

Fidelity & Crime Insurance

Recently, employee fraud and dishonesty have made headlines as never before. However, for every massive incident that captures media attention, there are many more that stay out of the spotlight.

How prevalent is the risk? Eighty-five percent of companies responding to a recent survey reported incidents of fraud within the past three years — with an average loss per company of \$8.8 million. Among larger companies, the average loss soared to \$26 million.¹

More than 150 Ponzi schemes collapsed in 2009, compared to 40 in 2008.² Approximately 140 banks failed during 2009.³ The financial crisis and recession have increased the motivation for perpetrating fraud, at the very time that company cost-cutting has stretched resources devoted to risk management and internal controls to combat fraud.

Employee Dishonesty

As a longtime leader in underwriting fidelity and commercial crime insurance, Chartis sees fidelity and crime claim trends firsthand. Claims today are no doubt on the rise, with activity closely tied to the difficult economy. Areas of heightened exposure include:

- › Vendor fraud and fraudulent disbursements using corporate credit cards to pay personal expenses
- › Fraudulent disbursements involving trusts or escrow accounts. While the risk is especially pronounced within the commercial and residential mortgage areas (e.g., title agents, closing attorneys) and 1031 Exchanges, any corporation or entity holding these types of accounts without adequate disbursement controls and segregation of duties is at high risk
- › **Global exposures** – Controls are often weaker internationally, with typically fewer internal or independent audits of foreign subsidiaries and operations
- › **Senior executives** – Fraud risk rises to the highest levels of a corporation. Claims experience has demonstrated that external audits (and even Sarbanes-Oxley) are not enough to deter or detect fraud and abuse.
- › **Charitable organizations** – Non-profits operate in an environment of trust and their key form of revenue, contributions, are easier to steal than other forms of income.⁴
- › **Government entities** – The government/public administration sector is one of the most commonly victimized industries. Fraud against the government can take multiple forms. Among the most significant are procurement/billing fraud, expense reimbursements and non-cash transactions.⁵

¹ Source: Annual Global Fraud Survey, Kroll

² Anderson, Curt. "Ponzi Schemes' Collapse Nearly Quadrupled in '09." 29 Dec. 2009. Web. 31 Mar. 2010.

³ <http://www.fdic.gov/bank/individual/failed/banklist.html>

⁴ Source: ACFE 2010 Report to the Nations

⁵ Source: Fraud & Abuse in Nonprofit Organizations – Gerald M. Zack

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Employee dishonesty knows no boundaries: Fraud is a global phenomenon. Recently, Chartis claims experts have observed increased reporting of fraud in Brazil (on-line disbursements, wiring funds to own accounts), Japan (organized crime), Central America, Southeast Asia, and Kazakhstan.

What Are the Threats?

Fidelity and employee dishonesty risks take many forms, including:

- > Theft of physical assets or stock
- > Regulatory or compliance breach
- > Internal financial fraud or theft
- > Vendor, supplier or procurement fraud
- > Intellectual property theft, piracy or counterfeiting
- > Management conflicts of interest

Put Our Experience to Work for You

Chartis stands ready to support you in managing fraud and employee dishonesty risks and mitigating losses. Everyday, our underwriters and claim professionals use our in-depth knowledge of fidelity risks and commercial crime claim trends to develop coverage and services that effectively respond to your needs. We are committed to provide:

- > Expansive coverage, tailored to individual risks worldwide
- > Claims professionals who specialize in resolving fidelity and crime losses
- > Dedicated recovery specialists to help you mitigate losses and recover lost assets
- > Locally-admitted, compliant policies, backed by local claims handling and recovery services world wide
- > Loss control and risk management insights that help you anticipate and address key areas of exposure

To learn more about Fidelity and Crime Insurance, please visit www.chartisinsurance.com, e-mail executiveliability@chartisinsurance.com, or contact your insurance broker.

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