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## International financial fraud: economic and psychological aspects, classification and ways of minimization

**Abstract.** The active use of the latest information technologies and non-cash payment forms has led to an increase in various types of fraud in the financial sector. Moreover, virtually all spheres of public relations now fall under the risk of fraudulent schemes, starting from financial credit and insurance and ending with foreign economic activity and the Internet.

In addition, some other economic factors contribute to the significant spread of fraudulent schemes in modern conditions: a wide variety of new financial instruments (types of money, securities, financial services); rapid growth in financial transactions; leveling barriers to the unhindered movement of money, goods, and services in the process of globalization, which provokes an increase in transnational financial crime. Therefore, in search of tools to preserve existing and generate potential income, especially trusting investors fall into the traps of scammers.

With the development of the current economic institutionalism, the principle of rationality in human economic behavior was no longer considered absolute, therefore, representatives of the institutional theory noted the irrational nature of human behavior, including in the field of economics and finance. Modern reality and economic practice are clear evidence of the truthfulness of this thesis. After all, despite the constant warnings of the mass media and other sources regarding various fraudulent schemes, as well as (paradoxically) often their own negative experience, citizens continue to invest in various kinds of fraudulent

schemes. According to experts, the main reason is that «people will always strive for «easy» money, and it is unlikely that this desire will ever disappear» (Bruton, 2015).

In this paper, we study the possibilities of preventing financial fraud on an international scale.

In the context of the complexity of modern business processes, one of the most urgent problems has become the problem of activating the manifestations of corporate fraud. On average, companies lose about 5% of their profits due to corporate fraud, and the annual losses from such economic crimes amount to about USD 4 trillion on a global scale. In Russia, this figure reaches 15% (and we are talking only about losses made public by companies).

The lion's share of fraudulent schemes falls on the banking sector. The implementation of fraudulent schemes in the banking sector has certain features, in particular: fraudulent actions cause damage not only to banks and their depositors, but also negatively affect the stability of the financial system as a whole; such crimes are characterized by high latency, since managers, fearing for the business reputation of their bank, only in isolated cases turn to law enforcement agencies with appropriate statements; identifying the facts of financial fraud is very difficult since fraudsters (often not without the help of bank managers) hide their actions in every possible way and take measures to launder funds obtained by criminal means.

**Keywords:** Financial Crime; Corporate Fraud; Fraudulent Scheme; Information Security; Economic Analysis; Cybercrimes

**JEL Classification:** H11; H26; H57; H61; H83; G30

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### **Міжнародне фінансове шахрайство:**

#### **економічні й психологічні аспекти, класифікація та шляхи мінімізації**

**Анотація.** Активне використання новітніх інформаційних технологій і безготівкових форм оплати призвело до зростання різних видів шахрайства в фінансовому секторі. Більше того, практично всі сфери суспільних відносин зараз схильні до ризику шахрайських схем, починаючи від фінансового кредитування та страхування й закінчуючи зовнішньоекономічною діяльністю та Інтернетом.

Окрім того, значному поширенню шахрайських схем у сучасних умовах сприяють і деякі інші економічні фактори: широке розмаїття нових фінансових інструментів (видів грошей, цінних паперів, фінансових послуг); швидке зростання фінансових операцій; нівелювання бар'єрів для безперешкодного руху грошей, товарів і послуг у процесі глобалізації, що провокує зростання транснаціональної фінансової злочинності. Тому в пошуках інструментів збереження наявного та отримання потенційного доходу особливо довірливі інвестори потрапляють у пастки шахраїв.

Із розвитком економічної течії інституціоналізму принцип раціональності в економічній поведінці людини перестав вважатися абсолютним, тому представники інституціональної теорії відзначають ірраціональний характер поведінки людини, зокрема в галузі економіки й фінансів. Сучасна реальність й економічна практика є наочним доказом правдивості цієї тези. Адже, незважаючи на постійні попередження засобів масової інформації та інших джерел про різні шахрайські схеми, а також (хоч як це парадоксально) найчастіше власний негативний досвід, громадяни продовжують інвестувати в різноманітні шахрайські схеми. На думку експертів, і зокрема Братона, головна причина в тому, що «люди завжди прагнуть до «легких» грошей, і навряд чи це бажання колись зникне».

Метою нашої статті є вивчення можливостей запобігання фінансовому шахрайству в міжнародному масштабі.

В умовах складності сучасних бізнес-процесів однією з найактуальніших проблем стала проблема активізації проявів корпоративного шахрайства в вітчизняних організаціях. Так, у середньому компанії втрачають близько 5% свого прибутку через корпоративне шахрайство, а щорічні збитки від таких економічних злочинів становлять близько 4 трлн доларів США у глобальному масштабі. У Росії цей показник досягає 15% (і йдеться лише про втрати, оприлюднені компаніями).

Специфіка функціонування сучасного фінансового ринку формує сприятливу основу для реалізації на ньому різноманітних шахрайських схем. Більше того, лівова частка таких дій посідає банківський сектор. У статті наголошується, що реалізація шахрайських схем у банківському секторі має певні особливості, зокрема: шахрайські дії завдають шкоди не лише банкам та їхнім вкладникам, а й негативно впливають на стабільність фінансової системи загалом; такі злочини характеризуються високою латентністю, оскільки менеджери, побоюючись за ділову репутацію свого банку, і лише в поодиноких випадках звертаються до правоохоронних органів із відповідними заявами; виявлення фактів фінансового шахрайства дуже ускладнено, оскільки шахраї (часто не без допомоги менеджерів банків) всіляко приховують свої дії та вживають заходів щодо відмивання коштів, отриманих злочинним шляхом.

**Ключові слова:** фінансовий злочин; корпоративне шахрайство; фінансове шахрайство; інформаційна безпека; економічний аналіз; кіберзлочинність.

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### **Международное финансовое мошенничество:**

#### **экономические и психологические аспекты, классификация и пути минимизации**

#### **Аннотация**

Активное использование новейших информационных технологий и безналичных форм оплаты привело к росту различных видов мошенничества в финансовом секторе. Более того, практически все сферы общественных отношений сейчас подвержены риску мошеннических схем, начиная от финансового кредитования и страхования и заканчивая внешнеэкономической деятельностью и Интернетом.

Кроме того, значительному распространению мошеннических схем в современных условиях способствуют и некоторые другие экономические факторы: широкое разнообразие новых финансовых инструментов (видов денег, ценных бумаг, финансовых услуг); быстрый рост финансовых операций; нивелирование барьеров для беспрепятственного движения денег, товаров и услуг в процессе глобализации, что провоцирует рост транснациональной финансовой преступности. Поэтому в поисках инструментов сохранения существующего и получения потенциального дохода особенно доверчивые инвесторы попадают в ловушки мошенников.

С развитием экономического течения институционализма принцип рациональности в экономическом поведении человека перестал считаться абсолютным, поэтому представители институциональной теории отмечают иррациональный характер поведения человека, в том числе в области экономики и финансов. Современная реальность и экономическая практика являются наглядным доказательством правдивости этого тезиса. Ведь, несмотря на постоянные предупреждения средств массовой информации и других источников о различных мошеннических схемах, а также (как это ни парадоксально) зачастую собственный негативный опыт, граждане продолжают инвестировать в различного рода мошеннические схемы. По мнению экспертов, и в частности Братона, главная причина в том, что «люди всегда будут стремиться к «легким» деньгам, и вряд ли это желание когда-нибудь исчезнет».

Целью нашей статьи является изучение возможностей предотвращения финансового мошенничества в международном масштабе.

В условиях сложности современных бизнес-процессов одной из наиболее актуальных проблем стала проблема активизации проявлений корпоративного мошенничества в отечественных организациях. Так, в среднем компании теряют около 5% своей прибыли из-за корпоративного мошенничества, а ежегодные убытки от таких экономических преступлений составляют около 4 трлн долларов США в глобальном масштабе. В России этот показатель достигает 15% (и речь идет только о потерях, обнаруженных компаниями).

Специфика функционирования современного финансового рынка формирует благоприятную основу для реализации на нем различного рода мошеннических схем. Более того, львиная доля таких действий приходится на банковский сектор. В статье отмечается, что реализация мошеннических схем в банковском секторе имеет определенные особенности, в частности: мошеннические действия наносят ущерб не только банкам и их вкладчикам, но и негативно влияют на стабильность финансовой системы в целом; такие преступления характеризуются высокой латентностью, так как менеджеры, опасаясь за деловую репутацию своего банка, лишь в единичных случаях обращаются в правоохранительные органы с соответствующими заявлениями; выявление фактов финансового мошенничества очень сложно, так как мошенники (часто не без помощи менеджеров банков) всячески скрывают свои действия и принимают меры по отмыванию средств, полученных преступным путем.

**Ключевые слова:** финансовое преступление; корпоративное мошенничество; финансовое мошенничество; информационная безопасность; экономический анализ; киберпреступность.

## 1. Introduction

The active use of the latest information technologies and non-cash payment forms has led to an increase in various types of fraud in the financial sector. Moreover, virtually all spheres of public relations now fall under the risk of fraudulent schemes, starting from financial credit and insurance and ending with foreign economic activity and the Internet.

In addition, some other economic factors contribute to the significant spread of fraudulent schemes in modern conditions: a wide variety of new financial instruments (types of money, securities, financial services); rapid growth in financial transactions; leveling barriers to the unhindered movement of money, goods, and services in the process of globalization, which provokes an increase in transnational financial crime. Therefore, in search of tools to preserve existing and generate potential income, especially trusting investors fall into the traps of scammers.

## 2. Brief Literature Review

Of course, financial and fraudulent projects are largely based on a psychological basis, thanks to which this type of deception «flourishes» in any period of development of human civilization. It is well known that for a long time in economic theory (and in particular in the neoclassical theory of the mid-XIX century) «the provisions on the rational nature of human economic behavior dominated since it was thanks to his intelligence, intelligence, and rational actions that significant success in economic development was achieved. However, with the development of the Economic current of institutionalism, the principle of rationality in human economic behavior was no longer considered absolute» (Agrawal, 2017), therefore, representatives of the institutional theory noted the irrational nature of human behavior, including in the field of Economics and finance (West, 2016). Modern reality and economic practice are clear evidence of the truthfulness of this thesis (Taylor, 2018). After all, despite the constant warnings of the mass media and other sources regarding various fraudulent schemes, as well as (paradoxically) often their own negative experience, citizens continue to invest in various kinds of fraudulent schemes (Shi, 2017). According to experts, the main reason is that «people will always strive for «easy» money, and it is unlikely that this desire will ever disappear» (Bruton, 2015). Therefore, there is no doubt that the emergence of financial scams and mass scams caused by people's desire to quickly and easily get the necessary funds is primarily based on ordinary human greed (Carnegie, 2014).

Experts also explain the appearance of numerous financial fraud schemes, which takes place against the background of total distrust of the state in general and financial institutions in particular, by the presence of the so-called «phenomenon of trust» (Fang, 2016), which demonstrates that people by their nature tend to trust each other first and treat each other without much prejudice. However, it is this factor that is at the same time a rather fine line of human relationships in life and business. Therefore, self-serving scammers make a bet and manipulate, first of all, the trust of others (Balleisen, 2017). Therefore, there are grounds to assert that it is trust, the thirst for easy enrichment, as well as the low level of financial literacy of citizens, their unwillingness to learn and understand financially important things - these are the factors that do not allow us to overcome this problem even in economically developed and legally «favorable» countries to citizens.

An important element in identifying the most typical signs of financial fraud is, first of all, identifying the causes of this phenomenon. In our opinion, determining the causes of financial fraud is primarily closely related to the need to study the conditions that can provoke potential fraudsters to commit this type of criminal activity (Baldwin, 2012).

It should be noted that the possibility of financial fraud is primarily associated with «the presence of favorable conditions for committing fraudulent actions, the ability of a person to access financial resources and weak control (or its complete absence) regarding the actions of a potential fraudster.

The motivation for fraudulent actions can be due to the presence of certain financial problems in such a person (a difficult financial situation and the need to improve it, a tendency to risky and gambling actions), and external pressure from other persons, the lack of strict financial control over the activities of a potential fraudster and, most importantly, the probability of obtaining ultra-high incomes by financial fraudsters. Justifying potential fraud involves justifying a person's illegal act («no one will notice this», «it won't hurt anyone», «this is a lesser evil», «others do it too», etc.)».

### 3. Purpose

To study the possibilities of preventing financial fraud on an international scale.

### 4. Methods

To achieve this purpose of the work, a set of general scientific and special research methods was used, which provided thoroughness, objectivity, and reliability of justified provisions and formulated conclusions, in particular: scientific generalization - to substantiate the theoretical and conceptual foundations of financial fraud and scientific and methodological basis for the formation of the financial policy of the state in the field of its prevention and minimization; analysis and synthesis-to form a categorical apparatus regarding financial fraud and its varieties; structuring and grouping - to systematize the causes and probable consequences of financial fraud.

### 5. Results

#### 5.1. Criteria of identification financial fraud

First of all, we note that the annual World Economic Forum in Davos, which analyzes and summarizes the most dangerous risks for the world community, from the whole set of risks of economic, environmental, geopolitical, social, and technological nature for 2019, identified 50 major global risks, among which we identified six that have a clear criminal character: an increase in organized crime; total corruption; cyber attacks (organized and sponsored by states, criminal and terrorist groups); violation of intellectual property rights; the growth of misinformation in the digital space (provocative, incorrect or inaccurate information that spreads quickly and threatens serious consequences); forgery or theft of personal data in large volumes and their use for criminal purposes.

Moreover, as follows from the report of the World Economic Forum (Pettigrew, 2018), along with the economic confrontation between the world's largest states (the main threat which was identified by 91% of respondents), violation of multilateral trade rules and agreements (88% of respondents) and political confrontation between the largest states (85% of respondents), the fourth World threat was cyber attacks, namely theft of personal data and funds (82% of respondents), which, of course, is one of the types of fraud.

The convention for the protection of the financial interests of the European Communities describes two main types of fraud, which primarily concern the EU budget:

- **fraud to expenses:** «any action or deliberate omission, including the use or presentation of false, inaccurate or incomplete information or documents, resulting in illegal possession, misappropriation, embezzlement or improper retention of funds from the general budget of the European Communities or budgets managed by or on their behalf; failure to report information in violation of a specific obligation, resulting in the same consequence; use of funds for purposes other than those for which they were issued» (Hausman, 2018);
- **revenue fraud:** «any action or deliberate omission involving the use or presentation of false, inaccurate or incomplete information or documents resulting from an illegal reduction in the resources of the general budget of the European Communities or budgets managed by European governments on their behalf; failure to provide information in violation of a specific obligation, which leads to the same consequence; improper use of legally obtained profits, which leads to the same consequence» (Carnegie, 2014).

Scientists distinguish the following methods of committing (types) of financial fraud:

- fraud in the banking sector using: criminal bankruptcy schemes of banks (mainly small ones) by the founders themselves; «electronic fraud»; making duplicate keys of bank clients' vaults; disclosure of insider information; currency transactions (by incorrectly recalculating currency exchange rates embedded in a computer program);
- fraud in the field of credit relations using the following methods: unjustified closing of collateral based on falsified fax messages and photocopies of documents; express lending in stores, etc.;
- fraud in the sphere of securities circulation using the following methods: fictitious purchase and sale agreement; forged documents and securities; fictitious securities (unregistered securities, unsecured securities, repaid securities, fictitious securities, securities issued on behalf of non-existent companies); specially created computer programs or the Internet to penetrate the databases of registration and depository companies and change information about the owners of securities in their favor; creation of a «financial pyramid» using Securities;
- fraud by creating financial pyramids using network marketing and the main forms of attracting gullible customers («we offer to earn money», «elite club», «spiritual societies», etc.).

Analytical methods of financial fraud research (methods of related comparisons, special calculation indicators, stereotypes, adjusted indicators, etc.) are also important, based on the use of computer technologies, which allows you to automate the search procedure, as well as effectively use additional data to detect and predict fraudulent actions based on statistical analysis methods (analysis of emissions, detection of unusual values, detection of unusual dependencies). According to experts, «most fraudulent frauds can be detected using automated analytical methods of working with information» (Fang, 2016).

And, finally, psychophysiological methods using verbal (verbal) and nonverbal (facial expressions, gestures) technologies can serve as an additional means of identifying financial fraud, which is based on the statement that the fraudster «can be more exposed not so much by insightful investigative actions or modernized devices, but by his fear, which exposes deception» (de Jong, 2015).

In this context, in our opinion, the research conducted by ACFE to identify cases of corporate fraud in different countries of the world is quite interesting. According to the results of a 2018 study, the following most common methods for detecting this type of fraud were named (Table 1).

Moreover, tips/hints, internal audit, and management analysis are the three main and most common fraud detection methods described in ACFE's annual report since 2010. In total, these three detection methods were indicated in 68% of cases in the 2018 study. At the same time, it should be noted that corporate fraud in most cases became known from internal sources (employees - 53%, shareholders/owners - 2%), much less from external sources (customers - 21%, suppliers - 8%, competitors - 3%) and other sources (anonymously - 14%, others - 5%) do (Siering, 2021).

And according to the results of the world study of economic crimes and fraud conducted in 2018 by Pricewaterhouse Coopers, «14% of cases of fraud in companies were detected as a result of monitoring suspicious actions or by informing through unofficial internal channels, 14% of

Table 1:  
**Methods for detecting cases of corporate fraud in the world in 2020**

| Detection methods                                      | Detection percentage, % | Average number of detection months | Average losses, thousand USD |
|--|-------------------------|------------------------------------|------------------------------|
| Hint / hint  | 40                      | 18                                 | 133                          |
| Internal audit   | 15                      | 12                                 | 112                          |
| Management analysis                                    | 13                      | 14                                 | 111                          |
| By accident  | 7                       | 24                                 | 159                          |
| Others   | 6                       | -                                  | -                            |
| Reconciliation of accounts                             | 5                       | 11                                 | 62                           |
| Examination of documents                               | 4                       | 18                                 | 129                          |
| External audit   | 4                       | 23                                 | 244                          |
| Supervision / monitoring                               | 3                       | 6                                  | 54                           |
| According to legal reports (Tax Service, police, etc.) | 2                       | 24                                 | 961                          |
| It control   | 1                       | 5                                  | 42                           |
| Confession   | 1                       | 24                                 | 191                          |

Source: Siering (2021)

cases were detected accidentally, and 33% of respondents said that their organization received an offer to pay bribes during 2016-2018 (in 2016 - 13%)» (Siering, 2021).

Therefore, we can say that the identification of financial fraud as an anti-social and illegal activity should be carried out based on comprehensive use of the entire set of formal and informal methods of its detection, which will contribute to the formation of the necessary conditions for its minimization in modern conditions of development of the domestic economy.

## 5.2. Corporate financial fraud

In the context of the rapid complication of business processes and not quite perfect management structure, one of the most acute and painful problems is the problem of activating various manifestations of corporate fraud in domestic organizations. Thus, according to experts, «corporate fraud occupies the third line in the rating of the most serious threats to business in 2019» (Siering, 2021). In world practice, every year companies lose about 5% of their profit (Pettigrew, 2018) or from 5% to 12% of their gross income (according to other sources - from 7% to 10% of their annual turnover) due to corporate fraud (annual losses from such economic crimes amount to approximately USD 4 trillion on a global scale). In Russia, this figure reaches 15% (and we are talking only about losses made public by companies). Therefore, it is not surprising that in the ranking of countries in the world by the level of corporate fraud Russia occupies 6<sup>th</sup> place (45%), along with Belarus - the 1<sup>st</sup> place (71%), South Africa - the 2<sup>nd</sup> place (62%), Kenya - the 3<sup>rd</sup> place (57%), Canada - the 4<sup>th</sup> place (56%), Mexico - the 5<sup>th</sup> place (51%) (Siering, 2021).

Therefore, the justification of the essence, identification of the most significant prerequisites and main causes of corporate fraud, and the development of effective methods for its prevention are extremely necessary for Russian organizations today.

First of all, we note that in the modern economic literature there are «two main approaches to defining the concept of corporate fraud: the legal (Russian) approach and the extended (global) approach.

Scientists claims that «in a narrow sense, corporate fraud is any actions of personnel that in one way or another (most often by theft) cause both financial and non - financial losses to the company. In a broad sense, these are the actions of any third parties, not only personnel, that cause losses to the company's economic activities» (de Jong, 2015) (that is the author identifies a narrow understanding of corporate fraud as internal, and a broad understanding as external corporate fraud).

At the same time, among the most significant factors that cause (fuel) corporate financial fraud, H. Berghoff highlights the specifics of human nature, the high level of corruption, and the imperfection of the judicial system (Berghoff, 2018).

Domestic lawyer among the main causes of fraud in organizations highlights the lack of financial motivation of the employee and his deviant behavior (that is, the tendency of the employee dealing with financial resources to commit a crime), noting that «at the heart of all types of fraudulent actions of employees is the imperfection of individual regulatory legal acts, the complexity and multi-stage financial and economic ties within the enterprise, the confusing system of accounting and control of employees, incompetence and legal ignorance, carelessness and excessive credulity of managers» (Bruton, 2015).

Unfortunately, Russian businesses today are often not able to independently resist corporate fraudulent schemes, and a considerable number of owners do not even know how to deal with them. According to the study «Fraud. An American history from Barnum to Madoff», almost two-thirds (namely 61.5%) of respondents faced the facts of corporate fraud; every Fourth of the respondents admitted that the losses caused as a result ranged from 100 thousand to 5 million dollars a year (and this is from 5 to 15% of the profit), and only 22 out of 130 businesses reported their attempts to take measures to combat corporate fraud (Balleisen, 2017). In 2018, unfortunately, these figures did not change much (Taylor, 2018). It should also be noted that among the Russian companies that have faced the facts of corporate fraud, large ones predominate (Figure 1) and international (Figure 2) companies.

## 5.3. Experience in preventing and countering financial problems fraud

The study of foreign experience in combating financial fraud is extremely relevant in the modern conditions of development of the Russian economy since fraudulent schemes are now

acquiring qualitatively new forms, their self-serving orientation and socially threatening nature are increasing, the number of fraudulent acts with international connections and criminal groups, whose members are also Russian citizens, is significantly increasing. We are convinced that the use of the comparative method in the research process will contribute to a better knowledge of domestic experience in this area and its improvement in modern realities. After all, the comparison is one of the basic methods of scientific knowledge, since it begins with distinguishing the phenomenon under study from others and identifying similarities with related phenomena, as a result of which it becomes possible to establish common properties and inherent features.

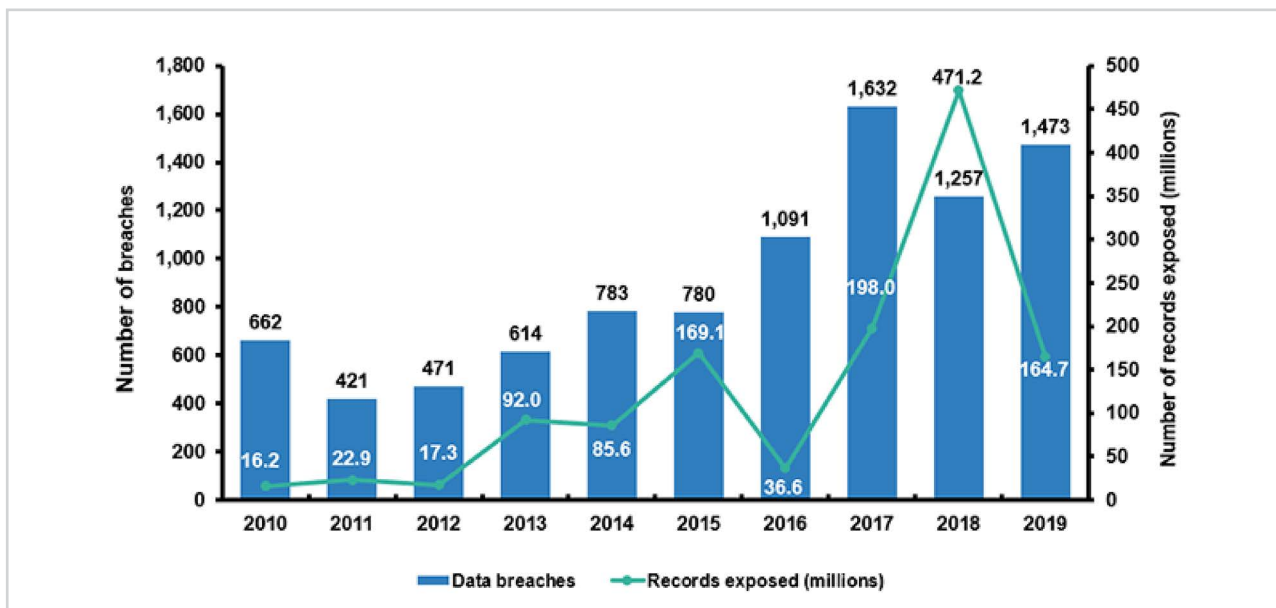


Figure 1:

**Share of Russian companies that faced fraud cases in 2010-2019, by number of employees, %**

Source: Identity Theft Resource Center, 2019 End of Year Data Breach Report: [https://www.idtheftcenter.org/2019-data-breaches/?utm\\_source=web&utm\\_medium=sitewidenotice&utm\\_campaign=01282020\\_2019DataBreachReport](https://www.idtheftcenter.org/2019-data-breaches/?utm_source=web&utm_medium=sitewidenotice&utm_campaign=01282020_2019DataBreachReport)

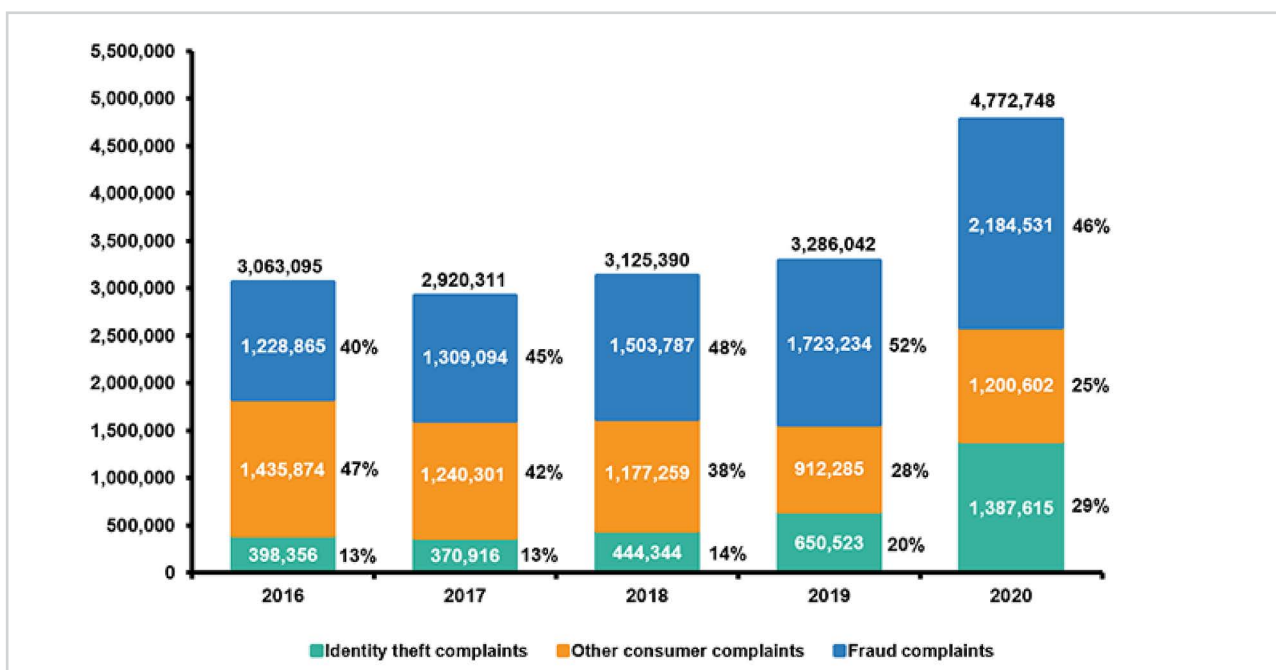


Figure 2:

**The share of global companies that faced cases of fraud in 2016-2020, in the context of the organization's profile, %**

Source: Federal Trade Commission, Consumer Sentinel Network (2021)



First of all, we consider it necessary to turn to the origins of the phenomenon under study, since this will contribute to a deeper understanding of the causes of its occurrence and rapid spread. One of the first major fraudulent scams in the world is considered to be the «Tulip Fever» of 1636 when the Dutch stock exchanges at that time revolved around debt obligations to sell so many tulip bulbs that even for several decades all flower farms in Europe could not grow. At that time, future obligations of gardeners to grow exclusive varieties of flowers for customers that had not yet been developed by specialists were sold and bought in virtual form (often the cost of one bulb was equal to the cost of a good house in Amsterdam). Soon, panic began among the holders of receipts - everyone tried to transfer the «tulip» funds to Real Money. So, only «in a week the cost of the bulb, which at that time was 5 thousand guilders, fell to 50, and later - to 5. Consequently, thousands of people were ruined, the courts were overloaded with numerous claims against customers who refused to pay under contracts» (Klaus, 2014).

The first-ever analog of the classic financial pyramid scheme was the «Land Bank», founded by John Lo. Thanks to sophisticated advertising techniques (in particular, well-paid newspaper publications), the share price of the newly created bank increased rapidly in just one year. Since John Lo decided to distribute new shares only among the owners of four old ones, as a result, the race for «rarities» began, as a result of which «the value of one share, which was 50 livres, increased to 12 thousand in a few days» (Moyson, 2017). As a result, in 1720 within two weeks, John Lo's virtually unsecured financial «empire» failed, and most depositors went bankrupt.

It is important to note that the problem of financial fraud is not only a purely Russian practice. After all, it is known that in some countries of the world, the implementation of various kinds of fraudulent schemes (primarily pyramid schemes) led to devastating macroeconomic and socio-political consequences. For example, in the late 1990s of the twentieth century, extremely serious shocks caused by the collapse of some major financial pyramids, which affected more than half of the population, stirred up the small European country of Albania. As a result, «about 2 thousand people died in street riots. the government was forced to resign, and the country plunged into anarchy for some time» (Agrawal, 2017). In Colombia, in 2008, citizens lost about 1 billion USD due to the destruction of financial pyramids. This led to protests and riots in 13 major cities of the country (Armour, 2017). Major American, European and Asian banks have not yet fully recovered from losses of more than 6.65 billion USD. The collapse of the Madoff Investment Securities Investment Fund, whose founder is considered one of the world's largest financial scammers (Balleisen, 2017).

It should be emphasized that criminal liability for fraudulent crimes as provided for in most countries of the world. For example, the German Criminal Code provides for liability for investment fraud. However, the German legislator recognizes as a crime only such attraction of deposits, which is accompanied by providing a large circle of persons with incorrect information about the profitability of deposits and default on unprofitable investment facts or other circumstances that are important for deciding on such deposits (de Jong, 2015).

Experts say that in the world, most cases of corporate fraud are recorded in the banking and financial spheres (the largest threats are corruption - 36% and cash fraud - 23%), manufacturing (the largest threats are corruption - 51%, non - cash fraud - 28% and account forgery - 27%), public administration (the largest threats are corruption - 50% and non - cash fraud - 22%), health-care (the largest threats are corruption - 36% and account fraud - 26%), retail trade (the biggest threats are non-cash fraud - 34% and corruption - 28%) and the social sphere (the most common are account fraud - 40%, corruption - 34%, illegal reimbursement of expenses - 29% and cash fraud - 22%) (West, 2016) (Figure 3).

Moreover, international practice proves that in foreign financial institutions the level of fraud involving employees is significantly lower than in Russia. Scientists attribute this to the fact that «having damaged the reputation once, such a specialist is unlikely to ever be able to get a job in the same field» since organizations abroad tend to disclose such information more often.

In Russia, such cases are certainly much less. Thus, the world study of economic crimes and fraud «revealed a significant increase in cases of fraud in Russian organizations committed by employees (from 28% in 2016 to 56% in 2018), among which the share of fraud committed by senior management also increased significantly (from 27% in 2016 to 55% in 2018)». Moreover, during 2016-2018, fraud committed by the company's employees is almost twice as common as fraud committed by third parties. However, despite these data, the biggest problem of any organization in the process of countering fraud, and at the same time one of its most serious threats, experts

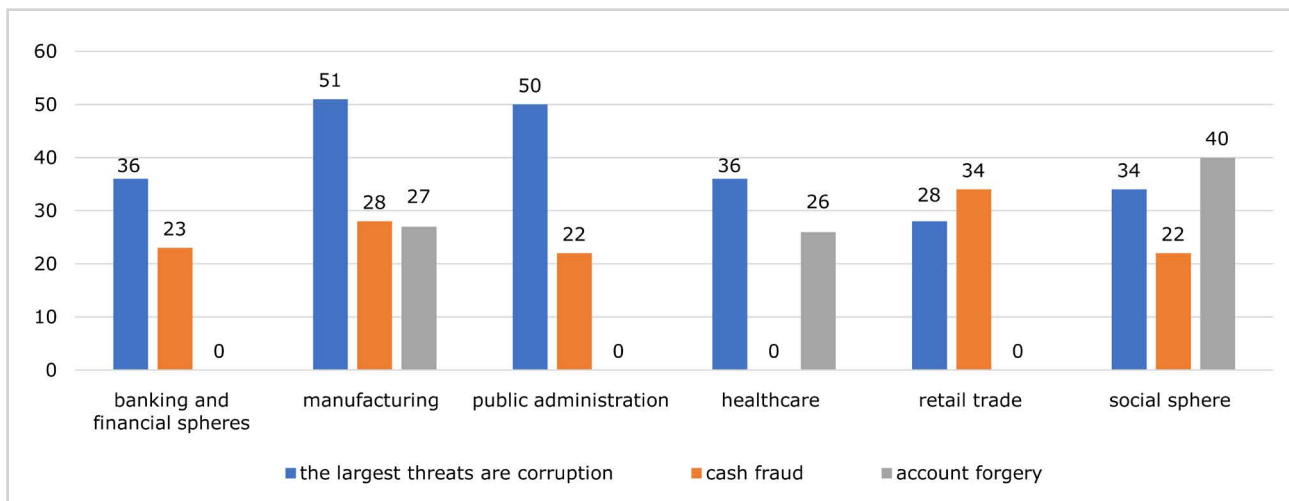


Figure 3:  
**Most common cases of corporate fraud**  
 Source: Compiled by authors based on West (2016)

consider first of all not its employees, but counterparties with whom the organization has regular relationships (agents, suppliers, customers).

Therefore, we believe that companies in Russia should, as the main measure to prevent cases of financial fraud, strengthen risk management for interaction with third parties by conducting corporate intelligence, checking the integrity of counterparties, etc. Also, do not be afraid to spread information about the fraudulent tendencies of individual employees identified in the organization, because this will help to avoid cases of fraud on the part of «dishonest» employees in the future.

World practice proves that in foreign countries, modern tools for countering corporate financial fraud are multi-level software packages that provide for the field of data transformation and cleaning, the field of analytics and reporting. At the same time, companies «use a variety of analytical algorithms, each of which «specializes» in a separate type of fraud. Such solutions include consolidation of data accumulated in the company, their cleaning, as well as modern analytical mechanisms based on both predictive analytics and analysis of fraudulent networks and reporting and investigation management systems that allow optimizing the work of security services». There is no doubt that a successful fight against financial fraud requires rather complex systems for preventing, detecting, and managing such criminal acts. However, in addition to this, we also consider it extremely important to create a generally favorable environment for countering financial fraud in the team.

It is important to note that in foreign practice, to reduce the corruption component, companies actively use forensic methods designed to minimize the risks of financial fraud within the company. Forensic services provide for the performance of the following types of work based on the organization that ordered them: «settlement of disagreements between the parties to the conflict on financial and business issues; identification and analysis of hidden commercial risks; protection of intellectual property; corporate (business) intelligence; prevention of financial and reputational damage; verification of contractual obligations and reliability of business partners; verification of messages via the «hotline»; out-of-court, pre-trial expertise, as well as assistance in court proceedings; compliance-investigation; counteraction to the legalization of illegal income; development of procedures aimed at countering fraud, corruption, withdrawal of funds, misappropriation of assets; investigation of fraud using information technologies; risk management associated with fraud; financial expertise of documents; financial investigations». Therefore, if the fact of fraud is detected, forensic tools allow you to find the perpetrators and return the lost assets to the company. Unfortunately, it is not always possible to do this in full, but «even partial compensation for losses is much better than the complete loss of funds that have settled with fraudsters».

## 6. Conclusion

In the context of the complexity of modern business processes, one of the most urgent problems has become the problem of activating the manifestations of corporate fraud in domestic organizations. So, on average, companies lose about 5% of their profits due to corporate fraud, and the

annual losses from such economic crimes amount to about USD 4 trillion on a global scale. In Russia, this figure reaches 15% (and we are talking only about losses made public by companies).

Therefore, in the ranking of countries in the world in terms of corporate fraud, Russia ranks 6<sup>th</sup> after Belarus, South Africa, Kenya, Canada, and Mexico. Among Russian organizations that have experienced corporate fraud, large and international companies predominate, and bribery and corruption are the leaders among economic crimes that have affected domestic organizations (73% in Russia and 25% in the world).

The specifics of the functioning of the modern financial market form a favorable basis for the implementation of various kinds of fraudulent schemes on it. Moreover, the lion's share of such actions falls on the banking sector.

The paper notes that the implementation of fraudulent schemes in the banking sector has certain features, in particular: fraudulent actions cause damage not only to banks and their depositors, but also negatively affect the stability of the financial system as a whole; such crimes are characterized by high latency, since managers, fearing for the business reputation of their bank, only in isolated cases turn to law enforcement agencies with appropriate statements; identifying the facts of financial fraud is very difficult since fraudsters (often not without the help of bank managers) hide their actions in every possible way and take measures to launder funds obtained by criminal means.

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