the private sector, however, guidelines on the steps to be undertaken during procurement of goods and services are only provided under the individual organisations' policies and governance frameworks. Likewise, punishment and legal recourse for the perpetration of Procurement Fraud are under the prerogative of the Board and senior management.

# Africa

Incidence of Bribery and Corruption consistently higher in Africa than in the rest of the world. Kenyan organisations experienced a 36% drop in incidence of Bribery and Corruption

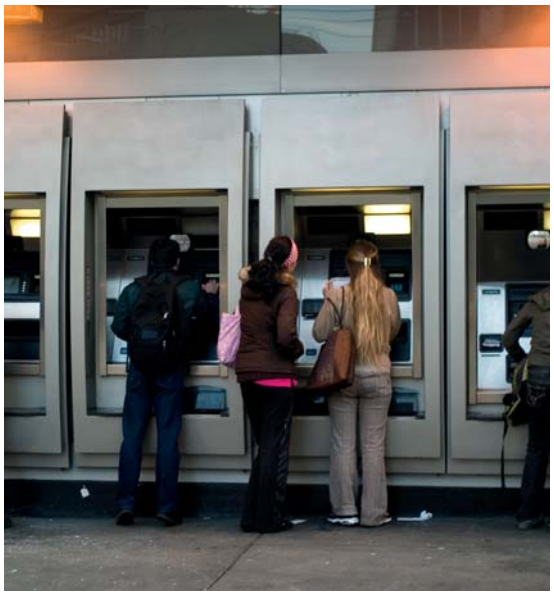
It is therefore incumbent upon the leadership of the organisation to ensure that the policies and frameworks in place are stringent and that acts of Procurement Fraud attract heavy consequences. The tone, as well as the action, at the top also needs to leave no doubt that Procurement Fraud will not be entertained.

## Bribery and Corruption – is the reported drop in incidence rate good enough?

At 30% incidence rate, Bribery and Corruption is the fourth most prevalent form of economic crime in Kenya according to the results of the survey. This is against the 30% incidence rate in East Africa, 32% in all of Africa and 25% globally. The proportion of respondents that experienced incidents of Bribery and Corruption is observed to be consistently larger in African countries than in the rest of the world, which puts into the spotlight the vigilance and enforcement of regulations in place to curb the vice. This is especially in state owned enterprises and public services where at 64% incidence rate, it was the most prevalent form of economic crime in the continent.

In 2016, the Kenyan parliament enacted the Bribery Act of 2016, which became effective in January 2017, forming an imperative additional layer of legislation against which the enforcement agencies entrusted with the eradication of Bribery and Corruption can rely on.

Whereas the Kenyan law has had several Acts of parliament making provisions for the deterring and punishment of bribery acts including The Public Officers Ethics Act (2003), the Anti-Corruption and Economic Crimes Act (2003) and the Leadership and Integrity Act (2012), this is the first piece of legislation that explicitly makes both private and public players criminally liable for bribery acts committed by senior officers in their organisations and that are as a result of failure to put in place procedures appropriate to the organisation's size and scale for the prevention of Bribery and Corruption. The Act therefore heralds an era where all the economic stakeholders play a proactive and preventative role in the reduction and elimination of bribery.



With this robust and all-inclusive set of regulations in place, it is therefore upon the agencies charged with the investigation and prosecution of acts of corruption to be more engaged and vigilant in their enforcement of the law to ensure that Bribery and Corruption decreases. At societal level, our leaders and especially religious leaders, teachers and parents also have a role to play in bringing up a generation that perceives Bribery and Corruption as the evil that it is.

## Cybercrime - The borderless threat

Whereas Cybercrime has only the sixth highest incidence rate in Kenya, it continues to be one of the biggest potential threat to organisations in the future. At 28%, Cybercrime scored the highest among Kenya's respondents as the form of economic crime likely to be most disruptive to their organisations in the next 24 months, both monetarily and otherwise.

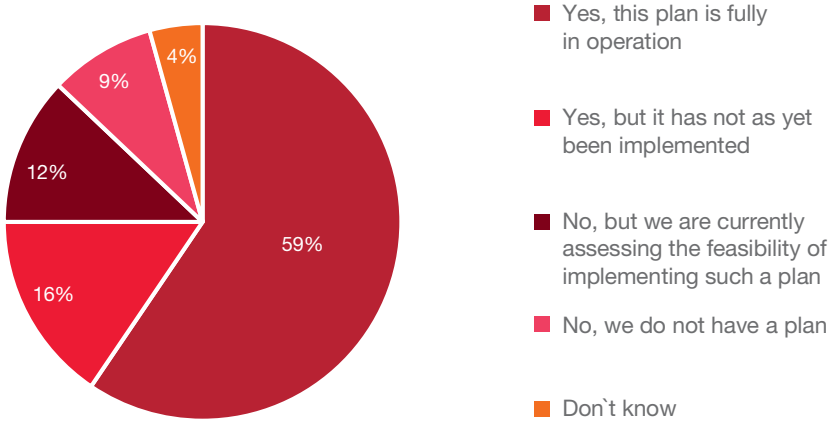
This was followed by Asset Misappropriation and Bribery and Corruption, both at 14%. The perception that Cybercrime is going to be the most disruptive economic crime to organisations in the next two years is also reflected globally at 26% followed by Bribery and Corruption at 12% and Asset Misappropriation at 11%.

The speedy global advancement of technology tools and solutions brings with it additional opportunities for cyber criminals to perpetrate crime. The digitization of all aspects of system processes and transactions also means that these fraud opportunities are increasing exponentially making Cybercrime a growing threat to businesses organisations and governments globally.

Additionally, the high demand for digital solutions and alternatives e.g. digital currencies coupled with the relatively low understanding of these new technologies by organisational leadership, is leading to new markets and added incentives for hackers and fraudsters. In fact, cyberattacks have become so pervasive that measuring its occurrences and impact is becoming less strategically useful than focusing on the mechanism that the fraudster used.

Of the respondents in Kenya who cited having suffered from Cybercrime in the last 24 months, Phishing and Malware were the most common tools through which Cybercrime was perpetrated in their organisations at 37% and 34% incidence rate respectively as shown in the graph below.

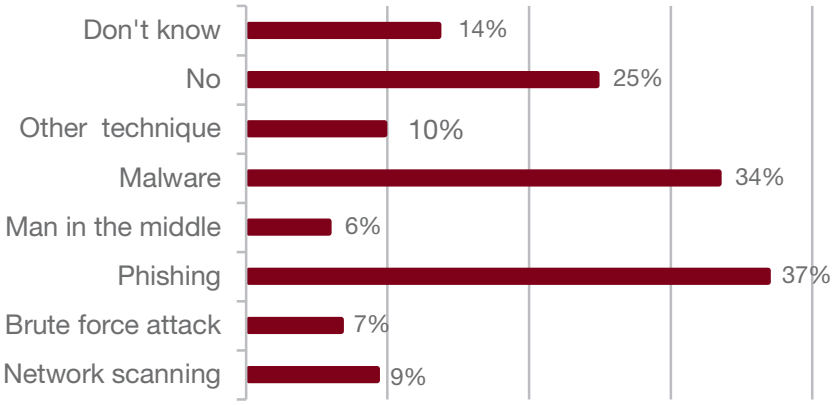
**Does your organization have a Cyber Security Program (preventative/ detective) to deal with cyber-attacks?**




suspicion of or subjection to cyberattacks whereas 19% said they are either unlikely or very unlikely to share the same information.

Of the respondents that said they are unlikely to report suspicion of Cybercrime, the top two reasons given are risk of uncontrolled public disclosure as well as a lack of confidence in the law enforcement agencies' expertise in handling Cybercrime incidents.

**In the last 24 months, has your organization been targeted by cyber-attacks using any of the following techniques?**




We note that 59% of our respondents reported to have a cyber-security programme that is fully in operation and that is both detective and preventative. 16% on the other hand reported having a cyber-security programme which is not yet operational, 12% reported as not having a plan but are currently in the process of assessing the viability of different options whereas 9% reported as not having any cybersecurity program or plan to implement one.

61% of respondents in Kenya said they are either likely or very likely to share information with government/law enforcement agencies about

***What is government's cybersecurity strategy as it digitises?***

The Government of Kenya therefore has a responsibility to enhance public trust in the expertise and confidentiality of law enforcement agencies. This can be done through rigorous training exercises with the participation of both public and private entities. This is in addition to the government availing requisite funding to enable law enforcement agencies invest in adequate resources (technology and people).

**1 in 3**

Of cyber-attacks were either malware or phishing attacks


**0.5B**

2% of respondents that suffered economic crime lost half a billion shillings or more

## Cost of economic crimes – and its aftermath

Against the global average of 19%, 21% of Kenya's respondents indicated that they suffered a direct loss of between USD 100K (c. KES 10M) and USD 1M (c. KES 100M) to the most disruptive crime they experienced in the past 24 months of operations.

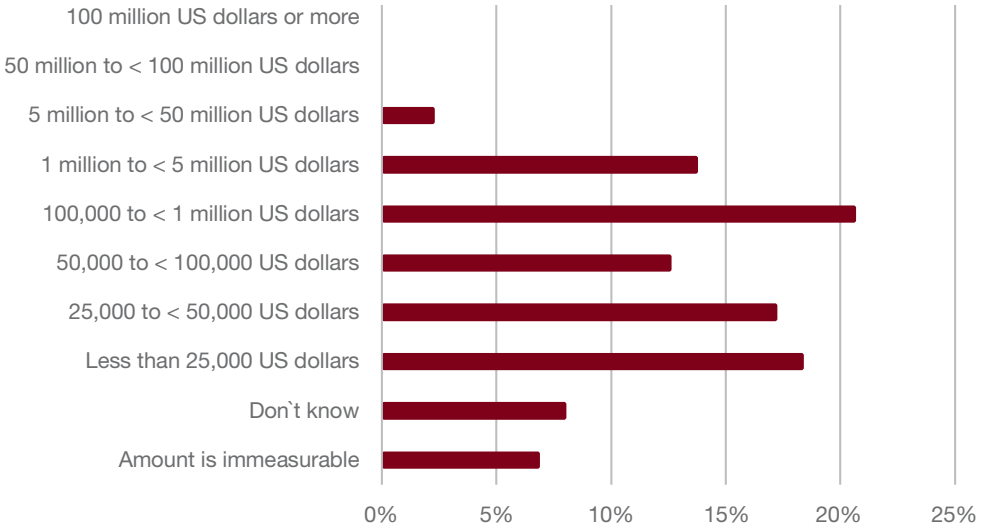
Further, 67% of the survey respondents indicated that they lost at least USD 25,000 (c. KES 2.5M) to the most disruptive crime they experienced in the past 24 months of operations compared to 63% of respondents who indicated they lost the same amount globally. Instructively, 2% of the respondents in Kenya indicated they lost more than USD 5M (KES 0.5B) to the most disruptive crime showing just how costly economic crime can be.

In addition to the direct loss incurred as a result of an economic crime, 46% of our global respondents indicated that they incurred either the same or more cost through the undertaking of investigations and other intervention measures against the recurrence of the crime.

This is against the 23% that was reported in Kenya, only half of the global proportion and perhaps an indicator that Kenyan organisations need to invest more in the fight against fraud.

In addition to these monetary costs, other costs cited as having resulted from the occurrence of the economic crimes include the severing of business relations, brand and reputational damage, the plummeting of employee morale, and strained relations with the regulators.

**In financial terms, approximately, how much do you think your organization may have directly lost through the most disruptive crime over the last 24 months?**



## Who is committing the fraud?

In 2018 as in previous years, most economic crimes continue to be committed by internal actors. We, however, observed a reduction in the proportion of respondents citing internal actors as the main perpetrators of fraud and an increase in those citing external actors. Compared to 17% in 2016, the incident rate for perpetration of fraud by an external perpetrator amongst respondents in Kenya almost doubled to 30% whereas that of the internal actors reduced from 70% to 62%.

### Internal, external, or 'in between'? Know your 'frenemies'

#### *Customer is king*

According to the survey respondents in Kenya, the top 3 perpetrators of external fraud were customers, shared service providers and organized criminals. The eminence of customers as external fraudsters is in tandem with Fraud Committed by the Consumer being the second most prevalent form of economic crime in Kenya.

#### *Shift of the internal fraudster from a junior to middle manager*

In 2018, whereas the economic crimes committed by both junior and senior management have decreased from 43% to 31% and from 24% to 14% respectively, economic crimes committed by middle level managers have increased from 29% in 2016 to 41% in 2018. This suggests that perpetration of an economic crime by an internal actor is most likely to be committed by a middle level manager followed by a junior manager and is least likely to be committed by a senior manager.

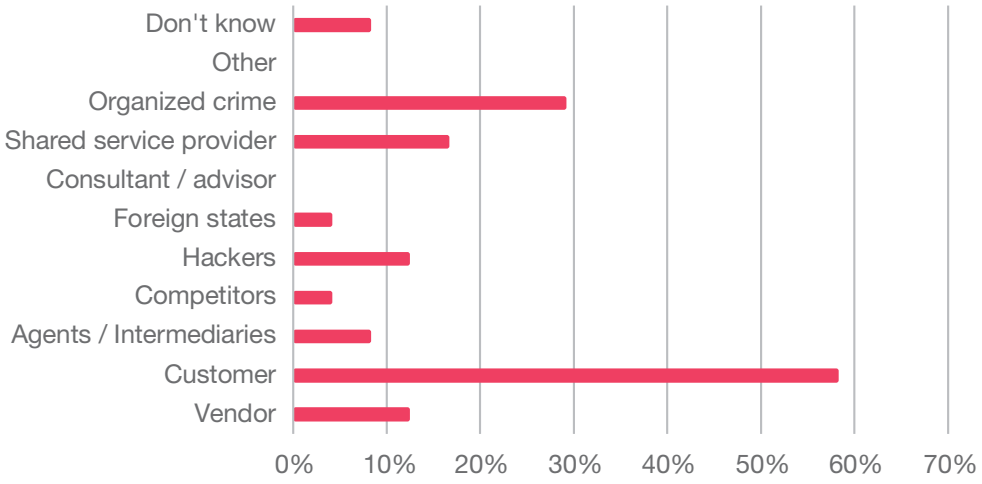
The above results could be due to junior and middle managers executing majority of the operational and management tasks and by virtue of them having a deeper insight into the weaknesses of the organisation's systems. It therefore behoves the senior management to continuously monitor the actions of their junior teams and employ sufficient supervisory structures and operational controls to curb fraudulent activities by the lower management team.

This does not however mean that senior management can always be trusted. Unlike in Kenya, our survey reveals that the share of serious internal fraud committed by senior management globally continues to rise dramatically — up 50% (from 16% to 24%) since 2016.

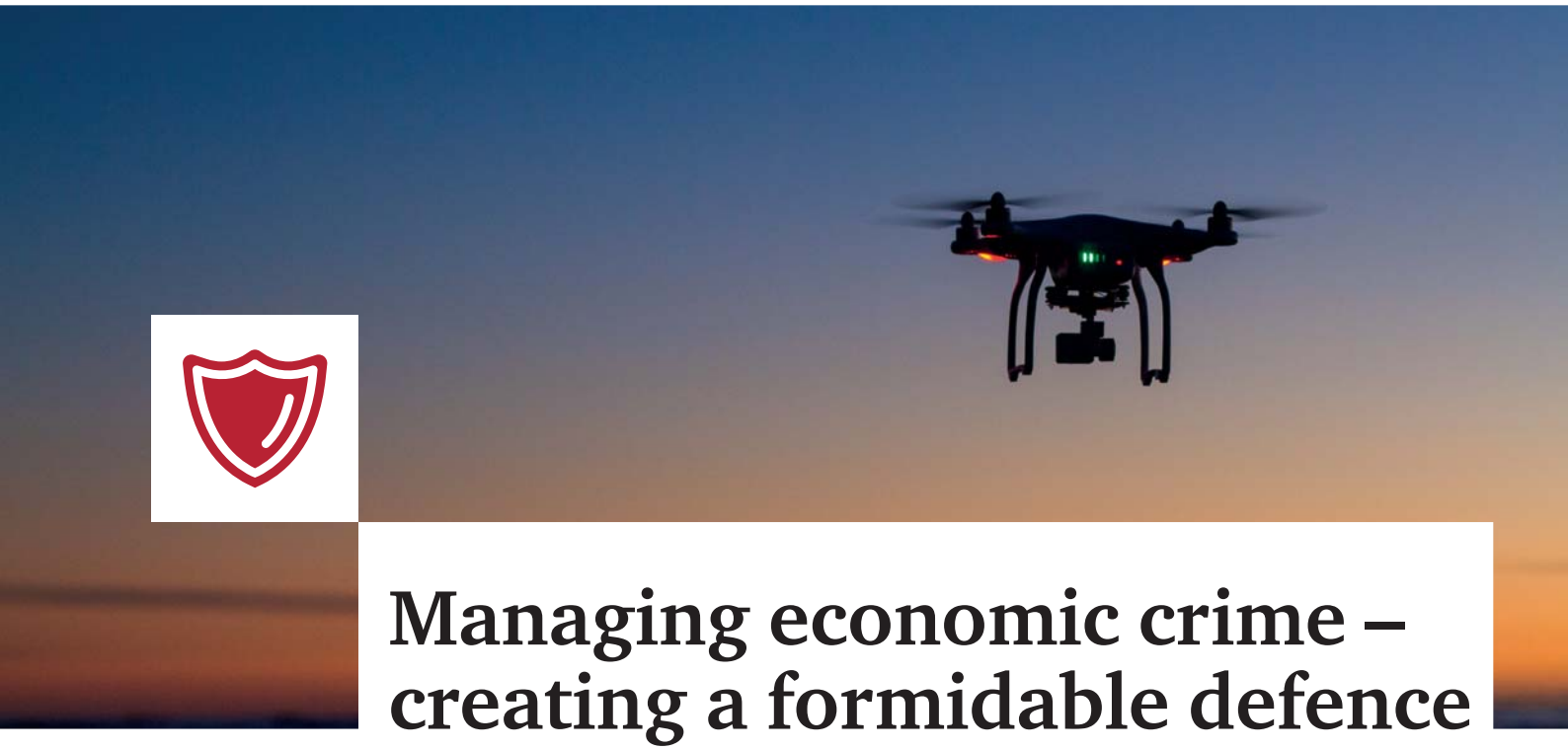
Results of the survey also showed that 24% of the respondents indicate that the principle function under which the main internal perpetrator resided was in the Operations and Productions function. Procurement (14%) and Finance (14%) were the other two functions within which the internal perpetrator was most likely to reside.

It would be paramount that organisations tighten controls around the production cycle to combat fraud perpetrated by insiders.

**Who were the main perpetrators of that external fraud against your organization?**




***Twice as many respondents suffered economic crime perpetrated by internal actors compared to external perpetrators. Among external perpetrators, customers were twice as lethal as organised criminals.***



# Managing economic crime – creating a formidable defence

**13%**

13% of the respondents reported having limited or no insight into prevalence of economic crime in the organisation, a small but still worrying percentage given the seniority of the respondents.

## Don't get blindsided by your blind spots

*If you don't know it's there, you don't look for it. If you don't look for it, you don't find it. If you don't find it, you can't make the business case to look for it.*

In this survey, 87% of our respondents reported having insight into fraud and/or economic crime incidence in their organisation. Given that success in the prevention, detection and management of economic crime in an entity primarily depends on the ability of key parties in that organisation to recognize the nature and type of economic crime the organisation frequently faces or is likely to face, these results are encouraging.

However, 13% of the respondents reported having either limited or no insight at all into the prevalence of economic crimes in their organisation. This means that the organisations are not in a position to institute controls or regulations that may prevent future economic crimes and the occurrence of a fraudulent activity may go undetected. Boards and senior management of organisations must stay accountable and informed on what is going on in their organisations.

## Detection of economic crimes – your arsenal

The survey reveals that in order to detect and manage fraud dynamically, all the facets of fraud detection mechanisms must be carefully examined. Not only is it necessary to have the right technology and internal controls in place, organisations must invest in people and create an organisation culture where integrity, transparency, vigilance and accountability is encouraged and upheld consistently by all stakeholders.

Against a global average of 51%, 52% of our Kenya respondents cited corporate controls as the means by which their most disruptive economic crimes was detected. Routine internal audits, fraud risk management exercises and suspicious activity monitoring were cited as the top three corporate control tools employed by the respondents and which were able to detect the perpetration of economic crimes.

Other corporate controls cited by the respondents as the means through which economic crimes at their organisations were detected included data analytics, personnel rotation and having in place a robust security system, both physical and Information Technology.

It is encouraging to note that as compared to the 2016 results, more organisations reported having carried out fraud risk assessment with the focus being on general fraud risk assessments, cybersecurity and anti-bribery and corruption reviews. Moving forward, organisations will need to leverage on and harness data generated in the course of normal business operations to detect and fight fraud. By employing data analytics tools and models to make sense of large and unstructured transaction data sets, an organisation can gather useful insights on transaction anomalies, patterns and relationships that may be indicative of irregular or fraudulent activities.

**In the last 24 months, has your organization performed a risk assessment on any of the following areas?**

## Invest in people, not just machines

Compared to a global average of 27%, 35% of Kenyan respondents cited an open corporate culture as a key means through which their most disruptive fraud activities were initially detected. Respondents indicated that having internal/ external tip offs as wells as whistleblowing hotlines helped in the initial detection of suspicious activities.

This goes to show that cultivating a corporate culture where internal parties are well trained to identify fraud and feel safe to report fraudulent activities is paramount to the fight against economic crime. A whistle-blower policy that not only encourages the reporting of suspicious activities but also protects the identities and welfare of the whistle-blowers also goes a long way to earn the confidence of potential whistle-blowers.

## Beyond the influences of management

11% of our respondents indicated that their most disruptive economic crimes were detected beyond the influences of management, either by accident, by law enforcement or as part of investigative media journalism. Fraud detection that is not under the grasp of the organisation's management runs the risk of damaging the reputation and brand of the organisation.

The stream of information being released to the public with respect to the fraud is likely to be uncontrolled, misleading or distorted which provides an opportunity for competitors and other ill-intentioned adversaries to take advantage of the fraud to cause further disrepute to the organisation. As such, the organisation's management should endeavor to ensure that systems in place are sufficient to detect any fraudulent activity before it is in the public domain.

## Prevention of economic crimes

### Find the right technology to fight fraud – finding the sweet spot

With new emerging technologies most of which can be exploited to perpetrate crime, organisations need to be vigilant and conduct an in-depth assessment of the right technology to serve the requirements of the organisation taking into account factors such as the size of the organisation, type and volume of transactions undertaken by the organisation.

The continuous, periodic and proactive monitoring and analysis of organisation's systems including transactions, communications (emails and other organisation communication tools) for patterns and anomalies will continue being useful for the prevention and curbing of many emerging fraud activities.

The use of artificial intelligence tools such as speech recognition and machine learning software will also help to arrest economic crimes. Machine learning to curb fraud relies on system interactions with its users to discern user behavior and the types of transactions that fall within the realm of normal. That way, machines are able to flag behavior that is indicative of an anomaly and forward the flagged transactions to the relevant authorities for further checking and validation.

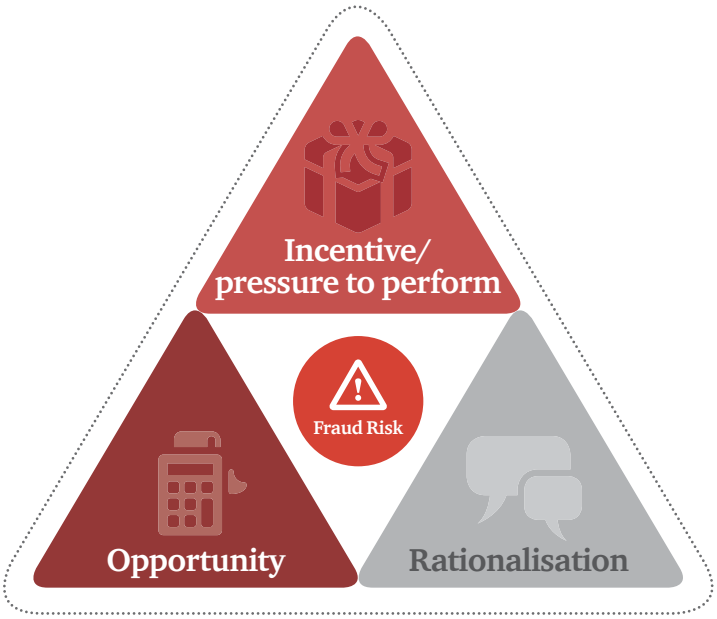
***An open corporate culture is a key means through which fraud can be detected***

## Controls and culture – the fraud triangle

The Fraud Triangle is a powerful method of understanding and measuring the drivers of internal fraud. According to the theory of the Fraud Triangle, the birth of a fraudulent act usually takes the following trajectory; it starts with pressure which is generally related to an internal issue in the organisation or a personal matter the individual is grappling with. Then, if an opportunity presents itself, the person will usually wrestle with it psychologically. The last piece of the puzzle which enables them to move from thought to action is rationalisation. Since all three drivers must be present for an act of fraud to occur, all three must be addressed individually, in ways that are both appropriate and effective.

### The antidote to pressure - openness

Corporate-sized frauds are often connected to corporate pressures including unreasonable targets, job insecurity etc, which can arise at any level of the organisation. Besides corporate pressures, employees may also face personal and social pressures including maintaining or improving their financial standing amongst peers, family financial difficulties, addictions and lack of a spending discipline.




To address these pressures, organisations need to create an environment where employees' financial and psychological welfare is and is perceived to be a priority. Organisations need to go beyond the financial incentives and address the fear and motivations creating these pressures.

Short-term bespoke controls can serve as check on whether aggressive performance expectations are leading to fraudulent or illegal behavior. A well-publicized open door or hotline policy can also help not only as a requisite pressure-release valve, but also as an early warning system for potential problems.

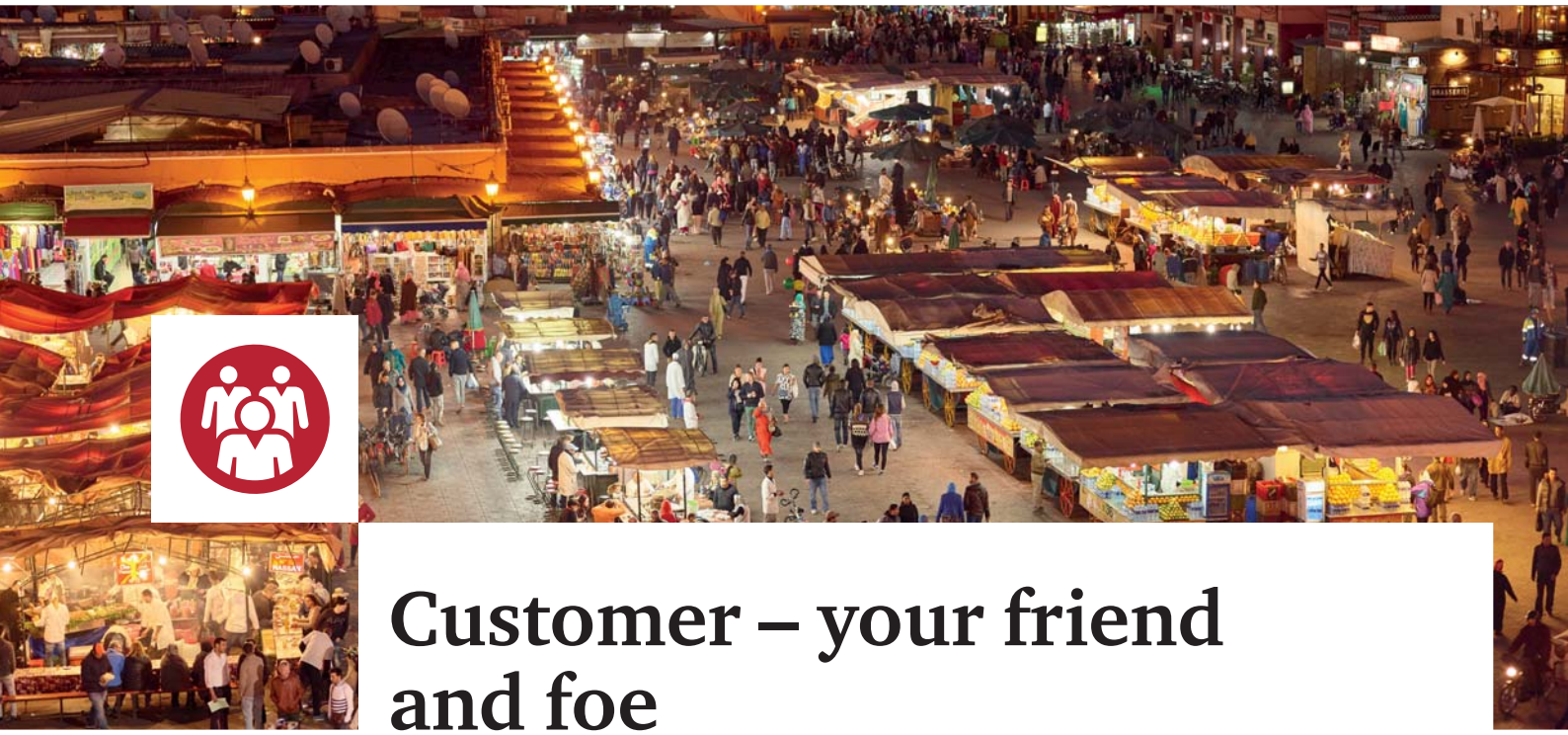
### The antidote to opportunity - controls

Opportunity is the second facet of the fraud triangle and often occurs when an employee identifies a control or enforcement gap in the organisation and in which they perceive that a fraudulent activity is not likely to be detected or connected to them. Some of the things in the organisation that could lead to an opportunity for fraud include a lack of segregation of duties especially in middle management, lack of policies guiding key processes and lax enforcement on existing policies. Kenyan respondents perceive opportunity as the greatest contributor to the execution of a fraudulent activity with 70% ranking it first among the drivers of fraud.

### The antidote to rationalisation - culture

While pressure and opportunity can be influenced and controlled by the organisation to some extent, the element of rationalization is only in the control of the perpetrator. Rationalisation involves the perpetrator of the fraud reconciling the fraudulent act against their own personal values and their feelings about the act they intend to commit.

The first step to providing an antithesis to rationalization is to focus on the environment that governs employee behaviour. Using surveys, focus groups and in-depth interviews, to assess the organisation's culture's strengths and weaknesses, and focus on the areas that are lax or problematic. Consistent training is also key for employees and other parties to understand what constitutes acceptable behaviour and the consequence of such actions.



# Customer – your friend and foe

*Your customers are the lifeblood of your business.*

As businesses continue to trudge through the digital and global revolution, they are today forced to innovate, enter new markets and adopt new technologies in order to survive or grow. This opening up however also exposes the businesses to additional threats, often posed to and by the customer.

This rings true also for organisations such as governments and non-profit organisations where the consumer of their services is not necessarily a customer. Organisations are therefore faced with a dilemma of either closing themselves in and be seen as non-responsive or opening up their operations and exposing themselves to financial, reputational and regulatory risks.

At an incident rate of 37%, our survey found that Fraud Committed by the Consumer is the second most prevalent type of economic crime experienced by Kenyan organisations. It is also the second most prevalent economic crime in East Africa and Africa and third globally. We therefore, in this section, discuss the consumer and the fraud risk that they portend.

## Why is the threat from the customer on the increase

There are many reasons and circumstances that all work in concert to result in an increased threat from the consumer. We explore only a few here.

The first factor we explore is the changing demands of the consumer. With the ubiquity of technology today, the 21st Century consumer has become used to convenience and on-demand service. This consumer wants to spend the least amount of time and effort while being served. Organisations from banks to governments have thus been forced to adopt new technologies that make them more accessible and efficient.

In the process, tellers have given way to mobile banking and parking attendants to parking applications. These technological advances, however, come with a number of threats arising both from the organisation's unfamiliarity with the technology and the added access that the consumer gets to the organization through the technological channel linking the two.

Another consequence of the enhanced technological uptake is the reduction of permanent staff and their replacement either by the technology itself or by outsourced third parties. Organisations have taken advantage of the technological advances to downsize or to introduce agents who are cheaper to maintain and increase the organisations' reach at minimal cost. Consequently, the trusted employee that is well versed in an organisation's culture and values is increasingly not the main point of contact between the consumer and the organization.

The rapid change in trends and entry of market disruptors have also seen organisations that have traditionally offered a singular service chart into new offerings. These organisations find themselves in environments where they often have limited experience and know-how of the associated fraud risks and regulatory frameworks. As banks offer insurance products, manufacturers get into real estate and the government begins to sell bonds through mobile apps, they all find themselves in unfamiliar territory that is fraught with danger.

Finally, in societies where the cost of living is increasing, lifestyle trends promote more consumerism and traditional values are discarded, the consumer just as the employee is under more pressure to commit fraud. Consumers also find it easier to rationalize fraud whether the fraud is a failure to pay a public utility or is a case of shoplifting.

## Industry and Regional analyses

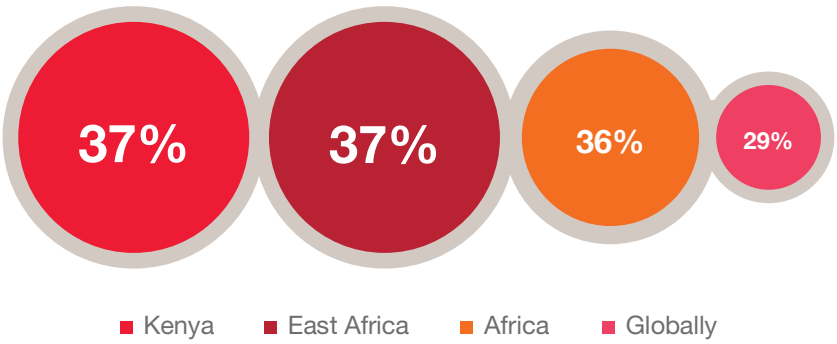
As indicated above, at an incident rate of 37%, Fraud Committed by the Consumer is the second most prevalent type of economic crime experienced by Kenyan organisations after Asset Misappropriation. This is 8% more than the reported prevalence globally. 20% of our Kenya respondents further cited Fraud Committed by the Consumer as the most disruptive economic crime in their organisations over the past 24 months of the survey, only behind Asset Misappropriation at 21%. The prevalence of Fraud Committed by the Consumer is also reflected in the East Africa region where it is the second most prevalent form of economic crime at 37% only behind Asset Misappropriation at 46%.

**37%**

Fraud Committed by the Consumer was the second most prevalent economic crime in Kenya

***Customers aren't just one consideration of your business – they are your business***

**Fraud Committed by the Consumer**



Fraud Committed by the Consumer is especially prevalent in the Financial Services sector where in Kenya it had the highest incidence rate of 65%, higher than Cybercrime at 48% and Asset Misappropriation at 42%.

The survey indicates that financial institutions such as banks are a major target of fraud by the consumers, where the consumers exploit loopholes in the designing of financial products or instruments to perpetrate fraud. In East Africa, Fraud Committed by the Consumer has an incidence rate of 62% in the Financial Services sector followed by Cybercrime and Asset Misappropriation at 44% and 35% respectively.

In the Insurance industry, Fraud Committed by the Consumer has the highest incidence rate in Africa at 71% followed by Business Misconduct at 54% and Asset Misappropriation at 38%. In our experience, consumers in the insurance industry typically defraud the insurance companies through the lodging of an illegitimate or inflated claim that is designed to appear legitimate.

Whereas our survey results show that on average Fraud Committed by the Consumer is less prevalent in other sectors other than in Financial and Insurance Services sectors, from our experience a sizable number of organisations in other industries are grappling with Fraud Committed by Consumers through a myriad of ways spanning from non-payment for goods and services to more complex frauds involving cybercrime or collusion with internal parties.

**65%**

Fraud by the Consumer is the most prevalent form of economic crime in the financial services sector

**KYC**

Are your customers who they say they are?

## Detection and prevention of Fraud Committed by the Consumer

### Know your customer/consumer protocols

The Know Your Consumer/Customer ("KYC") protocols are mechanisms employed by an organisations to identify and verify the identity of a prospective customer prior to making an engagement with them as well as to ensure the organisation becomes aware of any changes to the consumer's identity subsequent to the first engagement.

To successfully avert and detect fraud, the customer acceptance and on-boarding procedures of the organisation must be rigorous enough to ensure that the organisation only engages organisations and persons that are who they say they are.

Organisations must seek to examine the full profile of the prospective customer including any criminal history, type of activities undertaken by the consumer, any ethical or legal non-compliance history and general brand profile.

Customer Acceptance Procedures must also encompass the verification and validation of documents presented by the prospective client including identification documents, documents evidencing ownership of assets, registration documents etc. Whereas Customer Acceptance Policies are not an end in themselves and are unlikely to curb fraud perpetrated by legitimate customers who subsequently identify loopholes for fraud, they can go a long way in helping single out suspicious persons or imposters or abnormal transactions.

In undertaking these KYC procedures, however, a fine balance must be struck between remaining vigilant and pervading the perception of suspicion towards potential consumers.

### Risk Management Procedures - Risk profiling

Depending on the scale and volume of an organisation's transactions with consumers, risk management encompasses many activities. One of the main ways organisations can monitor and manage fraudulent activities initiated by their consumers is by creating risk profiles for each existing consumer.

Based on purchasing and payment patterns, an organisation can create a risk profile for individual consumers that will provide guidance on the level of vigilance that is to be employed while dealing with the consumer. For instance, consumers with a propensity to lodge special requests that involve a bypass of an organisation's protocols may be considered to be of a higher risk than those who comply with organisation's policies. Other factors to consider are methods of payment, credit period, use of proxies etc.

The identity of the consumer is also key to the creation of a risk profile. By their very identity, politically exposed persons (PEPs) warrant keener monitoring. Due to their high level of visibility and influence in the society, PEPs are widely considered to be more susceptible to being victims, conduits or perpetrators of economic crimes especially in areas of Bribery and Corruption, Procurement Fraud and Anti-Money Laundering activities.

# An East African view of Economic Crime

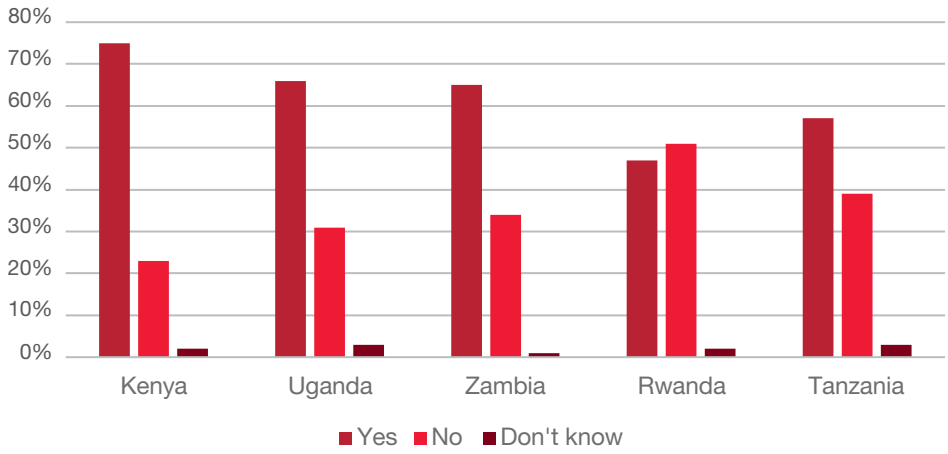
For the first time since the launch of GECS, we compare the Kenya results against those of other East African countries and in particular, Tanzania, Uganda, Rwanda and Zambia. Whereas we have had country specific reports and statistics in Zambia since 2014, it is the first time that we had enough responses to generate reports from Tanzania, Uganda and Rwanda.

## Prevalence of economic crimes

Against the global rate of 49%, the East African region reported an average of 62% prevalence of economic crimes in the last 24 months, with Kenya having the highest prevalence rate at 75% and Rwanda the lowest at 47%. In both Kenya and Zambia, the incidence of economic crimes is highest in 2018 compared to the years 2014 and 2016.

As evidenced by this survey, the increase in incidence of economic crimes is a regional and global problem and while each country must put measures to curb the vices at home, there must be cross-border cooperation in formulating and implementing policies that help prevent, detect and mitigate against various forms of economic crimes.

**Has your organization experienced any fraud and/or economic crime in your country within the last 24 months?**




**62%**

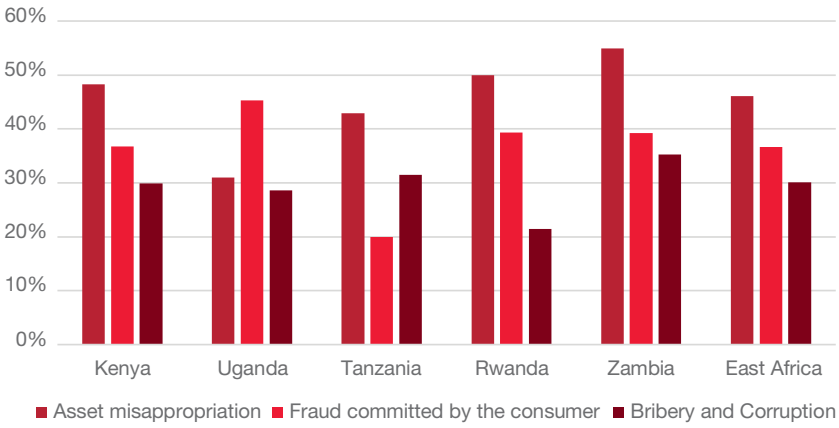
the reported prevalence rate of economic crime in East Africa

## Types of economic crimes experienced in East Africa

On average, the top three forms of economic crimes most experienced in East Africa were Asset Misappropriation (45%), Fraud Committed by the Consumer (36%) and Bribery and Corruption (29%).

As shown in the chart above, different forms of economic crimes are experienced differently in the East African region. Whereas overall Kenya has the highest incidence rate of economic crimes, Zambia takes the lead as the East African country with the highest prevalence rate for two of the three major economic crimes experienced in East Africa; Asset Misappropriation and Bribery and Corruption.

**What types of fraud and/ or economic crime has your organization experienced within the last 24 months?**

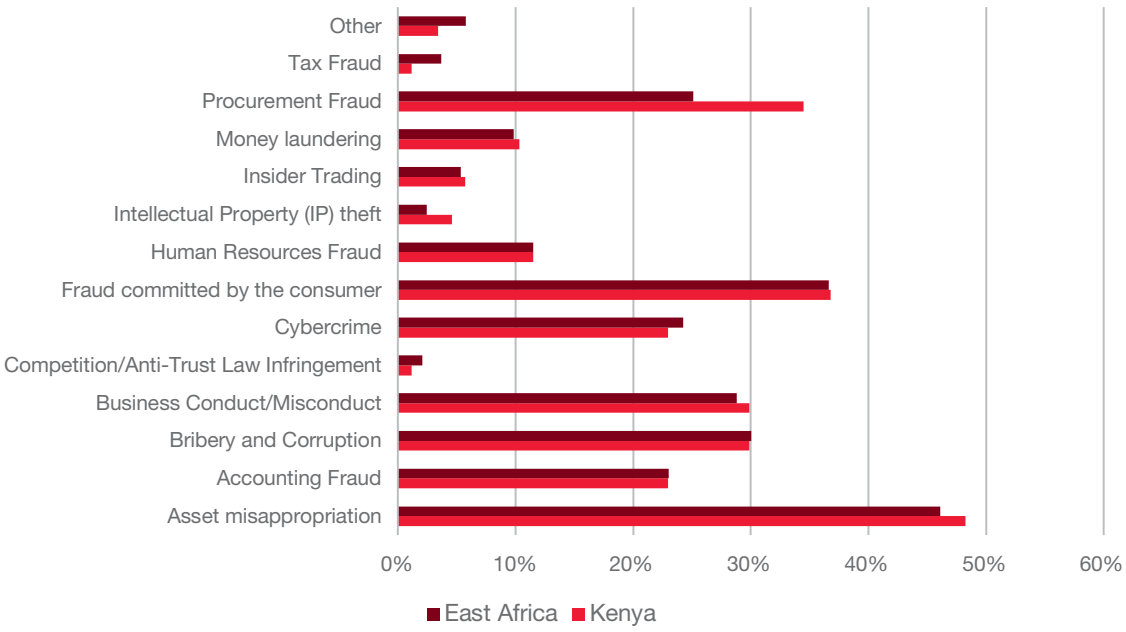


With the exception of Uganda, Asset Misappropriation has the highest incidence rate in all the East African countries. In Uganda, the most prevalent form of economic crime was observed to be Fraud Committed by the Consumer at 45% which is followed by Asset Misappropriation at 31% well below the regional average of 45%.

As shown in the chart below, the prevalence of various forms of economic crimes in Kenya closely mirrors the East Africa average incidence rates. This is with the exception of Procurement Fraud which at 34% is 36% higher than the regional average of 25%.

***Other than procurement fraud, the prevalence of the various forms of economic crime in Kenya, closely mirrors that of the East African region***

**What types of fraud and/ or economic crime has your organization experienced within the last 24 months?**




The financial losses resulting from economic crimes in the East African region also closely resemble those of Kenya.

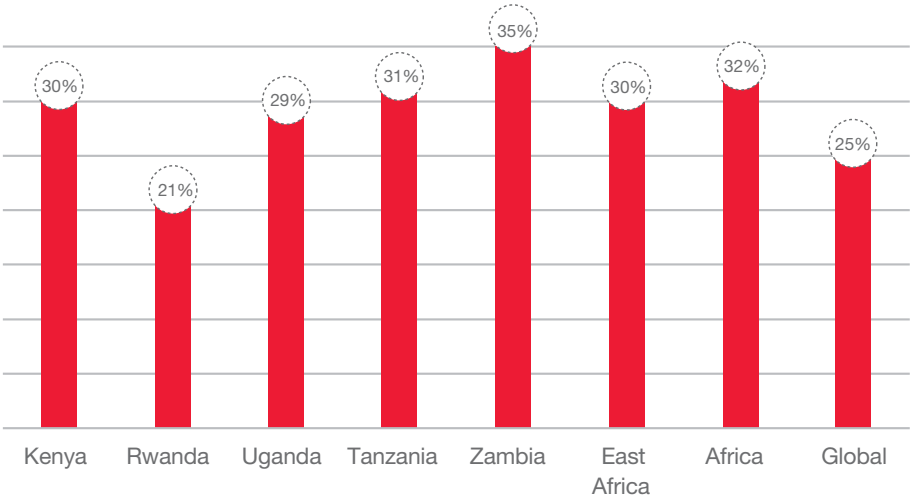
In Kenya, 21% of the respondents reported to have lost between USD 100K and USD 1M to the most disruptive forms of economic crime that they experienced in the past 24 months of operations. This is against 24% of East Africa respondents that reported to have lost the same amount.

30% of the East Africa respondents reported that they experienced Bribery and Corruption in their organisations in the last 24 months, making it the fourth most prevalent form of economic crime in East Africa.

Of note is that whereas Kenya, Zambia, Uganda and Tanzania lie within a 5% range from the East Africa average of 30%, Rwanda reported an incidence rate of 21%, well below this average. It is therefore worth examining the regulatory, enforcement and cultural frameworks that may have given rise to these results.

Does Rwanda have better enforcement structures? Is the culture more transparent that it deters acts of Bribery and Corruption? On the flipside, is it possible that Rwandan organisations detect or disclose this form of economic crimes with far less likelihood than their counterparts in the rest of East Africa?

**Bribery and Corruption in 2018**




*Economic crime transcends national boundaries necessitating a concerted approach in dealing with it*

In Kenya, 34% of the respondents reported to have been asked to pay a bribe in the last 24 months in their primary country of operations whereas 32% reported that they had lost an opportunity to a competitor who they believed paid a bribe. Overall, in East Africa, 22% of the respondents reported having been asked to pay a bribe and an equal number reported to have lost an opportunity to a competitor they believe paid a bribe.

Bribery and Corruption is a problem that transcends sectoral and regional boundaries. It is therefore critical that all players of the economy converge around creating social and economic accountability mechanisms to curb this vice. The higher incidence in Kenya may be partly to blame for or may lead to a negative perception on the integrity of Kenyans regionally with adverse repercussions on Kenya's competitiveness.

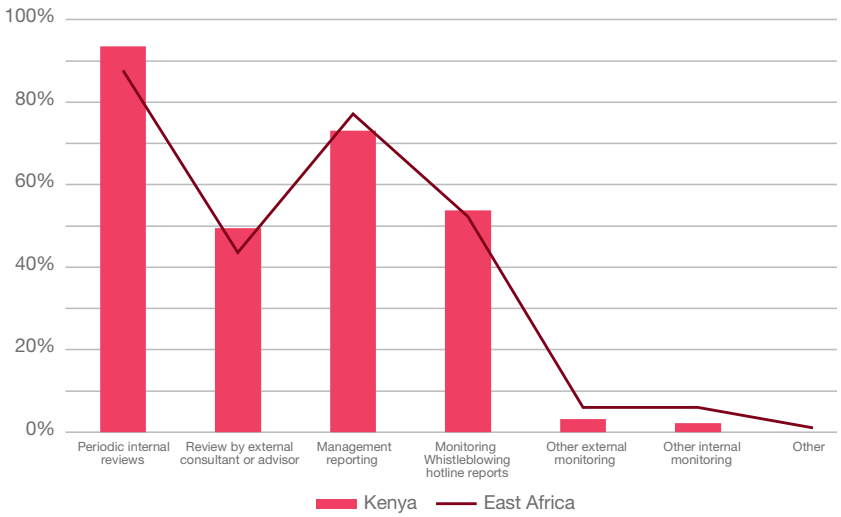
## Compliance and business ethics programmes

According to the results of the survey, 94% of Kenya and 88% of East Africa respondents indicated that their organisations undertook periodic internal reviews to ensure that compliance and business ethics programs are effective in curbing fraud. Other key mechanisms reported as being employed to assess effectiveness of compliance and business ethics programmes include management reporting and monitoring of whistleblowing reports.

Half (49%) of Kenya respondents and 44% of East Africa respondents indicated that they used an external consultant or advisor in the monitoring of compliance issues. This is commendable and should be kept up.

An independent review of an organisations compliance and ethics programs effectiveness is necessary to provide an external perspective to areas that may not be familiar to management. Further, since external consultants often report directly to the Board or the senior management team, they are able to break the bureaucratic barriers in the implementation of new ideas.

**How does your organization ensure that your compliance and business ethics program is effective?**




# Conclusion

Our survey shows that many organisations are still under-prepared to face fraud, both from internal and external actors. One of the reasons for this could be because many organisations still approach risk management, fraud investigations and reporting as distinctly different functions of the organisation. Adopting a centralized fraud management framework that is all-encompassing can go a long way in ensuring that fraud prevention is vibrant and detection and investigations are undertaken quickly and effectively.

Centralizing these functions not only enhances the efficacy with which information between separate incidents is pieced together and relevant patterns drawn, it also controls for bias that may arise from self-investigation. Further, a holistic approach to fraud management also enables lessons drawn from one function to be applied to other functions within the risk management chain.

While the technological and global revolution of the 21st century demands an investment in machines and modern technology, cultural and human elements of the organisation continue to be a key factor in the detection and management of fraud as demonstrated by the results of this survey. Organisations must ensure that they have the right people with the right level of integrity and transparency needed to combat and manage fraud.

Additionally, a culture of transparency and fraud reporting must be cultivated including implementation of sound policies governing the treatment of tip offs and whistle-blower activities within the organisation. Advances in technology are essential to the success and sustainability of any modern-day organisation, but it is the people that operate the machines that will keep the interests of the organisation protected and ensure that incidents of fraud are investigated and prosecuted.

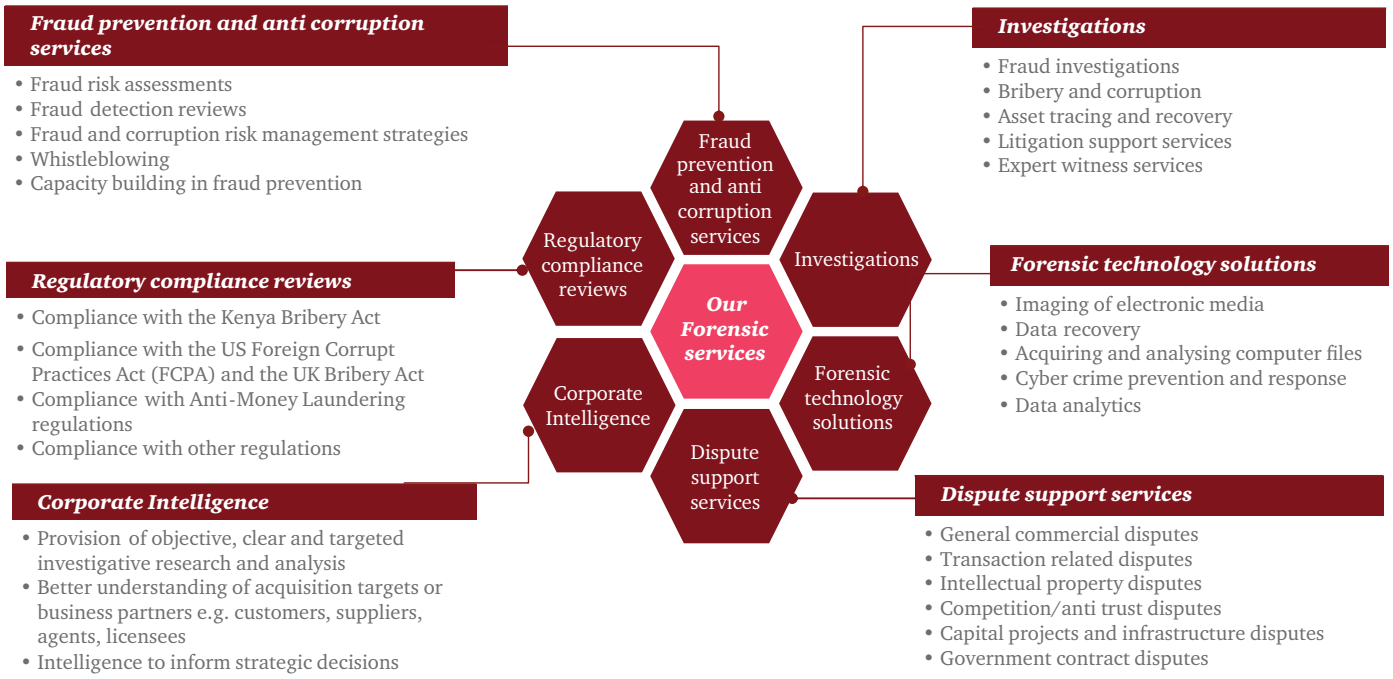
Our survey also reinforces the importance of all stakeholders converging in the fight against fraud. While the government must for instance ensure that there is a comprehensive and all-inclusive legal and enforcement framework in place, the private sector, civil society, religious leadership and indeed the entire citizenry must converge around the goal of eradication of economic crimes.

Finally, whereas fraud was seen as a costly nuisance, fighting fraud has progressed from an operational or legal matter to a central business issue. Fraud today is an enterprise that is tech-enabled, innovative, opportunistic and pervasive. It is indeed the formidable competitor that has been overlooked.

# Our comprehensive Forensic Solutions

PwC offers end-to-end active anti-corruption, fraud prevention and investigation solutions to help clients assess fraud; design, implement and maintain a fraud prevention strategy;v and to develop incident response mechanisms.

Our forensics and dispute analysis professionals can robustly assist your organisation by providing a wide variety of advisory services and investigations including:




# Contacts

## Want to know more about what you can do in the fight against fraud? Contact one of our forensics specialists

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## About the survey

PwC's 2018 Global Economic Crime and Fraud Survey was completed by 7,228 respondents from 123 territories. Of the total number of respondents, 52% were senior executives of their respective organisations, 42% represented publicly-listed companies and 55% represented organisations with more than 1,000 employees.

In Kenya the Survey was completed by 116 respondents making Kenya one of the 54 countries that achieved the threshold for a country-specific report. Of the total number of respondents, 38% represented listed companies, 42% private organisations and 20% public or non-governmental institutions.

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