

# Corporate Fraud – Taking a closer look at customers and brokers

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# Agenda

- Alex Tan at PWC has spoken about trends and developments in corporate fraud
- Gib Beattie has spoken about the SFO, and the role it plays in investigating and prosecuting fraud
- I now want to talk about what to do when you suspect a fraud – and why you should be looking at customers (externally) and at brokers (internally)

## Fraud is all around us...

- As the financial pressures of the latest “recession”, or “global financial crisis” hit closer to home, it is inevitable that more people will be trying to obtain financial benefit where they can
- For the insurance sector, industry should be looking both externally (to customers) and internally (to themselves) for fraud
- Fraud costs money and damages reputation
- External fraud affects an insurance company’s business model – decreasing profit, increasing insurance costs to consumers, and skewing modelling
- Internal fraud also affects business, but worse, it can cause incalculable damage to a business’s reputation

## Take a closer look at your customers

- There might be a temptation, as a broker, to suggest that customer fraud is the underwriter's problem
- There might also be a practice of limited customer due diligence and inquiry
- That approach, to the extent it still exists, must change
- New AML/CFT obligations will impact on insurance brokers
- In the increasingly competitive markets, underwriters will be expecting more, not less, from brokers
- Additionally, if you turn a blind eye to possible fraud by customers, you run the risk of being accused of being a party to any fraud committed

## Take a closer look at yourselves

- As with all businesses, the insurance sector is not immune from internal fraud
- In the core finance sector, the problem of “rogue traders” is a good example of “inside jobs”, causing significant financial and reputational damage
- Examples
  - Nick Leeson, Barings Bank, 1990s
  - Jerome Kervial, Societe Generale (SocGen), 2007
- Internal fraud may raise employment and recovery issues, regulatory breaches, customer claims, and much more

## Former Winnipeg insurance broker faces 23 fraud charges

Last Updated: Monday, October 16, 2006 | 4:38 PM CT

CBC News

- A former Winnipeg insurance broker is facing 23 fraud-related charges for allegedly defrauding as many as 25 clients of almost \$1.5 million.
- Winnipeg police say the criminal charges follow an internal investigation by the insurance company.
- Police allege that between 1998 and this year, an insurance broker presenting himself as a financial advisor convinced a number of people to make withdrawals from their current investment accounts on the premise of transferring the funds to new products.
- According to police, the suspect deposited the money into his business account and used it for his own personal use.
- Meanwhile, former clients have filed two lawsuits against Palmer and Great-West Life.

(excerpts only)

## What should you do when you suspect something is up?

- Don't ignore your instincts – if something doesn't seem right, investigate it
- Important to distinguish roles in an investigation
  - external parties provide independence
  - legal counsel should be engaged so as to obtain advice under legal privilege
  - lawyers are not investigators – forensic IT and accounting expertise, and specialist investigative/interviewing expertise should be utilised as well
- Three key steps
  - investigate
  - analyse
  - action

## Issues to consider

- Key issues to discuss with your adviser will include
  - what employment consequences might arise (including the rule in *Fonterra v Wackrow*)
  - what liability the business itself might have arising from the misconduct – civil, regulatory and criminal
  - what steps should the organisation take to mitigate such liability?
  - determine the scope of potential wrongdoing for the purposes of cooperation with the authorities
  - develop a policy regarding ‘disclosure’ – what is required, and what is tactically desirable?
  - identify evidence/information for the purposes of plaintiff’s legal action (ie. recovery)

## Questions/Contact Details



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