



Automation and Employee Fraud Protection

How much technology do you use to run your business today in comparison to five years ago? Like most business owners, you've probably embedded a good amount of technology throughout your operations to secure a competitive edge or just make running your business less labor-intensive. Yet, when it comes to fraud protection, how often do you lie awake at night, wondering if you've done enough to prevent employee theft?

Only a tiny percentage of employees steal, but when they do, the losses can easily land in the six-figure range, sometimes more. According to Hiscox,[®] a global insurer, employee theft often impacts small and midsize businesses the hardest, with a median loss of \$289,864. These losses can devastate small businesses that don't have the financial safety nets of large corporations. Because small businesses have few employees—and represent 68% of employee theft cases—they may not have as many check points on their processes, and some theft can be hidden longer.¹

When deception happens, it often goes undetected for years. The Association of Certified Fraud Examiners[®] (ACFE[®]) reports that fraud committed by employees had a median duration of 12 months. That number doubles to 24 months for scams involving owners or executives, while fraud perpetrated by managers took a median of 18 months to detect. So with the threat of eye-watering losses that often take years to detect, how can automation improve your ability to prevent and detect employee fraud?²

Automation and elimination of manual processes

When businesses automate a process, by definition, they remove the need for manual intervention. In addition, automation also allows for the embedding of controls to ensure that the process functions as designed. This is of particular importance to fraud investigators who pay close attention to an organization's internal controls, or lack thereof.

\$289,864

Median loss for small and mid-size businesses due to employee theft.

68%

Percentage of employee theft cases that small businesses account for.

12

Median duration of months it takes to detect fraud committed by employees.

In its biannual report, the ACFE³ noted that the lack of internal controls, or the overriding of existing internal controls, was the most frequent weakness observed by fraud investigators. Clearly, internal controls matter when it comes to stopping fraud, but removing manual processes and embedding those controls is just one of the benefits that result from automation.



monitoring of transactions. In addition, most software solutions include a pre-built set of rules to detect common schemes involving vendors, travel and expense reimbursements, payroll, and many other types of routine business activity.

The role of automation in fraud detection

While automation can provide an effective defense against fraud, determined criminals invariably find ways to commit fraud. Consequently, in addition to automating a process, stopping it depends on your ability to monitor the activity within your business for the telltale signs that someone is on the “take.”

Unfortunately, your managers don’t have the time to scrutinize every single transaction. To put it bluntly, you’re not in the business of scam detection. You’re in the business of meeting your customers’ needs and generating revenue.

What if you could monitor all of your transactions for red flags of deception on a continuous basis? By using purpose-built fraud detection software, that’s exactly what many businesses do today. Instead of a periodic, haphazard approach to combating fraud, automation provides businesses with continuous, real-time

Preparation is vital

Before your business automates its approach to scam detection, identify which department will use the software to detect fraud, and make sure it has the people and processes in place to leverage the data fully. That means establishing a workflow and responsibilities for resolving suspected violations that the software uncovers. Also, make sure you engage the software vendor early in the implementation process to help refine your rules to minimize the number of “false positives” (transactions that appear fraudulent which are legitimate).

Banks also use automation to detect fraud within their customers’ accounts, including check, deposit, automated clearing house (ACH), and wire fraud.⁴ Make sure your bank has these tools in place, as well as a point of contact with your business to notify you when suspicious items are detected. Automation facilitates more than just the removal of manual processes. When applied to fraud protection and detection, it can provide businesses with an extremely effective tool in the ongoing fight against fraud, waste, and abuse.

Let’s talk about your business.

For more information on KeyBank’s capabilities, contact a local KeyBank Relationship Manager or visit [key.com/smallbusiness](https://www.key.com/smallbusiness).



¹ Elaine Pofeldt, “This crime in the workplace is costing businesses \$50 billion a year,” September 12, 2017, CNBC®, <https://www.cnbc.com/2017/09/12/workplace-crime-costs-us-businesses-50-billion-a-year.html>.

² “Report to the Nations on Occupational Fraud and Abuse: 2016 Global Fraud Study: Executive Summary,” 2016, Association of Certified Fraud Examiners, <https://www.acfe.com/rtn2016/about/executive-summary.aspx>

³ “Report to the Nations on Occupational Fraud and Abuse,” 2016, Association of Certified Fraud Examiners, <https://www.acfe.com/rtn2016/docs/2016-report-to-the-nations.pdf>.

⁴ KeyNavigator® Commercial Online Banking, <https://www.key.com/businesses-institutions/solutions/payments/key-navigator.jsp>.

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