



Recession impacts on the security industry and crime

This *National Security Briefing Note* provides a summary of the impacts of the global recession on Australia's security industry and crime.

Introduction

The global financial crisis is causing significant disruption to Australia's security industry just as it is in most other business sectors. Its impact is far from uniform with some security businesses collapsing, others doing well and the rest experiencing small but manageable declines.

The difference in impacts depends on a combination of the local environment in which the security organisation operates, and its own response to the economic disruption. For a security organisation to make informed decisions about its future as the present economic disruption continues, requires an understanding of the key factors which drive demand and supply for security services and products, and the ways in which organisations can capitalise on the opportunities arising from changes to these factors.

The demand for security services and goods in the foreseeable future will be primarily dependent on of a combination of:

- Long-term trends in the security sector
- Changes to the financial position of clients
- Changes in criminal activity

Long-term trends in the security sector

There are a number of long-term trends in the security sector which can be observed nationally, across the state, clients and in the profession. The economic decline has the potential to accelerate

some trends and slow down others. These changes will affect future demand for certain security services and products and will render any projections that organisations have developed based on past demand inaccurate.

The first trend is the increasing attention being given to more traditional security threats, with a corresponding decrease in attention to terrorism threats. Traditional threats include fraud, theft, workplace violence and robbery.

At the Commonwealth level, this trend is best seen by recent changes in the Australian Security Intelligence Organisation (ASIO) and in the all-hazards focus in the National Security Statement. ASIO has been increasing its emphasis on counter-espionage, as illustrated by the formation of its Counter-Espionage and Interference Division. The threat of espionage never disappeared but was given a lower priority following the 2001 al-Qa'ida attacks in the USA. The National Security Statement released in December 2008, which sets out the Australian Government's approach to national security, explicitly criticised the current hazard-specific approach in which individual threats were each treated by unique organisations and arrangements. The Statement noted that this approach "exposes the Government to several areas of vulnerability", implying that the attention given to counter-terrorism resulted in other threats being given insufficient attention. Consequently, the Government is reforming how it allocates \$4 billion of resources devoted to countering, mitigating and responding to all hazards, which it identifies as "espionage, foreign interference, terrorism, politically motivated violence, border violations, drug trafficking, cyber attack, organised crime, natural disasters, industrial accidents and biosecurity events".

This trend is also being observed in many government

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agencies, critical infrastructure and large businesses which had also given significant attention to the threat of terrorism since 2001. Consequently, these organisations are increasing the attention paid to countering threats that they experience regularly, such as ram raids, thefts, and unauthorised access. The economic downturn is accelerating this shift in focus as organisations need to reduce costs immediately, typically by reallocating security resources from counter-terrorism to preventing workplace loss and crime.

A second trend is the increasing integration of security with safety, risk, emergency response and business continuity. This change is occurring partly because these areas complement each other in preventing and preparing for business disruption, and responding and recovering rapidly when it occurs. Historically, these areas have been kept quite separate, leading to poor planning, coordination and cooperation across organisations and slow return-to-normal-business following an incident. The economic downturn may accelerate the integration of these areas, not only to improve business efficiencies but also to reduce costs by amalgamating positions and processes.

Changes to the financial position of clients

At a national level, the economic decline is typically reported as a drop in national growth, consumer confidence or another aggregate indice. While these figures are useful to gain a picture of the economy

across the nation, they provide little indication of the impact on individual clients. This is because an economic downturn affects some sectors and geographic areas far more than others. This stratification of impacts is observed in all economic slowdowns, recessions and depressions.

Instead, it is essential to estimate key clients' current and future financial positions, so as to predict their likely demand for security services and products. As a generalisation, businesses are more vulnerable to an economic downturn if they have high debt levels or liquidity issues, are dependent on consumer sentiment, and if they have difficulty not responding quickly to changing economic conditions.

Businesses which have high debt levels can be vulnerable as the cost of borrowings increase or refinancing is simply not available. Businesses with liquidity issues are those which have trouble meeting their debt service obligations. Thus, if a client has high debt levels or liquidity issues, they may be more likely to dramatically reduce costs or even collapse. It may be important to examine the debt and liquidity position of a business's parent organisation or major shareholders, as their problems can be transferred to the business. From the perspective of the security sector, a number of large infrastructure businesses, like airports, tollways, energy sector organisations and shopping centres, are businesses which carry large debt. There are reports that these organisations are postponing their capital expenditure on new security systems, such as CCTV and fencing, and reducing services such as security patrols and security risk reviews.

Businesses which depend heavily on discretionary consumer expenditure may be more vulnerable to downturns than businesses which service the corporate or government sectors. These consumer dependent businesses can suffer rapid sales slumps when consumers become pessimistic about their financial position. Typical of this type of business are car manufacturers, up market white good retailers and furniture stores. A sub-group of these businesses, which are mostly immune to consumer sentiments are colloquially known as recession-proof businesses, include accountants, funeral homes, and essential food retailers. Businesses which supply the corporate sector can obviously also be affected, depending on the demand for the final goods or services. The



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Many of the Centre's activities are run in partnership with other organisations which reflects its philosophy that collaboration is the key to ensuring optimal outcomes in national security.

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government sector generally is going to see a small decline of a few percent on average but certain areas will also expand under the various stimulus packages.

The third group of businesses which are vulnerable are those which do not rapidly adapt to the changing environment by reducing costs or increasing demand. Typical ways of reducing costs are laying off unnecessary staff, or closing unprofitable stores or production lines. Ways to increase demand include changing prices/value of goods and services, or introducing new product and service offerings.

Changes in criminal activity

The final key factor in determining the demand for security services and products is changes in the criminal activity being faced by clients.

The conventional wisdom is that a decline in the economy leads to an increase in both property crime and violent crime. Causative chains typically advanced for this trend include:

- Unemployed people turn to criminal behaviour to obtain money.
- As people's financial position deteriorates, they become more willing to buy stolen goods, which results in more goods being stolen to meet this need.
- Shop lifting increases due to financial stress.
- As stress at work and home increases due to financial concerns, domestic and random violence increases.

Statistics are commonly used to further support the link such as the rise in shop lifting compared to the year before, the increase in petrol drive-offs using false number plates during high petrol prices, and ram raid gangs who steal high demand consumer products such as cigarettes and alcohol.

While the statistics may indicate an increase in various crimes, the actual cause of this increase may be a range of factors including economic changes. In fact, despite decades of study, the actual mechanisms which link economy crisis with changes in crime levels have not been identified to the point where accurate predictions can be made. This is because criminal behavior is a highly complex issue with many factors beside the state of the economy. For example, the decline in crime in the US during the 1990s is

frequently attributed in the media to an expanding economy but more prominent factors may have been a reduction in births rates of certain socio-economic classes, decline in crack cocaine use, tougher sentencing laws, and increased intelligence-led policing actions.

What is known about crime and the economy is that, as a generalisation, as unemployment increases it coincides with a small average increase in burglaries, homicide, robbery and theft. In some locations it coincides with a large increase but in other locations there may be a decline. The variations to the average trend are due to a range of other factors, some which may swamp economic issues in importance.

Understanding how changes in crime might affect your clients, involves understanding how these different factors might play out for each client. Below is a list of the key factors.

Local demographic factors

Demographic factors play a huge role in criminal behavior as there is a high correlation between certain crime and demographic factors such as age, sex and poverty levels. For example, a large proportion of crimes are committed by young males, so an increase in young males may lead to an increase in crime. A recession can change demographics by creating locations of poverty, and increasing the number of unemployed young males at home during the day.

High crime zones

Certain areas are criminal hot spots which experience high levels of crime. These reflect a range of factors including possibly the location of high-rate offenders. These offenders are typically responsible for a large proportion of certain crimes and they normally undertaken their activities relatively close to their homes. For example, most burglaries committed by a high-rate criminal occur within 1.5 to 3km of their home, and along a particular route they know well. A recession may changes the location, number and freedom of these high rate offenders – for example by reducing police resources to target these criminals - which can result in a significant increase in the rates of certain crimes in certain areas. This rate can be modified if the economy results in more people being home during the day.

Drug and alcohol consumption

Drug and alcohol consumption has a significant direct and indirect impact on the criminal rate. The direct impact can be more assaults and indirect impacts can include property crime to obtain money for drug purchases and increases in organised crime to supply the increased demand. Economic decline can decrease alcohol consumption at venues due to cost, increase alcohol consumption at home, and increase drug taking due to self-medication for stress, unemployment or boredom.

Law enforcement activities

Law enforcement activities have become more effective and efficient over the last few decades in reducing crime rates. Examples of activities are community policing which involves police working with the community to help control crime, and intelligence-led policing which deploys resources at priority targets such as high-rate or serious offenders. An economic downturn may lead to a reduction in policing budgets, or a reduction in focus on certain crimes and areas. This can result in more people undertaking criminal activities as they believe there is less likelihood of being caught or convicted, or more crimes per criminal being committed before they are caught.

Financial safety net and assistance programs.

Australian governments and community organisations provide a range of safety nets and programs to prevent people from falling into poverty. If the financial crisis results in an available safety net being significantly lowered or removed altogether, an increase in crime may occur. If assistance programs, such as drop-in centres and help lines also reduce, then crimes such as domestic violence may also increase, along with suicide rates.

Duration of the recession

The duration of the economic downturn is important as there is often a lag time between increases in criminal behavior and changes to society. The lag time occurs for a number of reasons. Firstly, people have financial and personal resources which prevent them from falling into poverty immediately after losing their jobs. However, once these resources are consumed and people become resigned to their situation, they may look to illegal activities for money. Secondly, the longer the duration of the downturn, the more likely a certain

religious group, social class or ethnic group will be blamed for the economic problems. This scapegoating may manifest itself in allegations that these groups are taking jobs from Australians or are the source of crime in an area. If social harmony crumbles and policing fails to stop persecution, it can lead to vigilantism and extremism.

Ongoing wages

Low wages can reduce the gap between illegitimate and legitimate jobs resulting in certain people moving regularly between the two. Thus, if the downturn results in a permanent reduction in wages, there is a possibility for those on the margin of poverty and crime to increase their criminal activities.

Violent crimes

For violent crimes, such as murder and rape, the link between their increase and economic decline is even more complicated. Generally, economic decline increases stresses which in turn contribute to violent behavior, however studies of the 1990s recessions have shown that in certain locations violent crimes go down rather than up.

Employee theft, shop lifting and workplace violence

Regardless of the reasons for changes in criminal behavior, the media are currently attributing three types of crime to the economic crisis. These are employee theft, shop lifting and workplace violence.

Employers are reportedly increasingly concerned about the theft of company-owned items such as the products they manufacture, laptops and electronic equipment, food items and office supplies. In addition, concern over fraud is being raised, including padding of expenses claims and fictitious travel claims. A smaller concern relates to insider-enabled crimes such as break-ins and data theft.

Shoplifting is reported to be growing due to the economic crisis. The Australian Retailers Association reported last year that shop lifting costs approximately \$5.8 billion annually, and accounts for 64% of all retail crime losses.

In the US media, an increase in the most extreme form of workplace violence, in which co-workers are killed, is being linked regularly with the economic downturn.

There have been several very high profile cases in which those committing the murder-suicides have left notes which identified financial problems as the cause of their actions. This US media coverage has probably led to people in Australia believing that workplace violence is on the rise due to the economic problems here.

Another reported criminal increase in the US, while yet to be noted in the Australia media, has been an increase in property destruction due to the foreclosure of homes. These crimes include ransacking following the departure of the former house owner or burning down houses for insurance purposes. There have also been a several cases in which distressed home owners have committed robberies and this money has immediately been used to service a mortgage.

Organised crime

As organised crime is primarily motivated by financial gain the global financial crisis affects it just as much as it affects legitimate businesses. Consequently, organised crime around the world is adapting to the new environment presented by the economic downturn.

The main activities of organised crime are:

- Drug trafficking
- Money laundering
- Counterfeiting and intellectual property crime
- People smuggling and trafficking
- Art and antiques trafficking
- Stolen vehicle trafficking

The economic downturn will impact each of these activities differently, meaning the response from organised crime groups will also be different.

For instance, a decline in discretionary consumer expenditure may lower recreational drug consumption, and demand for counterfeit brand goods. This would reduce both the cashflow and the profits of organised crime groups. The supply of both of these types of illegal goods may also increase as new sellers enter the market, pushing down the prices, and thus total income per criminal group. A response may be for organised crime groups to expand into other groups' territories or diversify into other goods and services, both of which may result in inter-group conflict.

The economic downturn also offers opportunities for organised crime. The most important one is

developing legitimate business by using their criminal proceeds to buy shares and property. During times of economic prosperity, large transactions in which the source of the funds is dubious are normally reported. However, given the need for cash, some normally law-abiding organisations may be tempted to ignore reporting requirements. Another opportunity for organised crime is to use legitimate businesses who are in desperate need of business and cash to undertake work for them, such as using legitimate freight networks to move illegal goods and traffic people.

IT related crime

The economic downturn is having an impact on the nature and size of IT crime. Media are reporting of increases in white collar crime due to the layoffs of IT professionals people who are:

- Stealing data and selling it online
- Setting up botnets which are rented out
- Producing hacking toolkits for sale
- Setting up criminal sites for information sharing and commercial sale

However, the economic downturn is also affecting the returns of IT criminal activities. For instance, the value of botnets declines when there is a decline in return from activities which use them. The returns decline when people have less discretionary expenditure, meaning they are less likely to spend them on an unsolicited male appendage enhancements, buying counterfeit brand products or subscribing to pornographic websites. In the case of botnets, their value will further decline as more suppliers enter the market.

Like other sectors, IT criminals are adapting to the downturn. This is easily seen with IT scams. Given numerous bank consolidations and takeovers, we are seeing more phishing emails seeking personal and banking information from unsuspecting customers of these institutions. In addition, there has been an increase in employment scams. In February 2009, the ACCC warned about employment scams in which prospective employees were required to accept regular sums of money into their bank accounts in return for a commission. The aim of these scams was either to steal the so-called employee's identity, or to launder money by requiring the employee to transfer the funds into another account set up by the employer. The result for the so-called employee from either scam

is potentially disastrous, with their identity stolen or their bank accounts frozen amid inquiries from police about money-laundering.

As financial difficulties can make people more vulnerable to scams, scammers will continually adjust their message to take this into account. However, while the nature of well organised and large scale IT threats will continue to change, it is uncertain if, and probably highly unlikely that, a recession will actually result in an explosion in new crime.

What security organisations should do

The global financial crisis presents security organisations with both risks and opportunities. To address both, proactive measures are required which must be based on detailed assessment of the demand and supply factors.

The demand assessment begins with undertaking an environmental scan to examine how the economic crisis may affect:

- Long-term trends in the security sector
- Their clients' financial position
- The impacts of criminal activity on their clients

The second stage involves addressing how your organisation can change its offerings to meet changing needs.

For example, if a client is accelerating its integration of security and safety, it may be worthwhile discussing how you can facilitate this and emphasising cost savings. You may be able to offer new technology or consulting services to help with this process.

If a number of clients are all moving in the same direction, it may be an appropriate time to broaden your offerings into these additional areas. Rather than growing the necessary skills organically, a better approach may be to develop partnerships or to merge with complementary organisations. Given the reduction in business experienced by many suppliers and consultants, such partnership might be very attractive to many organisations in the security industry.

It is worth noting that economic downturns are often the impetus for industry consolidation, and it is highly likely that Australia's security industry over the next

few years will see the formation of multi-faceted organisations which provide a range of security, risk, safety, business continuity and emergency services.

A security organisation that identifies that a key client is in financial difficulty could approach them with ways to reduce costs, rather than waiting for a cancellation call. The focus of the discussion should be on how cost savings can be made, by focusing security resources on things like reducing known security threats such as theft, providing a secure workplace during the layoff process and addressing concerns from disgruntled former employees.

It is also important to remember that there is a class of clients, such as infrastructure builders, who will be expanding their activities as they are direct beneficiaries of stimulus package money from the Australian Government, and these organisations should be targeted as new opportunities. All infrastructure projects will have a security component, and the nature and scale of this component will be dependent on the organisations who are involved in developing these projects. Working with these organisations can assist in shaping the security element.

A final example of changing offerings could involve helping clients to address actual or perceived changes in criminal activity. This can include refocusing efforts to reduce new crime, such as placing electronic security tags on expensive cuts of meat which are regularly stolen, or enhancing workplace violence prevention programs. A starting point would be to gather data and run a workshop with the client to identify actual crime trends, and develop a process to measure the effectiveness of different security responses.

Conclusion

The global economic crisis will be the death knell for some security organisations, but a boon for others. The difference will depend on how proactively each organisation addresses the rapidly changing economic and social situation.