



# CLAIMS EXAMPLES

## A FOCUS ON FIDELITY CLAIMS

Despite government and regulatory efforts to reduce fraud, economic crime continues to be a growing global threat.

According to PricewaterhouseCoopers (PWC) Investigative & Forensic Services, over half of Canadian companies (55%) surveyed reported they were victims of economic crime in the 2003-2005 period with the average loss of \$1.7 million reported. The result is clear: no industry or entity is insulated from the threat of fraud.

To help protect against fraud, fidelity insurance offers companies protection against losses that may occur as a result of fraudulent acts by those who have an incentive and the ability to rationalize fraud. Often companies feel they will never have a fidelity loss. The reality is that even the best internal controls and compliance procedures cannot fully protect against the criminal element. Even when employers have antifraud strategies in place, detection is still difficult, with almost one quarter of fidelity losses being discovered by accident.

Fidelity insurance is an integral aspect of effective risk management practices and procedures. The following examples of fidelity claims demonstrate not only the importance of the coverage but also the importance of carrying sufficient limits of liability.

### Mutual Fund Agent Forges Client Redemptions

---

A national mutual fund brokerage engaged a mutual fund salesman to sell to the public. Over a period of time, the salesman had built up a large book of business with his clients' investments totalling in the millions of dollars.

The salesman ran into personal financial difficulties and began fraudulently forwarding redemption requests to the mutual fund issuer. He requested that the redemption cheques be sent directly to him for delivery to the clients. Upon receiving the redemption cheques, the salesman forged the clients' signatures and deposited the cheques in his own account. Upon receiving their statements, a number of clients contacted the salesman to inquire about the redemptions and were told these were "back office" mistakes and would be looked after. The salesman had built an excellent rapport with his clients and they trusted him explicitly.

The eventual loss was detected by the Insured's compliance department who were concerned with the high redemption rate being experienced by the salesman. Once the loss was discovered, the Insured settled with all of its clients by returning the amount redeemed plus interest and damages (accounting and legal costs) and claimed the entire amount under its fidelity bond. Settlement was made based on the amount of the redemptions only, which was in excess of \$2,000,000.

### Enterprising Employee Squanders Millions With Friends

---

A manufacturer of corrugated cardboard employed a security guard to operate the weigh scale. The guard weighed trucks entering and exiting the plant in order to determine the weight of scrap cardboard being delivered. The weigh scale generated a ticket that would be given to the truck driver for later presentation to the Insured's accounting office for payment.

The operation ran 24 hours a day and the employee worked alone on his shift. As sophisticated and fool-proof as the weigh scales were said to be, the security guard found a way to cross wires so that a weigh ticket could be generated without a truck being on the scales. The employee gave the fraudulently produced weigh tickets to friends and associates who redeemed tickets for payment from the Insured.

For nearly two years, the security guard generated as many fraudulent tickets as he could during his shifts. The result of the fraudulent increase in the cost of sales was so significant that the Insured spent substantial sums of money analysing the processing system. After secretly installing security cameras, the Insured discovered that numerous weight tickets were being produced fraudulently. The tickets were time-stamped, as were the hidden cameras, which verified the discovery.

After discovering this, the Insured confronted the security guard and obtained a full confession. The next issue was to determine the extent of the loss before the cameras were installed. The losses were believed to have occurred over a period of nearly two years. The Insured retained forensic accountants who created a "cost of sales model" to value the raw material paid for by the Insured. After



considerable investigation and examination, the "Model" was deemed reasonable and a settlement for the full bond limit of \$1,000,000 was made, although the loss was considerably in excess of this amount. Only a minimal amount was recovered from the security guard who had not only split the proceeds of his crime with friends and acquaintances, but also consumed it on an extravagant lifestyle.

### **Accounting Clerk Defrauds Charity for Over \$2,000,000**

---

A large Toronto based charity employed an accounting clerk who was responsible for processing invoices for its construction department. On an annual basis, the charity was involved in construction projects across Canada valued in excess of \$40 million.

The clerk fabricated fraudulent invoices and forged various levels of approvals on them. The accounting department then automatically processed these invoices and a cheque was produced. The clerk had created fraudulent vendors with names similar to established vendors and opened a number of bank accounts in these names in order to allow him to negotiate the cheques. In order to obtain the cheques prior to mailing, he would pull them from the mailing queue with the excuse that the payee was physically present in the office to pick them up. This did not raise any concerns as it was common practice to have contractors come into the office to pick up their cheques if they wanted to receive payment quickly.

The loss could have gone on much longer if the clerk had not been personally audited by Revenue Canada. Because of the audit, the clerk decided to confess to his wrong-doings which led to the discovery of the loss. The amount of the loss was in excess of \$2,000,000 and there was sufficient coverage in place to cover the loss.

### **Accountant Commits Suicide Upon Discovery of Fraud**

---

A privately owned large commercial realtor employed a young accountant who looked after various accounting functions including payroll. Virtually all employees were paid a commission based on real estate sales. As a result the bi-weekly payroll for the company was variable. It was a function of the accountant to advise the external payroll provider of the amount that each employee was to receive for the pay period.

In the course of providing this information, the accountant changed his fixed rate of pay from \$60,000 a year to \$1,000,000 a year, and then to \$2,000,000 a year. Each two week period he sent a hand-written list, in pencil, over to the payroll provider for the pay to be made to each employee. Once processed, the list would then be returned to the accountant for record keeping purposes. He then erased the pay indicated for himself and properly recorded his rate of pay in order to balance the payroll records.

However, the amounts would not balance to the bank. Given the volatile nature of the real estate market at the time, these cash imbalances were not detected. As the accountant performed all of the posting entries he was able to conceal his fraud.

Over a number of years, the accountant misappropriated in excess of \$20 million. He was eventually caught when attempting to transfer funds from the owner's children's trust accounts to cover the cash shortage in the company's bank account. When the loss was discovered the accountant committed suicide.

The Insured was able to determine the amount of the loss immediately as the accountant had a T-4 slip prepared by the payroll provider in his briefcase. The claim was made to the fidelity Insurer for the full amount of the fidelity bond, which only had a limit of \$500,000.

### **About Trisura**

---

**Trisura Guarantee Insurance Company** is a Canadian specialty lines insurance and surety company. Through a select network of national and regional brokerage firms, Trisura Guarantee provides innovative solutions and expertise in Contract, Developer and Commercial Surety, Directors' and Officers' Liability, Fidelity, Professional Liability including Media, Technology and Cyber Liability, Property, Casualty and Warranty products. Trisura Guarantee is rated A- (Excellent) by A.M. Best Company.

Trisura Guarantee is a subsidiary of Trisura Group Ltd., a leading international specialty insurance provider operating in the surety, risk solutions, corporate insurance and reinsurance segments of the market. Trisura Group has three principal regulated subsidiaries: Trisura Guarantee Insurance Company, Trisura International Insurance Ltd. and Trisura Specialty Insurance Company. Trisura Group is listed on the Toronto Stock Exchange under the symbol "TSU".

Refer to your policy for complete details. In case of inconsistency between this document and your policy, the policy terms, conditions and limitations will apply.