



CORLYTICS

The Corlytics Barometer - The economic crime landscape



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Methodology

Corlytics is the world's most comprehensive regulatory risk intelligence provider. Our forensic analysis and forecasting of global enforcement cases and notices sees Corlytics deliver 360-degree intelligence. Our team is made up of leading data scientists, seasoned technologists, proven banking risk practitioners and expert lawyers. We measure, calculate and predict regulatory outcomes and impact. Empowering you to make transformational, positive choices.

Corlytics has undertaken a study into the enforcement impact of economic crime in financially regulated markets globally by regulators in US, Europe and Asia.

To do this, we analysed economic crime related regulatory fines in the past five years, from January 2012 to June 2017. We did this both for financially regulated firms and for individuals. Using the Corlytics ontology, we have broken economic crime down into six main categories:

Economic Crime - categories

Economic Crime	Fraud	AML/BSA Rules	Sanctions	Tax Evasion	Bribery	Mis-appropriation
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For the purposes of clarity, fines include financial penalties, restitutions and disgorgements mandated by regulators. It does not include class actions, or intercompany litigation. In the case of individuals, we also examine all non-financial penalties.

Executive summary

Corlytics data illustrates that the total value of fines levied across the period is over \$38.4 billion USD. With almost 97 percent of these fines being issued by US regulators. Although the number of fines have increased over the last 12 months, the average value of each fine has decreased. This is due in some part to a few very large fines issued by the US regulators (mainly the Office of Foreign Assets Control) in 2014. These were mainly for sanctions and Anti-Money Laundering and Banking Secrecy Act (AML/BSA) breaches.

CATEGORY	Total fine values in \$USD	%US
Fraud	\$ 4,431,481,043	97.91%
AML/BSA	\$ 8,030,020,159	94.49%
Sanctions	\$13,514,603,697	100.00%
Tax Evasion	\$ 2,876,820,631	100.00%
Bribery	\$ 7,758,314,764	90.63%
Misppropriation	\$ 1,861,768,102	99.78%

Table 1 overview of economic crime fines by regulatory category

#1. US regulators getting tough with non-US banks

Corlytics uncovered a significant finding for banks operating outside of their originating jurisdiction. UK, French, German and Swiss banks with branches in the US have paid almost 40 percent of the fines related to economic crime in the US.

#2. It is getting personal

Economic crime involves serious criminal acts committed both by senior individuals at institutions and the institutions themselves. Many regulators have focused on infringements by regulated individuals at firms, rather than just the firms themselves. This is especially true of European and Asian regulators. Enforcement involving criminal convictions, and imprisonment for individuals, is very much on the increase in the UK, Hong Kong and Australia.

#3. Criminal cost

There is an emerging hierarchy of financial penalties for firms by regulatory category. Globally, crimes involving sanctions accounted for more than \$1.77 USD in every \$5 USD fined. This equated to over \$13.5 billion USD for the period. It's notable that this has decreased from \$2 USD in every \$5 USD if we examine data since 2009, indicating that sanctions violations may be beginning to come under control.

Sanctions was followed by AML/BSA at \$8 billion USD, bribery at \$7.7 billion USD, fraud at \$4.4 billion USD, tax evasion at \$2.8 billion USD, and misappropriation at \$1.8 billion USD.

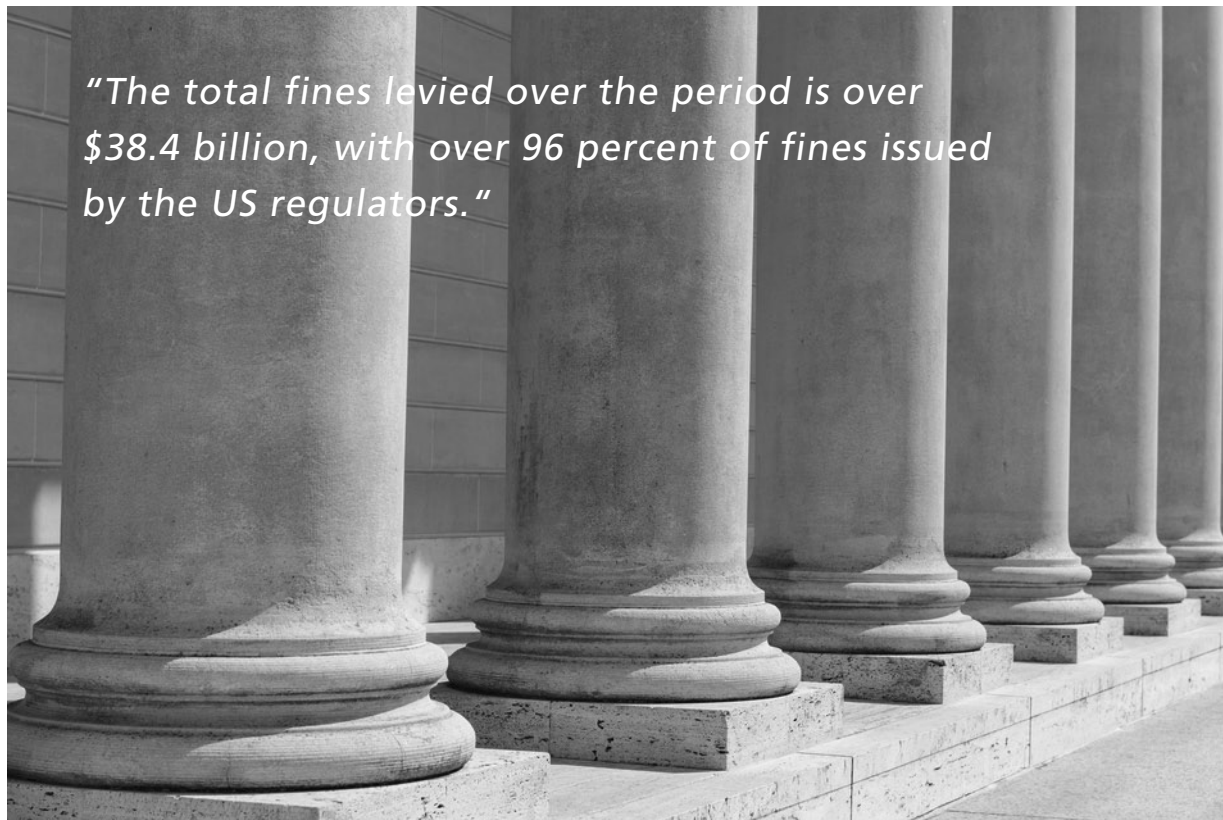
#4. Cyber indications

While cyber fraud has been an important part of economic crime, and there are several pending cases with regulators, there have been few associated fines in this period. However, we may expect to see this trend change for two reasons: 1. The introduction of the cybersecurity regulations by the New York Department of Financial Services regulator which came into effect in March of this year, and 2. The introduction of the GDPR regulations which come into effect in May 2018.

Detailed analysis

All firms in the financial services industry are affected by economic crime. They acknowledge economic crime as a significant financial risk to business. The data and analysis presented beneath is taken from published enforcement notices by regulators globally and published settlement proceedings by the courts or relevant authorities. This report covers corporate and individual penalties and sanctions for economic crime:

- From January 2012 to June 2017
- For all the main regulators and fining authorities in the US, Europe and Asia
- Identifying the banks by origin (relevant to US fines)
- Identifying consequences for individuals including prison sentences



Overview of penalties by regulator & fining authority: for firms

Beneath we can see the levels of fines levied by major regulators. It is interesting to note that while the New York Department of Financial Services (NYDFS) is a state, rather than federal regulator, its fines for economic crime are the second highest in the world. Indeed, its average fines are the highest in the world.

US

Regulator	No. Enforcement notices	Total fine values \$USD
US Department of Justice	34	\$21,882,413,661
New York Department of Financial Services	16	\$6,921,400,000
Commodity Futures Trading Commission	331	\$2,969,333,491
Securities and Exchange Commission	185	\$2,499,377,717
Board of Governors of the Federal Reserve System	13	\$1,442,932,500
US Dept. of Treasury Office of Foreign Assets Control	96	\$780,588,426
The Financial Crimes Enforcement Network	3	\$47,500,000

EU & UK:

Regulator	No. Enforcement notices	Total fine values \$USD
Serious Fraud Office	7	\$4704139
Financial Conduct Authority	21	\$7,383,177,15

Rest of World:

Regulator	No. Enforcement notices	Total fine values \$USD
Monetary Authority of Singapore	10	\$327,525
Securities and Futures Commission of Hong Kong	39	\$22,161,777
Australian Securities and Investments Commission	163	

Table 2: Economic crime - number & value of fines to firms by regulators/fining authorities



Overview of penalties by regulator & fining authority: for individuals

Sticking with US regulators, the Commodity Futures Trading Commission (CFTC) has the highest fines levied against individuals globally. Accounting for over \$422 million USD over the period. Interestingly, for fines against individuals, the average size of a fine for an individual is over \$6 million USD.

In the UK, regulators prefer a different tack. Frequently demanding lengthy prison sentences for fraud that have associated confiscation orders. In the US, for senior individuals, settlements for economic crime frequently involve disgorgements (confiscation of assets gained) together with life-time bans from the industry.

The Australian Securities and Investments Commission (ASIC) levies more individual fines than any other regulator globally, but the amount of these fines at an average of just over \$15,000 USD pales into insignificance when compared to the CFTC fines. The Securities and Futures Commission of Hong Kong (HK SFC) is also beginning to sharpen its claws with two huge fines against individuals in the past 10 months, one with a value of over \$10 million USD and another with a value of over \$11 million USD.

US:

REGULATOR	No. Enforcement notices	Total fine values \$USD
CFTC	61	\$422,704,113.77
SEC	43	\$25,636,535.93
OFAC	1	\$29,340

EU & UK:

REGULATOR	No. Enforcement notices	Total fine values \$USD
SFO	7	\$4,704,139
FCA	21	\$7,383,177,15

Rest of World:

REGULATOR	No. Enforcement notices	Total fine values \$USD
MAS	10	\$327,525.44
HKSFC	39	\$22,161,777
ASIC	163	\$2,574,884

Table 3: Economic crime - Number & value of fines to individuals by regulators/fining authorities



Overview of penalties by jurisdiction

We have picked up different geographic behaviours from the regulators. In Australia, the UK and Hong Kong the enforcement activity is more focused on individuals. There have been 228 individual cases in total in these territories, versus 29 cases against firms.

Although the US has brought the most cases against individuals to date – in the period, there were 110 individual cases - the focus remains on fining firms, with 444 actions brought during the same period.

The average fine level for firms were higher than individuals, with every regulator, except in Australia.

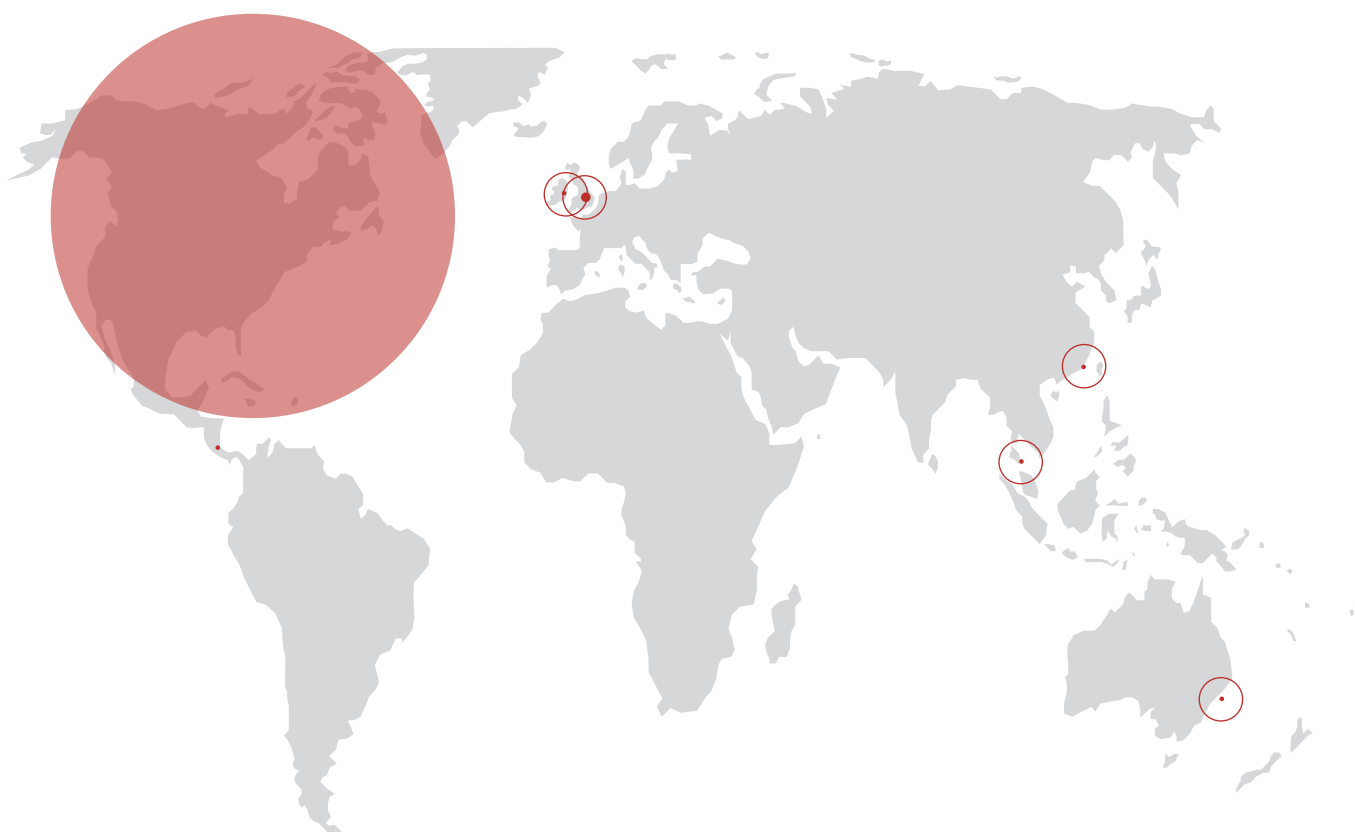


Fig 1: Economic crime - Fines for firms & individuals by jurisdiction

Jurisdiction	Firm Fine Amount \$USD	Firm Fine No	Individual Fine Amount \$USD	Ind. Fine No
United States	\$35,645,780,214	444	\$448,374,990	110
United Kingdom	\$1,254,011,170	15	\$11,504,020	26
Mexico	\$30,845,645	2	0	0
Singapore	\$21,979,230	8	\$327,525	10
Ireland	\$13,146,991	9	0	0
Hong Kong	\$4,331,040	7	\$22,045,767	39
Australia	\$94,678	7	\$2,616,909	163

Table 4: Economic crime - Number & value of fines for firms & individuals by jurisdiction

"The United States is at the fore of punishing economic crime with fines. Responsible for almost 97 percent of total fines by value over the period."

The United States is at the fore of punishing economic crime with fines. Responsible for almost 97 percent of total fines by value over the period. The most frequent violations were in Anti-Money Laundering or Bank Secrecy Act rules, with cases in all jurisdictions, except Australia. Australian regulators covered mostly fraud, the UK mainly covered fraud and bribery.

United States covered all six financial crime types, with sanctions violations accounting for 40 percent, followed by fraud at 36 percent, and both Anti-Money Laundering or Bank Secrecy Act and tax evasion at roughly 10 percent each by value.

Overview of penalties by bank origin

Corlytics uncovered a significant finding for banks operating outside of their originating jurisdiction. French, German and Swiss banks with branches in the US have paid almost 35% percent of the fines related to economic crime in the US.

In fact, the top 10 European banks have paid \$13.25 billion USD in fines to US regulators since 2012. This means that since 2012, 10 European banks have paid 40% of all fines to US regulators.

The average value of each fine is approaching \$0.5 billion USD per fine; over 10 times the average that US firms pay to US regulators.

Top 10 EU Banks - Enforcement from US regulators

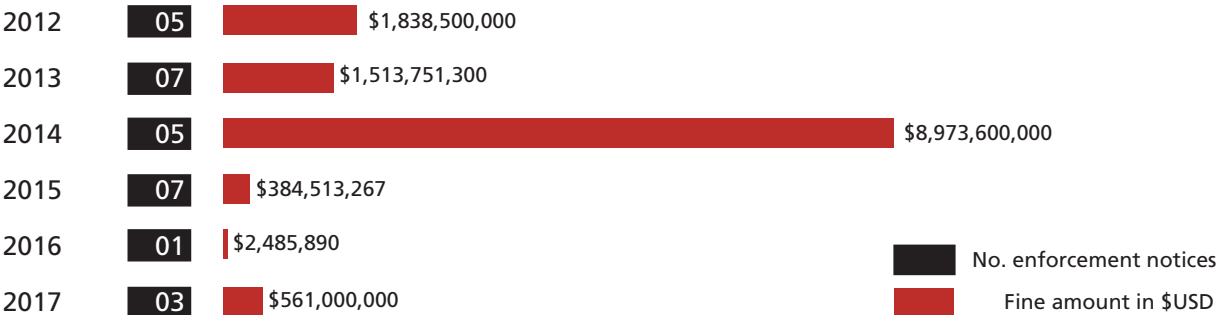


Fig 2: Economic crime - Enforcement from US regulators



Overview of firm penalties by regulatory category

Sanction violations were aggressively targeted in 2014. Making up over \$8 billion USD in fines that year. Sanctions, standing at \$13.5 billion USD in total was followed by AML/BSA at \$8 billion USD, bribery at \$7.7 billion USD, fraud at \$4.4 billion USD, tax evasion at \$2.8 billion USD, and misappropriation and \$1.8 billion USD.

SANCTIONS	H1	\$USD	H2	\$USD
2017		\$92,787,125		
2016		\$3,047,894		\$16,345,690
2015		\$1,541,649,435		\$590,022,610
2014		\$4,708,360,975		\$3,930,112,957
2103		\$231,535,066		0
2012		\$565,191,687		\$1,835,184,329

BRIBERY	H1	\$USD	H2	\$USD
2017		\$940,292,490		
2016		\$425,347,490		\$6,165,283,951
2015		\$14,772,407		\$41,620,736
2014		\$2,451,751		0
2103		0		\$168,335,870
2012		0		0

FRAUD	H1	\$USD	H2	\$USD
2017		\$537,171,349		
2016		\$382,187,677		\$164,333,604
2015		\$1,811,003,418		\$100,211,063
2014		\$218,458,578		\$183,386,049
2103		\$152,922,488		\$250,716,030
2012		\$468,960,856		\$162,009,938

TAX EVASION	H1	\$USD	H2	\$USD
2017		\$86,478,500		
2016		0		0
2015		\$16,209,712		\$28,242,967
2014		\$2,292,580,888		\$364,120,000
2103		\$67,407,715		\$21,702,955
2012		0		0

AML/BSA	H1	\$USD	H2	\$USD
2017		\$1,161,260,022		
2016		\$10,327,799		\$232,068,123
2015		\$798,085,029		\$230,573,634
2014		\$1,877,592,360		\$275,159,476
2103		\$15,152,963		\$1,314,740,646
2012		\$13,595,067		\$2,101,247,614

MIS-APPROPRIATION	H1	\$USD	H2	\$USD
2017		\$4,371,770		
2016		\$16,063,869		\$14,205,127
2015		\$61,960,621		\$79,635,944
2014		\$46,919,920		\$672,682,331
2103		\$148,180,592		\$736,503,404
2012		\$31,939,092		\$49,255,017

Table 5: overview of firm penalties by regulatory category

"European banks with a presence in North America need to be extremely careful to ensure that they comply. There is evidence to suggest that they will be treated harshly if they do not."

Conclusions

What's most noticeable across all regulatory categories is the extent to which large fines have decreased across regulatory categories over the period. Regulators are beginning to indicate that they are satisfied that financial institutions seem to be addressing Economic Crime and may have moved their focus to other Regulatory Categories for the time being.

However, this does not mean that regulatory scrutiny won't return to this area in the future. Large European financial institutions with a presence in North America need to be extremely careful to ensure that they comply in the area of economic crime. There is clear evidence to suggest that they will be treated harshly if they do not.

Finally, it also looks like regulators are beginning to take a closer look at the senior managers who preside over compliance issues. This suggests increased penalties, both financial and non-financial, ensuring that senior managers of large financial institutions need to be in full control of the institution's compliance posture.

In relation to financial crime, the future area that organisations need to be most aware of is cyber security. The NYDFS regulations have come into effect and this regulator, even though it's a state regulator rather than a Federal one, has been known to penalise heavily when its regulations are breached. Financial institutions need to ensure that they fully understand their risk exposures in this area.

"... regulators are beginning to take a closer look at the senior managers who preside over compliance issues. This suggests increased penalties, both financial and non-financial,"

About Corlytics

Corlytics is the world leader in regulatory risk intelligence

Working in partnership with regulators and eminent financial institutions globally, We will enable a more transparent and stable financial system through greater regulatory compliance. By delivering world class regulatory risk data and analytics, we empower our partners to make transformational, informed, positive choices. Corlytics operates as a trusted strategic partner to banks and financial institutions globally.

We are at the very fore of regulatory intelligence revolution. Our forensic analysis and forecasting of fines and sentencing globally by four different professions – leading data scientists, seasoned technologists, proven banking risk practitioners and expert lawyers. We measure, predict and calculate regulatory outcomes and impact. Empowering you to make transformational, positive choices.

Set up in 2013, the Corlytics team has understood from the beginning that to restore trust and build transparency in global finance system, intelligence needs to be developed for multiple players. Data needs to be understood by different departments within financial houses. The lawyers in compliance and the mathematicians in risk. The market and the regulators need the same view.

We translate our global metadata into a common, workable picture. Regulators can learn from one another in different jurisdictions. Financial houses can visualise their risk and model their exposure.

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