

NZILA – FRAUD – 8th AUGUST 2018

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Introduction

- Involvement in both Occupational Fraud (Fidelity) and Insurance Fraud
- Distinguished from fraud perpetrated against Third Parties and that covered by wider Crime Policies
- Occupational Fraud has wide range of complexity and quantum – but often insurer exposure limited
- 4.7%* of Occupational Fraud in insurance companies
- Insurance Fraud includes blatant and deliberate falsification of a claim to claim inflation
- Both have significant cost impact to insurers

* Source: ACFE Report to the Nations: Global Study on Occupational Fraud and Abuse

The Cost of Occupational Fraud

- Anti fraud professionals are aware of how devastating a fraud can be to its victims
- Total value \$USD7.1 billion* over 2,690 cases* studied globally
- Following the discovery of a fraud
 - 65%* employment was terminated
 - 10%* employee given option to resign
 - 12%* settlement agreement with employee
 - 8%* employee on probation
 - 6%* no consequence
- Do it again? No consequences? Got away with it this time ?

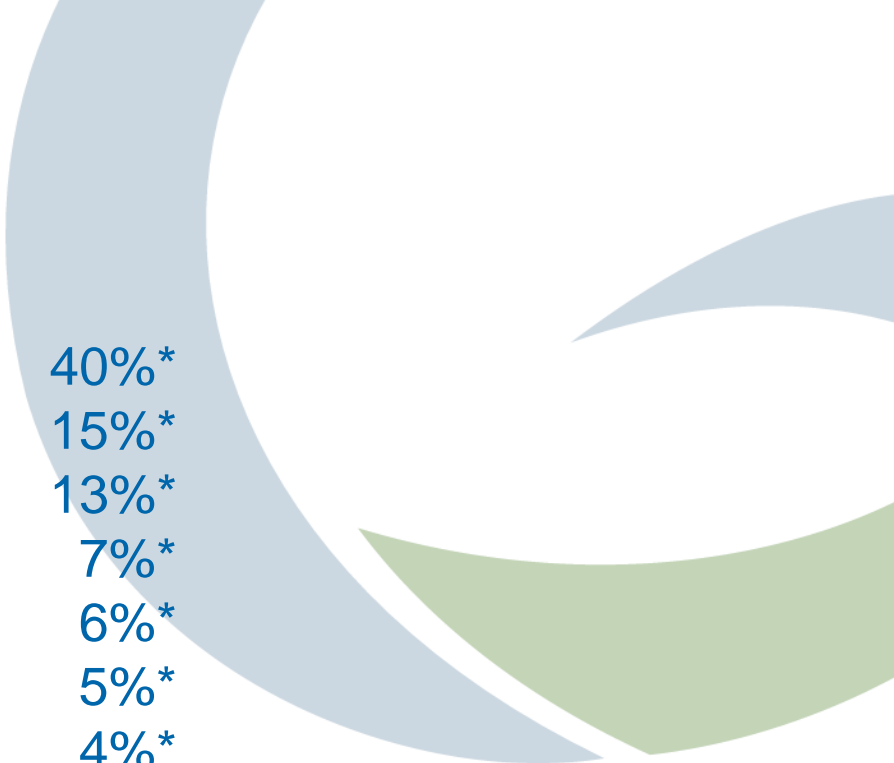
The Perpetrator

- Strong correlation between the fraud perpetrators level of authority and the size of the fraud
- 44%* employees
- 34%* managers
- 19%* owner executive
- 3%* other
- Men / women??? – “ME TOO”
- Ability to commit and conceal – sole charge – small organisation ? – trusted – dependable – works hard – personal friends.....

Red Flags

- Living beyond means 41%*
- Financial difficulties 29%*
- Usually close association vendor / customer 20%*
- No behavioural flags 15%*
- Control duties – unwillingness to share duties 15%*
- Refusal to go on holiday 6%*
- Addiction problems 10%*

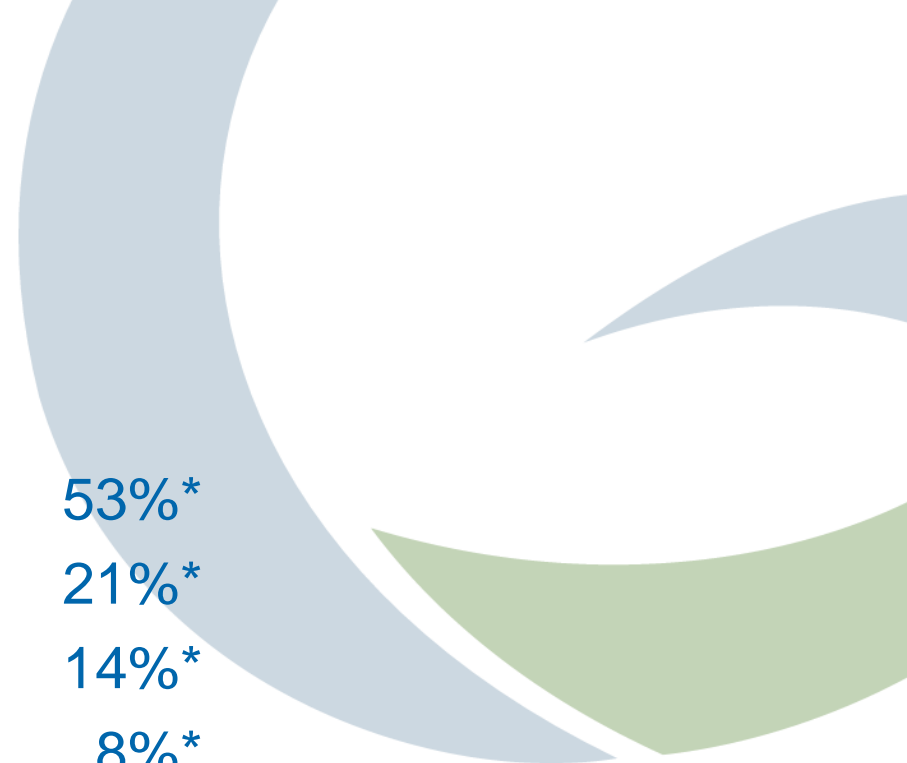
Detection – How



▪ Tip offs	40%*
▪ Internal Audit	15%*
▪ Management review	13%*
▪ By accident	7%*
▪ Other	6%*
▪ Account reconciliation	5%*
▪ Document examination	4%*
▪ External Audit	4%*
▪ Surveillance / monitoring	3%*
▪ Notification law enforcement	2%*
▪ IT Controls	0.5%*
▪ Confession	0.5%*

Detection – Who

- Employee 53%*
- Customer 21%*
- Anonymous 14%*
- Supplier 8%*
- Other 4%*



Detection

- Understanding the methods by which frauds are detected is critical for both investigating and implementing effective prevention strategies.

Prevention

- Active cultivation of tip offs - whistle blowers
- Anonymity preserved
- Promotion of fraud hotlines
- Promotion of reporting mechanisms to outside parties, especially customers and vendors
- Professional sanctions eg Chartered Accountants
- Social stigma – “name and shame”
- Blacklists

Occupational vs Insurance Fraud

	Occupational	Insurance
Fraud Triangle	Applies	Applies
Cost (Estimated Annual NZ\$)	About \$200m	Between \$150m and \$300m
Perpetrator	Position of Trust	Position of Trust
	Short to Long Term	Short Term
	Multiple	One - off (unless serial)
Red Flags	Range of Possibilities	Less Noticeable
Detection	Tip Offs / Audit / Review	Tip Offs / Audit / Review
Prevention	Enable whistleblowing / tip off	Enable whistleblowing / tip off