REPORT TO THE NATIONS®
2020 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE
BANKING AND FINANCIAL SERVICES EDITION

ACFE®
Association of Certified Fraud Examiners
## CONTENTS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>How Occupational Fraud Is Committed</td>
<td>4</td>
</tr>
<tr>
<td>Detection</td>
<td>6</td>
</tr>
<tr>
<td>Victim Organizations</td>
<td>9</td>
</tr>
<tr>
<td>Anti-Fraud Controls at the Victim Organization</td>
<td>12</td>
</tr>
<tr>
<td>Profile of a Fraud Perpetrator</td>
<td>15</td>
</tr>
<tr>
<td>Case Results</td>
<td>18</td>
</tr>
<tr>
<td>Methodology</td>
<td>20</td>
</tr>
<tr>
<td>About the ACFE</td>
<td>21</td>
</tr>
</tbody>
</table>
INTRODUCTION

In April 2020, the ACFE released the 2020 Report to the Nations, the latest in our global studies on the costs and effects of occupational fraud (i.e., fraud committed by individuals against the organizations that employ them). The 2020 global study examined 2,504 cases of occupational fraud reported from 125 countries throughout the world.

This supplemental report focuses specifically on the 386 cases in our study that occurred in organizations in the banking and financial services industry, providing a deeper view into the ways that these frauds were perpetrated, the means by which they were detected, the demographic characteristics of the victim organizations, the profiles of the perpetrators, and the results of the cases after the frauds were discovered. We hope this report will be useful to anti-fraud professionals and financial services institutions around the world as they design and implement their programs to protect against the harms of occupational fraud.

SNAPSHOT OF OCCUPATIONAL FRAUD IN THE BANKING AND FINANCIAL SERVICES INDUSTRY

- **386 CASES**
- **19% OF ALL CASES**
- **MEDIAN LOSS:** USD 100,000
- **AVERAGE LOSS:** USD 1,546,000
- **MEDIAN DURATION OF A FRAUD SCHEME:** 8 MONTHS
HOW OCCUPATIONAL FRAUD IS COMMITTED

Our study examined the methods by which occupational fraudsters in the banking and financial services industry perpetrate their schemes.
How is occupational fraud committed in the banking and financial services industry?

- **Asset misappropriation**: 85%
- **Corruption**: 40%
- **Financial statement fraud**: 10%

**Median Loss**
- $90,000
- $200,000
- $1,600,000

What are the most common occupational fraud schemes in the banking and financial services industry?

- **Corruption**: 40%
- **Cash on hand**: 18%
- **Skimming**: 10%
- **Cash larceny**: 10%
- **Noncash**: 10%
- **Financial statement fraud**: 10%
- **Check and payment tampering**: 9%
- **Expense reimbursements**: 8%
- **Billing**: 8%
- **Payroll**: 2%
- **Register disbursements**: 2%
DETECTION

Our study revealed how occupational frauds are most often detected in the banking and financial services industry, as well as insights on how fraud reporting hotlines and employee training can improve detection.
TIPS ARE BY FAR THE MOST COMMON DETECTION METHOD

HOW IS OCCUPATIONAL FRAUD INITIALY DETECTED?

<table>
<thead>
<tr>
<th>Tip</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>46%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>15%</td>
</tr>
<tr>
<td>Management review</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>Surveillance/monitoring</td>
<td>5%</td>
</tr>
<tr>
<td>Account reconciliation</td>
<td>4%</td>
</tr>
<tr>
<td>By accident</td>
<td>4%</td>
</tr>
<tr>
<td>IT controls</td>
<td>3%</td>
</tr>
<tr>
<td>Notified by law enforcement</td>
<td>3%</td>
</tr>
<tr>
<td>Document examination</td>
<td>2%</td>
</tr>
<tr>
<td>Confession</td>
<td>2%</td>
</tr>
<tr>
<td>External audit</td>
<td>1%</td>
</tr>
</tbody>
</table>

THE TOP 3 SOURCES OF TIPS WERE:

- CUSTOMERS: 52%
- EMPLOYEES: 34%
- VENDORS: 9%

HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?
DETECTION

Effectiveness of hotlines

82% of victim organizations had hotlines.

Detection by tip was more common at large organizations.

Cases detected by tip:
- 100+ employees: 48%
- <100 employees: 40%

DETECTION BY TIP WAS SUBSTANTIALLY HIGHER AT ORGANIZATIONS WITH HOTLINES

<table>
<thead>
<tr>
<th>WITH HOTLINES</th>
<th>NO HOTLINES</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>6 months</td>
<td>13 months</td>
</tr>
</tbody>
</table>

MEDIAN LOSS

MEDIAN DURATION

The percentage of tips that were made via formal reporting mechanisms increased with employee training:
- Tips with training: 54%
- Tips without training: 42%

WHISTLEBLOWERS USED A VARIETY OF REPORTING MECHANISMS

- Email: 31%
- Mailed letter/form: 27%
- Telephone hotline: 26%
- Web-based/online form: 21%
- Fax: 1%
VICTIM ORGANIZATIONS

To gain a better understanding of the victims in the banking and financial services industry, we asked respondents to provide information about the victims’ region and size.
THE MEDIAN LOSS IN SMALL BANKING AND FINANCIAL SERVICES ORGANIZATIONS WAS HIGHER THAN IN LARGER ORGANIZATIONS.

THE TOP SCHEMES IN SMALL AND LARGE BANKING AND FINANCIAL SERVICES ORGANIZATIONS WERE:

**< 100 EMPLOYEES**

- Corruption: 45%
- Financial statement fraud: 25%
- Cash on hand: 20%
- Noncash: 16%
- Expense reimbursements: 14%
- Check and payment tampering: 14%

**100+ EMPLOYEES**

- Corruption: 39%
- Cash on hand: 17%
- Skimming: 11%
- Cash larceny: 10%
- Noncash: 9%
- Check and payment tampering: 8%
HOW DOES OCCUPATIONAL FRAUD IN THE BANKING AND FINANCIAL SERVICES INDUSTRY VARY BY REGION?

**UNITED STATES AND CANADA**
- **Number of Cases:** 125
- **Median Loss:** $76,000
- **Median Duration:** 6 months

**SUB-SAHARIAN AFRICA**
- **Number of Cases:** 82
- **Median Loss:** $170,000
- **Median Duration:** 6 months

**WESTERN EUROPE**
- **Number of Cases:** 40
- **Median Loss:** $106,000
- **Median Duration:** 16 months

**ASIA-PACIFIC**
- **Number of Cases:** 37
- **Median Loss:** $150,000
- **Median Duration:** 8 months

**MIDDLE EAST AND NORTH AFRICA**
- **Number of Cases:** 30
- **Median Loss:** $150,000
- **Median Duration:** 6 months

**EASTERN EUROPE AND WESTERN/CENTRAL ASIA**
- **Number of Cases:** 27
- **Median Loss:** $65,000
- **Median Duration:** 12 months

**SOUTHERN ASIA**
- **Number of Cases:** 20
- **Median Loss:** $100,000
- **Median Duration:** 12 months

**LATIN AMERICA AND THE CARIBBEAN**
- **Number of Cases:** 13
- **Median Loss:** $100,000
- **Median Duration:** 12 months
ANTI-FRAUD CONTROLS AT THE VICTIM ORGANIZATIONS

We analyzed the anti-fraud controls that the organizations in the banking and financial services industry had in place at the time the frauds occurred, as well as the internal control weaknesses that contributed to the frauds.
<table>
<thead>
<tr>
<th>Anti-fraud Controls</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>External audit of financial statements</td>
<td>96%</td>
</tr>
<tr>
<td>Code of conduct</td>
<td>94%</td>
</tr>
<tr>
<td>Internal audit department</td>
<td>92%</td>
</tr>
<tr>
<td>Management certification of financial statements</td>
<td>91%</td>
</tr>
<tr>
<td>External audit of internal controls over financial reporting</td>
<td>91%</td>
</tr>
<tr>
<td>Independent audit committee</td>
<td>88%</td>
</tr>
<tr>
<td>Management review</td>
<td>86%</td>
</tr>
<tr>
<td>Hotline</td>
<td>82%</td>
</tr>
<tr>
<td>Anti-fraud policy</td>
<td>78%</td>
</tr>
<tr>
<td>Fraud training for employees</td>
<td>77%</td>
</tr>
<tr>
<td>Fraud training for managers/executives</td>
<td>72%</td>
</tr>
<tr>
<td>Dedicated fraud department, function, or team</td>
<td>72%</td>
</tr>
<tr>
<td>Surprise audits</td>
<td>69%</td>
</tr>
<tr>
<td>Proactive data monitoring/analysis</td>
<td>66%</td>
</tr>
<tr>
<td>Formal fraud risk assessments</td>
<td>64%</td>
</tr>
<tr>
<td>Employee support programs</td>
<td>60%</td>
</tr>
<tr>
<td>Job rotation/mandatory vacation</td>
<td>52%</td>
</tr>
<tr>
<td>Rewards for whistleblowers</td>
<td>24%</td>
</tr>
</tbody>
</table>
ANTI-FRAUD CONTROLS

The presence of several anti-fraud controls was associated with notable reductions in both losses and duration of fraud.

WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD IN THE BANKING AND FINANCIAL SERVICES INDUSTRY?

- **27%**
  - Override of existing internal controls

- **26%**
  - Lack of internal controls

- **11%**
  - Lack of management review
Our study includes data on the characteristics of occupational fraud offenders in the banking and financial services industry, which can help these organizations assess their internal fraud risk.
PROFILE OF A FRAUD PERPETRATOR

HOW DOES THE PERPETRATOR’S LEVEL OF AUTHORITY RELATE TO OCCUPATIONAL FRAUD?

WHERE DID PERPETRATORS WORK WITHIN THEIR ORGANIZATIONS?
These were the five most common departments:

- **CUSTOMER SERVICE** 25%
- **OPERATIONS** 18%
- **SALES** 14%
- **EXECUTIVE/UPPER MANAGEMENT** 9%
- **FINANCE** 7%

**Age**

Losses caused by fraudsters above the median age were more than 2X larger than losses caused by those below the median age.

**Median Age**

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;35 years</td>
<td>$70,000</td>
</tr>
<tr>
<td>35 years</td>
<td>$1,265,000</td>
</tr>
<tr>
<td>&gt;35 years</td>
<td>$158,000</td>
</tr>
</tbody>
</table>

**Percent of Cases**

<table>
<thead>
<tr>
<th>Level of Authority</th>
<th>Percent of Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>56%</td>
<td>$77,000</td>
</tr>
<tr>
<td>Manager</td>
<td>27%</td>
<td>$146,000</td>
</tr>
<tr>
<td>Owner/executive</td>
<td>14%</td>
<td>$1,265,000</td>
</tr>
</tbody>
</table>
**PROFILE OF A FRAUD PERPETRATOR**

### GENDER

71% of frauds were committed by men.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>$140,000</td>
</tr>
<tr>
<td>Female</td>
<td>$70,000</td>
</tr>
</tbody>
</table>

Losses caused by men were **twice as large** as those caused by women.

### COLLUSION

Median losses were far greater when fraudsters colluded.

#### ONE PERPETRATOR

- $71,000 Median loss

#### TWO OR MORE PERPETRATORS

- $300,000 Median loss

### THE 5 MOST COMMON RED FLAGS

87% of all fraudsters displayed at least one behavioral red flag.

- **42%** Living beyond means
- **33%** Financial difficulties
- **15%** Unusually close association with vendor/customer
- **14%** Divorce/family problems
- **13%** Irritability, suspiciousness, or defensiveness

### TENURE

Fraudsters who had been with their organizations for more than five years stole **74% more**.

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years’ tenure or less</td>
<td>$86,000</td>
</tr>
<tr>
<td>More than 5 years’ tenure</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

### ONLY 3% OF PERPETRATORS HAD A PRIOR FRAUD CONVICTION
CASE RESULTS

Survey respondents in the banking and financial services industry provided information on the results of the fraud investigation, including internal punishment, litigation results, and recovery of defrauded assets.
HOW DO VICTIM ORGANIZATIONS PUNISH FRAUD PERPETRATORS?

- Termination: 73%
- Probation or suspension: 11%
- Perpetrator was no longer with organization: 9%
- Permitted or required resignation: 7%
- Settlement agreement: 7%
- Other: 3%
- No punishment: 3%

OWNERS/EXECUTIVES WERE LESS LIKELY TO RECEIVE INTERNAL PUNISHMENT

- 89% Non-owners/executives punished
- 62% Owners/executives punished

RECOVERY

- 61% of victim organizations recovered some fraud losses.
- 22% Recovered all losses
- 39% Recovered nothing
- 39% Made a partial recovery

MEDIAN LOSS IN CASES WITH CRIMINAL REFERRAL: $200,000

- Cases referred to law enforcement: 69%
- Cases not referred to law enforcement: 31%

MEDIAN LOSS IN CASES WITH CIVIL SUITS: $241,000

- Civil suit: 35%
- No civil suit: 65%
**METHODOLOGY**

The 2020 *Report to the Nations* is based on the results of the 2019 *Global Fraud Survey*, an online survey opened to 51,608 Certified Fraud Examiners (CFEs) from July 2019 to September 2019. As part of the survey, respondents were asked to provide a narrative description of the single largest occupational fraud case they had investigated since January 2018. Additionally, after completing the survey the first time, respondents were provided the option to submit information about a second case.

Respondents were then presented with 77 questions regarding the particular details of the fraud case, including information about the perpetrator, the victim organization, and the methods of fraud employed, as well as fraud trends in general. (Respondents were not asked to identify the perpetrator or the victim.) We received 7,516 total responses to the survey, 2,504 of which were usable for purposes of our global study. Of those usable responses, 386 involved occupational fraud perpetrated against an organization in the banking and financial services industry; the data contained in this report is based solely on the information provided in these 386 survey responses.

**Analysis Methodology**

**Percentages**
In calculating the percentages discussed throughout this report, we used the total number of complete and relevant responses for the question(s) being analyzed. Specifically, we excluded any blank responses or instances where the participant indicated that they did not know the answer to a question. Consequently, the total number of cases included in each analysis varies.

In addition, several survey questions allowed participants to select more than one answer. Therefore, the sum of percentages in many figures throughout the report exceeds 100%. The sum of percentages in other figures might not be exactly 100% (i.e., it might be 99% or 101%) due to rounding of individual category data.

**Loss Amounts**
All loss amounts are expressed in terms of U.S. dollars, which is how respondents reported this information in the *Global Fraud Survey*. Unless otherwise indicated, all loss amounts discussed throughout the report are calculated using median loss rather than mean, or average, loss. Using median loss provides a more conservative—and we believe more accurate—picture of the typical impact of occupational fraud schemes. Additionally, we excluded loss calculations for categories for which there were fewer than ten responses.

Because the direct losses caused by financial statement frauds are typically spread among numerous stakeholders, obtaining an accurate estimate for this amount is extremely difficult. Consequently, for schemes involving financial statement fraud, we asked survey participants to provide the gross amount of the financial statement misstatement (over- or under-statement) involved in the scheme. All losses reported for financial statement frauds throughout this report are based on those reported amounts.

**Cases submitted were required to meet the following four criteria:**

1. **The case must have involved occupational fraud** (defined as fraud committed by a person against the organization for which they work).
2. **The investigation must have occurred** between January 2018 and the time of survey participation.
3. **The investigation must have been complete** at the time of survey participation.
4. **The respondent must have been reasonably sure** the perpetrator(s) was (were) identified.
ABOUT THE ACFE

Founded in 1988 by Dr. Joseph T. Wells, CFE, CPA, the Association of Certified Fraud Examiners (ACFE) is the world’s largest anti-fraud organization and premier provider of anti-fraud training and education. Together with more than 85,000 members, the ACFE is reducing business fraud worldwide and providing the training and resources needed to fight fraud more effectively. The ACFE provides educational tools and practical solutions for anti-fraud professionals through events, education, publications, networking, and educational tools for colleges and universities.

Certified Fraud Examiners

The ACFE offers its members the opportunity for professional certification with the Certified Fraud Examiner (CFE) credential. The CFE is preferred by businesses and government entities around the world, and indicates expertise in fraud prevention and detection. CFEs are anti-fraud experts who have demonstrated knowledge in four critical areas: Financial Transactions and Fraud Schemes, Law, Investigation, and Fraud Prevention and Deterrence.

Membership

Members of the ACFE include accountants, internal auditors, fraud investigators, law enforcement officers, lawyers, business leaders, risk/compliance professionals, and educators, all of whom have access to expert training, educational tools, and resources. Whether their career is focused exclusively on preventing and detecting fraudulent activities or they just want to learn more about fraud, the ACFE provides the essential tools and resources necessary for anti-fraud professionals to accomplish their objectives.

To learn more, visit ACFE.com or call (800) 245-3321 / +1 (512) 478-9000.

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