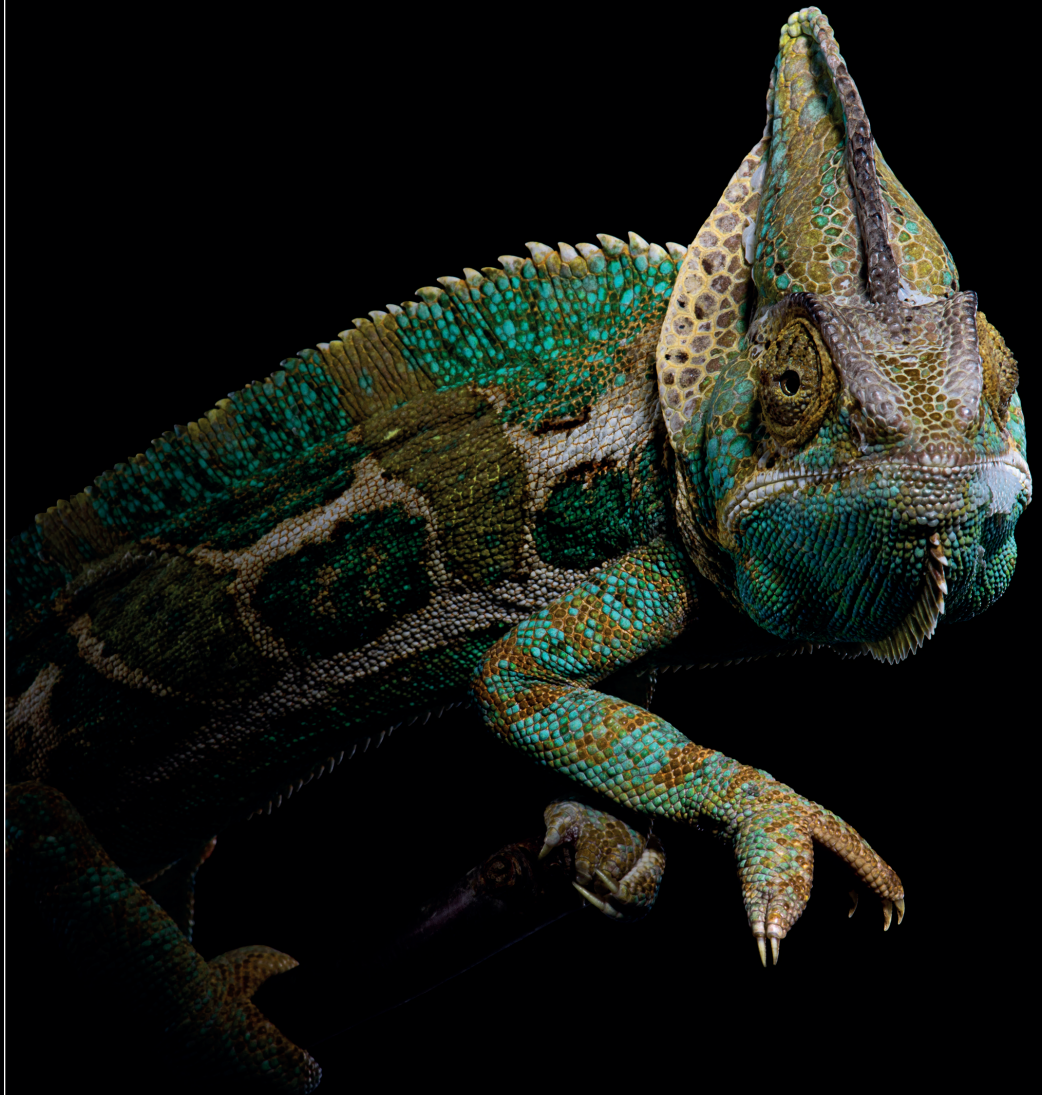


FRAUD CAN TAKE
MANY FORMS.



Regardless of size, territory and business sector, all organisations are vulnerable to fraud. Fraud can take many forms – including the theft of cash, stock and other assets; forgery, embezzlement and computer crime – and can continue for many years, often discovered purely by chance. The financial impact on a business can be devastating, but what is often overlooked is the resulting threat to your business processes, how it erodes the integrity of your employees and tarnishes your reputation.

Fraudulent losses, of course, while not always quantifiable, can over time dwarf the relatively shorter-term impact of financial losses.

Did you know?



PwC Fraud Survey 2016

For most organisations, it is a question of when, not if, they will suffer economic crime. The risks companies are facing are not just increasing but becoming more complex. And the threat is not just from your own employees but also from suppliers, customers, agents, hackers and unknown third parties.

How can Hiscox help?

A company's first line of defence against fraud is its internal controls and procedures. But no matter how robust a company's controls are, they are only as effective as the individuals who are operating them. The Hiscox Crime Insurance policy provides extensive and flexible coverage for a broad range of fraud risks. In the face of ever-changing fraud exposures, Hiscox gives organisations peace of mind.

What we cover

Hiscox Crime Insurance is designed to be an all-risks policy covering:

- criminal taking or misappropriation of your money, securities or property (with no distinction between employee and third-party losses)
- physical destruction or disappearance of money and securities while on premises, in employee custody or in transit
- criminal taking by an employee of money and securities or property to the deprivation of a client
- criminal taking by a third-party of client money, securities or property in your control and for which you are liable
- expenses cover (with its own extra limit of liability)
- computer violation
- telephone fraud
- public relations costs.

Loss scenarios are not unique to the professions identified.
They are examples of losses that could happen to any company.

Payroll pay-out

The finance manager of a UK services company was responsible for processing and authorising salary payments to employees through the company payroll system. He also made additional payments from company bank accounts into his own personal bank account at regular intervals. There was little or no supervision of his work and the lack of internal controls enabled him to defraud his employer of more than £200,000 over an 18-month period.

Credit card con

A financial controller used his company credit card and PayPal account for personal expenditure. He received the card statements, checked the amounts were correct and paid them. No independent checks were carried out on his spending. He also misappropriated cash, receipts, and overpaid himself. Lax controls and no supervision of his work, meant that over three and a half years the financial controller managed to spend £71,000 of the company's money on personal expenses. The fraud was discovered when he was on annual leave and the managing director reviewed the company credit card statements and noticed some erroneous transactions.

Stock shortfall

The employee responsible for all stock-related issues at a UK manufacturer removed considerable amounts of stock from the company's production site and then altered the accounting records to avert discovery. The stock levels were manipulated at the times of the monthly stock audits with the assistance of suppliers. Stock would be left on site during the stock takes and then removed after it had been counted and supposedly verified. As the individual knew exactly when the stock checks would take place, they were able to ensure the correct amount of stock was in place to be counted. The company suffered a loss of £1.4m in misappropriated stock.

Bank account switch

An employee of a European subsidiary of a UK-based company advised its suppliers that the company had changed their bank details and directed them to make all future payments into a newly advised bank account – which happened to be the personal bank account of the fraudulent employee. The same employee also filed expenses claims for bogus accommodation costs and misappropriated insurance premiums. The total loss to the company was £76,000.

False refunds

An employee responsible for processing refunds for a specialist retailer took advantage of their role and began processing fictitious refund transactions to his personal credit card account and other fictitious accounts he had set-up in other people's names. An accounts clerk noticed that there had been an unusually high number of high-value refunds processed through the company's credit card terminal and online banking. The company then discovered that over a three-year period, 340 separate refunds had resulted in an £87,000 fraud. Lack of basic controls meant that the employee acted with full authority to process refunds without daily checking.

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Preventing fraud

Companies need to be rigorous about enforcing their anti-fraud measures. While no measures can guarantee fraud prevention, the following checklist is intended to offer general guidance and may assist in helping an organisation to develop a fraud prevention and mitigation plan.

Understand and review high risk and key operations such as:

- procurement; finance; sales management; employees and third parties.

Implement key lines of defence:

- segregation of duties, recruitment, pre-employment screening, due diligence.

Ethics policy:

- establish/maintain a whistleblowing programme. Ensure employees know what constitutes fraud.

Fraud response plan:

- instigate and communicate procedures and guidelines.

Implement systems and controls to mitigate risk particularly in the following areas:

- IT, security, people management, workflow systems and processes, authorisation, audit trails.

Why Hiscox?

With over 110 years' experience as a specialist insurer, we understand the importance of protecting the things that matter most.

We are one of the few UK insurers to have achieved Charter Insurer status from the Chartered Insurance Institute (CII) – the gold standard of excellence, professionalism and integrity in insurance.

Our simple to understand policy provides comprehensive cover so clients know what they are buying and can be confident they will be covered in the event of a loss.

We are a trusted partner, with an award winning, UK-based, specialist claims team there to ensure cases are handled quickly, efficiently, and fairly.

