Prevent, Detect and Insure—The Fraud Approach Triangle

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In helping management to understand– and mitigate—the organization's exposure to fraud, experts commonly use the Fraud Triangle—opportunity, pressure and rationalization—to illustrate the motives of fraudsters and the vulnerabilities of their employers.

Taking the illustration a step further, considering the Fraud *Approach* Triangle to guide your organization in its efforts to reduce fraud losses. *Its components...*

- Prevention
- Detection
- Insurance Coverage

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As with the Fraud Triangle, if any segment of the Fraud Approach Triangle is missing, the likelihood that the organization will eventually be victimized by internal fraudsters is a virtual certainty.

AFFORDABLE SELF-DEFENSE

Anti-fraud professionals agree that the best way for organizations to reduce fraud losses is to optimize their preventive measures.

Challenge #1: Because fraud, by its very nature, involves deception, preventive ,measures are not always failsafe.

Result: Along with preventive policies and procedures, every anti-fraud program must include detection measures to identify indicators of potential fraud—at an early stage.

Challenge #2: Like the best-laid preventive measures, detection tactics are also vulnerable to the deceptive skills of fraudsters.

Result: Once both have been "beaten," management's attention must turn toward recovery. Unfortunately, in most fraud cases the perpetrators squander the proceeds in short order, leaving little to no chance for recovery.

Solution: The third angle of the Fraud Approach Triangle—Employee dishonesty, employee crime or fidelity insurance coverage.

Many organizations fail to include these types of coverage in their commercial policies. In the rare cases that they do, the amount of insurance barely covers the cost of the initial meeting with insurance company representatives to discuss the fraud.

Some organizations bond employees whose responsibilities include access to the finances. However, bonding is expensive and employee-specific (a bond applies only to a specific person in the event that person commits a covered crime). With turnover, bonds need to be turned off and new ones turned on, which usually becomes an unwieldy administrative burden.

Better: Add a rider or endorsement to your organization's commercial insurance package that adequately protects against employee crime. Such coverage is usually sold as a "blanket" rider and typically covers any type of theft by any employee.

Added bonus: Premiums for sufficient employee crime coverage are usually very affordable compared to other types of coverages—hundreds of dollars versus thousands based on the size of the organization and number of employees.

The bottom line: Employee crime or dishonesty coverage may be your only source of recovery if preventive and detection measures fail to protect you against internal theft.

Contact your organization's commercial insurance agent to compare options and details of this coverage, which is offered by virtually all major commercial carriers.

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