

Protection From White Collar Crime Crime Insurance



Henry Ford, the genius entrepreneur of the last century, described his idea of doing business in a simple manner. "A *business that makes nothing but money is a poor business*", he said and the behemoths of the financial world, both in India and abroad, had realised this statement to be true. Instead of short term goals and quick profits, a sound corporate philosophy, internal transparency and ethical practises make a venture successful in the long run. All the modern day business empires have ensured this vital internal health of their companies through an exhaustive grid of checks, audits and supervision but there always have been those who have been able to slip through the cracks in the system.

Corporate fraud has been an old enemy of every business house and in India where the economy has been growing rapidly in the last few years has reported a growing number of such cases not only raising anxiety in the mind of investors but also affecting the company's reputation, confidence and its profit. In the past few years, the spate of crimes uncovered in the financial, banking and insurance sector shows some disturbing trends.



The biggest corporate fraud so far has been the one which shook Satyam Computer Services Limited, a scandal that caused loss to the investors to the tune of Rs.14,162 crore. The fraud was perpetrated by inflating the revenue of the company through false sales

In 2011 60% of the surveyed organizations said that they had experienced fraud. This was more than double the number who said so in 2006.

invoices and showing corresponding gains by forging the bank statements with the collusion of the statutory and internal auditors of the company. When the primary accused confessed to India's biggest corporate fraud, Mahindra Satyam, formerly Satyam Computer Services, lost almost 25-30% revenue between January 7 and April 13, 2009- a shock that not many other firms would have been able to bear.

In another recent scandal saw a former managing director and chief operating officer of Reebok India being accused of setting up secret warehouses of stolen products in Delhi, fudging accounts and making fictitious sales causing a loss of Rs870 crore to the company. In the retail sector too, well-known companies such as the kidswear brand Lilliput and grocery chain Subhiksha have also faced serious cases of accounting fraud.

Even financial powerhouses are susceptible to these crimes as seen by the case of a former relationship manager of Citigroup Wealth Management who had allegedly diverted funds to the tune of over Rs300 crore from customers and non-customers of Citibank into personal accounts and had been investing in the equities market for over a year, before he was arrested in December 2010.





**Magnitude of
frauds in the
second half of
FY2012
increased by
36% over the
first half**



Since corporates do not like to report frauds for the fear of loss of reputation the exact amount of losses that corporate India faces is not clearly discernable. However, a latest report by Ernst & Young claims that the cumulative effect of the different types of frauds in the Indian economy in the last fiscal have caused losses amounting to a staggering Rs 6,600 crore. Around 63% of the total fraud cases in FY12 were reported in the financial services sector alone, banks being the most common victim of frauds followed by insurance and mutual fund companies. Earlier this year another study by a Pune-based company Indiaforensic claim Indian insurance companies have borne a loss of over Rs30,000 crore in 2011 due to different kinds of frauds. According to the first edition of Ernst & Young's Fraud Indicators in India, the magnitude of frauds in the second half of FY2012 increased by 36% over the first half while the number of frauds rose by a mere 8% during the same period signalling that while the criminals may not be increasing in hordes but are certainly getting a lot smarter. In the recent Deloitte's Banking Fraud Survey 2012, 83% respondents have indicated that fraud incidents will increase with 64% respondents indicating that the increase will be between 6-25%.

So, how do corporates deal with this menace? Since there is no way to completely eliminate frauds from the system, a robust corporate culture and institutionalised internal controls do act as a passive deterrent. Of the more active measures a company can take for insulation from the financial shockwaves of a major fraud is through the right kind of crime insurance. These insurance policies covers loss from frauds perpetuated both employees and third parties and are vital for the sustenance of not only major, multinational corporations but also smaller domestic businesses.

The threat of a financial fraud would be much more for a small scale, independent commercial venture but the awareness level of Indian businessmen and managemnts about these policies is severely limited thereby exposing them to the serious ramifications of any perpetrated crimes.

A crime insurance policy protects employers from dishonest acts of employees and provides cover for direct financial loss of money, securities and property.



A lifeline in case of such eventualities, the policy coverage includes theft, disappearance and destruction, and a multitude of fraudulent acts which include forgery or counterfeiting of money & securities, fraudulent alteration of payment instructions, fraudulent use of corporate credit or debit card, Computer fraud and fund transfer fraud. Any action of a devious employee that earns him a benefit at the cost of monetary loss to his company is guarded against effectively by these policies.



"Financial planning requires long-term thinking. Especially if you get caught."

The policy also covers a very wide spectrum of people including part-time or temporary employees, students or volunteers under the insured's supervision, trustees, fiduciaries or an administrator of any plan or project.

In the modern global scenario of connected networks and threat of database hacking by anonymous cyber criminals, the policy can be customised to a great extent and can cover frauds perpetrated by not only employees but also third parties and unidentifiable. However, it would also serve the employer well to understand the certain grey areas where standard crime insurance doesn't extend its cover. The insurance would not be able to come to your rescue if the accused employee's actions have not earned him a financial benefit and has caused only consequential loss (i.e. delay or loss of future trading) and not direct financial loss to the company. Similarly, even in the case of direct financial loss to the company, if the malicious intent of the employee is not proved and he doesn't make a direct benefit himself, the policy cover doesn't apply. Also, proprietary information, trade secrets and intellectual property loss are not covered under the standard crime insurance policy and any corporation desirous of guarding against these singular threats must ask their insurers to design a more customized policy to suit their

Crime insurance policies are the last line of defense of any business entity against an attack from within.



They lend longevity to a business by enhancing its survivability and are thus a vital component of any operational philosophy governing

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