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White-collar clampdown

19 June 2005 By Louise McBride

Organised criminals are behind a quarter of white-collar crime, according to a report published last week. The report by business advisers and accountants, RSM Robson Rhodes and the Dublin Chamber of Commerce, found that the average major Irish company lost about €450,000 to white collar crime last year.

White collar crime includes bribery and corruption, embezzlement, cheque and credit card fraud, corporate identity theft, insurance fraud, false accounting and tax fraud.

Money laundering, generally the realm of serious criminals, is increasing across businesses, the report says.



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Some businesses cited as particularly prone to money-laundering were financial institutions, retailers of high-value goods and companies that award construction contracts.

Financial institutions, such as banks and building societies, are often used to launder the proceeds of white collar crimes, according to Patrick D'Arcy, senior manager of forensic services with RSM Robson Rhodes. "Anywhere there's an ability to place, layer and integrate the proceeds of white collar crimes is open to abuse," said D'Arcy.

D'Arcy, who previously worked on money laundering and criminal investigations with the Garda fraud squad, said that mortgages could often be used by criminals as a front for money laundering.

"In my own experience, mortgages have been identified as a tool for money laundering," he said. "For example, the documentation used to support some mortgage applications can be spurious and obtained on a fraudulent or forged basis."

Businesses can also be vulnerable to money laundering when awarding contracts, according to Ian Burns, business development partner with RSM Robson Rhodes. "When businesses advertise various jobs and assignments for tender, there are potentially bogus companies out there set up for the purpose of money-laundering who are prepared to underbid on contracts," said Burns.

"Companies should not just take the business applying for the tender at face value. They have to take due care and attention to ensure every contract they receive is bona fide."

Cost

In Britain, about stg£25 billion (€38 billion) of economic activity is lost to money



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laundering each year, according to Peter Oakes, a partner with Compliance Ireland, which specialises in financial services regulation consulting and training.

Oakes formerly worked as an enforcement lawyer and investigator with the British financial regulator, the Financial Services Authority (FSA). "Putting this into the Irish perspective, about €6.3 billion of economic activity is lost to money laundering a year," said Oakes.

Last week's report by RSM found that, in total, Irish companies lost about €2 billion to white collar crime in 2004.

The equivalent cost for each taxpayer is about €1,000 a year, according to RSM.

This cost could be even higher as it only highlights known losses to businesses.

Furthermore, about half of the companies surveyed in the report expected white collar crime to increase over the next three years.

The report found that the most common types of white collar crime were embezzlement, employee collusion and cheque and credit card fraud.

Other 'employee perpetrated' crimes, such as bribery and corruption, also ranked highly.

Identity theft

The RSM report found that 10 per cent of companies had been victims of corporate identity theft in the last year.

With corporate identity theft, a company's name or brand is stolen through counterfeit products and web services posing as official sites.

"When businesses move offices, often the buildings are left vacant and there's a build up of post and financial material," said D'Arcy.

"It's quite easy for a fraudster to come along and use this information to portray himself as a legitimate enterprise which he then uses to conduct nefarious or money-laundering activities."

For example, access to company documentation helps criminals to create forged bank drafts and cheques which they can then use to try to pay suppliers. Most of the major banks have already been affected by 'phishing' - an attempt to obtain the personal details of customers and clients through e-mail.

Posing as legitimate banks, criminal gangs use phishing to try to convince clients to divulge confidential information, such as credit card numbers, account numbers and personal identification numbers (PINs). Once the gang gets this information, it attempts to transfer money out of the customer's account to offshore destinations.

"These phishing scams are exceptionally devious," said Oakes. "The e-mail appears to come from your bank, and the bogus website into which you input your details often looks and feels the same as the real website."

Responsibility

Recent developments in legislation have increased the pressure on businesses to combat fraud and crime within their company. For example, company auditors must now port all white collar crime to the Garda. Similarly, under the Criminal Justice (Terrorist Offences) Act 2005, regulated businesses must report suspicions of terrorist funding to the Garda and Revenue Commissioners.

This means that if businesses suspect that a client is either collecting funds for a terrorist group or a terrorist activity, they must report it.

Otherwise, the business could be also found guilty of the offence.

"Criminal and corporate law are now merging closer and closer together," said D'Arcy. "Business people have been arrested where they would never have considered themselves to be within the criminal law jurisdiction."

The RSM survey of the Top 1,000 Irish businesses and members companies of the Dublin Chamber of Commerce found that many boards were unaware of the extent and the cost of white collar crime. Less than one third of companies informed regulators of white collar crime.

"Our survey has identified a 'heads in the sand' attitude when it comes to the threats of white collar crime," said D'Arcy.

"However, if left unchecked, there can be serious consequences. Ireland's best known criminals started off with credit card and cheque fraud."

Speaking at the launch of the report, justice minister Michael McDowell said: "The fiction that white collar crime is a victimless crime must be overcome; the negative effects of this crime are actually suffered by everyone in the state."

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