

WINTER
2021



The Crime Times

INSIDE THE ISSUE

Exclusive insight from our Product Leaders on our focus during challenging economic times and what issues these present to those companies.



In this edition of *The Crime Times*, Rob Larsen, Divisional Director of Fidelity / Crime Division, New York City Office, is interviewing our Product Leaders for multiple coverage lines that we write. We will be discussing Commercial Crime, Financial Institutions and Small Business. Our focus is on challenging economic times and what issues these present to those companies.

Commercial Markets

Dennis Burns – Divisional Senior Vice President

Crime Times (CT): In tough economic times, companies tend to “right size” or have reductions in force (RIF). What should companies consider when doing this?

DB: When companies right size staff, they tend to start in the back office. This means they are laying off accounting personnel, compliance staff and accounts receivable/payable staff. They should keep in mind, if they layoff from these departments, they may lessen their ability to have segregated duties. For instance, accounts receivable people may be paying invoices, so they may not have the standard two sets of eyes reviewing the invoices prior to paying them. This may allow employees to have an easier time in committing employee dishonesty.

CT: It was mentioned a lack of segregation of duties or a lack of two sets of eyes, may contribute to increased exposures. Can you give us an example of how that may occur?

DB: In strong economic times, companies have various departments which contact vendors, negotiate the contracts, review the supplies ordered and pay the invoices. When there is a RIF, companies may be laying off the staff from these various departments. For instance, the people who are looking to purchase from vendors may now negotiate the contracts, receive the goods, and pay the invoices. This makes for a ripe opportunity for the employee to either set up a fake vendor, overpay for the goods, or even set up fake or duplicate invoices. They have this opportunity to commit these dishonest acts since there is no one reviewing their work. Unfortunately, this may start in these times and continue to go on for years. Once these fake vendors are in the system, no one may review the contracts or check the goods purchased. Annual review and purging of vendor

lists are great controls. Vendor thefts are still a main source of employee dishonesty claims and have been for years. Companies, even in tough economic times, should ensure a segregation of duties so no one person can execute a transaction from start to finish.



Financial Institutions (FI)

*Donna Hixon, Divisional Director and
Matt Brown, Divisional Director*

CT: As it has been mentioned previously, when companies do right size, they tend to start with back office personnel. How can a Financial Institution maintain the due diligence necessary to prevent losses from occurring?

MB: Ah, the million-dollar question. In downturns, companies need to maintain the right balance of employee size to the revenue they are generating. FIs for example, need to maintain the segregation of duties so anyone with customer account access does not have the ability to covertly generate or alter customer statements. It's imperative this wall is never breached. Organizations should also segregate the ability of an employee entering wire instructions in the system from a separate individual's responsibility to release a free form wire.

Additionally, the longest and largest losses we've seen tend to veer toward the vendor losses. FIs are good at managing money, either for their proprietary accounts or customer accounts. This is what they tend to focus on. If supervisors become lax in enforcing their internal controls, organizations may open themselves to an employee committing a vendor fraud. FIs need to remain vigilant in maintaining the segregation of duties concerning customer accounts, as they don't want employees having the ability to execute a process from beginning to end. Organizations are wise to avoid lax controls



which permit an employee to follow through on all phases of purchasing. This means namely selecting a vendor, purchasing from the vendor, receiving the goods and then reconciling the purchase order. Unfettered access to these steps provides employees opportunities to steal from the company.

DH: Fraudsters tend to focus on where the money is. It is imperative good financial controls are in place, including call backs or other verification on transfers. It is important to

have good computer security and to update it regularly. Staff should be trained on phishing schemes and the institution should send out phishing e-mails to their employees. It is important to verify the identity of loan customers to be sure that a fictitious loan is not granted.

CT: When you are underwriting a regional bank, are you looking at anything different than during difficult economic times?

DH: Yes. In all cases, we review the non-performing loans. We are paying attention to how quickly they are going up. We monitor the Bank's capital and make sure it is not teetering toward being undercapitalized. We are doing a deeper dive on where the Bank is located and the area the Bank extends their lending to. We are paying attention to not only the unemployment rate in the area, but also the type of industries in the area. Finally, we are paying attention to customers who have heavy loan portfolios involved in commercial real estate.

"We are paying attention to not only the unemployment rate in the area, but also the type of industries in the area."

CT: What can regional banks do to protect themselves in these difficult financial times?

DH: In cases of non-performing or poorly performing portfolios, focus on customers' continuity business planning. Discuss ways the customer is cutting expenses to continue as a going concern. The Bank itself should be doing the same thing. They should be looking at their own way to cut expenses and reevaluate future business strategy, as business plans were produced in more viable economic times.

Small Business

James Wayland, Divisional Director

CT: As you can see in this edition of Crime Times, we are focusing in on commercial and FI's crime policies during difficult economic times. Being that you are focused on small business and they may not have the various dual controls that larger companies have, what can these companies do to protect themselves during these times?

JW: Well like you said these are tough economic times and many small businesses face a challenging uphill battle when it comes to combating fraud. In fact, small businesses are the most common victims of fraud and feel the impact of these losses more than say a larger organization. That being said, many of these businesses are doing more with less. It is always best practice to have two sets of eyes or segregation of duties to mitigate risk and ensure that no employee can complete a process from beginning to end. Smaller companies don't always have the depth of employees to properly segregate these duties and it is very important that the owner or senior member of staff be involved in the auditing processes, evaluating the books, reviewing invoices and purchase orders, to be more preemptive by double checking things before it's too late. The owners or a senior member of staff need to be actively involved in the day to day business of their employees in order to lower or even prevent these types of losses from occurring.

CT: You mention that small business may not have the headcount to ensure a segregation of duties. You also mention audit processes. While some of these companies may not generate enough revenue to make a CPA audit practical, what else can they do make sure operations are running smoothly?



JW: That is a good question. They may not have the revenue to justify incorporation of a full external audit, but they may want to consider having their accountants come in and prepare a review of the books and procedures at least annually. One way to keep employees on their toes is to implement surprise audits. If the company has a review done, it may prevent the employee who's contemplating fraud from doing so. The owner should also be performing surprise checks, either during the working hours or after close. They can inspect the books and records on a unscheduled basis. They may want to inform the employees they will be reviewing the records with unannounced inspections. We find that surprise audits help Insureds expose dishonesty and prevent the duration and severity of loss.

CT: While that is all great advice, does Great American have a specific program to help these smaller companies?

JW: GA does in fact have a team of underwriters whose primary focus is on the small business. As a market leader our thresholds for small business are competitive. We offer minimum premiums starting at \$100 and limits available up to \$3 million with minimal underwriting restrictions. Additionally, we have introduced an online quoter that our brokers can utilize to their benefit. This platform allows our business partners the ability to enter basic information into the system for quick and efficient quote, bind and policy issuance all within a matter of minutes. We have found many agents and brokers really appreciate this valued added service and use it regularly. For additional information, please visit SmallBusinessCrime.com or to request access to our online quoter visit AgentPortal.GAIG.com.





Frank Scheckton,
Divisional President



Stephanie Hoboth,
Divisional Senior Vice President

As we close out this edition, we are pleased to have Frank Scheckton, Divisional President, and Stephanie Hoboth, Divisional Senior Vice President, provide some additional thoughts.

Greetings! In many ways we were happy to close out the year 2020. It was a difficult year for so many of us. However, as you may know, 2020 marked a very special year for Great American Fidelity / Crime. We celebrated 25 years since our inception at Great American. With our vast experience, deep bench strength, and superb claim department, we've been able to respond to the needs of our customers during this turbulent time. As the 3rd largest crime market in North America, we've successfully managed our business and enter 2021 with the ability to offer up to \$50 million in limits with predictable pricing. Our Fine Art business continues to grow and we appreciate the support you've given to that and our Kidnap & Ransom business. The past 25 years would not have been possible without the continued support of our loyal customers. Thank you for helping us make that possible.

We are all proud to be your go-to market for crime and will continue to work hard to meet your needs. We hope you and your family stay well.

We hope your holiday season was joyous. Have a healthy and successful 2021.

Frank Scheckton & Stephanie Hoboth



Fidelity / Crime Division

301 E. Fourth St.
Cincinnati, OH 45202
800-545-4269
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