

Crime and Fraud in Mexico

by Juan Segura

Crime has plagued Mexico for years. Historically, adverse economic conditions, including the devaluation of the peso in 1995, have spurred unrest but crime rates have spiked further in the wake of Mexican President Felipe Calderon's crackdown on drug trafficking over the past few years.

In addition to disrupting the social order, the crime problem is impeding economic growth. According to Mexican Treasury Secretary Agustín Carstens, crime and violence not only increases business costs in the country by 5% to 10% every year but also costs Mexico one percentage point of annual GDP growth as a result of lost sales, jobs and investments. The tourism industry, for example, loses revenue daily to destinations that travelers perceive to be safer alternatives.

While many types of crime are on the rise, workplace fraud has become one of the biggest concerns. Although fraud is a global problem, it is especially serious in Mexico, where 77% of companies have been victims of at least one fraud incident in the last year, according to a January 2008 study by KPMG. Of the total reported fraud incidents, which included embezzlement, forgery, theft and computer crime, one in 10 caused losses exceeding 5 million pesos (\$457,000).

Given that the recent economic downturn has left many Mexicans unemployed, this problem is expected to worsen. Employees fearing job loss have a greater incentive to commit fraud and those who have already lost their jobs may target former employers out of revenge or desperation. The KPMG study, for example, found that 46% of corporate crimes in Mexico were committed by insiders.

Money laundering and bribery in Mexico are also significant exposures. Official records back this up and many believe that the reported statistics do not even reveal the full extent of the problems, as companies often prefer to remain silent for fear of retribution from

organized crime networks.

Risk managers should keep this in mind as they weigh insurance decisions. The availability of commercial crime insurance, however, is much more limited south of the border than it is in the United States. High exposures and lack of product experience pose too many disadvantages for many insurers to effectively write crime coverage in the country.

And unlike U.S. crime policies, the Mexican equivalent generally does not cover any investigative expenses related to an insured loss, nor will policies likely include insurance against credit card fraud or the direct loss of money, securities or property sustained by a client resulting from the theft or forgery committed by an employee not in collusion with the client's employee.

Risk managers can find a handful of major carriers equipped to write policies for employee fraud, forgery, identity theft, computer fraud, and premises or transit theft, but pricing and contract terms are likely to be less favorable than what they are accustomed to in the United States, so the process may take some extra legwork.

Although the crime problem has escalated in the last few years, the Mexican government has been taking steps to control it. The government proposed a 30% increase in security-related expenditures, according to the 2009 budget submitted to Mexico's Congress last September. In addition, political and security leaders have announced an emergency plan focused on sacking corrupt police, giving security forces more potent weapons, building new prisons and better addressing money-laundering and drug-trafficking problems.

Regardless, many of these problems are deeply ingrained in the country and nothing is going to change overnight. But even in the current economic environment where crime is a growing concern, the problem remains manageable with proper vigilance, internal controls, insurance and risk management. ■

