RISK MITIGATION SERVICES

Take-and-Use Guidelines for Chubb
Crime Insurance Customers
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For Chubb Crime Insurance Customers

Prepared by Stephen Yesko, ARM
Lowers & Associates, LLC
For The Chubb Group of Insurance Companies
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The Critical Role of Insurance

Regardless of size, all organizations are vulnerable to many major, but somewhat controllable, risks. Those risks include business disruption events, fraud, theft, crime, security risks and more. Oftentimes, losses from such risks can continue undiscovered for years. However, once uncovered, the financial impact can be devastating.

As a leading provider of crime insurance (also known as fidelity bond), the Chubb Group of Insurance Companies believes that the most cost-effective way to deal with risk is to prevent it. Certainly, insurance helps recoup some monetary losses from risk, but other losses can never be fully recovered—losses from adverse publicity, disrupted operations, time spent with law enforcement officials, reputational harm, etc. However, the consistent application of sound risk mitigation practices can help minimize the exposure, helping to spare an organization the financial loss that can result from a preventable risk.

We asked Lowers & Associates to prepare this guide, Risk Mitigation Services, to help our crime insurance customers develop risk prevention strategies designed to help reduce their exposure and enhance their protection from corporate risks.

Although we believe Risk Mitigation Services is a good starting point for companies that want to improve or review their risk mitigation strategies and practices, it is not a substitute for expert advice. We encourage you to seek appropriate professional advice for any specific issues that arise when you are designing, planning, implementing or reviewing your risk mitigation programs and processes.
The High Value of Risk Mitigation

According to the 2010 Report to the Nations, published by the Association of Certified Fraud Examiners (ACFE), survey participants estimated that the typical organization loses 5% of its annual revenue to fraud. Applied to the estimated 2009 Gross World Product, this figure translates to a potential total annual fraud loss of more than $2.9 trillion globally! Other interesting facts to come out of the survey, and which illustrate the high value of risk mitigation, include the following:

- The median loss caused by the occupational fraud cases in the study was $160,000.
- Nearly one-quarter of the frauds involved losses of at least $1 million.
- The frauds lasted a median of 18 months before being detected.
- Asset misappropriation schemes were the most common form of fraud in the study by a wide margin, representing 90% of all cases.
- Occupational frauds are more likely to be detected by tip than by any other means.
- Small organizations are disproportionately victimized by occupational fraud.
- The industries most commonly victimized in the study were the banking/financial services, manufacturing and government/public administration sectors.
- Anti-fraud controls appear to help reduce the cost and duration of occupational fraud schemes.
- More than 80% of the frauds are committed by individuals in one of 6 departments: accounting, operations, sales, senior management, customer service or purchasing.
- More than 85% of fraudsters in the study had never been previously charged or convicted for a fraud-related offense.
- According to the survey’s findings, fraud perpetrators often display warning signs that they are engaging in illicit activity.
Today, corporations operate in a dynamic risk environment. The future remains uncertain, allowing for a wide array of risks to impact company results. However, sound risk mitigation strategies and loss prevention/control programs can greatly reduce risks and help increase corporate stability and financial strength.

By evaluating past loss experience, critical operations and procedures, and carefully evaluating the current business environment, Lowers & Associates can determine the risks that present the greatest likelihood of having an adverse impact on your business should a loss occur. More importantly, risk mitigation services can greatly reduce many of those risks.

Increasing profits, maximizing shareholder wealth, building market share and other business goals and objectives become more likely when a company exercises sound best practices and proven risk mitigation measures.
Barriers to Mitigating Risk

Two barriers that prevent many companies from properly mitigating risk are:

1) Major risks are not fully understood and/or properly identified; and
2) Risk mitigation is viewed as an expense, not as a value-added service.

Understanding and Properly Identifying Major Risks

In many companies, executives and employees have more work in a day than they can adequately handle. This increases the temptation to look for ways to eliminate or reduce tasks. Analyzing past loss experience to better protect against future loss may not have priority. Likewise, building a plan to help the company survive an event that disrupts business may be viewed as something to put off for a later date. Yet business experience shows that companies with adequate controls in place, policies and procedures to ensure that those controls are carried out on a day-to-day basis, along with active management oversight and an ongoing risk mitigation program to assess and minimize risk—are better able to weather a financial crisis than those organizations that have invested less toward fully understanding, identifying, and mitigating risk.

Risk Mitigation as a Value-Added Service

Some companies evaluate risk mitigation services solely on the basis of cost rather than taking a more comprehensive view, one which evaluates those services based on value as well. The elimination or reduction of risk increases the organization’s potential for financial success.

Instances of how some companies actually stymie their own financial growth by not implementing adequate risk mitigation services are actually more commonplace than you might think. For example, one bank failed regular bank examinations due to their inability to determine their exposure to IT and information security vulnerabilities. After a Lowers & Associates IT risk assessment and audit, the bank instituted new procedures that substantially improved its bank examination ratings.¹

¹ http://www.lowersrisk.com/risk-management-resources/case-studies/
What You Can Do To Improve Your Risk Posture

Experience and research has enabled Lowers & Associates to identify many ways companies can reduce or prevent fraud while protecting the company’s most valued assets:

Review & Analyze Past Losses

Hold scheduled review sessions to interpret financial performance and examine any past losses. Discuss ways to avoid similar losses in the future. Periodically evaluate and reevaluate potential loss scenarios that would adversely affect the organization and its ability to conduct business. Build processes and systems to help eliminate any identifiable causes and address contingency planning scenarios.

Create & Maintain a Strong Ethical Culture

In June 2010, the Arlington, VA, based Ethics Resource Center released a national study that found that organizations with strong ethical values—from top executives to middle managers to rank and file workers—experience less misconduct, more frequent reporting of misbehavior, and less retaliation on the job. The study indicates that strong ethical culture in a company has a profound impact on the workplace behaviors that can keep a business out of jeopardy.²

Set the “Tone from the Top”

Managers and owners of small-medium sized businesses should focus their control investments on the most cost-effective mechanisms, such as setting an ethical “tone from the top” for their employees, as well as those most likely to help prevent and detect the specific fraud schemes that pose the greatest risks to their businesses.

Build Redundant Checks & Balances

Change any key financial steps where only one person has full knowledge and control. Two (or three) person control is essential even for the smallest of organizations.

² http://www.ethics.org/page/nbes-supplemental-research-briefs#sup3
Institute a Loss Prevention Program

After careful and thorough analysis, design, plan and implement a comprehensive loss prevention program that directly addresses the risks your business faces.

Empower Employees

Employees must know they can directly create and influence your organization’s risk mitigation strategies and tactics. Let them know that doing so can potentially save the business its earnings and reputation.

Create Touch Points

Identify where your organization connects with employees: new employee orientation, company-wide meetings, technical training, employee letters, bulletin boards, websites and publications. Then determine how each of these touch points can serve as an opportunity to train and reinforce ethics, fraud prevention, compliance and other similar messages.
How Lowers & Associates Can Help

With a long history in the United States and abroad, Lowers & Associates (L&A) has a reputation for excellence in satisfying the diverse needs of insurance brokers, underwriters and their policyholders all around the world. We offer proven solutions that can reduce internal and external risk. Among those solutions are:

Avoiding the Repetition of Costly Mistakes: Loss Review and Analysis

Where past loss experience is a concern, our consultants can conduct a comprehensive loss review and analysis. We look at all losses—insured and self-insured—as well as those that were reported and not reported. From this exercise, our team gains the valuable insight required to make risk control recommendations.

Immediately Assessing Risks: One Day Risk Assessment

L&A offers a low cost, one day, on-site risk assessment. Our ‘walk through’ evaluation examines the nature and extent of physical security, internal controls (operational, financial and systems) and operational risk exposures. This assessment can set the stage for a broader Enterprise Risk Assessment (ERA) or a more in-depth review of any particular area of concern.

Completely Diagnosing Risks You Can Minimize: Enterprise Risk Assessment

Enterprise Risk Assessment (ERA) provides a broad, comprehensive review of your business—its assets, people and the way it operates. We can help you better understand risk by developing a risk ranking, risk profile and risk framework to aid in self-managing the exposures that can adversely impact your business objectives.

Eliminating Costly Losses from Your Future: Loss Prevention Programs

The best way to deal with losses is to prevent them from happening in the first place. We have a long history of designing loss prevention programs that directly address risks and promptly respond to incidents that affect the business, the bottom line and ownership interests. We can design a loss prevention/reduction program that best suits your particular needs.
Avoiding Risky Business Engagements: Due Diligence Investigations

L&A due diligence investigations can make discreet and prudent inquiries of any party (person or organization) seeking your company’s involvement in a prospective business arrangement that could ultimately prove harmful.

Planning Your Way Around Potential Disasters: Business Continuity Planning

With every organization at risk of business-disrupting events, clear and tested business continuity and disaster recovery plans are vital to preserving the well-being of the enterprise. Our BCP experts can guide your organization in identifying key processes and assets, assessing current preparedness and mapping continuity strategies directly to critical business activities.

Preventing Fraud: Forensic Accounting

L&A offers specialized resources that help eliminate accounting problems. We have a highly skilled and multidisciplinary team that can effectively review and interpret the complexities of accounting and financial transactions, including corporate accounting, bank records, internal financial controls and digital forensics.

For Chubb Crime insureds, Lowers & Associates provides a wide array of value-added services at special discounted rates, where permitted by law. Those services include:

- Crime Awareness Training Webinars
- Risk Survey/Assessment Services
- Corporate Due Diligence & Vendor Screening
- Security & Safety Services
- SSAE 16 Audit (form SAS-70) Support & Guidance
- Breach Prevention & Response
- Social Media Research & Investigation
About the Company

Lowers & Associates: Independent, Comprehensive and Experienced

You can reduce risk and its effects on your company. We can help. Lowers & Associates is an international leader in enterprise-wide risk mitigation and loss prevention services. Our holistic risk mitigation services weave risk assessment, audit, investigation and compliance into comprehensive programs that protect you and your interests.

Independent

Headquartered in Northern Virginia, Lowers & Associates is an independent, internationally recognized risk management consulting firm.

Comprehensive

We offer a wide range of risk survey/assessment, loss prevention and control, investigation, audit, compliance, due diligence and related risk management services.

Experienced

Our origins, dating back over 25 years, are in both physical and operational security as well as internal controls. Over that time we’ve become an acknowledged authority on matters of crime and fidelity related risk mitigation. Throughout our history, we’ve partnered with many types of organizations to aid in the mitigation of business, operational and technology risks on both a proactive/pre-loss and reactive/post-loss basis.
Your Next Steps

Speak with an Expert

We hope Risk Mitigation Services helps raise your awareness about corporate risks and the many ways you can minimize those risks. Although this booklet provides general guidance, it’s not a substitute for expert advice. Be sure to consult experienced professionals for guidance on risk mitigation.

You can reach the author of this booklet, Steve Yesko, by calling 540-338-7151 or through email at info@lowersrisk.com
About the Author

Stephen Yesko is the Director of Sales & Marketing for Lowers & Associates. Working out of New York City, Steve is responsible for all business development efforts, both in terms of working with our broker and carrier partners, as well as directly with our customers. Steve has over 20 years of experience within the Insurance Industry, fifteen of which have been in various sales, marketing, business development, and consultative roles of increasing responsibility. Steve holds the Associate in Risk Management (ARM) designation and degrees from The Pennsylvania State University and St. John’s University.

Lowers & Associates, LLC
125 East Hirst Road, Ste. 3C
Purcellville, VA 20132
(T) 540-338-7151
(F) 540-338-3131
www.lowersrisk.com
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