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Financial implication of occupational Fraud

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Magnitude of fraud

ACFE report estimates that **fraud** costs the US economy approximately \$652 billion annually or; 5% of their annual revenues (GDP)

AICFE Report to the Nation, June 2006

India GDP touched US\$ 1 Trillion in 2007.!!!



Consequences of Fraud

- Lost confidence in capital markets
- Increase in Lawsuits /bankruptcies
- Lost reputation, employee morale and bad press
- Longer and more expensive audits, special inquiries
- Fines & investigations and legislative activity
- Directors with personal liability, forced resignations
- Loss of Trust for the Brand
- Direct and indirect financial losses from fraud

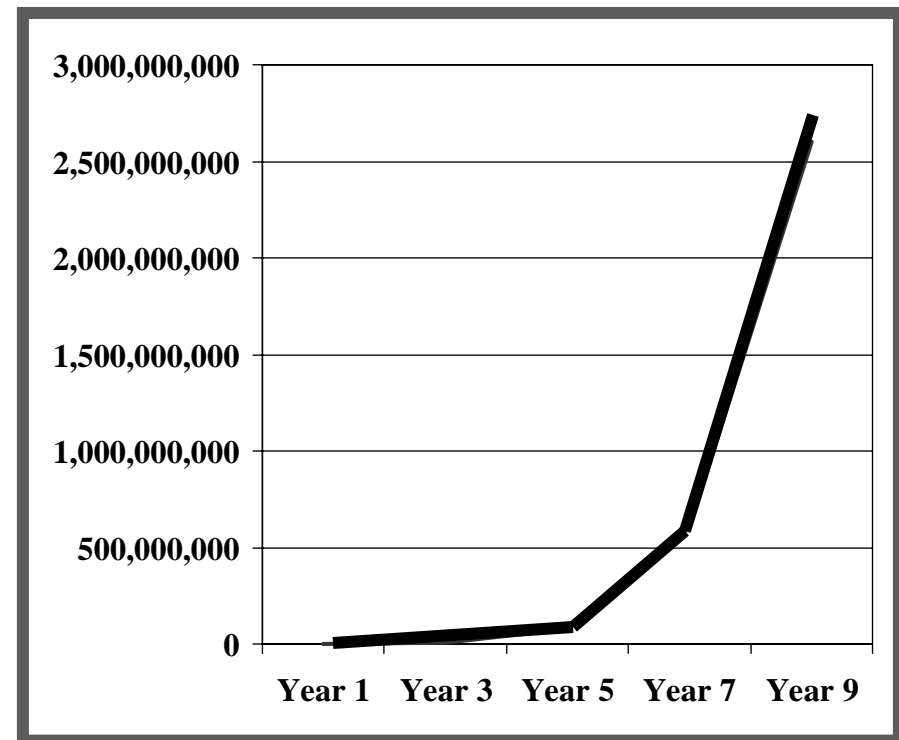
Why fraud against organizations is a costly business problem



Large Fraud of \$2.6 Billion over 9 years

- Year 1 \$600K
- Year 3 \$4 million
- Year 5 \$80 million
- Year 7 \$600 million
- Year 9 \$2.6 billion

In years 8 and 9, four of the world's largest banks were involved and lost over \$500 million



Some of the organizations involved: Merrill Lynch, Chase, J.P. Morgan, Union Bank of Switzerland, Credit Lyonnaise, Sumitomo, and others.

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Why fraud against organizations is a costly business problem



General Motors

- \$436 Million Fraud
- Profit Margin = 10%
- \$4.36 Billion in Revenues Needed
- At \$20,000 per Car, 218,000 Cars

XYZ Bank

- \$100 Million Fraud
- Profit Margin = 10 %
- \$1 Billion in Revenues Needed
- At \$100 per year per Checking Account, 10 Million New Accounts



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Non Financial Fraud

Stolen confidential data / IPR by employees is estimated to cost organisations more than direct financial losses due to fraud.

Largest Bankruptcy Filings (1980 to Present) from BankruptcyData.com



Company	Assets (Billions)	When Filed
1. WorldCom	\$103.9	July 2002
2. Enron	\$63.4	Dec. 2001
3. Conseco	\$61.4	Dec. 2002
4. Texaco	\$35.9	April 1987
5. Financial Corp of America	\$33.9	Sept. 1988
6. Global Crossing	\$30.2	Jan. 2002
7. PG&E	\$29.8	April 2001
8. UAL	\$25.2	Dec. 2002
9. Adelphia	\$21.5	June 2002
10. MCorp	\$20.2	March 1989

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Why is an Organization Susceptible to Fraud



- Financial condition of the organization
- Pressure to present results for investors and general public
- Lax Internal accounting controls
- Integrity level of corporate leaders and employees
- Commitment to organizations value system
- No Reward systems for ethical behavior
- Organizational culture and dynamics
- Peer pressure
- Perception of detection
- Swiftmess, certainty, and severity of punishment



Contributing Factors

- Lack of proper procedures for authorizing transactions
- Inadequate disclosures of personal investments and income
- Lack of transparency / trust
- Bystander attitude
- Maker / checker failure

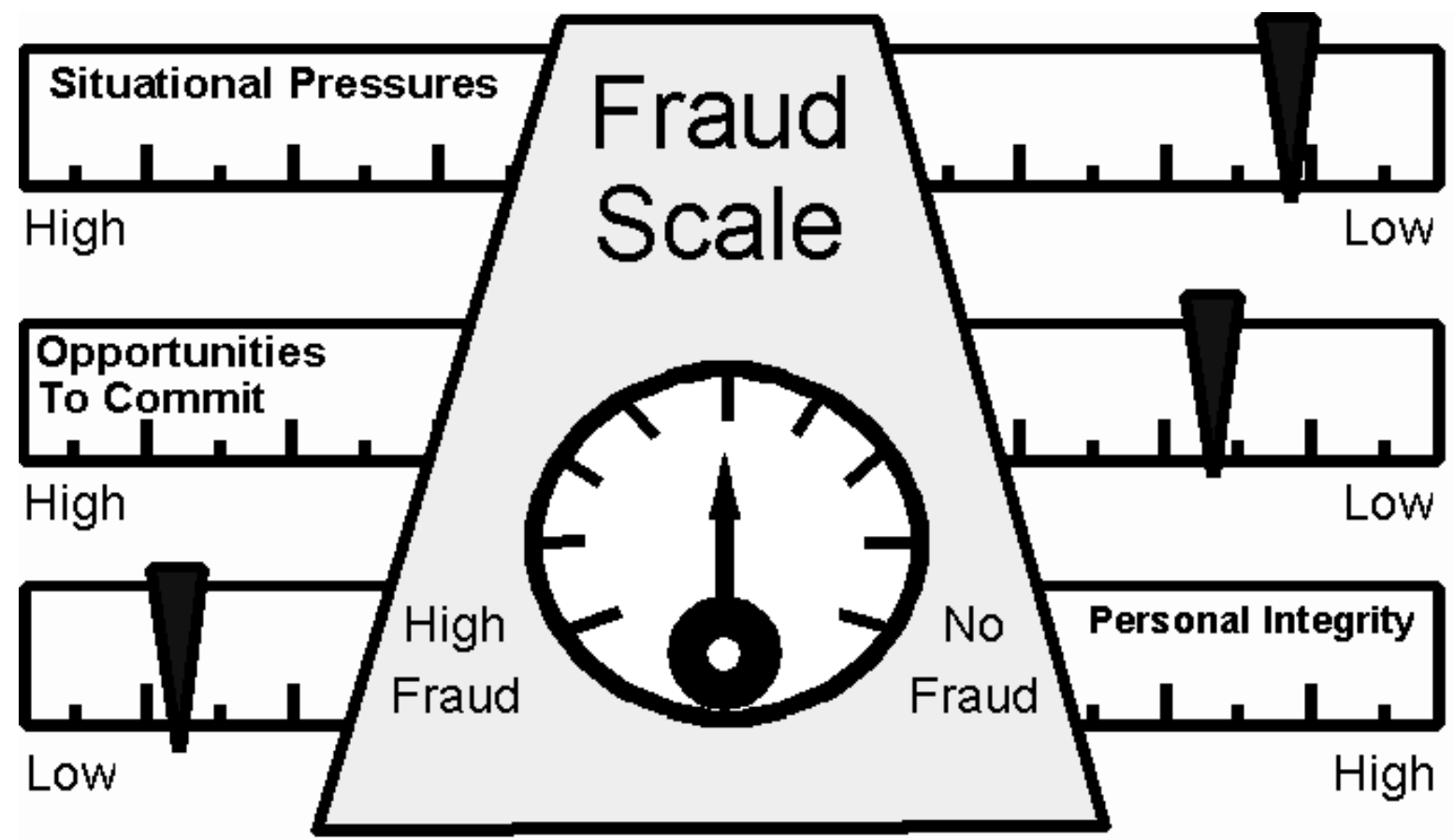


Motivation for occupational fraud

1. Living beyond one's own means due to peer pressure
2. High personal debt
3. Losses in speculation / gambling
4. A feeling of inequality of payment and contribution to employer
5. Strong challenge to beat the system



The Fraud Scale



Albrecht, Howe, Romney, "Deterring Fraud: The Internal Auditor's Perspective," p6