



ACE Elite fraudProtector
Commercial Crime Insurance Policy



"It wouldn't happen to us"

Understanding the threat of fraud

Fraud is a major threat to business despite regulation and increased internal controls. During a global economic downturn fraud tends to increase. This is because managers may falsify figures to make performance look better or because debt-laden employees are more likely to commit fraud.

¹In 2008 there were 239 major cases of fraud, totalling £1.1 billion, that went to court - the highest level since 1995 and the second highest amount in the last 21 years. There was a marked increase in fraud by individuals and it seems likely that worse is yet to come. The bulk of fraud committed since the latest credit crisis began will almost certainly not have come into the courts yet.

In other research² organisations who reported a fraud incident:

- had discovered an average of 1.5 cases of fraud in the last 2 years
- the average value of fraud during the period reviewed (2007-2008) was £74,000
- the average total cost to the individual organisations suffering the fraud was £435,000 (including investigation costs and multiple fraud)
- only 36% of cases were reported to the police
A major reason for non reporting was the potential damaging cost to the organisation's reputation.

The study also revealed that 70% believe fraud will increase in the near term, primarily as a result of the economic downturn, yet less than 33% have a fraud awareness programme. Typically, businesses still believe they are immune with statements such as:

"We know our employees"

"My trusted team has worked with me for years"

"This is a family business"

"It wouldn't happen to us"

The following are cases of fraud discovered in recent years:

A book-keeper at a company stole £370,000 over a five year period. Her employer was her brother-in-law.

An employee at a solicitor's firm stole £1 million over 28 years by diverting money out of estates of deceased clients.

A finance manager at an NHS Trust falsified hospital land valuations by £11 million in an attempt to meet financial targets. This gave the impression that the Trust held a cash surplus of £1 million when in fact it had a deficit of over £10 million.

A finance manager at a charity stole more than £150,000 through cashing donation cheques for himself, creating a trail of false invoices to cover his tracks.

A financial controller at a construction company transferred £750,000 out of a little scrutinised holding account into her own account.

A junior PA defrauded three employers stealing over £200,000 through credit card abuse, cashing cheques and even creating direct debits from business accounts.

Whilst every business runs the risk of becoming a victim of fraud, the most common types of loss, according to Kroll's Global Fraud Report 2008/2009, come from:

- Vendor, supplier or procurement fraud
- Regulatory or compliance breach
- Corruption and bribery
- Theft of physical stock
- Internal financial fraud
- Information theft
- Financial mismanagement

¹ KPMG Forensic's Fraud Barometer 2009

² BDO Stoy Hayward and University of Portsmouth's Fraud Report 2009

Managing fraud risk

Companies need to be rigorous about enforcing their anti-fraud measures. The following checklists offer general guidance and will assist in developing a fraud prevention and mitigation plan.

- Understand and review high risk and key operations such as:
 - management; employees; third parties; and
 - procurement; finance; sales.
- Implement key lines of defence
 - Recruitment
 - Pre-employment screening
 - Due diligence
 - Post-employment monitoring
 - Ethics policy
 - Ensure staff know what constitutes fraud
 - Whistleblower programme
 - 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

The Do's and Don'ts when you discover a fraud

<i>Do's</i>	<i>Don'ts</i>
Get on with running the business	Ignore the fraud
Activate your fraud response plan	Respond emotionally or take hasty actions
Investigate - think forward	Immediately confront the fraudster/s
Consider third party specialists	Damage or mark evidence
Take whistleblowers seriously	Limit scope of concerns to specific issues
Be objective in your assessment	Ignore industry regulators
Limit the number of people involved	Put a time limit on investigations



Why ACE Elite fraudProtector?

ACE Elite fraudProtector is a leading crime product designed to provide broad cover to any type of commercial enterprise at a time when business needs protection the most. Simply contact ACE via our dedicated email crime@acegroup.com with brief details of business activities, staff numbers and turnover and you will receive a non binding indication of terms within 2 business days.

ACE is committed to meeting customers' needs through:

- Flexibility to handle most circumstances
- A strong capital base that can deal with major exposures
- A wide variety of innovative products and services
- An international network of claims centres and risk control professionals who know how to help clients reduce risk and loss costs.

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ACE European Group, headquartered in London, is regulated by the Financial Services Authority and has been assigned an A+ (strong) financial strength rating from Standard & Poor's and an A+ (superior) rating from AM Best.



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