



# Preventing Fraud

How Anonymous Hotlines Can Help

CHUBB®

Regardless of size,  
all organizations  
are vulnerable to  
workplace fraud.

#### **Insurance's Critical Role**

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Fraud can take many forms—including embezzlement, forgery, computer crime and theft of inventory and other assets – and can continue unchecked for years. The financial impact can be devastating.

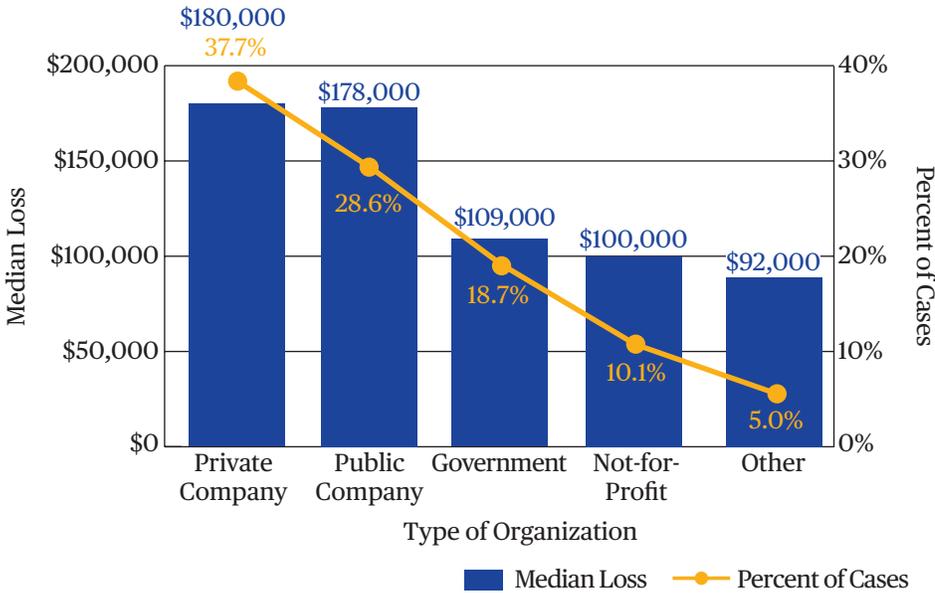
As a leading provider of crime insurance, Chubb believes the most cost-effective way to deal with fraud is to prevent it. Certainly, insurance helps recoup some monetary losses from fraud, but other losses can never be recovered—losses from adverse publicity, disrupted operations and time spent with law enforcement officials and others. However, the consistent application of sound risk management practices can minimize opportunities for fraud, helping to spare an organization the financial loss—and damage to its reputation—that can result from a determined employee's fraud scheme.

We asked Ethical Advocate to prepare this guide, *Preventing Fraud*, to help our Crime insurance customers develop loss prevention strategies designed to reduce exposure to fraud.

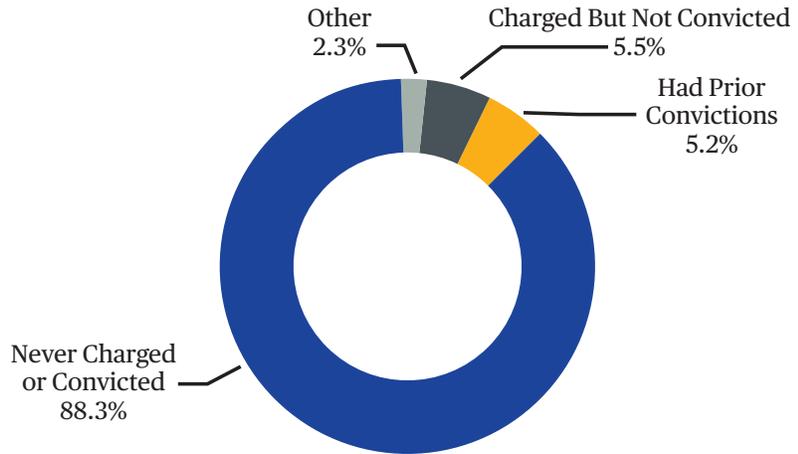
Although we believe *Preventing Fraud* is a good starting point for companies that want to improve or review their loss prevention strategies, it is not a substitute for expert advice. We encourage you to seek appropriate professional advice for any specific issues that arise when you are designing, implementing or reviewing loss prevention strategies.

**The Facts About Fraud**

In business, fraud has become a common occurrence. The 2016 median fraud incident in privately held companies is \$180,000, for publicly traded companies it is \$178,000 and the typical company loses 5 percent of its revenue to fraud.<sup>1</sup>



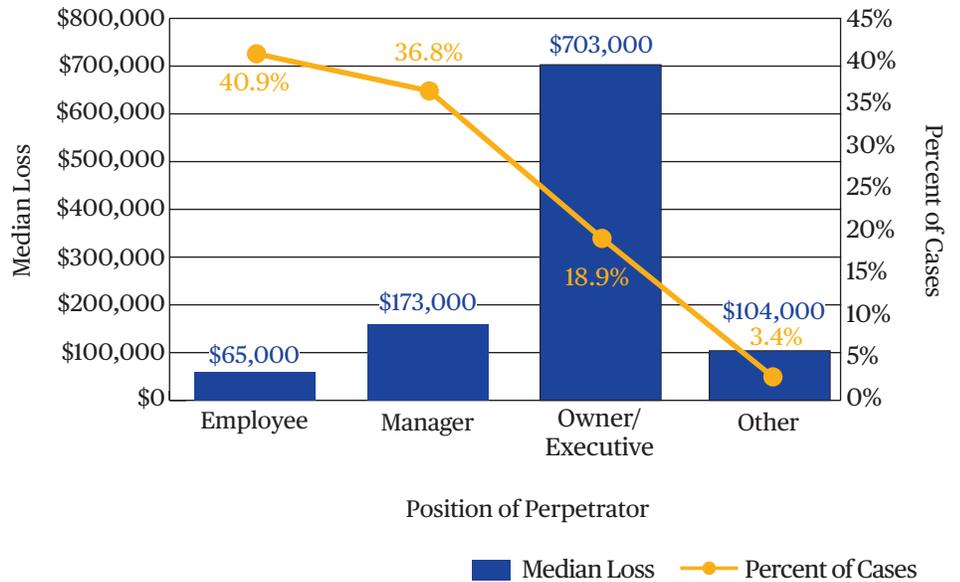
In 2016, more than 88% of the people who committed fraud had no previous record of fraud activity.<sup>1</sup>



<sup>1</sup> Association of Certified Fraud Examiners, 2016 Report to the Nation

In 2016, 55% of fraud was by company management.<sup>2</sup>

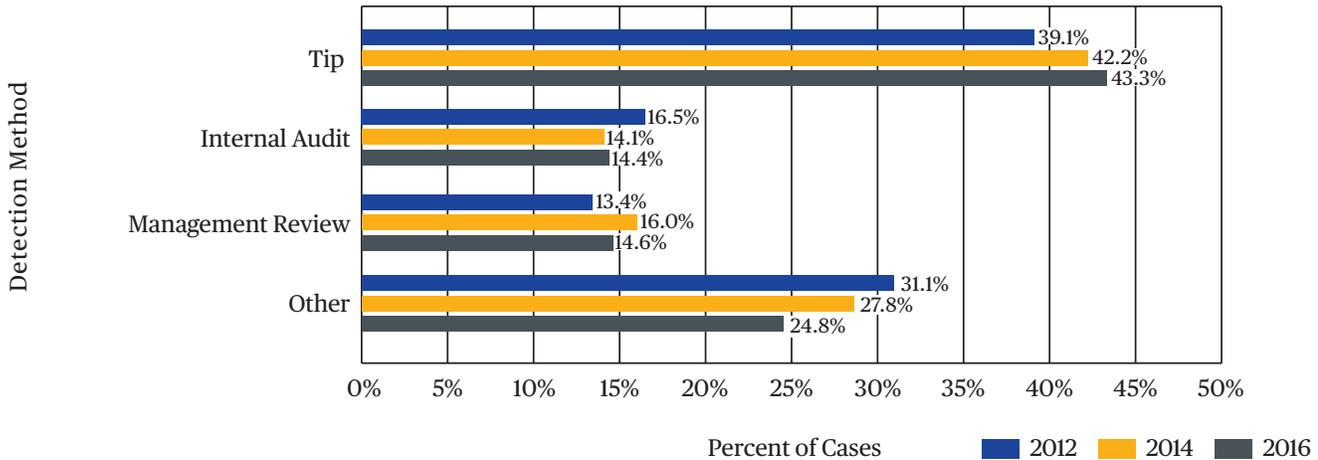
Managers Commit: 36.8%  
Executives and Owners Commit: 18.9%



Nearly 40% of frauds were detected by tip. Consistently, frauds are detected through tips to management and owners. Companies with hotlines experienced 50% lower losses and 50% less frequent losses than those companies without.<sup>2</sup>

<sup>2</sup> Association of Certified Fraud Examiners, 2016 Report to the Nation

**Initial Detection of Occupational Frauds**



**Barriers to Preventing Fraud**

Two imposing barriers prevent company employees from reporting fraud:

1. people are afraid
2. internal reporting processes are broken

In most companies, reporting mechanisms are within the company. In those situations, an overwhelming number of employees are reluctant to report a fellow employee they suspect of fraud. They're even more reluctant to report managers. Among their greatest fears are termination and retaliation. Employees are also concerned about suffering retribution or being ostracized by co-workers.

Few employees trust internal reporting mechanisms. Studies show that people rarely perceive internal reporting mechanisms as being truly anonymous. Yet employees must have anonymity to feel safe enough to report fraud even when not reporting could lead to great company loss.

**Internal Reporting Mechanisms Are Incomplete**

Many employees who report fraud do so before or after work hours and on weekends in order to do so privately and not use company technology. That means the typical 9 a.m. - 5 p.m. internal reporting mechanism doesn't capture many fraud reports. There's also a language barrier. To reduce or prevent fraud, it's important to have multi-lingual, 24/7/365 coverage.

Another way internal fraud reporting programs are incomplete is in communication. Most companies with internal reporting lack ongoing, anonymous communication mechanisms between the incident reporter and the reviewer. Ongoing communication is essential for getting as much information as possible.

*\*Other includes the following detection methods: by accident, account reconciliation, document examination, external audit, notified by law enforcement, surveillance/monitoring, IT controls, and confession.*

## **What You Can Do To Stop Fraud**

Employees in organizations with strong ethical cultures and formal fraud prevention programs are less likely to witness misconduct than employees in organizations with a weak culture and no formal programs. Experience and research have enabled Ethical Advocate to identify many ways companies can reduce or prevent fraud while protecting the company's most valued assets. You can create and maintain a strong ethical culture by investing time, rigor and effort in the following steps:

### **Create deeply held values backed by consistent actions**

Your organization's values tell employees what is and isn't permissible. However, values are just words on paper unless you back them up with a strong ethical culture that doesn't tolerate unethical acts.

### **Set the tone at the top**

Leaders must lead. It's critically important to employees - and your organization - for company leaders to be ethically driven. They must walk the talk, not just talk the talk.

### **Empower employees**

Employees must know they can directly create and influence your organization's ethical culture and potentially save its money and reputation.

### **Identify and eliminate weaknesses**

Identify at least three aspects of your organization's culture and ethics that you want to change. Build a specific plan on how to implement that change and follow through.

## **Communicate**

Consistent and clear communication about your organization's ethics and values will help create and maintain an ethical workplace. Your messages should include:

- Expected behaviors (i.e., conducting business in a legal and ethical manner)
- Unacceptable behaviors (illegal and/or unethical behavior)
- Examples of and recognition for people or events that exemplify your organization's culture and values

### **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 and compliance messages.

### **Emphasize values and ethics in recruiting and hiring**

Communicate the values, ethical commitments and professionalism you expect from every job candidate. Test for those values before you hire.

**How Anonymous Hotlines Can Help**

The 2016 report from the Association of Certified Fraud Examiners found that anonymous hotlines can lower fraud losses by 50%.<sup>2</sup>

**Anonymous Hotlines are Proven to Work**

An anonymous 24 hour a day, 7 days a week, 365 days a year hotline managed by an independent party outside of your company is the most effective tool for employees to use to report fraud and other illegal conduct. The latest Association of Certified Fraud Examiners<sup>3</sup> figures on the next page show there are many effective fraud prevention tactics. Consistently, hotlines rank at the top of the list.

Fraud Control Tactic	Median Amount Saved
Management Certification of Financial Statements	\$101,000
Hotline	\$100,000
Management Review of Internal Controls	\$100,000
Independent Audit Committee	\$92,000
External Audit of Internal Controls	\$25,000

**Your Next Step**

**Speak with an Expert**

We hope this booklet helps raise your awareness about the risks of fraud and how you can manage those risks. Although the booklet provides general guidance, it's not a substitute for expert advice. Be sure to consult experienced professionals for guidance on fraud prevention.

You can reach Jacob Blass via phone at 919-942-2469 or email at [jblass@ethadv.com](mailto:jblass@ethadv.com).

Ethical Advocate  
 1818 MLK Jr. Blvd. Ste 258,  
 Chapel Hill, NC 27514  
[www.ethicaladvocate.com](http://www.ethicaladvocate.com)  
 E: [info@ethadv.com](mailto:info@ethadv.com)  
 P: 888 ETHICS 6

<sup>2</sup> Association of Certified Fraud Examiners, 2016 Report to the Nations



### About the Author

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Jacob Blass is the President of Ethical Advocate. Under his leadership Ethical Advocate is ranked within the highest echelon for customer satisfaction by Dun&Bradstreet. He was the President/CEO of four healthcare companies; has consulted to companies internationally on the integration of values, purpose and goals; has served on the Boards of numerous organizations; and was a founding member of National Hospice Workgroup think tank.

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