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PROFESSIONAL LIABILITY UNDERWRITING SOCIETY

# SOCIAL ENGINEERING FRAUD

## SO … IS IT COVERED?

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# Presenters

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# What is Social Engineering Fraud?

What Social Engineering Fraud is and is not:

- Social Engineering Fraud is the fraudulent manipulation of an individual to induce them to say or do something they wouldn't otherwise say or do
- It is the *method* by which a fraud is initiated and executed, not the fraud itself

# Common Tactics

**Impersonation Fraud** (Executive / Client / Vendor) is the main approach.

Examples include:

- **Email Spoofing** a.k.a. Business Email Compromise (look-alike email addresses designed to mislead)

  employee@ProfessionalLiability.com vs. employee@ProfessionalLiabiliity.com

  – Intent is to provide recipient with instructions that are not genuine

# Common Tactics

- **Phony Client Scam vs. Lawyer**
  - Intent is to trick lawyer into “recovering” fraudulent settlement and then wiring trust funds to fraudster
- **Phishing / Spear Phishing / Whale Phishing**
  - Intent is to get the recipient to click on links or open malicious attachments
- **Unauthorized Access**

# What Do Fraudsters Want?

Money! But different ways of getting it:

- **Insured's Money Directly** – business email compromise trying to induce fraudulent transfers or to induce Insured to change vendor bank info
- **Information** – for the purposes of targeting Insured's money (*e.g.* Insured's banking credentials)
- **Information** – for the purposes of extracting value from it (*e.g.* selling it to third party)

# Why Does SEF Work So Well?

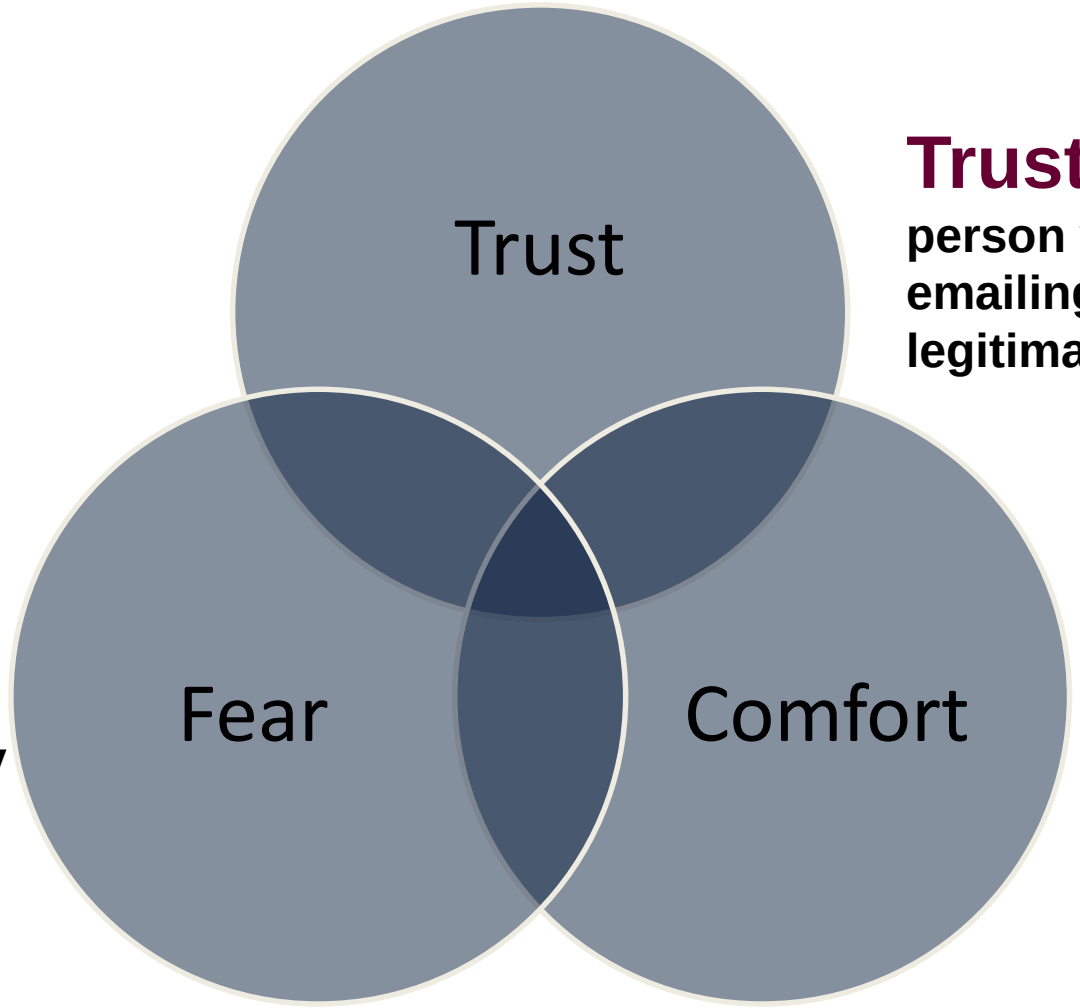
Fraudulent requests have similar, predictable traits:

- Create a sense of **urgency**
- Promise a **consequence** (good or bad)
- Expect **confidentiality** (executive impersonation)

# Why Does SEF Work So Well?

- **Knowledge** of internal controls / deal info / personnel / vendor relationships
- Introduction of (sometimes very well-crafted) **third party participants** like fake “banker” or “lawyer”
- Involve **unusual transactions** (*e.g.* mergers, offshore acquisitions) that don’t have SOPs

# Why Does SEF Work So Well?




**Trust** that the person you are emailing is legitimate

**Fear** of annoying or upsetting the person you're calling to verify

**Comfort** in the company's controls

# A Very “Efficient” Fraud

- **Speed** – funds are typically cleared out of initial destination account within minutes
- **Anonymity** – attacks are carried out via email or phone, often from overseas
- **High ROI for fraudsters** – one successful attack can be worth millions of dollars

# So where is the Coverage?

Coverage may be found in a few places:

## Commercial Crime Policy

- **Fraudulent Instruction Coverage** (a.k.a. SEF coverage a.k.a. Fraudulently Induced Transfer coverage)
- **Not Computer Crime** (*Apache Corp. v. Great American Ins. Co.*)
- **Not Forgery or Alteration** (*Taylor & Lieberman v. Federal Ins. Co.)*
- **Typically not Funds Transfer Fraud**

# So where is the Coverage?

## Cyber Policy

- Sub-limits for SEF, along with an extension for Computer Fraud
- Cyber policy can respond in the event of a liability trigger… but what are the triggers under your Cyber policy???
- Difference between “dollars” and “data”

# So where is the Coverage?

## Professional Liability (E&O)

- Client Impersonation vs. professional

## Directors' and Officers' Liability

- Allegations by shareholders/stakeholders of failure to adequately protect money or data
- Compare derivative actions involving data security breaches:
  - *Target* (2014)
  - *Wyndham Hotels* (2014)
  - *Home Depot* (2015)

# How Can Insureds Prevent SEF?

- Technological solutions:
  - Advanced email screening, advanced attachment scanning, DMARC
- Technology can leave a false sense of security
- Awareness
- Set the correct tone from the top
- Educate and empower employees
- Stay current

# How Can Insureds Prevent SEF?

- Active dialogue with customers/vendors/underwriters about fraud risks
- Implement mandatory “out of channel” verification protocols
- Create a blend of rules-based and principles-based protections
- Don’t be nostalgic about the way business “used to be” conducted

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# Key Takeaways

- The threat is real – not a “flavour of the month”
- A robust risk-transfer portfolio is necessary
- The threat is preventable
- Communication is key

# Links to Case Studies

- Joshua's article: http://www.canadianunderwriter.ca/inspress/understanding-difference-computer-fraud-funds-transfer-fraud-fraudulently-induced-transfer-coverage-within-crime-policy/
- Apache: https://blaneysfidelityblog.com/2016/10/24/apache-corporation-fifth-circuit-holds-that-commercial-crime-policys-computer-fraud-coverage-does-not-extend-to-social-engineering-fraud-loss/
- Taylor & Lieberman: https://blaneysfidelityblog.com/2017/04/03/taylor-lieberman-ninth-circuit-finds-no-coverage-under-crime-policy-for-client-funds-lost-in-social-engineering-fraud/