

# Forensic Outlook 2019

Inspiring trust and creating value in  
a transformative age



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## Introduction

Institutions such as the International Monetary Fund (IMF), World Bank and the Organization for Economic Co-operation and Development (OECD) forecast a rather frail global economic outlook for 2019 as a result of intensifying trade tensions, rising tariffs and interest rates, and weak local demand. The emerging markets however are expected to be on a relatively strong ground.

2018 saw India moving up to rank 77 in the World Bank's Doing Business 2019 survey; it is also expected to stay unchanged as "the fastest growing emerging market economy." The forecast as per the World Bank's Global Economic Prospects Report - January 2019 further projects a static 7.3% growth in FY19, with the coming three years expected to grow at 7.5%. India's rich and resilient business ecosystem is led by favorable reforms, a strong domestic consumption pattern and revival in credit growth. In such a state, incidences of fraud, bribery and corruption can cast a strong glare on private as well as public enterprises, making investors, customers and employees skittish about the future.

The direct link between integrity and performance is not new. It has been observed that companies that behave ethically, with a high integrity quotient, tend to have happier and motivated employees. Stakeholders are also aligned toward overall organizational growth leading to better performance and profitability.

While building ethical companies may not be an easy task, it is necessary for long term survival, viability and sustainability. Most importantly, the trifecta of sound governance, transparency and ethical conduct can propel good companies to become great.

As we power through this transformative age, EY's Forensic Outlook 2019 outlines key trends for companies, their management and boards to inspire trust, instill confidence and create extraordinary value.



*A Singh*

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# Strengthening corporate governance in family businesses



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highlights how promoter run or family businesses can accelerate toward a positive growth trajectory by strengthening corporate governance and ethics.



## A balancing act between profitability and governance

Family businesses are outpacing markets today and are growing faster than ever before. A clearly defined business culture and good governance can be essential to growth, while maintaining profits and productivity. As India's family business ecosystem continues to be a strong engine of growth for the economy, in 2019, there should be a greater commitment to ethical values and stronger corporate governance measures in play. They should also draw a clear line between personal and corporate decisions, bring transparency in operations, encourage diversity and inclusion, and empower employees to make ethical choices.

Promoters of unlisted or smaller firms can also consider appointing independent and non-executive directors on the board and establish audit committees to fortify governance. The presence of non-family members on the board can bring more objectivity and professionalism in decision making, offer innovative solutions and reduce conflicts.



## Investments in compliance are the need of the hour

Ever-tightening regulatory regimes and rising trans-national trade opportunities are driving the demand for compliance professionals across markets. According to EY's Global Family Business Survey 2018, the top areas identified by family businesses where they plan to invest in during this period include new products and services (59%), IT systems and controls (57%), human capital (53%) and production capacity (48%). Going forward, family businesses will need to make more investments in compliance and integrate the function as a key part of their organization. Globally, regulatory monitoring and the cost of non-compliance will continue to escalate and it would be prudent to establish protocols, policies, procedures and controls with the assistance of a trusted advisor - a compliance officer. 2019 may also see compliance becoming a core agenda for promoter driven businesses as they become more transparent and accountable.



## Regulations at play

Regulators in India have suggested increased transparency in management decisions through adequate disclosure of related party transactions, increased proportion of independent directors in the company's board of directors, disclosure of the basis of recommendation and fees payable to the auditors during the time of auditor's appointment, etc. This focus is expected to continue going forward with the increasing importance given to shareholders as they adopt a more active role in highlighting governance based concerns (investing decisions, implementation of regulatory framework, etc.). Governance will also focus on succession planning, management development and the responsibilities of the governance committee in evaluating the board's performance.



## Gearing up for digitally disruptive times

In family run businesses, the speed at which technological changes are implemented can often pose challenging. Many times, traditional methods and processes continue to be used since they have stood the test of time and are considered "best practices" for the business, often passed on by the generations before. In the coming year, new age family businesses need to find the sweet spot between legacy practices that have worked well and disruptive digital technologies that could be game changers. Change management will have to be tackled innovatively. For instance, sharing software licenses, user logins and passwords for lowered cost may result in a serious risk to the business' information security and lead to software licensing non-compliance.

# Data privacy and protection in a technologically driven era



**Mukul Shrivastava**  
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explains the growing significance and awareness of data privacy in a technology driven economy where harnessing data has become pivotal for business excellence.



## Rationalizing data requirements

EU's General Data Protection Regulation (GDPR) had most global organizations scrambling to be compliant with the requirements set therein. Significant investments were made in instituting policies and procedures, ramping up technology and manpower, and training and up-skilling staff. Data privacy will continue to be in the spotlight in 2019 with regulations such as the California Consumer Privacy Act and India's Personal Data Protection Bill and eCommerce policy on the anvil. Organizations will also need to take a step back, reassess and rationalize the sheer volume of data accessed and collected by them. A major chunk is expected to be in the form of Personally Identifiable Information ("PII") which is mined to identify the right audience for a business. Organizations will also monitor the source (platforms such as websites, applications, mobile apps, social media and emails) and actual use of such data. This will lead to increased acquisition costs but at the same time will mitigate unanticipated risks.



## The liability debate - who's fine is it anyway?

Global regulators across markets are willing to impose strict penalties when it comes to non-compliance with data privacy and data protection laws. The first of many to potentially follow, an enforcement notice was issued against a Canadian company and another internet giant was fined by the French regulator under GDPR earlier this year. In the coming year, data privacy laws are expected to become more refined, robust, litigious and prohibitive as the privacy debate gains more steam. Organizations will have to make necessary provisions as they will be more accountable and liable for a user's data being assimilated.



## Can technology redefine the future of privacy?

Technology forms one of the core elements of a data privacy framework. Organizations will have to rethink and reorganize on how consumer data in their possession is stored, transferred, encrypted and executed in a trusted environment. The adoption of Blockchain has already flourished as an alternative solution to centralized data storage and rapid advancement and deployment are foreseen in the coming year.



## Consenting to cookie policies

After GDPR, most (if not all) websites have a pop up with details of their cookie policy, providing internet users with the option to consent. However, not many users actually read and understand it, but tend to casually give their approval or acceptance. 2019 will see more and more users jump the privacy bandwagon, leading the way for organizations to be clear, precise and honest in their communications. For instance, it has been reported that a data protection agency in the Netherlands stated that "if a website forces a user to agree to a cookie policy, or a 'wall', in exchange for access, that request is not compliant with the data protection law in Europe." Moreover, cookie consent should be well articulated but not be a complicated web page with legal jargon for the users. Social media platforms will need to continuously disclose where information is shared as they launch new services and their variations.

# Reinforcing ethics and integrity



**Vivek Aggarwal**  
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discusses how achieving the integrity agenda can be a game changer for corporates in their quest for sustainable success.



## Building an ethical foundation

In recent times, many cases of misconduct or misappropriation by company executives have been brought to the spotlight. Initially going unnoticed for a long time or even swept under the carpet, these incidents eventually emerged and caught the attention of the public. Expensive investigations ensued resulting in financial damages and even individual prosecution in some cases. Doubts were raised on the ethical conduct and decision making by the management, followed by a sharp reaction from the stock markets. The year ahead will have ethics and integrity becoming a fundamental part of the board agenda in modern corporations. Audit committees and independent directors will also increasingly question the executives at the helm on the frameworks instituted to strengthen the ethical DNA of the organization.



## Importance of integrity for the management - how to lead by example

Organizations that make integrity a business priority tend to be more confident when operating in the market (particularly high-risk ones), venturing into new regions, expanding through mergers and acquisitions, and innovating by new product and solution launches. In 2019, we will see organizations placing integrity at the heart of their business, with a greater commitment from the senior management, boards and independent directors. Achieving the integrity agenda will be process led, have clear metrics to define success and linked to the efficacy of compliance and governance programs.

Business leaders will need to set a stronger tone at the top and define standards of expected conduct. Instituting roles such as ethics counsellor will help employees address dilemmas. Integrity and compliance functions, along with human resources, finance, security, legal and internal audit, will witness a significant shift by infusing process discipline, governance and focus on a culture of trust for sustainable growth and success.



## Keeping up with governance standards

The revision of laws and regulations during the last couple of years has sparked a change in business ethics. Amendments to the Prevention of Corruption Act, Fugitive Economic Offenders Act and Securities and Exchange Board of India (SEBI) Prohibition of Insider Trading Regulations have placed additional accountability on organizations to ensure compliance as per the new or revised requirements. Global guidelines such as ISO37001: Anti-bribery management systems have been implemented by both, private and public sector enterprises. In 2019, all organizations, large and small, will look to keep up with these laws and guidelines for transparency and governance. We can also expect to see a stronger decree, promoting regulatory intervention and driving ethical governance in the Indian business ecosystem to root out perpetrators of illegal activities or misconduct.



## Cultural shift to foster sound corporate governance

Building a sound corporate culture that promotes integrity at all levels, including third-party agents and distributors, customers and other stakeholders may be relatively new concept for many organizations. Going forward, a 360-degree governance model will need to be cultivated, encompassing the board, line management and corporate functions, with an emphasis on policies that guide ethical behavior. Organizations can also consider re-evaluating their code of conduct, encourage (and possibly incentivize) whistle-blowing, conduct regular in-person or virtual trainings as per international standards and strengthen their fraud, bribery and corruption monitoring systems. For example, any grey areas in the Code of Business Conduct (such as conflict of interest) will need to be clarified and addressed comprehensively. Ethics trainings should become a core part of learning and development calendars.

The effectiveness of governance and ethics programs will need to be assessed regularly by factoring in stakeholder feedback, corporate culture and controls from an integrity perspective and leveraging new technologies to provide better data insights.

# Emerging technologies for forensic



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highlights how forensic auditors are identifying potential fraud, misappropriation and misconduct by using emerging technology platforms and advanced analytics in investigations.



## Unleashing artificial intelligence (AI) and automation

The power of AI and automation has disrupted several industries over the past decade. Sectors such as e-commerce are at the forefront of the AI revolution and have already started deploying robots to fulfil order requirements in warehouses, among other tasks. The use of AI and automation in forensics has increased significantly, having been implemented to reduce manual efforts by more than 50% in the regular e-discovery process.

In 2019, emerging technologies such as AI will redefine the future of analytics, be leveraged to augment productivity and minimize time taken for decision making. Using big data technologies and machine learning, companies are developing their ability to train their analytics models despite a substantial volume of data available, thereby enabling the model to adapt and become smarter. AI and automation will also have a key role to play in building effective customer due diligence platforms and anti-money laundering (AML) tools. Comprehensive pattern recognition programs will help spot money laundering attempts, while AI can remediate common data entry errors by humans in critical Know Your Customer (KYC) procedures.



## Blockchain driving transparency and efficiency

The last year saw an explosive rise in the use of Blockchain in areas beyond just cryptocurrencies, such as money transfers, supply chain monitoring, collaboration and data sharing, data backups and copyright protection. Many financial, IT and supply chain services are turning to Blockchain to secure their systems, drive transparency in operations and identify risks. 2019 will see forensics embracing Blockchain for transactional efficiency, seamless audit trails and cost reduction as will minimize third-party validation. For example, investigators would be able to combine data from disparate systems and trace the fraudster's audit trail by identifying various activities (flight, hotel, car bookings, etc.).



## The role of real time analytics

Analytics in the forensic world is evolving by leaps and bounds and correspondingly keeping pace with the exponen-

tial growth in data volumes. For instance, real time analytics and machine learning are now being used extensively to identify high risk transactions. This year, we will continue to see an uptick in the use of analytics in forensic investigations. Machine learning algorithms will use the data generated to identify complex outliers across a variety of data sources, including unstructured and imbalanced data.

Organizations will focus on implementing solutions over the cloud, providing greater flexibility when it comes to scaling, adapting and improvising solutions in a secure environment and at a lower cost. It is also expected that insights on more real-time, on-the-go data using mobile devices, coupled with the ability to leverage conversational context by adapting natural language processing (NLP) will allow quicker action for future business issues.



## Potential of The Internet of Things

With 20 billion Internet of Things (IoT) devices expected to communicate with each other by 2020<sup>1</sup> and an estimated market of US\$1.5 trillion by 2020<sup>2</sup>, the potential presented for the forensic ecosystem can be transformational. The next generation of mobile technology, 5G (succeeding 4G) is here and will benefit IoT with more opportunities to expand. For example, it will fuel the development of driverless cars through intelligent connectivity. We will also see increase in the customer adoption of IoT for voice based services and building smart cities or homes in the near future. IoT along with advancements in emerging technologies such as AI, machine learning and Blockchain can drive a digital revolution.

Another area is computer vision- which is not a new concept, having existed since the 1970s. It has picked up momentum recently with rapid adoption across retail outlets, testing of driverless cars, daily medical diagnostics, and monitoring the health of crops and livestock.

With new techniques being launched in evidence analysis such as image processing, facial detection and video analytics, computer vision can be leveraged for fraud detection. 2019 will see organizations exploring it to identify criminals in video logs through facial recognition techniques. Advanced deep learning and neural networks can also be helpful to detect suspicious activities by analyzing human movements and raising an alarm in places such as ATMs, cash counters and point of sale (POS) channels.

<sup>1</sup> [https://www.gartner.com/imagesrv/books/iot/iotEbook\\_digital.pdf](https://www.gartner.com/imagesrv/books/iot/iotEbook_digital.pdf)

<sup>2</sup> [https://www.warc.com/newsandopinion/news/global\\_1ot\\_spending\\_will\\_top\\_1\\_trillion\\_in\\_2020/39721](https://www.warc.com/newsandopinion/news/global_1ot_spending_will_top_1_trillion_in_2020/39721)

# Spotlight on new trends shaping the fraud ecosystem



## Digital wallets



## Global in-house centers



## Financial services



## Insider trading

The growth witnessed in India's fintech space has led to digital wallets becoming robust financial tools, gaining widespread adoption. According to an EY report, *Propelling India to a trillion dollar digital economy*, mobile wallet transactions reached US\$13.2 billion in 2017, which is 40x increase since 2013. As the volume and variety of digital or e-wallets continues to soar, the amount of fraud and misuse is also expected to increase. In 2019, fraudsters may look to attack vulnerabilities in digital wallets through methods such as account takeover, social media engineering, creation of new malware and phishing. The Reserve Bank of India (RBI) has been releasing guidelines regularly to protect wallet users against fraudulent transactions, ensuring the same level of safety as offered by other transaction tools such as credit and debit cards. In the coming year, we can expect to see stricter rules enforced on the wallet companies, compelling them to enhance security standards and develop a much faster turnaround time to uncover the fraud.

With the government promoting a cashless economy and boosting various digital payment systems, the focus in 2019 would be on the development of a framework that addresses fraud related risks and breach. These would be supplemented with well-defined norms and operational guidelines including enhanced KYC norms, interoperability between wallets and bank accounts. With the debate intensifying on data privacy and security, regulators would also take a futuristic view of this relatively nascent industry through continuous monitoring norms and scrutiny of end-to-end transaction data.

Digitization, data and cost savings has led to phenomenal rise in the Global in-house centers (GICs) or captives, with the number reaching over 1100 in India right now. But as GICs look to become business, technological and talent hubs, 2019 will see them encounter a number of challenges. Data privacy laws, regulations and company policies around bring your own devices (BYOD) outlining "limited personal use" would make GICs even more responsible and accountable for the sanctity of data held. Performing forensic examinations on personal data devices requires the use of specialized software, trained staff and equipment specific to the type of device. In addition to sourcing this, GICs will also have to develop the ability to safeguard personal information while forensically analyzing company data.

GICs have seen a high adoption of new technologies such as robotics process automation (RPA) to optimize processes and derive value. RPA can automate tasks that are repetitive, dramatically enhancing operational efficiency and security. At the same time, it can augment job satisfaction of investigators. Going forward, GICs will also implement AI, cognitive and other digital capabilities to improve anti-fraud and compliance frameworks.

The heavily regulated financial services sector has seen an increased focus on financial crime compliance programs. A large portion of these programs tend to be manual, resource and time intensive. 2019 will see a strong shift in the sector toward a "managed services" model delivering optimized operations and compliance with laws. As regulatory expectations evolve with the requirement for increased amounts of information and analysis, the sector will look at more holistic, technology led solutions and skilled resources. This will enable banks and financial institutions to make informed decisions and conduct robust risk management. AI driven automation is also expected to emerge as a strategic focus area across financial crime compliance requirements.

Monitoring of non-performing assets (NPAs) is a primary concern as a result of the exponential rise in stressed assets and large write-offs. However, NPA monitoring, tracking and flagging continues to be manual or semi-automated in most banks. In 2019, a regulatory push will drive the sector to be in-line with global leading practices and enhance transparency. Banks will look to follow Automatic Data Flows (ADFs) which allow the RBI to access or download NPA reports at any point in time. Management will have to periodically review if the scenarios and conditions are correctly configured and tagged or linked to the respective financial products.

Recently, SEBI amended the rules on insider trading and put a greater onus on the management, board and audit committee of listed companies. Effective from 1 April 2019, the rules outline the board to "regulate, monitor and report trading by designated persons and immediate relatives of designated persons", framing a policy to understand "legitimate purposes" and maintaining a digital database with those access to unpublished price sensitive information (UPSI) and confidentiality agreements. The penalty for non-compliance prescribed under the Act "shall not be less than one lakh rupees but which may extend to one crore rupees."

Typically, insider trading is tougher to prove as there may be difficulty in establishing how a person came into possession of that information. 2019 may see increased enforcement action as well the imposition of penalties. SEBI's new rules may also lead to companies uncovering systemic gaps in the handling of critical company data and their interpretation of identifying designated people. Companies will also need to tread carefully when collecting information, keeping global data privacy laws such as GDPR into consideration. Encouraging a strong and independent compliance function, responding with decisiveness and clarity when issues around UPSI are brought up or escalated and employee background checks in sensitive areas could also help weed out the miscreants from the ranks or even prior to hiring.

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Dealing with complex issues of fraud, regulatory compliance and business disputes can detract from efforts to succeed. Better management of fraud risk and compliance exposure is a critical business priority – no matter the size or industry sector. With approximately 4,500 forensic professionals around the world, we will assemble the right multidisciplinary and culturally aligned team to work with you and your legal advisors. We work to give you the benefit of our broad sector experience, our deep subject-matter knowledge and the latest insights from our work worldwide.

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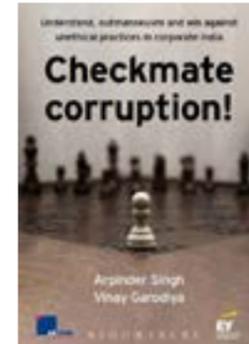
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