

Coverage Corner

The topic this month is not a fun one to talk about however it is an unfortunate reality of the world that we work and run our businesses in today. I am going to talk about employee theft and how you can chose to protect yourself and others.

Employee theft generally comes in 2 different forms. There is the first party form where the employee steals from the business itself. Then there is the third party form where the employee steals from the clients of the employer. These two different types of theft and can be covered in different ways.

We will start with the first party form with an example. The classic example is when a longtime employee usually in the bookkeeping department leaves the business to retire. After the employee leaves their replacement begins to notice some mathematical irregularities. They can be as blatant as checks made out to themselves or they can be more covert such as discrepancies between cash received and cash deposited or even undocumented withdrawals. Unfortunately, in situations such as this the employee is so trusted by the employer that the proper audit procedures are neglected giving them the perfect opportunity to steal. This type of employee dishonesty on a small scale often times can be covered by the Business Owners Policy. Most policies have a sublimit within the policy language. There are certain limitations and exclusions to this coverage. In some situations where access to large sums of money is available you would need a Crime Policy separate from your regular BOP.

The other common type that I mentioned can take place in a situation where an employee has access to a clients personal accounts or information. This can happen when an attorney or accountant is granted access to clients' finances for the purpose of paying for ongoing care or expenses. The easiest way to cover this situation is to get a Bond. When you get a bond you can either bond the individual or bond the position. If you bond the person and they leave you need a new bond. If you chose to bond the position then you would not need to replace the bond each time the position changes. The one thing to remember about bonds is they are not insurance! If you file a claim against a bond you are required to pay it back.

The kicker about all of these situations is that most insurance and surety companies (these are bond writers) require you to prosecute the offender. So sometimes we tell people if you are not willing to prosecute at the time of the loss then do not bother to waste your money on the premium.

Similar to last month here are some simple practices and things to think about that can help you reduce your companies' exposure to this type of loss:

1. Be an active owner in the oversight of your business.
2. Does the same person reconcile the accounts that make deposits, withdrawals and sign checks.
3. Stamp all incoming checks “for deposit only” immediately.
4. Is dual authorization required on all wire transfers or checks over a certain amount?
5. Do you have segregation of duties for cash receipts, oversight of blank check stock, credit card receipts wire transfer receipts?

This topic often times makes people uneasy when it is talked about. I think that is because the breach of trust experienced when it occurs often times hurts more than the financial loss. Anyway keep your eyes and ears open and you may see an instance of this in the paper, it is more common than you think.

Thank you for reading and participating and remember “don’t be cornered by your coverage.”

This column is strictly for general insurance information please consult your local agent for the specifics of your insurance program.

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