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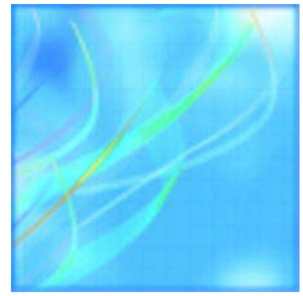
Fraud Against Businesses in Canada: Results from a National Survey



by Andrea Taylor-Butts and Samuel Perreault

2007/2008

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by Andrea Taylor-Butts and Samuel Perreault

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User information

Symbols

The following standard symbols are used in Statistics Canada publications:

.	not available for any reference period
..	not available for a specific reference period
...	not applicable
0	true zero or a value rounded to zero
0s	value rounded to 0 (zero) where there is a meaningful distinction between true zero and the value that was rounded
p	preliminary
r	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
E	use with caution
F	too unreliable to be published

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Introduction

Fraudulent acts against businesses in Canada can result in substantial losses to those directly affected by the crime, but these crimes can also have an impact on all Canadians who rely on the products and services the businesses provide.

Globalization, technological advances and widespread use of technology, along with the increasing sophistication of certain criminal activities have meant that in Canada, as in many other countries, fraud has become a growing priority (Statistics Canada, 2006). Until now, official statistics on business fraud in Canada, collected through the Uniform Crime Reporting Survey, have been limited in that they only reflect incidents of fraud that come to the attention of police. Other data sources on business fraud are often limited in terms of their representativeness, their comparability across businesses or the scope of the information collected. For more information on these issues, please see *A Feasibility Report on Improving the Measurement of Fraud inCanada, 2005* by Statistics Canada (2006).

To address some key gaps in data on business fraud in Canada, Statistics Canada conducted the Survey of Fraud Against Businesses (SFAB) for the first time in 2008. Focusing on businesses in the retail, banking and insurance industries, the SFAB seeks to provide data and information that will assist in building a standard, more comprehensive picture of the prevalence and characteristics of business fraud in Canada.

This report examines the first available data from this new national survey. It provides an overview of the findings from the SFAB, presenting national-level information for the retail, banking and the health and property insurance[1] sur industries on issues such as: the prevalence and types of fraud experienced, how businesses respond to incidents of fraud, the monetary and non-monetary costs of fraud and fraud detection and prevention practices.

Information from the SFAB is presented for **individual business establishments** and not for head offices or corporate head quarters.[2] For approximately 90% of the sample, information was collected from individual business establishments directly. For the remainder, information was collected from head offices representing multiple establishments, and then broken down to the level of single establishments.

1. Business establishments from the health and property insurance industries are also referred to collectively as ‘insurance establishments’ throughout this report.
2. For example, in the retail sector, a retail chain may have stores in a number of locations. Information for each of these individual retail locations is presented separately and not for the chain as a whole.

Text box 1

Defining fraud on the Survey of Fraud Against Businesses Survey

Fraud: An act whereby an individual or group of individuals by deceit, falsehood or other fraudulent means, defrauds the public or any person or business, of any property, money, valuable security, or service. For the purpose of the SFAB, fraud includes such acts committed against a business by employees or others. Direct theft where no deceit is involved is not considered fraud.

Types of fraud

Advance fee schemes: An offer of future benefit to the business that requires an 'upfront' fee and where the perpetrator has no intention of fulfilling the offer.

Asset misappropriation: The acquisition through fraudulent means of company assets, including monetary assets, cash, supplies or equipment, by company directors, others in positions of financial responsibility or employees for their own benefit; includes embezzlement by employees.

Counterfeit money: Incidents of fraud involving false bank notes or currency.

False billing: The receipt of bills for products or services that were misrepresented by the seller, or incidents where the products were either never ordered or received (e.g. paper, toner, business directories, etc.); also known as 'misleading representation'.

Financial misrepresentation: The alteration or presentation of company accounts so that they do not reflect the true value or financial activities of the company.

Fraudulent use of cheques: The intentional use of cheques with insufficient funds or the use of stolen, counterfeit or altered cheques; this includes cheques with forged signatures or false endorsements. Counterfeit cheques are those purporting to be issued by a legitimate account holder where the account holder did not write or authorize the cheque. Counterfeit cheques are often complete replicas of an authentic cheque using a variety of printing methods. Altered items are cheques, drafts or money orders with an altered date, payee or amount.

Fraudulent use of credit cards and bank/debit cards: The use of credit cards or bank/debit cards acquired through theft, theft of identity or personal information or through counterfeiting, to obtain cash, goods or services.

Insurance claim fraud: Incidents of insurance claims that have been investigated either internally or by police and have evidence of being false or inflated.

Mortgage fraud: The deliberate use of false, misleading or fraudulent information to secure a mortgage from a lender.

Other fraud as a result of identity theft/impersonation: All incidents, other than credit card, bank/debit card and cheque fraud, whereby stolen personal information and false documentation is used to impersonate another individual in order to obtain credit, access to funds or any other service.

Return fraud: The return of stolen merchandise or the return of merchandise using counterfeit receipts to obtain a monetary refund.

Worthless deposits (Automatic bank teller machines): Items deposited that are later returned due to empty envelopes.

Text box 2

The sample for the Survey of Fraud Against Businesses

The Survey of Fraud Against Businesses (SFAB) collected data from selected establishments and head offices from the retail, banking and the health and property insurance industries. A representative sample of business establishments and head offices was randomly selected from those listed on Statistics Canada's Business Register, based on industry, establishment size and geography (province/territories).

Breakdown of the Survey of Fraud Against Businesses sample by industry

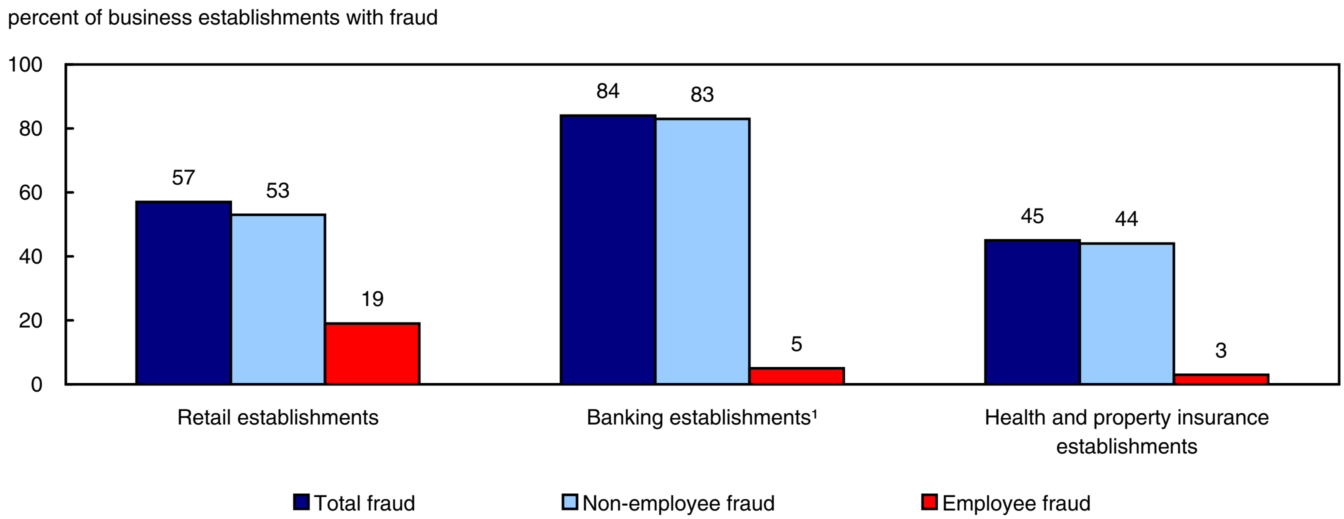
	Establishments/head offices	Response rate
	number	percent
Retail industry	6,182	57
Banking industry	1,069	64
Health insurance industry	84	50
Property insurance industry	262	48
Total	**7,597**	**57**

Findings

About half of retail and insurance business establishments experienced some type of fraud in the previous year[1]

In all, about half of retail and insurance business establishments experienced some type of fraud in the 12-month fiscal period preceding the survey.[2] Specifically, 57% of retailers and 45%[3] of insurance establishments had suffered some type of fraudulent activity in the previous fiscal year (Chart 1). Similar patterns in prevalence were found among small (5 to 19 employees), medium (20 to 49 employees) and large (50 or more employees) establishments, alike.

Chart 1
Most frauds against business establishments are committed by individuals other than employees, Canada, 2008



1. Information on the number and types of fraud incidents experienced in the previous 12-month period was available for about 29% of individual banking establishments. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.

Source(s): Statistics Canada, Survey of Fraud Against Businesses, 2007/2008.

For the banking industry, information on the number and types of fraud incidents experienced in the previous 12-month period was available for about 29% of individual establishments and thus, was unavailable for a significant proportion (71%) of banking institutions in Canada. Most of those establishments for which fraud information was not available were part of the larger banking institutions in the country.

However, among the individual banking establishments that did provide information on fraud experienced in the previous 12 months, about 84% were the victims of fraudulent activity during that time-period (Chart 1).

Frauds committed by individuals other than employees were more likely to strike business establishments (47%) than employee-perpetrated frauds (15%) such as embezzlement. In particular, about 53% of individual retailers, 44% of individual insurance establishments and 83% of individual banking establishments[4] had fallen

1. 'Year' refers to a 12-month fiscal period, here and throughout the report.
2. Unless otherwise stated, fraud or fraudulent activities include only real or actual incidents of fraud and do not include attempted or suspected frauds.
3. Use this figure with caution; CV greater than 25%; see the 'Data sources and methodology' section for more information.
4. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.

victim to non-employee frauds during the previous year, while less prevalent employee frauds were experienced by about 19% of retail establishments, 3% of insurance establishments and 5% of banks[5] (Chart 1).

Text box 3

Industries included on the Survey of Fraud Against Businesses

Industry groupings for businesses were based on the North American Industry Classification System (NAICS), outlined below.

Retail industry: Retail businesses included on the SFAB were drawn from establishments coded under the 'Retail Trade' category of the NAICS. The retail trade sector comprises establishments primarily engaged in retailing merchandise, generally without transformation and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are therefore organized to sell merchandise in small quantities to the general public.

Specifically, the following sub-sectors of the retail industry are included on the SFAB:

- Furniture and Home Furnishings Stores (NAICS 442)
- Electronics and Appliance Stores (NAICS 443)
- Building Material and Garden Equipment and Supplies Dealers (NAICS 444)
- Health and Personal Care Stores (NAICS 446)
- Clothing and Clothing Accessories Stores (NAICS 448)
- General Merchandise Stores (NAICS 452)
- Office Supplies, Stationery and Gift Stores (NAICS 4532)

Banking industry: Banking industry on the SFAB refers to the NAICS classification entitled 'Depository Credit Intermediation' (NAICS 5221). This industry group comprises establishments primarily engaged in accepting deposits and lending funds. Deposits are the principal source of funds loaned.

Examples of establishments in this industry group are chartered banks, trust companies and deposit-accepting mortgage companies that are primarily engaged in accepting deposits and issuing loans. This industry group also includes local credit unions and caisses populaires primarily engaged in accepting deposits from, and issuing loans to, members.

Insurance industry: The SFAB surveyed individual insurance establishments that fall into two broad categories, 1) health and disability insurance companies, and 2) property and liability insurance companies, as defined by the following NAICS classifications:

'Direct Life, Health and Medical Insurance Carriers' (NAICS 52411): Establishments primarily engaged in underwriting annuities and life insurance, accidental death and dismemberment insurance, disability income insurance and insurance for hospital, medical, dental, vision and other health services, directly to policyholders.

'Direct Insurance (except Life, Health and Medical) Carriers' (NAICS 52412): Establishments primarily engaged in underwriting all types of insurance (other than life, health or medical), directly to policyholders. Examples of establishments in this industry are automobile, property and liability insurance carriers.

The most common types of fraud vary from industry to industry

Frauds perpetrated against businesses assume a variety of forms, from the use of fake or fraudulently obtained credit cards or debit cards to mortgage fraud and false insurance claims.

5. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.

Given the differences in the nature and functioning of businesses across various industries, certain types of fraud will, necessarily, be more or less prevalent within certain industrial sectors. For example, unlike in the insurance industry, the retail and banking industries experience high volumes of cash transactions, thus making incidents of fraud involving counterfeit money a potential problem for establishments in these latter two industries. Similarly, return fraud is likely to be particular to the retail industry, mortgage fraud to the banking industry and claims fraud to the insurance industry.

Fraudulent returns the most common frauds committed against retail business establishments

In 2008, return fraud was the most common type of fraud reported by retail business establishments, making up almost one-third (32%) of all fraudulent incidents perpetrated against retailers by employees and non-employees, according to the SFAB (Table 1). Next most frequent were credit card frauds and the use of counterfeit money, each accounting for 15% of retail fraud in 2008. Incidents where employees fraudulently acquired monetary or other assets from the company were the most prevalent type of employee fraud, representing 14% of all frauds reported by individual retail establishments in 2008.

Table 1
Selected types of fraud committed against retail, banking and insurance business establishments, Canada, 2008

	Frauds
	percent
Industry	
Retail	
Total non-employee fraud	**81.2**
Return fraud	32.1
Fraudulent uses of credit cards	15.2
Counterfeit money	15.0
Fraudulent uses of cheques	8.0
False identify	3.1
False billing	2.2
False information	1.7
Non-employee other fraud	1.4
Fraudulent uses of private label cards	1.3
Fraudulent uses of debit cards	1.3
Total employee fraud	**18.8**
Asset misappropriation	14.4
Other economically related fraud	3.2
Improper claims on expense accounts	0.6 E
Financial misrepresentation	0.6
Banking [1]	
Total non-employee fraud	**99.9**
Fraudulent uses of debit cards	49.8
Fraudulent uses of cheques	29.1
Worthless deposits	9.9
Counterfeit money	6.2
Fraudulent uses of credit cards	1.2 E
False identify	0.9 E
Non-employee other fraud	0.6
Other loan fraud	F
False billing	F
Mortgage fraud	F
Total employee fraud	**0.1**
Asset misappropriation	0.1 E
Improper claims on expense accounts	F
Financial misrepresentation	F
Other economically related fraud	0.0
Health and property insurance	
Total non-employee fraud	**98.7**
Insurance claim fraud	77.0
Total other non-employee fraud	21.7 E
Advanced fee schemes	F
False billing	17.3 E
Other fraud	F
Total employee fraud	**1.3** E
Asset misappropriation	0.7 E
Improper claims on expense accounts	F
Financial misrepresentation	F
Other economically related fraud	F

1. About 29% of individual banking establishments were able to provide information on the number and types of fraud incidents experienced in the previous 12-month period; this information was unavailable for the remaining 71% of banking establishments.

Source(s): Statistics Canada, Survey of Fraud Against Businesses, 2007/2008.

Debit card fraud the most prevalent type of fraudulent activity affecting banking establishments[6]

Among the individual banking establishments able to provide information on fraud experienced in the previous 12 months, debit card fraud was more common than any other type of fraud. The fraudulent use of debit cards accounted for half of all banking frauds reported to the SFAB and together with cheque fraud (29%[7]) and worthless deposits to automatic tellers (10%) accounted for nearly 90% of the frauds committed against these banking establishments (Table 1).

False or inflated claims made up more than three-quarters of frauds committed against individual insurance establishments

More than three-quarters (77%) of fraud against individual insurance establishments involved false or inflated claims. Of the remaining incidents, most involved false billing schemes or other types of non-employee fraud against property insurance establishments (Table 1).[8]

Fraudsters typically carry out their crimes in person

Whether it is in person, by telephone, post, fax, email or through the Internet, fraudsters can utilize various methods to execute their crime. When questioned about the most common methods used to perpetrate acts of fraud, overall, nearly two-thirds (63%) of establishments reported that 'in-person' methods were the most common means used to carry out the frauds committed against them.[9]

Specifically, 7 in 10 individual retail establishments and about half (52%) of banking establishments[10] that had experienced fraud or were the victims of an attempted fraud in the past year, indicated that these fraudulent acts were most often carried out 'in-person' by those committing the fraud.

Still, there were some noteworthy variations by industry in the most frequently used means for executing business frauds. For example, unlike business establishments in the retail and banking sectors, insurance establishments reported that regular mail (32%) was the most common method used to defraud their establishments. Also, in addition to in-person frauds, a notable proportion of individual banks reported that the Internet (23%) and email (17%) were the top methods utilized in acts of fraud they had experienced.[11]

Nearly half of retailers and insurance establishments never or rarely contact police when fraud detected

Previous research suggests that fraud, like many crimes, is under-reported (Statistics Canada, 2006; PricewaterhouseCoopers, 2005; Smith, 1999). Findings from the SFAB lend further support to this assertion, particularly for businesses in the retail and insurance industries. While it was the case for 4% of banking establishments, nearly half of retail and insurance establishments (regardless of whether or not they had experienced fraud in the previous 12-month fiscal period), said that in general, they never or only rarely notify law enforcement in cases of fraud. Therefore, official police-reported statistics likely under-estimate criminal frauds against these types of businesses.

6. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.
7. Use this figure with caution; CV greater than 25%; see the 'Data sources and methodology' section for more information.
8. Incidents of false billing and other types of non-employee fraud were reported solely among property insurance establishments. False claims made-up 100% of non-employee frauds reported by health insurance establishments and 55% of non-employee frauds experienced by property insurance establishments.
9. Questions pertaining to the methods by which frauds were committed were posed to all business establishments reporting actual or attempted incidents of fraud, not just those reporting actual frauds.
10. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.
11. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.

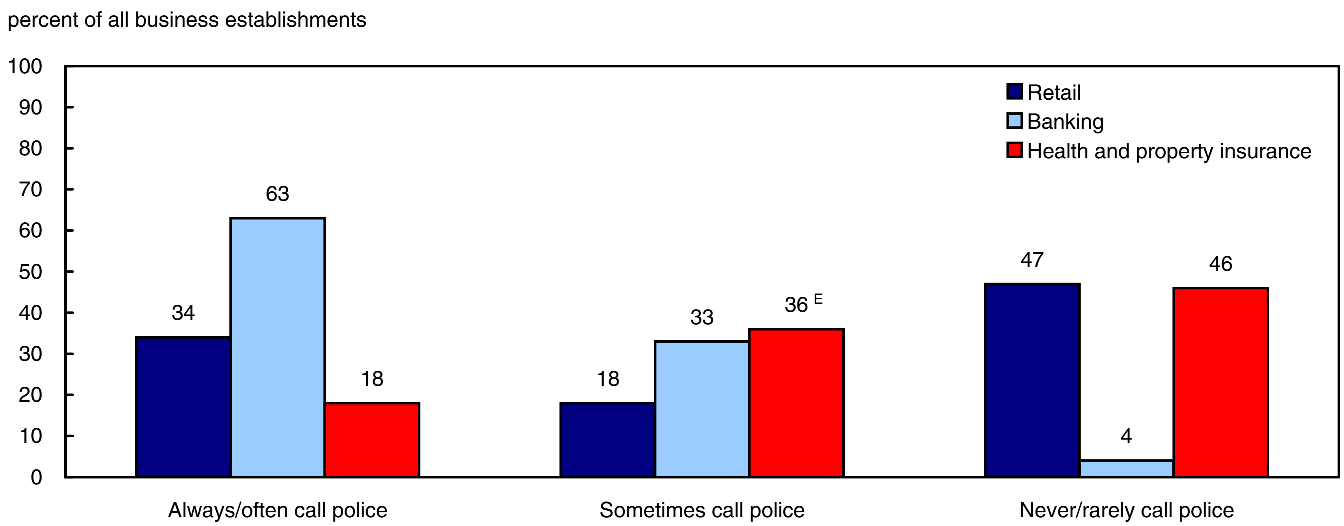
Previous research suggests that there may be a variety of reasons businesses choose not to report fraud to police. For example, they may fear jeopardizing their reputation; they may feel that reporting fraud will require too many resources relative to the size of the loss; or they may accept the occasional fraud as simply part of doing business (Smith, 1999). As well, businesses may deal with fraud through other means, such as relying on internal or private investigators to investigate fraud, or reporting fraud to authorities other than law enforcement (e.g., PhoneBusters, Better Business Bureau, Competition Bureau, Investigative Services of the Insurance Bureau of Canada, FINTRAC (Financial Transactions and Reports Analysis Centre of Canada), and the Royal Canadian Mounted Police's RECOL (Reporting Economic Crime On-Line)).

According to the SFAB, the most common reasons for business establishments not to report incidents of fraud to law enforcement is because they feel the fraud is too minor to warrant involving police or that the police will not be able to do anything about the situation.

Fraud losses often considered too minor to warrant contacting police

Specifically, among all retail establishments, nearly half (47%) indicated that, as a general rule, they never or rarely inform police when fraudulent activity occurs (Chart 2). The most commonly cited reason by retailers (56%) for not informing the police was because the incident was considered too minor to involve law enforcement (Table 2).

Chart 2
Nearly two-thirds of banking establishments always or often report incidents of fraud to police, Canada, 2008



E use with caution
Note(s): Percentages may not sum to 100% due to rounding.
Source(s): Statistics Canada, Survey of Fraud Against Businesses, 2007/2008.

Still, more than one-third (34%) of retail business establishments always or often report incidents of fraud to police. According to SFAB findings, police are more likely to be notified when losses are substantial. Retailers' most common reasons for contacting police in cases of fraud were because the fraud-related losses were significant (61%) and because they wanted to recover their losses (58%) (Table 2).

Table 2
Reasons for reporting and not reporting fraud to police by industry, Canada, 2008

	Industry		
	Retail	Banking	Health and property insurance
	percent		
Reasons why the police are contacted			
Seriousness: significant losses	61	92	76
To try to recover losses	58	65	23
Company policy	48	62	24
To pursue criminal charges	41	86	57 E
Sense of duty	34	25	28
Seriousness: suspicion of links to organized crime	20	86	44 E
Satisfactory experience with police response in the past	8	38	9
Other [1]	6	21	F
Advised by someone to do so	4	F	F
Reasons why the police are NOT contacted			
Incident too minor	56	84	34
Don't think police can do anything	26	66	20
Dealt with another way	19	26	33
Unsatisfactory experience with police response in the past	19	31	29 E
Losses recovered through other means	18	60	10
Unsatisfactory experience with criminal courts in the past	18	28	19 E
Resources required to pursue criminal charges outweigh losses	15	59	27
Incident did not exceed business' risk tolerance	10	28	13
Other [2]	2	20	F
Fear of negative publicity	1	2	8
Company policy	1	17	F
Fear of litigation	1	F	10

1. Includes reasons such as: because the incident could be legally prosecuted; to comply with insurance requirements; reporting varies based on the type of fraud.
2. Includes reasons such as: insufficient evidence; and reporting varies based on the type of fraud.
Source(s): Statistics Canada, Survey of Fraud Against Businesses, 2007/2008.

A notable proportion of retail business establishments (48%) also indicated that company policy requires them to inform police when fraudulent activities are detected. However, contacting the police was more common among larger retail establishments than among smaller ones. Specifically, 15% of small retail business establishments (5 to 19 employees) indicated that it was their practice to always report fraud to police, compared to 24% of medium-sized establishments (20 to 49 employees), and 37% of large establishments (50 or more employees).

Most individual banking establishments report fraud incidents to police

When individual banking establishments experience fraud it is likely that the crime will be reported to police. Among all banking establishments, almost 6 in 10 indicated that police are called often and an additional 4% stated that they always call police when fraud is detected. Relatively few banking establishments stated that police are never called (1%) or called rarely (3%) to report fraudulent activities (Chart 2).

Findings from the SFAB suggest that the vast majority of banks typically base their decision to notify police on the seriousness of the fraudulent incident. Specifically, of all individual banking establishments, about 9 in 10 each stated that police are notified when frauds involve substantial losses; where links to organized crime are suspected; and when they intend to pursue criminal charges (Table 2). The most common reason given by banking establishments (84%) for why fraudulent activities are not reported to police was because the fraud is considered too minor to warrant alerting law enforcement.

Nearly half of all individual insurance establishments said police are rarely or never informed of frauds

Nearly half (46%) of all individual health and property insurance establishments indicated that police are never or rarely contacted in cases of fraud, while 36% said that they do so on occasion (Chart 2).

Overall, among the most common reasons given by insurance establishments for not contacting police were because the incident was too minor (34%) and because it was handled in some other way (33%) (Table 2).

Fewer than 20% of all individual insurance establishments said that police are informed often or always. When insurance establishments do report incidents of fraud to police, it is most likely in cases where the losses are considered sizable enough to warrant involving law enforcement (76%). The intention to pursue criminal charges was the next reason most commonly identified by insurance establishments for informing police of fraud (57%).[12]

Other authorities are notified of fraud less often than police but PhoneBusters and RECOL are the most likely choices

In addition to police, there are other authorities and regulatory bodies to which businesses may report cases of fraud, such as PhoneBusters (Canadian Anti-Fraud Call Centre), provincial consumer protection agencies, Better Business Bureau, Competition Bureau, Investigative Services of the Insurance Bureau of Canada, FINTRAC (Financial Transactions and Reports Analysis Centre of Canada), the Royal Canadian Mounted Police's RECOL (Reporting Economic Crime On-Line), and Canada Post.

In general, authorities such as the abovementioned may offer businesses recommendations on the appropriate law enforcement or regulatory agency to contact for investigation into possible frauds; provide information or support directly to law enforcement and regulatory or intelligence agencies investigating fraudulent activities; or offer information, education and awareness on frauds and fraudulent schemes affecting specific industries.

Businesses may or may not report fraud to these authorities in addition to making formal reports to police. However, the proportion of business establishments reporting fraud to at least one of these other authorities was generally lower, when compared to the frequency with which establishments said they always or often reported fraud to police. Overall, Phonebusters and the Royal Canadian Mounted Police's RECOL tended to be among the most frequently cited authorities, but this tendency varied somewhat by industry.

For instance, when individual retail establishments reported fraud to authorities other than law enforcement, most often they told PhoneBusters and the RCMP's RECOL about the crimes. Still, fewer than 1 in 5 retail establishments who had experienced fraud indicated that they had reported the fraudulent activity to either of these authorities during the previous 12-month fiscal period. In comparison, about 1 in 3 stated they always or often reported fraud to police.[13]

While a majority of banking establishments typically report fraud to police, a notable proportion also turn to other authorities for assistance. Specifically, about one-third (34%) of individual banking establishments had reported fraud to FINTRAC over the previous 12-month fiscal period.[14] Additionally, 18% of banking establishments with substantiated or attempted frauds to report called upon other regulatory bodies not specified on the SFAB for help.

Insurance establishments most often reported fraud to Phonebusters, followed by the Investigative Services of the Insurance Bureau of Canada and RECOL.[15]

12. Use this figure with caution, CV greater than 25%; see the 'Data sources and methodology' section for more information.
13. Includes all business establishments reporting actual and/or attempted incidents of fraud to these authorities.
14. Applies only to individual banks able to provide information on actual and/or attempted incidents of fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.
15. Includes all business establishments reporting actual and/or attempted incidents of fraud to these authorities. Figures on reporting to other authorities for insurance establishments are not available for release for reasons of confidentiality or because estimates produced are too unreliable to be published.

Civil courts not a usual means for resolving incidents of fraud

In order to recover losses, businesses may pursue incidents of fraud in civil court. However, throughout the retail, banking and insurance industries, most businesses do not frequently turn to the civil courts to resolve incidents of fraud.

Resolving fraud cases in civil court was particularly uncommon in the retail and insurance industries. More than half (52%) of retail establishments reported that they never pursue fraud cases in civil court and a further 34% do so rarely. Likewise, close to two-thirds of insurance establishments said that they never (29%) or only rarely (33%) turned to the civil courts to resolve frauds.

For banking establishments, about one-third indicated that they rarely or never pursued fraud cases through the civil courts. Yet, nearly half of bank establishments did state that they occasionally seek the help of civil courts to resolve incidents of fraud.

Business establishments in the retail, banking and insurance industries all experienced monetary and non-monetary costs of fraud

Fraud can result in substantial costs to businesses. These costs come in the form of dollars lost as a direct result of the fraudulent acts, as well as indirect costs such as those associated with court proceedings and additional investments in prevention and detection strategies. In addition, incidents of fraud may produce non-monetary impacts which are often overlooked, such as damage to business and client relationships, staff morale, and the reputation of the business (Australian Institute of Criminology, 2004).

Across the retail, banking and insurance industries, a majority of the business establishments that were victims of fraud suffered direct losses. In addition, notable proportions also reported experiencing non-monetary consequences of fraud such as impacts on their business procedures and staff morale.

Specifically in the retail industry, about 80% of business establishments that had been victims of fraud in the previous 12 months reported suffering monetary losses due directly to the frauds committed against them.[16]

More specifically among retail establishments indicating losses, while a large majority (89%) experienced losses of $20,000 or less, still, about 5% lost between $20,000 and $60,000, 4% reported estimated losses ranging from more than $60,000 to $100,000, and 2% had losses exceeding $100,000 (Chart 3).

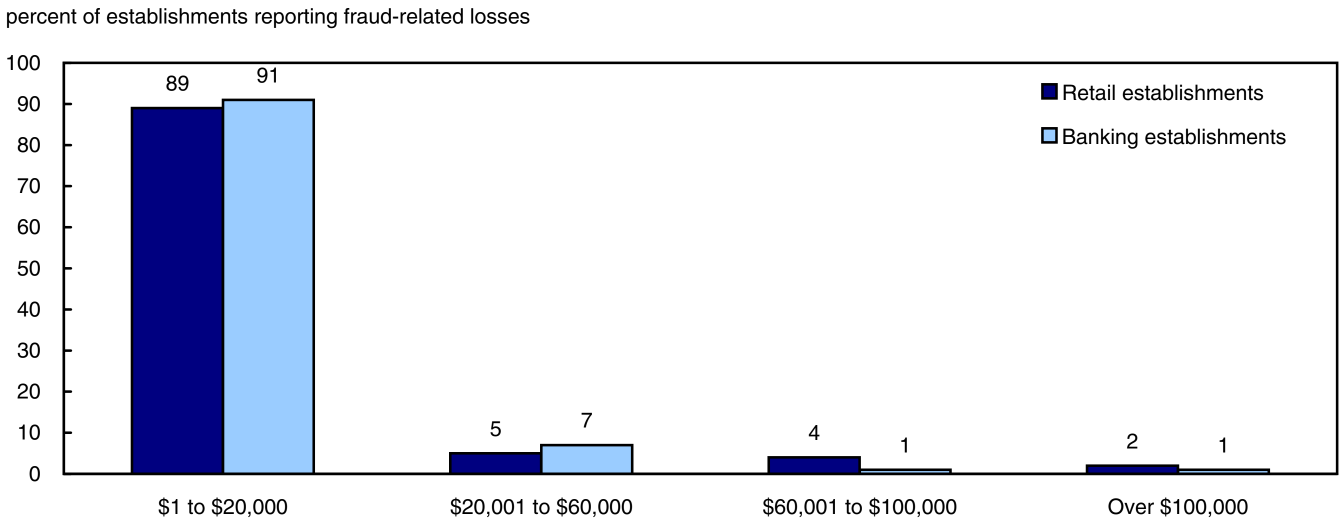
Fraud victimization also carried non-monetary consequences for many retail establishments. Most often the impacts of recent incidents of fraud were seen on retail establishments' policies and procedures (44%) followed by staff morale (26%) and client relationships (21%).

For the proportion of individual banking establishments providing information on fraud victimization in the previous 12 months, a large majority (80%) of fraud victims experienced some financial loss as a direct result of the frauds perpetrated against them.[17]

Among the banking establishments reporting fraud-related losses, while most (91%) indicated that their direct losses did not exceed $20,000, 7% had estimated losses between $20,000 and $60,000, 1% had lost between $60,000 and $100,000 and another 1% reported losing between $100,000 and $1 million (Chart 3).

16. Applies only to individual establishments providing information on fraud experienced in the previous 12 months; excludes establishments for which information was provided by a head office due to a lack of establishment-specific information.
17. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.

Chart 3
Most fraud-related losses for retail and bank establishments did not exceed $20,000, Canada, 2008



Note(s): Figures for individual health and property insurance establishments were too unreliable to be published.
Source(s): Statistics Canada, Survey of Fraud Against Businesses, 2007/2008.

A number of banking establishments also experienced fraud's non-monetary consequences as well. In particular, 39% of banking establishments reported that recent incidents of fraud had had an impact on their business procedures and 29% reported an effect on client relationships. Impacts on clients' or other businesses' openness to on-line transactions (15%) and staff morale (13%) were reported by smaller proportions of banking establishments that had been victimized by fraud in the previous year.[18]

Nearly 7 in 10 of the individual insurance establishments experiencing fraud in the previous fiscal year incurred monetary losses as a direct consequence of these fraudulent acts.[19] However, due to small numbers, more detailed information on the amounts lost due to fraud are unavailable for businesses in the insurance industry.[20]

In terms of non-monetary costs, fraud most frequently affected insurance establishments' business practices and procedures (65%) followed by their client relationships (61%[21]). An impact on staff morale was also mentioned by about 4 in 10 establishments.[22]

Strategies for detecting fraud key to keeping fraud costs down

The more steps businesses take to control and uncover fraud, the greater their chances of detecting fraudulent activities and the better their ability to assess the effectiveness of their anti-fraud strategies. Thus, strategies for detecting and preventing fraud are key mechanisms in keeping the costs, direct and indirect, of fraud down (PricewaterhouseCoopers, 2007). Still, even with a sound anti-fraud system in place, some businesses may find the time and resources required to recoup financial losses are too prohibitive or impractical to actually take such steps (PricewaterhouseCoopers, 2007).

18. Applies only to individual establishments able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.
19. Applies only to individual establishments able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.
20. Specific breakdowns of the financial losses due to fraud among insurance establishments are unavailable for public release, in order to meet the confidentiality requirements of the *Statistics Act* or because the estimates produced are too unreliable to be published.
21. Use this figure with caution, CV greater than 25%; see the 'Data sources and methodology' section for more information.
22. Use this figure with caution, CV greater than 25%; see the 'Data sources and methodology' section for more information.

Overall, about two-thirds of business establishments across the retail, banking and insurance industries reported avoiding fraud-related losses or recovering at least some money as a result of their organization's fraud prevention measures.

Among retail establishments that had experienced fraud during the previous fiscal year, more than half (56%) reported recovering fraud-related losses as a result of detecting fraudulent activity.[23] In most cases (94%) where anti-fraud strategies resulted in the recovery or avoidance of monetary losses, the amount recovered or saved was estimated to be $20,000 or less.

Uncovering fraud also helped save many in the banking industry from suffering monetary losses, with nearly three-quarters of banking establishments (73%) victimized by fraud in the previous 12-month fiscal period recouping or avoiding losses through fraud detection efforts.[24] Again, a sizable majority (82%) of these recoveries or avoided losses were in an amount that did not exceed $20,000.

About 7 in 10 individual insurance establishments (72%) that had suffered fraud in the previous year were able to avoid or reduce fraud-related losses through detection. As well, compared to establishments in the retail and banking industries, those in the insurance industry more frequently reported higher amounts for recoveries.[25] Among the insurance establishments reporting recovering or avoiding fraud-related losses, nearly half recovered or avoided losing between $20,000 and $300,000 through the use of anti-fraud initiatives.[26]

The extent to which business establishments were able to recoup specifically the monies lost as a direct result of frauds committed against them in the previous 12-months cannot be determined from the information collected on the SFAB. Rather, business establishments were asked, more generally, to provide the amount of financial losses they were able recover or avoid losing as a result of detecting fraud. Therefore, it is not certain whether the amounts reported represent losses that were actually recovered, monies that they avoided losing, or both.

About 8 business establishments in 10 relied on fraud detection techniques to identify fraudulent activities

Internal investigators, external audits, risk management systems, detection technology and reporting by staff are among the many methods businesses can use to detect fraud. Overall, about 8 business establishments in 10 relied on some type of fraud detection technique to uncover fraudulent activities.

For the most part, the use of fraud detection methods was more common among large (50 or more employees) and medium-sized (20 to 49 employees) business establishments than among small business establishments with 5 to 19 employees. In particular though, large establishments used internal (63%) and external (28%) audits as well as detection technology (59%) to identify fraud more frequently than small establishments (52% of which used internal audits, 17% external audits and 48% detection technology).

Many business establishments rely on employees and internal audits to detect fraud

While employees were among the most commonly used resources of fraud detection, reported by 80% of businesses reporting on the SFAB, about 6 in 10 businesses also relied on information provided by others such as the public, clients and customers to help detect fraud. While strategies for uncovering fraud cannot guarantee that all frauds will be discovered, they can increase businesses' opportunities for fraud detection, loss prevention and recovery.

23. Applies only to individual establishments able to provide information on fraud experienced in the previous 12 months; excludes establishments for which information was provided by a head office due to a lack of establishment-specific information.
24. Applies only to individual banks able to provide information on fraud experienced in the previous 12 months; excludes banking establishments for which information was provided by a head office due to a lack of establishment-specific information.
25. Applies only to individual establishment providing information on fraud experienced in the previous 12 months; excludes establishments for which information was provided by a head office due to a lack of establishment-specific information.
26. Due to small numbers, a specific breakdown of the financial costs recovered or avoided through fraud detection and prevention among insurance establishments is unavailable for public release in order to meet the confidentiality requirements of the *Statistics Act*, or because estimates produced are too unreliable to be published.

The most common methods of detecting fraud among retail establishments were through staff (75%) followed by reporting from clients, customers or business associates (52%) and internal audits (46%) (Table 3). About one-third of retail business establishments used detection technologies and a similar proportion discovered fraud by accident.

Table 3
Selected methods of fraud detection used by retail, banking and insurance business establishments, Canada, 2008

	Industry		
	Retail	Banking	Health and property insurance
	percent		
Detection measures			
Detection by staff	75	96	81
Reporting by public, clients, customers, business associates	52	90	68
Internal audit	46	75	52
Use of detection technology	37	90	34
By accident	34	45	56
Use of internal investigators	28	86	44
Use of risk management systems	22	91	21
External audit	15	23	25
Use of private investigators	8	0	28
Use of letters to verify and confirm services	5	23	47
Other	5	20	18

Source(s): Statistics Canada, Survey of Fraud Against Businesses, 2007/2008.

Of the three industries, those in the banking sector used fraud detection strategies with the greatest frequency. According to the SFAB, 96% of all banking establishments reported detection by staff as a method of fraud detection, and like other industries, this was the most commonly mentioned means of uncovering fraud (Table 3). However, risk management systems; reports by clients, customers or business associates; detection technologies; and internal investigators were also each used by about 9 in 10 banking establishments to detect fraudulent activities.

More than 8 in 10 insurance establishments indicated that they turned to staff for identifying fraudulent activity, making it the most frequently named source of fraud detection for this industry as well (Table 3). Reporting by the public, clients, customers and/or business associates (68%), accidental discovery (56%) and internal audits (52%) were also common methods of detecting fraud among insurance establishments.[27]

Some business establishments that had experienced fraud were more likely than those that had not to use certain fraud detection measures

Business establishments, particularly those in the retail sector, that reported experiencing some type of fraud in the past 12-month fiscal period were generally more likely to have reported using measures of fraud detection (particularly the use of detection technology and reporting by staff) than those who had not fallen victim to fraud during this time frame. While it is possible that businesses with more fraud may be more inclined to implement detection measures, this finding may also suggest that where detection practices are absent, some fraud may remain hidden.

For banking establishments, those that had been the victims of fraud in the previous 12-months were more likely than those who had not been so victimized to use detection technologies to identify fraud. However, non-victims were more likely to rely on audits and reporting by staff.

27. Due to small numbers, a specific breakdown of the detection methods used by victims and non-victims among insurance establishments is unavailable for public release in order to meet the confidentiality requirements of the *Statistics Act*, or because estimates produced are too unreliable to be published.

Training and awareness for employees and managers are part of the fraud prevention measures used by a majority of businesses

Employees and managers figure prominently in the fraud prevention measures taken by many businesses. On average, nearly 9 in 10 business establishments utilized some measure of fraud prevention, with a preponderance of businesses from all industries identifying employee and manager training and awareness as components of their fraud prevention strategy. However, each industry also had other techniques they tended to utilize (Table 4).

Table 4
Selected methods of fraud prevention used by retail, banking and insurance business establishments, Canada, 2008

	Industry		
	Retail	Banking	Health and property insurance
	percent		
Prevention measures			
Training of employees	81	99	85
Training of management	63	95	77
Daily financial reviews	54	81	61
Destruction or securing of files containing personal information	49	94	72
Securing electronic databases	46	96	76
Signing procedures for release/transfer of funds	38	85	80
Use of public information on fraud scams	36	88	50
Pre-employment screening	33	96	53
Organization's ethics or code of conduct	32	96	72
Public announcements for clients regarding fraud prevention	23	83	17
Background checks on clients	20	90	46
On-going trend analysis of fraud	19	86	26
On-going security clearances of employees	19	34	22
Publicizing fraud detection measures	16	39	31
Other	3	1	1

Source(s): Statistics Canada, Survey of Fraud Against Businesses, 2007/2008.

A notable majority of retail establishments (81%) identified formal or informal training and raising awareness among employees as techniques used by their business to prevent fraud, and nearly two-thirds (63%) indicated that manager training and awareness were also part of their prevention strategy. In addition, about half of retail business establishments conducted daily financial reviews and reconciliations, and destroyed or secured documents containing personal information in order to thwart fraud (Table 4).

Almost all banking establishments (99%) implemented employee training and education as a part of their fraud prevention strategy. Additionally, more than 9 in 10 banking establishments indicated that each of the following measures were in place to help stop or deter fraud: pre-employment screening; secure electronic databases; an organizational code of conduct pertaining to fraud; training for management; as well as procedures for destroying or disposing of files containing personal information (i.e., account information, social insurance numbers, etc.) (Table 4).

For the insurance industry, 85% of the individual companies listed employee training and awareness among their fraud prevention techniques and more than three-quarters (77%) included training and education of managers. In addition, each of the following measures were taken by about three-quarters of insurance establishments as a means to combat fraud: required signing procedures for the release or transfer of funds; the securing of electronic databases; the destruction or securing of documents containing personal information, and their organization's code of conduct regarding fraud (Table 4).

The use of fraud prevention measures varies by the size of the business establishment

Overall, large business establishments, those with 50 or more employees, were more likely to use fraud prevention measures than small business establishments (5 to 19 employees), but this was particularly the case for certain types of prevention methods.

For example, more than three-quarters (76%) of large business establishments, compared to 45% of small establishments reported using pre-employment screening as a means to prevent fraud. Similarly, 87% of large establishments counted the use of management training, 54% background checks on clients and 44% publicizing their fraud detection measures among their strategies to prevent fraud. In comparison, small establishments reported using the same methods less often, 69%, 35% and 20%, respectively.

Text box 4

Suggested initiatives for the further prevention of fraud

When asked which, from a list of initiatives, would assist in the further prevention of fraud experienced by their industry, retail establishments, banking establishments and individual insurance establishments gave the following responses most frequently:

Retail industry

- Better employee and client training and awareness (60%)
- Cooperation and exchange of information among businesses in the same industry (e.g. through networks, associations, conferences, etc.) (48%)
- Partnerships between the police and businesses (44%)
- A national fraud reporting centre that all victims could report to and that could be a source for businesses and the public to obtain information on fraud scams, prevention, etc. (36%)

Banking industry

- Cooperation and exchange of information among businesses in the same industry (e.g. through networks, associations, conferences, etc. (92%)
- Better employee and client training and awareness (91%)
- Better public awareness and public information campaigns (76%)
- Investment in better detection and security technology (73%)
- Partnerships between the police and businesses (73%)

Insurance industry

- Cooperation and exchange of information among businesses in the same industry (e.g. through networks, associations, conferences, etc.) (74%)
- Better public awareness and public information campaigns (61%)
- Cooperation and exchange of information between all types of businesses (e.g. through networks, associations, conferences, etc.) (57%)
- Better employee and client training and awareness (56%)
- Partnerships between the police and businesses (56%)

Summary

About half of retail and insurance business establishments and a notable majority of banking establishments surveyed experienced some type of fraud in the last year. Fraudulent returns was the most frequent type of fraud reported by retail establishments, banking establishments most often experienced debit card fraud, while most frauds committed against individual insurance establishments involved false or fraudulent claims.

The extent to which businesses report these crimes to police varies. The reasons for informing police when a fraud has occurred typically hinge on the seriousness of the incident, particularly the size of the loss associated with it. Overall, more than one-third of all individual business establishments reporting on the SFAB indicated that they rarely, if ever, notify the police when fraudulent activity is detected.

There were also variations in the tendency to report fraud to police among the industries. For example, almost half of retail business establishments and insurance establishments reported that police are rarely or never called when a fraud against their business is detected compared to only 4% of banking establishments.

About 80% of the retail and banking establishments and nearly 7 in 10 of the individual insurance establishments victimized by fraud suffered direct financial losses as a consequence of the fraud. In addition, many businesses also reported non-monetary consequences stemming from their recent experiences with fraud. In terms of estimated monetary costs due directly to fraud, most retail and banking establishments reported estimated losses of $20,000 or less.

Staff play an important role in fraud detection and prevention among businesses in the retail, banking and insurance industries. Some business establishments, particularly those in the retail sector, that had been victims of fraud were more likely to report that they used measures of detection than those who had not, suggesting that some fraud may go undetected in the absence of such measures.

Data sources and methodology

The Survey of Fraud Against Businesses (SFAB) was conducted in partnership with Public Safety Canada through funds from the Policy Research Initiative. It is a national survey that collects information on the nature and extent of fraud experienced by small, medium and large business establishments from the retail, banking and insurance industries (both property/casualty insurance and health insurance), as defined by the North American Industry Classification System (NAICS).

The SFAB is a mail-out/ mail-back survey that collects data on the number of fraud incidents experienced in a 12-month reference period. Some of the types of fraud measured include: credit and debit card fraud; fraudulent use of cheques; use of counterfeit currency; use of false identity or false information in applications or other documents; advance fee schemes; false billing; and insurance fraud.

The SFAB also collects information on the method by which the fraud was committed (e.g. Internet or on-line, regular mail, in-person, etc.), dollar loss, non-monetary effects of fraud on business establishments (e.g. effects on brand reputation and the use of technology in business transactions), the actions typically taken regarding incidents of fraud (e.g. reporting to police or other enforcement agencies), and prevention and detection measures business establishments have in place.

A sample of approximately 7,500 individual businesses and head offices was drawn from Statistics Canada's Business Registry. The overall response rate for the survey was about 57%. The approximate response rates by sector were as follows: retail, 57%; banking, 64%; health insurance, 50%; and property insurance, 48%.

Information from the SFAB is presented for **individual business establishments** and not for head offices or corporate head quarters. For approximately 90% of the sample, information was collected from individual business establishments directly. For the remainder, information was collected from head offices representing multiple establishments, and then, where feasible, broken down to the level of single establishments.

Non-response and imputation

For the SFAB there were two different types of non-respondents; partial non-respondents and total non-respondents. Partial non-response occurs when a usable questionnaire is received from the respondent but at least one variable is missing. Total non-response occurs when a usable questionnaire is not received from the respondent.

An imputation procedure was used to replace missing data for partial non-respondents on the SFAB. The use of an imputation strategy to treat non-response greatly simplifies the analysis of the SFAB data by having one set of weights rather than having a different set of weights for each variable and makes the SFAB estimates more usable by having a more complete micro-data file.

The imputation method used for imputing the majority of the missing values for item non-response was nearest neighbour donor imputation. This method involves replacing missing values for a non-responding unit with the corresponding values obtained for the responding unit (donor) nearest to it in terms of a vector of matching variables and a given distance measure.

For dealing with total non-response, a weight adjustment was performed so that the weights of the responding units (complete and partial respondents) are increased to represent the total non-responding units.

For additional information on the definitions and methods used on the SFAB see: Survey of Fraud Against Businesses Survey (survey number 5133) at http://*www.statcan.gc.ca/concepts/index-eng.htm*.

Coefficient of variation

The SFAB data are based on information collected from a sample of businesses and are therefore, subject to sampling error. Although the exact sampling error of the estimate cannot be measured from sample results alone, it is possible to estimate a statistical measure of sample error, the standard error. Because of the large variety of estimates that can be produced from a survey, the standard error is usually expressed relative to the estimate to which it pertains. The resulting measure, known as the coefficient of variation (CV) of an estimate, is obtained by dividing the standard error of the estimate by the estimate itself and is usually expressed as a percentage.

This report uses the coefficient of variation as a measure of the sampling error. For the purposes of this survey, an estimate with a coefficient of variation of higher than 35% is considered too unreliable to be published and the symbol F appears next to the corresponding estimate. When the CV of the estimate is between 25% and 35%, the corresponding estimate is accompanied by the symbol E. These estimates should be used with caution to support a conclusion.

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