

# Management Liability Package

## Commercial Crime Claims Examples

Our policy coverage would respond in the following circumstances.

### Supplier/purchasing fraud

The Insured were one of the UK's largest property management companies involved in various building maintenance and improvement projects. An employee of the Insured in the role of project manager conspired with two external contractors' in an invoicing fraud. Invoices were submitted by the contractors for work that had not been done and the employee authorised the payments in return for kickbacks. The loss to the business was a little shy of £2m. The fraud occurred over a large number of sites and invoices were mixed in with legitimate invoices making the quantification of the loss difficult. We were able to agree a series of interim payments as each phase of the loss was quantified, thereby minimising the impact on the Insured's business.

Supplier fraud (which usually involves collusion) is on the increase. It can go on for a long time without being detected and result in multimillion pound losses. Companies need a rigorous procedure for vetting and appointing suppliers. The supplier list should be actively managed and appropriate auditing is essential.

### Asset misappropriation

A European based manufacturer produces large quantities of scrap metal in its production process. The scrap was sold to a scrap metal reclamation company for reprocessing. The employees responsible for this activity sold the scrap at less than market value or on certain occasions didn't charge at all. In return they got kickbacks. The loss totalled over €500,000.

### Accounting fraud

A large local authority discovered a significant fraud perpetrated by a financial controller. The department in which he worked employed over 500 people and was responsible for the provision of various social services. Some of these services were outsourced to local suppliers who received payments for their services.

Investigations revealed that the financial controller had amended payment runs and inserted additional fictitious payments to these suppliers, but these payments were made into a personal bank account he controlled. During a five-year period, he stole in excess of £500,000. The loss was a significant amount of money for a local authority providing front-line services to vulnerable people. A quick investigation allowed us to pay the loss in its entirety.

A significant proportion of all losses are caused by accounting fraud. Due to the authority levels of the fraudster and their knowledge of accounting systems, they can be difficult to detect. Full segregation of accounting functions should be rigidly enforced and staff rotation should be considered.



### Accounts receivable/teeming and Lading

A senior accountant working in the European operations of a global chemicals company had been stealing money from various company bank accounts over a six-year period. He had worked there for well over ten years, was highly trusted and had risen to a senior position in the organisation. He used his detailed knowledge of the accounting systems to process and conceal regular payments into his own account and covered his tracks by transferring money from other company accounts to hide the holes, commonly known as “teeming and lading”. The loss was over €800,000. The claim was paid and we were successfully able to pursue recovery against the fraudster.

“The loss was over €800,000.”

“Robbing Peter to pay Paul” is the essence of teeming and lading. Because of their trusted position and system knowledge, fraudsters can be difficult to detect in these circumstances. Suspicious transaction monitoring, surprise audits and job rotation can play a significant role in preventing this type of loss.

### Asset misappropriation

A manufacturer of mobile phones noticed that its revenue from a certain territory had diminished rapidly. On investigation it found that cheap non branded mobile phones were being sold in large quantities and that the functions and features were identical to their phone. It turned out that the chip sets in the non-branded phones were in fact theirs. These were traced back to the plant where they were manufactured and several employees were found to be stealing them and selling them in the black market. The loss was well over £1m.

“The loss was over £1m.”

Asset misappropriation is still one of the main frauds perpetrated and attractive stock with a ready black market will always be at risk. Strong inventory and stock check controls allayed to robust audit procedures are essential to reduce the likelihood of asset theft. Specific fraud risk assessments can also be very effective.