



Cover against Fraud

INFORMATION ABOUT FIDELITY INSURANCE



EULER HERMES
Kreditversicherung

We give you security.

Our Cover against Fraud policy, presented to you in this brochure, protects your company from the consequences of employee dishonesty – so that possible crimes committed by your own employees cannot inflict financial damage on you. This product comes to you from an experienced specialist with a proven track record spanning almost 90 years as a partner for companies both large and small.

Euler Hermes stands for reliable management of your outstandings – all over the world. Insurance experts, credit specialists and state-of-the-art technology ensure that the edge we have in credit information is constantly growing. We are present in the most important countries all around the world with our own business units and associated companies. With the information we have on these markets and the companies which trade in them we can calculate the risks our clients face and provide the cover they need.

Under the aegis of Allianz and as a member of Euler Hermes S.A., Euler Hermes Kreditversicherungs-AG in Germany is a specialist for all types of credit management. Together with the other products we offer, such as bonding and guarantees, we can provide companies with a consistent portfolio of cover for greater security.

The hallmark of our approach is to generate the innovative power to create individual solutions out of solid tradition and continuity. We combine our global business model with local know-how, in Germany just as in our international companies. And everyone benefits: whether they are a small and medium enterprise or a multinational corporation with worldwide reach.



Some employees generate real value-added

– especially for themselves

Trust is an important basis for any good and successful working relationship. Unfortunately, it is often betrayed – especially in working life. Starting from manipulation of data through to bogus invoices and passing forged cheques: white-collar crime is a daily occurrence in German companies and poses a serious threat to capital and liquidity.

The figures speak for themselves

The sound barrier of a million cases has long since been broken. Since 2003, German criminal investigation authorities have registered a seven-digit incidence of so-called fidelity crimes every year. According to a poll carried out by KPMG, 64 % of companies were victims of the typical crimes such as fraud, embezzlement and misappropriation of company funds over the last three years – and in 84 % of cases, the perpetrator was an insider. The sad truth, as police crime figures reveal: this caused financial losses to the tune of something like 6 billion euros in 2005 alone. Euler Hermes Kreditversicherungs-AG estimates that a good 40 % of these losses are caused by a company's own employees. On top of this, an alarmingly high number of cases – some 50 % – go unreported.

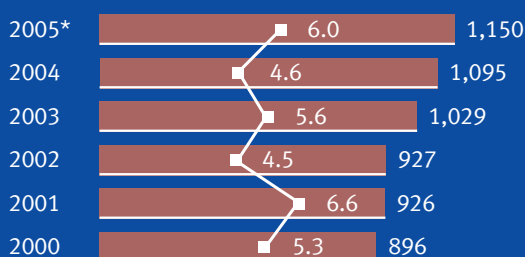
Since no company wants to ruin its reputation by broadcasting to the world that its employees are filling their own pockets from the company's working capital without being prevented, many fidelity losses are never even reported to the police.

Declining moral values, mounting losses

As a rule, the circumstances of someone's personal life provide the motive which leads to committing the classical fidelity crimes – private debts, for instance, or living beyond one's means. But the general decline in moral values, too, is a contributory factor. Material possessions are perceived as being more important than decent behaviour, and the threshold to criminal acts is constantly getting lower.

The growing anonymity of the working environment or the breaking up of work processes into unconnected activities often leads at the end of the day to a lack of identification with the company – and thus reduced loyalty towards the employer. But all these factors should not blind us to the fact that many of the risks are rooted in the actions of the company itself.

Fraud, embezzlement and misappropriation of company funds in Germany



■ Number of cases in thousands

—■ Amounts lost in billions EUR

* Euler Hermes Kreditversicherungs-AG estimate

Source: police crime statistics as per 08/2005



Trust is necessary

but it can't ensure your protection



A “grab it and run” mentality? In anonymous polls, 50 % of employees admit to taking company property.

Fidelity losses can happen in any company, whatever its size. In the classical small or medium-sized enterprise (often family-owned), the working atmosphere is predominantly personal and characterized by mutual trust – and yet dangers lurk here, too. Employees are frequently assigned tasks flexibly and fulfil multiple functions. The consequence: they are granted access to confidential administrative processes and thus come to know things which can tempt them into wrongdoing – especially when security and controls are not taken very seriously. Another risk factor is IT systems: they are highly prized, certainly, but in most cases they would win no prizes for security. Access to sensitive data is often child's play.

The causes of fidelity losses are varied: the risks are always the same

As a rule, responsibilities in large companies are clearly allocated. Only a small number of employees are authorized to handle sensitive company data. Losses are more likely to occur here as a result of the growing anonymity and complexity of structures. Checks become more difficult to carry out, security loopholes go undetected. Processes such as mergers or company restructuring often lead to changes in the familiar workflow routines and divisions of responsibility. Unavoidable as these changes often are – they cause a company to let down its guard to some extent and make it more vulnerable. Because they can quickly create security loopholes which cannot be closed immediately even if controls are already in place.



Structural factors which pose a risk:

- reorganization and increasing decentralization of processes
- unclear demarcation of responsibilities and authority
- unclear regulation of workflow
- bundling of functions in the work process or in business processes
- removal of control levels

Source: Euler Hermes

Every net has holes in it.

The digital network is no exception

Whether in payroll accounting, processing orders, communication networks or payment transactions: information technology is almost ubiquitous in the working world today. And that means that security risks are a matter of daily concern.

Access to sensitive data is often made more difficult thanks to modern software, it is true; but once someone has got into the system, the data can be accessed quickly and comprehensively, it only takes seconds to view or to alter it. In this way – for instance through forging access authority – whole systems can be manipulated, falsified data can be entered, bogus invoices can be created or funds transferred onto the perpetrator's own private account.

Forewarned is forearmed?

The excellent functionality of IT systems can often tempt us into underestimating the need for effective precautions in everyday operations. According to a study carried out by Ernst & Young, many responsible managers believe that the danger of being spied upon via computer systems is minimal. And yet the risks here are not only internal: it is precisely attack by hackers who gain access to your systems from outside which can often cause catastrophic damage.

That is why protection and controls are indispensable. Make the best use of all the mechanisms you have already installed. It goes without saying that especially the people who fill key positions in IT and systems administration must be very carefully chosen and vetted. If the necessary resources are not available, as is often the case in smaller companies, the use of a reputable external IT service provider is strongly recommended.



Circumstances which encourage employee dishonesty



Source: KPMG poll (more than one answer can be given)

Are you really sure your company is safe?

As a poll by KPMG in 2003 shows: although almost 2 out of 3 companies have been the victims of white-collar crime over the last three years, 67 % of the respondents consider their precautions to be adequate.

The perception of the threat to one's own company thus seems to lag far behind the reality. That begs the question where all these immense losses in fact come from – and why the threat is apparently so seldom recognized.

Criminal energy pays off. Even in the boardroom.

A white-collar criminal must know the weak spots of his company. That means that in most cases he is someone who is well integrated in the company – sometimes in a key position: a full quarter of all cases can be attributed to criminals at management level, nearly every twentieth is a board member. In view of the relatively small percentage of managers compared with the workforce as a whole, that is a remarkably high figure. And the losses are commensurate with this: thanks to the wide

scope of their authority and their responsibilities, managers cause substantially higher losses than other employees.

Losses all have one thing in common: they only come to light when it is too late

Of course, internal control systems still detect the vast majority of all fidelity losses – wherever the perpetrators may sit. In second place, however, is the factor of pure chance, which plays a far more important role in bringing cases to light than internal or external tip-offs or the police and the public prosecutor's office.

But no company is completely at the mercy of these goings-on: there are warning signs which you as a responsible manager can be on the lookout for. These signals that someone is possibly abusing his position for profit include:

- changes in an employee's behaviour or life-style
- unusual growth/an unusually high order book
- discrepancies found when taking inventory
- unusual financial development of the company
- dissatisfaction among supervisors and/or employees
- whistle-blowing by employees



Companies' own risk assessment: optimism against their own better judgement?

- 82 % of companies think that white-collar crime is on the rise, but only
- 32 % put their own risk of falling victim to it as "rather high" or "very high".
- 67 % consider their own precautions to be adequate but only
- 14 % of respondents who gave this answer described their own knowledge of criminal behaviour patterns as "good"
- On average, managers estimate the proportion of undetected cases in their own company to be only half as high as in their sector overall.**

* Source: KPMG ** Source: Ernst & Young

Your good employees do whatever you want them to. The others do what they like.

Effective risk management does not necessarily have to cost the earth – but it demands careful attention in its crucial aspects. Taking precautions also means creating a deterrent. And everyone can take precautions.

Your most important capital resource: the human one

Don't only put your trust in your personal impression and professional competence when recruiting employees. Take a close look at work testimonials and other papers, and don't hesitate to ask questions if anything is unclear. Gaps in someone's CV should have a plausible explanation. In some cases it can be advisable to ask for a police clearance certificate. And don't forget: loyalty to the company can be a whole lot higher if employees are well motivated!

Trust is a fine thing: checking up on people is better

Be consistent in applying the principle of a second employee cross-checking everything. That means the second signature on documents is not just for show. Risks are substantially reduced if people know that a check will be made – and if it is not just there on paper. This rule also applies to digital data flows!

Organize money streams

When handling money, the rule should be observed: wherever possible no cheques! It is too easy to alter entries or to forge the signature on pre-printed forms. And especially outgoing cheques often have to pass through many different hands – this makes it considerably more difficult to keep track of them.

Draw a clear dividing line between departmental functions

Make sure that there is a clear separation between certain departments of your company: financial and debtor accounting, the cash desk and sales for instance. Set up precisely worked out workplace structures. Responsibilities and functions must be clearly separated, there must be exact job descriptions and unambiguous definitions of workflow.



Keep your eyes skinned for unusual developments

Be on the lookout for any signs of something not being quite right in your employees' lifestyle. Of course, not every change in somebody's life means that they are embezzling your money; nevertheless, unusual deviations from the norm should make you take a closer look.

A must: regular stocktaking

Stocktaking takes up considerable time and personnel capacity. Nonetheless, it is a particularly good method of discovering misappropriation of funds or theft. Therefore you should carry out an inventory at regular intervals.

When the real thing happens: take swift and determined action

Misappropriation of assets happens despite all the precautions taken to prevent it. When it does, send out a clear signal and involve the police and the public prosecutor's office.

Even better: don't wait until the loss has happened. Top up your own security measures, arrange for a consultation with the experienced experts at Euler Hermes Kreditversicherungs-AG. And let them convince you of the advantages in having fidelity insurance.

Don't rely solely on being a good judge of character.

But do rely on financial security when it comes to the crunch.

If a fidelity loss happens despite all your precautions, the money is usually as good as gone – even if the perpetrator can be identified: according to a study done by PricewaterhouseCoopers, 73 % of the companies polled were unable to recover more than 20 % of the money they lost – many were left completely empty-handed!

That is why you should make provision just in case it hits you: by taking out a Euler Hermes Cover against Fraud policy. It offers you insurance cover optimally tailored to the specific needs of your company – and on far more favourable conditions than you might think.

It goes without saying that the policy details are drawn up to fit your individual needs; the premium depends on the sum insured, the number of persons you insure and the term of the policy.

Fast, unbureaucratic and safe: claims handling

If the person who caused the loss can be identified by name and his liability has been documented, the claims handling process at Euler Hermes is set in motion. But you can count on us paying your claim even when the perpetrator is not identified and named:

The precondition is only that the facts of the case and the investigation make it most likely on a balance of probabilities that the loss was wilfully caused by a person covered by the insurance.

The insurer takes the risk off your hands that the perpetrator is unable to pay compensation for the loss. When Euler Hermes takes up the handling of the claim you can forget it and move on.



What is covered?

- Financial losses wilfully caused by your own employees and other persons covered by the insurance up to 12 months after they leave your employment
- Losses due to theft, misappropriation of company funds, fraud (including computer fraud), divulging of trade secrets, embezzlement or other wilfully committed unlawful acts which give rise to a liability for compensation (e.g. damage to property or sabotage)
- Losses wilfully caused to third parties by your employees
- Losses caused by hackers (for IT)
- Losses caused as a result of misrepresentation by external third parties
- Direct financial losses are insured up to the amount of the sum insured
- Losses arising cover (retroactive cover) is available by special agreement
- External costs incurred for legal action and for ascertaining the loss will be borne up to 20 % of the insured direct loss subject to the sum insured not being exceeded, as well as additional internal costs for verifying the loss and legal action up to 2 % of the insured loss

Who does the insurance apply to?

- All employees, salaried staff, casually employed workers, interns, teleworkers working online from their homes and workers from temping agencies, and people employed by external companies working on your premises
- Directors and board members with a maximum stake of 20 % of the company's shares
- Members of supervisory, administrative and advisory boards
- All your majority subsidiaries worldwide

There are many good reasons for Euler Hermes cover

A Euler Hermes Cover against Fraud policy makes sure that your company has the optimum in protection – even when you suffer a financial loss through the criminal machinations of one of your employees. The advantages:

- a comprehensive way to complete your own security precautions at favourable conditions
- a security package individually tailored to your company with comprehensive cover
- automatic inclusion of new employees recruited within the policy period at no extra premium
- fast processing of claims within four weeks of receiving all documentation
- until the question of liability is finally clarified, a provisional indemnification of up to 50,000 euros can be made
- your affiliated companies are co-insured
- worldwide security
- protection against losses due to misrepresentation by external third parties
- protection from hacker losses
- protection from losses caused by other companies' employees working on your premises
- protection from losses due to divulgence of trade secrets
- the perpetrator does not have to be identified in every case
- the insurer bears or contributes to the external and additional internal costs incurred for legal action and verification of the loss in connection with an insured event.



Every second company is safe:
48% of the companies polled
already had fidelity insurance.

*Source: KPMG;
basis: the 100 largest companies
in Germany*



Euler Hermes:

Strong product performance worldwide

The Euler Hermes Group is your competent partner with a network of its own business units and associated companies in key locations all over the world. Through these we are able to offer our German and international clients an extensive package of high-performance debtor management services adapted to specific local needs.

International service with the standards you trust

This includes first and foremost cover for short and long-term domestic and export business against the risk of customer insolvency, protection from financial losses through misappropriation of funds by your own staff and surety bonds and guarantees.

Besides the Cover against Fraud policy described in this brochure, Euler Hermes offers the following products and services to underpin your company's financial security:

Cover against Bad Debt Losses for Large Companies provides cover for companies at home and abroad. Euler Hermes monitors the creditworthiness of buyers for its policyholders on an ongoing basis and advises accordingly. If a customer becomes insolvent, Euler Hermes indemnifies you for the loss according to the policy conditions. Receivables due for the sale of plant and machinery in Germany and abroad with long payment periods can also be insured.

There is a version of this policy specially tailored to the needs of companies with an annual turnover of up to 5 million EUR, **Cover against Bad Debt Losses for Small and Medium Enterprises**.

Euler Hermes **Bonding Cover** puts up surety bonds and guarantees for its clients' contractual or legal liabilities towards their customers in Germany and abroad, comparable with the issuing of bank guarantees. This takes the pressure off your bank credit lines and frees up additional liquidity.

Euler Hermes Forderungsmanagement GmbH is specialized in the successful **collection of overdue accounts** in Germany and abroad. It takes all the time-wasting, unpleasant and costly hassle of collecting the money due to you off your hands, thus simplifying your reminder procedures. The services they offer also include following up and collecting already litigated debts. As the go-between between you and your customer we do everything in our power to maintain your relationship with your customer. Our clients can check the current status and the success of collection activities at any time via the Online Service.

More and more, the **rating** of a company is the decisive factor in determining what conditions it gets from the banks, what payment terms are offered it by suppliers, what chances it has to attract investment. Euler Hermes Rating GmbH produces such comprehensive, neutral and independent ratings of a company's financial strength.

Euler Hermes is present in 45 countries and is the Number 1 or 2 in the market in 20 of them



■ Countries with own business units and associated companies

Source: Euler Hermes, as per July 2006

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