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2018 Hiscox Embezzlement Study™: An Insider's View of Employee Theft

At Hiscox, we have been studying embezzlement and how to prevent it for several years. In previous years, we looked at employee theft cases that were active in the US federal court system. This year, for the first time, we surveyed chief financial officers, controllers and accountants who have worked in a company where embezzlement has occurred. These are the people who have responsibility for the anti-embezzlement and fraud controls in place at their companies.

Some of the more startling findings include:

- Nearly four in ten of our respondents said they experienced two or more cases of embezzlement during their careers.
- These cases are far more serious than someone putting their hand in the till one time. The average case lasted over two years, and the average loss was $357,650.
- In the vast majority of the cases, the embezzlement was carried out by more than one person. In nearly half of the cases, three or more people were involved.
- Companies that were victims of embezzlement lost far more than money: they lost customers, had more difficulty attracting new customers, and lost business partners. They admitted the embezzlement negatively impacted the company's reputation.
- More than half of the companies recovered less than one-third of what was taken.

While the survey confirmed that businesses of all sizes, and in all industries, are vulnerable to employee theft, three-quarters of respondents said the companies where they currently work do not have insurance to cover embezzlement.

By learning how to recognize the warning signs and common schemes of embezzlers, business owners and employees can implement controls to prevent, detect and mitigate their exposure to employee theft.

Embezzlement By the Numbers

$357,650 Average loss

79%

of cases included **more than one perpetrator.** The average number of people involved was three.

85%

of cases were perpetrated by someone at the **manager level or above.**

70%

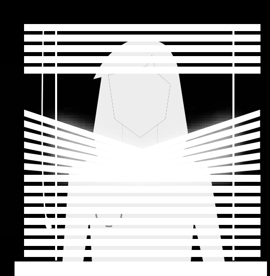
of cases lasted **more than a year.**

31%

of crimes went on for three years or longer.

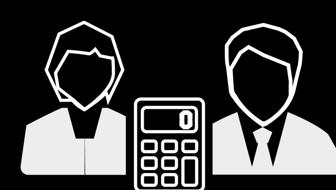
39%

of those who experienced embezzlement **saw more than one case** in their career.



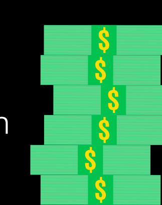
33%

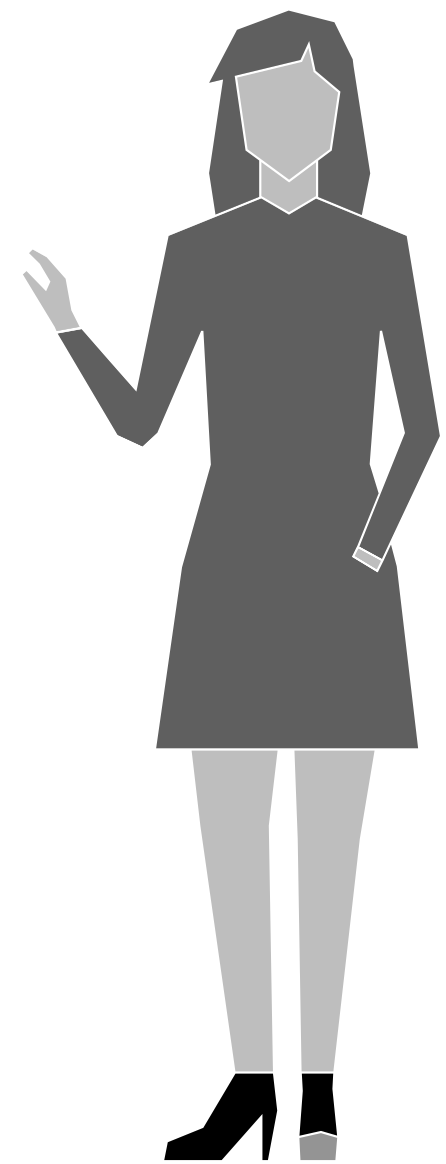
of perpetrators worked in the accounting or finance department.



39%

of embezzled funds were recovered on average, through settlements, restitution or insurance.





Warning Signs of Embezzlers

When an embezzler is discovered, particularly after a long-running scheme, those in charge often ask, "Why didn't I see this sooner?" To catch a thief, you need to know the warning signs. Here are some common characteristics.

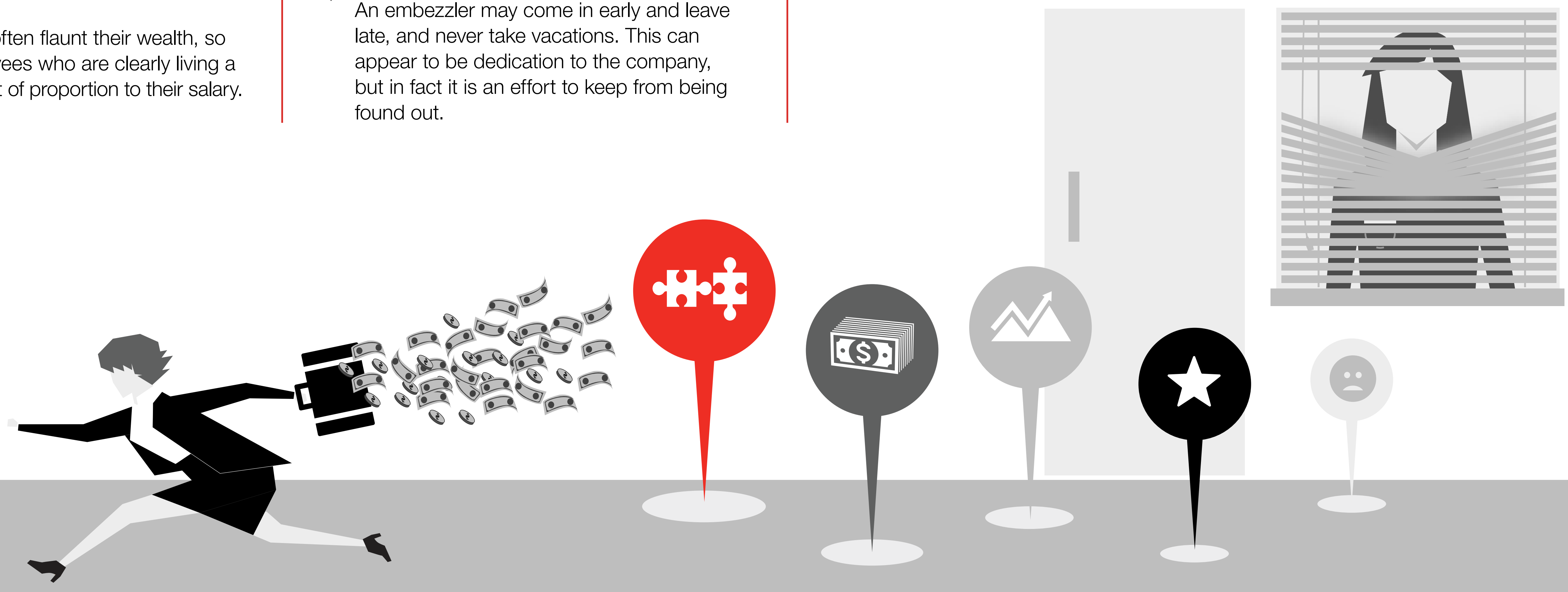
Intelligent and curious
Embezzlers often pick things up quickly and are eager to know how everything in the office works. Once they learn the processes, they manipulate them for their own gain.

Extravagant
Embezzlers will often flaunt their wealth, so watch for employees who are clearly living a lifestyle that is out of proportion to their salary.

Egotistical risk-taker
Embezzlers often are rule-breakers in and out of work life – from speeding tickets to overusing 'sick time.'

Diligent and ambitious
An embezzler may come in early and leave late, and never take vacations. This can appear to be dedication to the company, but in fact it is an effort to keep from being found out.

Disgruntled
An employee who feels they are being treated unfairly may be tempted to 'even the score.' They may be unable to relax, or may experience severe changes in behavior.



When Greed and Opportunity Meet

How does someone go from a trusted employee to an embezzler?
Not everyone takes the same path, but here's a common scenario.

8 years The average period of time an embezzler has been working at the company they steal from.

Hiring

Most embezzlers don't start out at the company intending to steal.

Familiarity

After they've been working at the company for a few years, they see how things work. They get to know others in the company who may be willing and able to help. On average, an embezzler has been working at the company they steal from for eight years.

Motive

An embezzler may steal for the first time because they have a financial crisis and need money. They may justify it as a loan, intending to pay it back. Or, they may become disgruntled with the company and feel they are entitled to more money than they're getting paid.

Encouragement

Often the embezzler is surprised at how easy it is to steal from their employer.

They may bring other like-minded employees in and create a more sophisticated scheme.

The average number of perpetrators in a scheme was three.

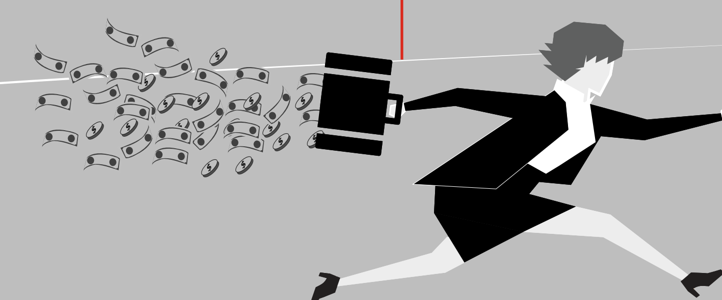
Exposure

After a year or two of stealing relatively small amounts on a regular basis, the embezzler gets caught. Perhaps one of the co-conspirators leaves for another job. Or, the group gets greedier and tries to increase their take. In 65% of cases, someone in the company noticed something was amiss and the scheme was uncovered.

Punishment

The embezzler(s) may simply be fired, free to prey upon their next employer.

Or, the company may bring charges, as they do in 45% of cases.



From the Cubicle to the C-Suite

Embezzlers can work alone or with others, and they can be clerks, foremen, managers, and even executives or owners. It seems no one is immune from greed. Consider these real-life scenarios that made headlines in 2018.

Embezzlement as a Team Sport

We often picture embezzlers as lone bad actors, working late at night after everyone has gone home. But in 79% of cases, our respondents reported that more than one person was involved, and in 46% of cases, more than three people had their hands in the till.

The lunch ladies
Two sisters who worked as lunch ladies were charged with stealing nearly $500,000 from two school cafeterias over a five-year period. School officials asked the police to investigate when they discovered financial discrepancies in the handling of cash.

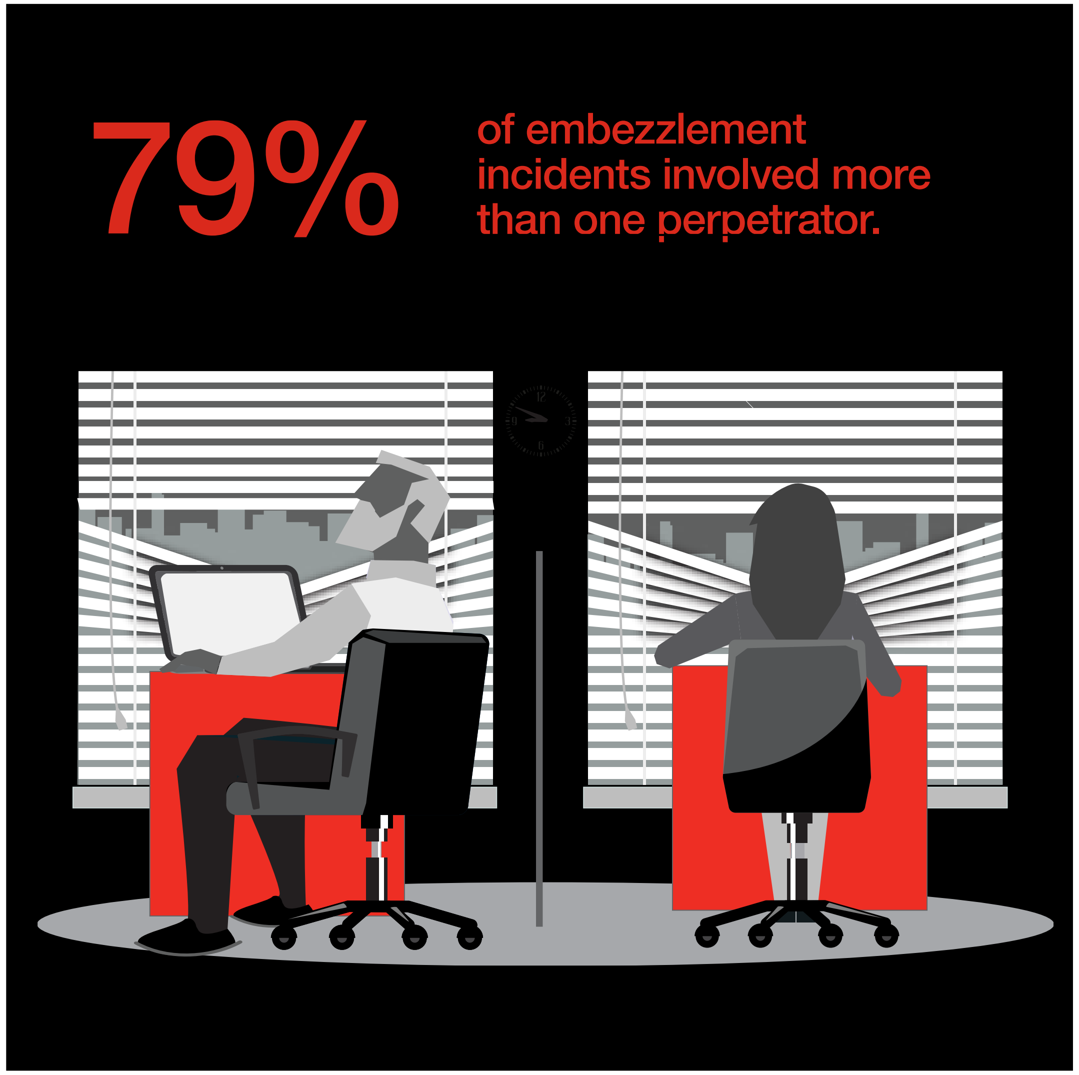
The high-end retail ring
An employee of a high-end New York department store recruited other sales associates to make purchases on store computers using stolen credit card information. They then sold the designer goods on the black market. The group got away with $430,000 in fraudulent purchases before the scheme was discovered.

C-Level Embezzlers

In 85% of cases, the embezzler was in a management role in the company with one-fifth of the cases perpetrated by C-level executives.

The chief fraud officer
The chief operating officer of a nonprofit organization padded his paycheck and used the organization's credit card for personal expenses. All told, he embezzled over $100,000 in just 18 months.

Like mother, like son
The chief fiscal officer of a state agency and her son embezzled over $1 million from the organization over a seven-year period. The CFO wrote checks to herself using the agency's bank account and then created bogus invoices from vendors the agency used.



How It's Done

The techniques employed by embezzlers range from very simple to quite complex. Here are the top five most common methods our respondents have observed:

18% Billing fraud
Inaccurately reporting spending, creating fictitious vendors, and overstating payments made.

15% Cash on hand
Theft of cash the business keeps for day-to-day operations.

11% Theft and larceny
Stealing company property or personal property of company owners or employees.

10% Check and payment tampering
Diverting payments made to the company into personal accounts, writing company checks to personal accounts.

10% Payroll
Inaccurately recording payroll, paying fictitious employees.

9% Skimming
Using a card swipe or other device to collect credit card information, processing credits to personal cards.

9% Cash larceny
Theft of cash collected from customers or theft of employee tips.

45% of embezzlement cases led to criminal charges;

58% of these cases resulted in a conviction.

Business Cost of Employee Theft

Seventy percent of the embezzlement schemes our respondents experienced were carried out for more than one year and the average amount embezzled was $357,650. When an employee is on the take, a company has much more at risk than just the funds being stolen. Companies face other costs associated with embezzlement, from employee layoffs to the loss of customers.

Overconfident, unprepared and under-insured

The combination of overconfidence and lack of preparation can leave companies vulnerable to employee theft. In our survey, 97% of respondents said they are confident the anti-fraud controls in place at their current company would prevent future embezzlement. However, only 29% of respondents review their anti-fraud controls frequently.

Given that 39% of respondents have experienced more than one case of embezzlement during their career, it is surprising that 75% said their companies do not presently have insurance to mitigate the impact of an embezzlement incident.

Top 5 changes due to embezzlement incidents at companies*

1	Employee layoffs	29%
2	Increased spending on auditing	27%
3	Lost customers	26%
	Time spent discussing security	26%
	Added security and audit requirements	26%
4	Purchased or enhanced insurance	25%
5	Switched auditors	24%

*Respondents selected multiple answers.

$357,650
was the average amount of money embezzled.

If You Suspect an Employee is on the Take

If you have reason to believe you may be a victim of embezzlement, take a deep breath. Then take these steps:

Create a team
Put together a small team of trusted individuals to investigate. Share information on a need-to-know basis only.

Bring in help
Consider hiring outside counsel or consultants. They can help with complex investigations and offer more objectivity and credibility.

Keep notes
About everything.

Review records
Begin a discreet review of records that may quickly confirm or refute your suspicions. Look for evidence among financial, payroll and personnel records.

Contain damage
If the suspected employee works in finance and may be stealing from company bank accounts, restrict their access.

Find witnesses
Craft a list of potential witnesses. Remember, don't share information about the investigation outside the investigative team.

Fix internal controls
Figure out what went wrong. Fix the failures in your internal controls that allowed for the theft to occur.

Report the crime
If a loss is discovered, contact your insurance company to report it. Talk to a lawyer and report the crime to law enforcement.

Praise honesty
If another employee raised the red flag, make sure to praise internal reporting efforts and let employees know the company values and rewards speaking up.

In 65% of embezzlement cases, someone in the company noticed something was amiss and the scheme was uncovered.

What Not to Do

When you think an employee may be stealing, resist the urge to jump to conclusions. Here are some things to avoid doing.

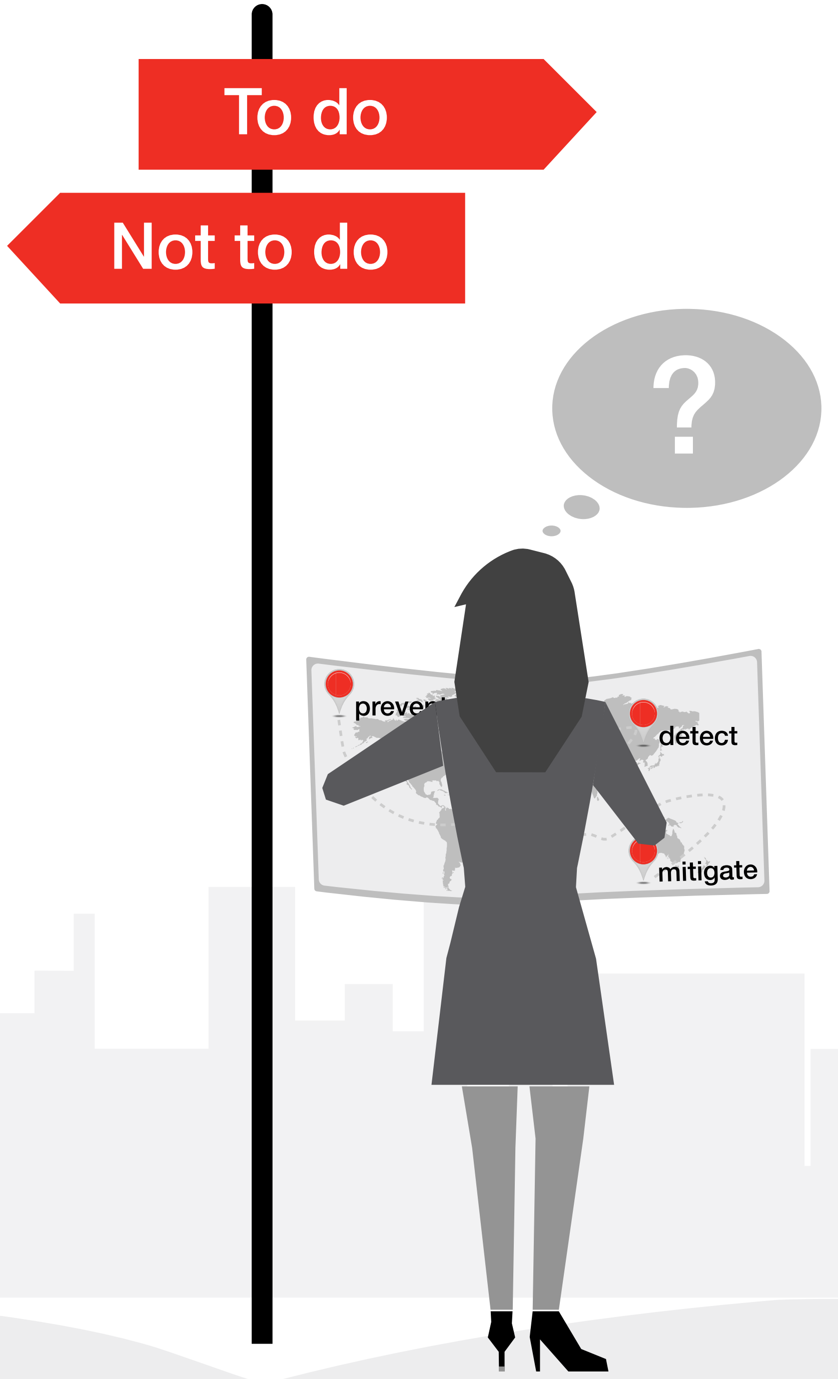
Don't rush to judgment. Falsely accusing an employee of a crime can cause permanent damage to the individual and leave the company exposed to liability.

Don't conduct group interviews where potential witnesses are questioned together.

Don't interview an employee by yourself. Have someone from human resources in the room. Take good notes and write a summary immediately after the meeting.

Don't rush to confront the suspicious employee. You have one chance to question someone for the first time. Be prepared and armed with evidence. An incriminating email or financial record can increase your chances of getting to the truth.

Never interfere with law enforcement. Cooperate fully. If you are concerned about any exposure, hire an attorney to maintain privileged communications.



How to Protect Your Company

The losses from embezzlement extend beyond the balance sheet. The distraction it creates can reduce productivity and negatively impact corporate reputation and culture. This three-step process can help protect your company.

1 Prevent embezzlement before it happens

- Institute a system of checks and balances, including a review of all bank statements and cancelled checks by someone other than the bookkeeper. Ensure that more than one person sees every transaction.
- Perform rigorous background checks, as allowed by law, on all employees — especially those who handle money.
- Have corporate bank statements delivered to an owner at their home address.

2 Detect fraud early to minimize losses

- Watch out for employees who live a lifestyle that's out of proportion to their salary, especially if there are sudden changes in spending habits.
- Beware of the employee who comes in early, stays late, and never takes a vacation. Even long-time employees can have their hand in the till.

3 Mitigate the impact on your bottom line

- Press charges against the employee who steals, even if it's a manager or executive. Send a message to other employees that you take embezzlement seriously, and you're not giving anyone a free pass by letting them leave quietly. You want everyone in the company to know that if they steal, they will be prosecuted.
- Insure your business. In most cases, only a small fraction of embezzled funds are recovered, and restitution is rarely made. **The right insurance coverage can make your business whole again.**

What is Crime and Fidelity Insurance?

Employee theft is often not covered by general or professional liability insurance. You need crime and fidelity coverage, which should include protection against:

- Embezzlement, including theft, fraud, and tech fraud of money (including virtual currencies) and property
- Employee theft of executives' property, including extortion
- Fraud committed against customers' accounts
- Erroneous transfer of funds, whether accidental or intentional
- Cyber deception
- Theft by independent contractors

Survey Methodology

The Hiscox Embezzlement Survey™ was conducted by Wakefield Research (www.wakefieldresearch.com) among 200 US office professionals employed full time in the chief financial officer, controller or accounting roles, who have worked at a company where an embezzlement has occurred. The survey was conducted between October 11th and October 18th, 2018, using an email invitation and an online survey.

Results of any sample are subject to variation. The magnitude of variation is measurable and is affected by the number of interviews and the level of percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that survey result does not vary, plus or minus, by more than 6.9 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

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