



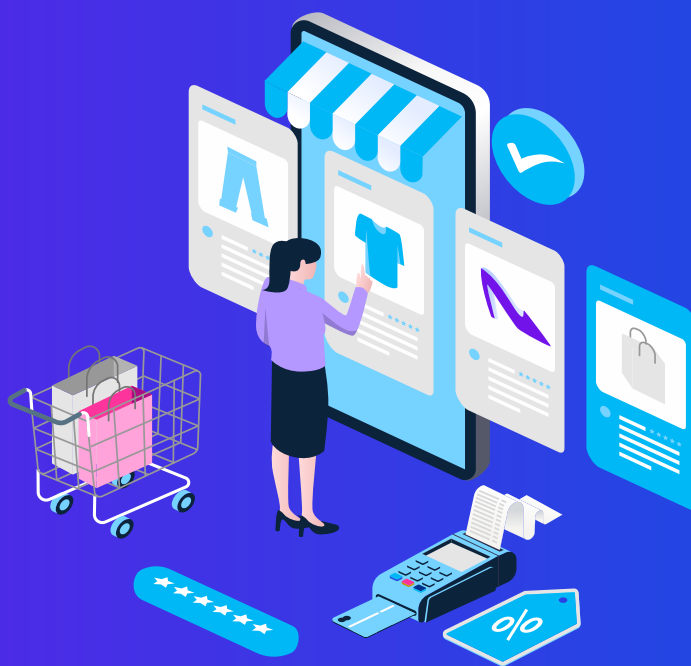
# Evolving frauds and profile of a fraudster in the consumer markets sector



The consumer markets sector in India has undergone remarkable transformation in the recent years. India's consumer market sector is expected to climb two spots to become the world's third-largest sector by 2027, due to rise in the number of middle to high-income households<sup>1</sup>. Consumer spending in India is expected to exceed USD4 trillion by 2030, growing at a CAGR of about 10 per cent<sup>2</sup>.

Historically, India had a fragmented retail landscape which was dominated by brick and mortar stores and local markets. However, the advent of globalisation, urbanisation and digital revolution has ushered in a new era of organised retail and e-commerce. The COVID-19 pandemic acted as a catalyst for the digital revolution, where lockdowns and safety concerns prompted people to turn to online shopping. Also, Environmental, Social, and Governance (ESG) considerations are influencing consumers and they want to buy products and services of organisations that give preference to health, safety, ethics and give back to the society and the environment.

However, with the transformation and growth of the consumer markets sector, frauds are also continuously evolving as fraudsters continue to exploit rapid technological advancements and shifting consumer habits. While traditional scams persist, the digital age has also ushered in new forms of deception.



1. Consumer boom, Mint, September, 2023

2. Consumer spending to exceed \$4 trillion by 2030, UPI most preferred option: Report, The Economic Times, August 2023

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Our team conducted a comprehensive study of multiple forensic engagements undertaken by KPMG in India for organisations in the consumer markets sector\* having operations across the globe, that involved investigation of over 200 individuals. This report is the summary of our analysis, key themes and fraud risk areas emerging on the basis of this study.

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### Methodology:

This report is based on analysis of multiple fraud investigations undertaken by forensic professionals of KPMG in India for organisations in the consumer markets sector. These investigations involved investigation of over 200 individuals, not fraud cases (some cases investigated involved more than one fraudster). The investigations frequently involved interviewing the fraudster, helping KPMG in India to form a detailed picture of the perpetrator and modus operandi of the fraud committed.

The percentages reported in this document may differ by one per cent due to rounding off.

\* For the purpose of this document, consumer markets sector includes Fast Moving Consumer Goods (FMCG), consumer durables, retail, e-commerce and agriculture

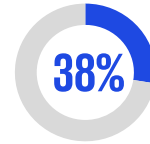
# Fraud threats identified in the consumer markets sector

Below trends were noted pertaining to prominent themes of fraud/misconduct identified during the reviews

01

## Procurement

- Procurement from favoured vendors at prices exceeding market rates
- Collusion between employees and vendors leading to invoices being paid without receipt of full value of materials/services
- Manipulation of vendor master data to onboard fictitious vendors in order to siphon off funds.

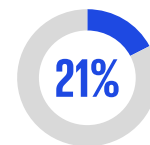


**Procurement frauds were noted in 38 per cent of the investigations, highest among all types of frauds**

02

## Sales and distribution channel

- Moonlighting by sales employees/field executives by recording fake attendance on sales force automation application/online portal of the organization
- Expired and damaged products not being destroyed as per organisational policies and sold in the market by tampering their manufacturing dates or product packing
- Unauthorised sale of branded merchandise in countries/channels not permitted as per organisational policies.

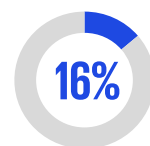


**Nearly 21 per cent of investigations involved leakages in their sales and distribution channel**

03

## E-commerce and cyber

- Fictitious customers created using multiple email addresses/phone numbers but using same device and/or wallet/credit cards/bank accounts to make payments in order to wrongly earn promotional scheme benefits and cashbacks
- Pilferage of original products by either delivery personnel or consumers and return of fake products to the organisation
- Phishing attacks on consumers leading to theft of personal data/banking information and financial loss to consumers.

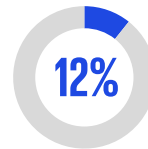


**E-commerce and cyber related frauds have been constantly evolving and noted in 16 per cent of the investigations**

04

## Inventory

- Modification of records to classify good stock as damaged/expired stock and these goods were sold in the market at lower rates
- Manipulation of Closed Circuit Television (CCTV) camera footage to pilfer goods from the factory/warehouse, to sell to unauthorised wholesalers/buyers at lower rates
- Inflated raw material consumption and under-reporting of finished goods production to pilfer material out of factory premises.



**Inventory thefts and stock manipulation were noted in 12 per cent of the investigations**

05

## Excess manpower deployment

- Excess manpower diverted towards delivery of material obtained by competitors/bulk buyers at cheaper rates
- Hiring of additional manpower than the actual requirement in collusion with the manpower agencies
- Creation of ghost employees in the system to divert salary and incentives payable to them for personal gain.

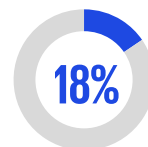


**Frauds related to manpower were noted in 10 per cent of the investigations**

06

## Code of conduct violations

- Sharing of confidential information of the organisation with external parties (including competitors)
- Use of official assets for personal use and involvement into personal business activities during working hours
- Submission of fictious invoices by employees of the organisation for inflated expense reimbursement claims.



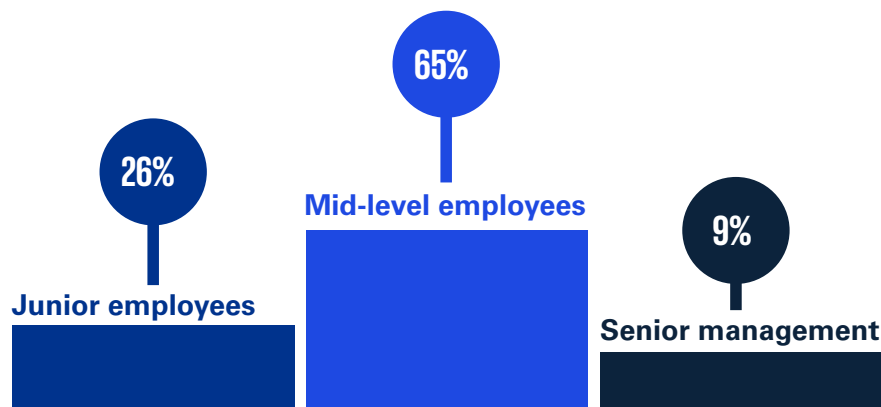
**Code of conduct violations were noted in 18 per cent of the investigations**

# Profile of a fraudster

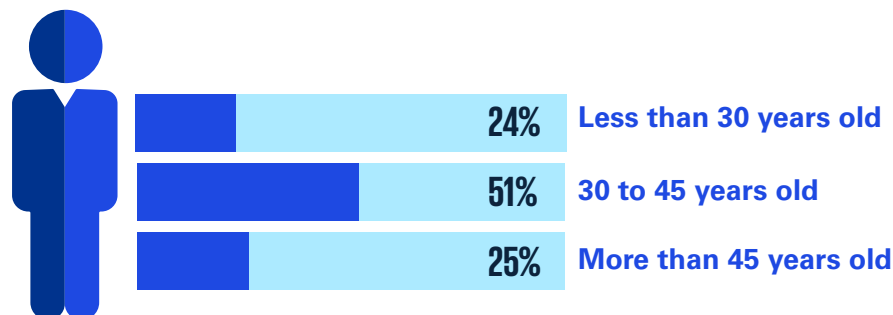
Based on analysis of over 200 individuals involved in matters investigated by KPMG in India team, key trends relating to profile of a fraudster are as follows:

- Majority of the fraudsters were mid-level employees falling in 30 to 45 years of age category, who had taken advantage of weak internal controls while misusing their authority
- Frauds were undertaken as a result of collusion between employees and/or third parties in 78 per cent of the investigations.

## 1. Level of fraudsters



## 2. Age of fraudsters



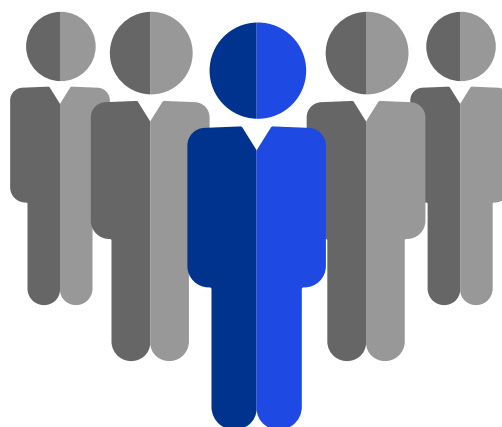
## 3. Collusion in perpetrating fraud

47%

Employees colluded with their fellow employees

16%

Employees colluded with fellow employees and external parties



15%

Employees colluded with external parties

22%

Employees perpetrated the fraud independently

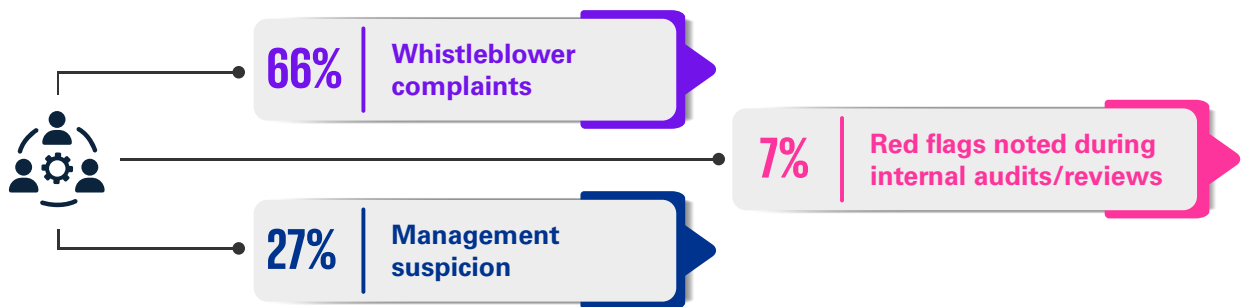
## What was the motive behind committing frauds?

While the key overriding motivator for committing fraud was personal financial gain, other reasons such as culture of bypassing processes, negligence and weak anti-fraud controls also emerged as significant factors for committing fraud/misconduct.

# How organisations identified fraud/misconduct and what mitigating actions were taken?

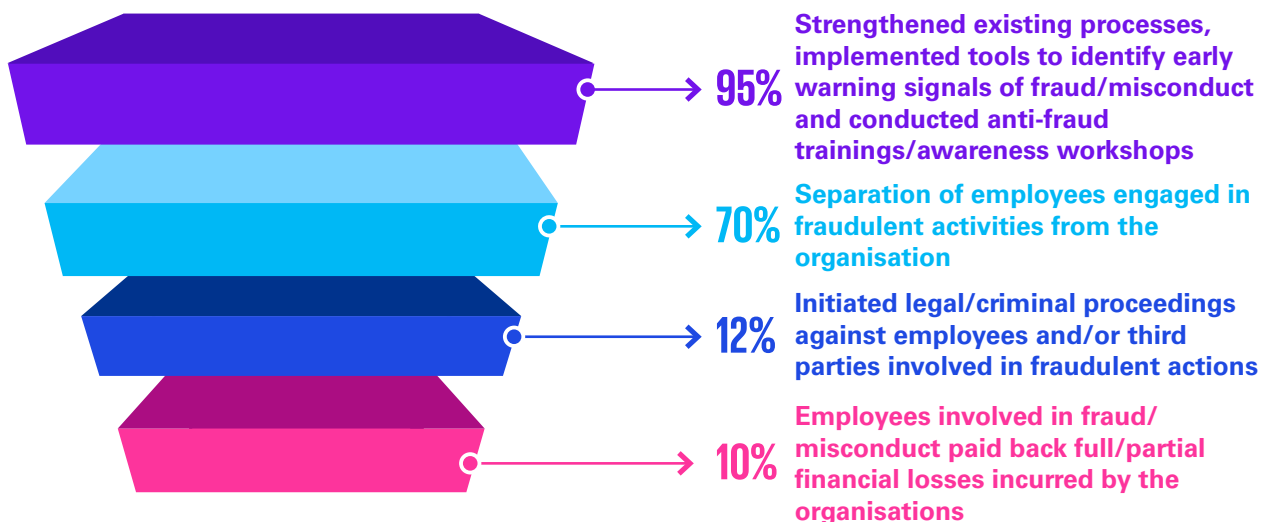
## Triggers for initiating investigations:

- Majority of the investigations were triggered due to whistleblower complaints by employees/third parties and anonymous complaints
- Management suspicion or internal audits also emerged as other key reasons to initiate investigations.



## Mitigating actions taken by organisations on identification of the fraud/misconduct

- Organisations primarily focused on implementing additional anti-fraud controls and creating awareness amongst employees as well as third parties (such as vendors, customers among others)
- Fraudulent employees were either terminated or separated from the organization in 70 per cent of the investigations. Further, 22 per cent of the investigations also involved legal proceedings against the fraudsters and/or recovery of financial losses incurred by the organisations.



In our view, to combat the rapidly evolving threats, organisations must adopt tech-driven measures such as Artificial Intelligence (AI) and Machine learning (ML) based analytic tools and transaction monitoring mechanisms. It is imperative for organisations to implement robust anti-fraud controls and create adequate awareness amongst employees for maintaining an ethical culture within the organization, as this would not only benefit them but also the society and environment in which they operate.

# KPMG in India contacts

**Vijay Chawla**

Partner and Head  
Risk Advisory  
**T:** +91 80 6833 5509  
**E:** vschawla@kpmg.com

**Jagvinder S. Brar**

Partner and Head  
Forensic Services and F-Tech  
**T:** +91 97 1690 9339  
**E:** jsbrar@kpmg.com

**Suveer Khanna**

Partner and Head  
Forensic Investigation  
**T:** +91 9619632131  
**E:** skhanna@kpmg.com

**Mustafa Surka**

Partner  
Forensic Services  
**T:** +91 9819988629  
**E:** mustafasurka@kpmg.com

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**30 years**  
and beyond

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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai -400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

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