

Private Company Loss Scenarios from Chubb



Wolf in Sheep's Clothing

COVERAGE	Crime
Cause of action	Employee Theft (Phantom Vendor)
Type of organization	Communications Firm
Number of employees	More than 200
Annual revenue	More than \$25 million

DESCRIPTION OF EVENT

A communications firm's human resources manager recommended that her company hire an outside accountant to attempt to reduce the company's modifier on workers' compensation claims, thereby reducing payments. Senior management approved the HR manager's suggestion and even publicly congratulated her for her money-saving idea. The HR manager then set up a phony consulting firm and billed the company for this and other consulting services that were never provided. The HR manager's actions went undetected for more than two years, until the accounting staff began questioning the billing amounts.

RESOLUTION

An audit determined that the manager had stolen more than \$500,000.



Nonexistent Employees

COVERAGE	Crime
Cause of action	Employee Theft (Payroll)
Type of organization	Waste Management Firm
Number of employees	More than 200
Annual revenue	More than \$100 million

DESCRIPTION OF EVENT

The payroll clerk for a waste management firm added several relatives to the payroll. He faithfully deposited paychecks into the phony employees' bank accounts for nearly three years before he left the company and the new payroll clerk discovered the scheme.

RESOLUTION

The company determined that the crooked clerk had made phony payroll payments totaling more than \$300,000 to his relatives.



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Could this happen to your organization? Contact your trusted Chubb agent or broker.

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Look-Alike Vendors

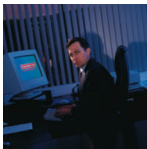
COVERAGE	Crime
Cause of action	Employee Theft (Phantom Vendor)
Type of organization	Technology Firm
Number of employees	More than 40
Annual revenue	More than \$40 million

DESCRIPTION OF EVENT

The head of accounting of a technology firm approved payments to several vendors with made-up names that sounded like actual vendors that the company had contracts with. For example, he approved invoices for ABC Company, a legitimate consulting firm doing work for the firm, as well as for ABC Inc., a phony consulting firm he had concocted. After more than two years, an accounting clerk on his staff noticed a slight difference in names and the scheme was uncovered. It turned out that the perpetrator had been funding a gambling habit.

RESOLUTION

The accounting head approved false invoices totaling more than \$650,000.



Untrustworthy CFO

COVERAGE	Crime
Cause of action	Employee Theft (Embezzlement)
Type of organization	Environmental Firm
Number of employees	More than 250
Annual revenue	More than \$20 million

DESCRIPTION OF EVENT

The CFO and member of the board of directors of an environmental firm had full access to his company's accounts. Over several years, this trusted employee gave himself unauthorized salary increases, bonus checks, and expense allowances. The fraud was discovered when an outside consulting firm conducted a thorough audit.

RESOLUTION

The CFO embezzled more than \$700,000.



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Undetected Thief

COVERAGE	Crime
Cause of action	Employee Theft (Returned Merchandise)
Type of organization	Retail Business
Number of employees	More than 20
Annual revenue	More than \$2 million

DESCRIPTION OF EVENT

A local retailer had a “no questions asked” return policy, whereby customers could return unwanted or faulty merchandise without a sales receipt. The policy was popular among customers and helped the store gain considerable word-of-mouth advertising. The retailer’s bookkeeper, a longtime employee, took advantage of the policy by systematically altering the books to show “dummy” returns and paying herself cash, always being careful not to exceed actual returns by more than three to five percent. When the bookkeeper died unexpectedly, the fraud was discovered by the new bookkeeper.

RESOLUTION

The trusted bookkeeper managed to skim more than \$100,000 from the store over eight years.



Inventory? What Inventory?

COVERAGE	Crime
Cause of action	Employee Theft (Inventory)
Type of organization	Paper Products Distributor
Number of employees	More than 500
Annual revenue	More than \$10 million

DESCRIPTION OF EVENT

A manager of a wholesale paper products distributor colluded with a fellow employee in the warehouse to manipulate inventory and defraud the company. The pair stole from the company by diverting raw material before it became inventory and by selling rolls of paper and other finished products. An anonymous tip regarding the theft resulted in the company hiring a private investigator. The private investigator uncovered the scheme and determined that it had been taking place for nearly two years.

RESOLUTION

The total loss to the distributor exceeded \$1.5 million.



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Vendor Email Hacked

COVERAGE	Crime
Cause of action	Social Engineering Fraud
Type of organization	Private
Number of employees	Less than 250
Annual revenue	Less than \$250 million

DESCRIPTION OF EVENT

The controller for a distributor of component parts was responsible for making regular payments to overseas vendors from which the distributor purchased products for resale in the United States. After many months of working with one particular vendor and receiving regular shipments, the controller received an email that appeared to come from his vendor contact, indicating that the vendor's bank was having issues with accepting payments, and asking if the next payment could be made to a new bank. Due to the vendor's overseas location, verification was a challenge. After the supposed vendor applied some pressure, the controller paid the invoice via wire transfer.

RESOLUTION

The following month, when the real vendor realized that its best customer's payment was overdue, an investigation determined that the vendor's email had been hacked, and an imposter had been socially engineering the company into believing that the change in bank information was authentic. In the end, the fraudster finagled almost \$250,000 from the distributor.

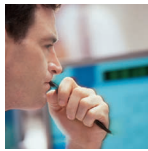


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Illegitimate Client

COVERAGE	Crime
Cause of action	Social Engineering Fraud
Type of organization	Private
Number of employees	Fewer than 50
Annual revenue	Less than \$100 million

DESCRIPTION OF EVENT

A business manager handling bill payment and bookkeeping services for a client received an email, purportedly from a client, inquiring about her balance and availability of funds for a wire transfer. The email included details regarding the scope of services that were provided, as well as information about other transactions that had recently been performed. The wire, for \$100,000, was to go to an offshore account, purportedly for the purchase of a new piece of real estate. After the purported client won the business manager's trust, the business manager authorized wiring the funds to the fraudster's account.

RESOLUTION

After noticing some activity in the client's spam account, the client grew suspicious and contacted its bank, requesting that the wire be stopped. Unfortunately, the wire had been sent and all \$100,000 was lost.



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