Understanding Employee Fraud – Crime Coverage

Every company, regardless of size and industry, is a potential target for crime and fraud. Statistics and surveys show this to be one of the fastest growing problems businesses face today. External forces such as the changing economic environment, advancements in technology and media, rapid expansions, mergers & acquisitions, coupled with internal forces such as increased employee trust, inadequate supervision, entitlement attitudes, and poor morale, are driving the increase in and prevalence of employee fraud. To manage the risk of employee fraud, companies should implement smart loss prevention measures and speak to their insurance agent to secure adequate Crime Coverage.

Reality of Fraud.

• 45% of companies experience fraud at some point
• 82% of all frauds are committed by employees
• 25% of these employees have been with the organization for over 10 years
• 86% of people who commit fraud had no previous fraud activity
• Fraud is committed by all positions in the workplace: 42% employees, 41% managers, 17% owners
• US organizations lose 5% of annual revenue to fraud

Types of Employee Fraud that can be Covered.

• **Employee Theft** – Losses of money, security and other property caused by theft or forgery by an employee.
• **Client Coverage** – Losses sustained by a client resulting from theft fraud or dishonesty by an employee not in collusion with the client’s directors or employees.

Loss Sustained vs. Loss Discovered. Policy language varies and impacts coverage:

• Losses from prior terms
• When it happened vs. when it was discovered
• Neither form allows for accumulation of limits (no stacking of limits)

Who is an Insured? Policy language determines who is an insured. It can include:

• Owners or partners, for actions of others
• Full-time, part-time, leased, temporary and seasonal employees
• Volunteers

Preventing Employee Fraud - Loss Control.

1. Perform **reference and background checks** on employees – including education
2. Conduct **pre-employment screenings**, including criminal, credit, and work history
3. Establish **payroll guidelines** and exception reports
4. **Separate duties** between individuals and departments
5. **Align responsibilities** with education and salary
6. **Require annual vacations** for all employees
7. **Have senior management set tone** of ethics
8. Implement a **written ethics policy**
9. Have employees sign a **conflict of interest statement**
10. Establish or subscribe to a **hotline for reporting fraud** and abuse
11. **Ensure purchasing department** is independent of accounting and receiving
12. **Have all purchase made by purchase order** (number and account for each)
13. **Establish competitive bidding procedures**
14. **Establish vendor addition, removal, analysis, and verification procedures**
15. **Establish disbursement procedures** – number of signatures, secure check stock, wires, etc.

Sources: Chubb Group, Ernst & Young Fraud Survey, Association of Certified Fraud Examiners, Gowrie Group.