



Current Articles 2009 – January

Crime Insurance – what are the Requirements?

In past articles, I have stated that underinsurance is a major cause of Errors and Omissions claims; in fact, it is the largest single cause of such claims. I also mentioned that if the broker “sets” the limit or advises the client the amount of insurance that should be carried; this has also resulted in E & O claims, if the limit is inadequate.

The same problems apply to Crime Insurance. Whether it is an inadequate Fidelity Bond limit, Hold-up limit or Safe Burglary limit, if the limit is inadequate it can be the subject of an E & O. If the broker recommends the limit and which is inadequate, does the broker have any documentation that the advice was only a recommendation and not to be construed as the required limit? Or did he tell the client that this amount of insurance will be adequate?

To compound the Crime problem, many insurer’s packages “throw in” low limits of Crime Insurance. An Office or Store Package may include a \$2,500 or \$5,000 Inside and Outside Hold-up coverage. Was this limit reviewed with the client and is it sufficient based on the operations and actual potential for loss of money?

Inadequate Fidelity Insurance has been the subject of several recent E & O claims. There appears to be no review of the client’s operations and cash handling procedures to establish a proper limit. It could be possible that for costs or other reasons, the client may have resisted higher limits, but if this be the case, there is no documentation. Determining an adequate bond limit is not easy! The Surety Association of America developed a “formula” several years ago to recommend a limit based on average risks. Some risks with high value components or complex office procedures may not “fit” the mould and care should be exercised if this method is used.

Clients seem to think that employee dishonesty “can’t happen to me”. This is a standard reason for declining fidelity coverage. But it can and does happen to many clients who trusted key employees, oversee all transactions and exercise what they believe to be adequate steps to prevent employee dishonesty. But a dishonest employee is different from an outside thief. The dishonest employee has all the time in the world to commit the theft, may have keys to the premise and locked cabinets, knows his employers procedures and is able to determine ways to cover his tracks. Only a few years ago, a local winery had an employee who was able to convert proceeds to her benefit to an amount approaching \$7,000,000! What were the checks and balances? And I wonder if the bond limit was adequate?

Businesses big and small are victims. A construction company is hit by a comptroller and staff over an 11 year period for \$1,250,000! A small manufacturer, with gross profits of less than \$2,000,000. has the bookkeeper manipulate proceeds to her benefit for over

\$2,500,000! A retail store has a clerk obtain over \$19,000. from the till and petty cash over a period of time. They believe it could have been more but that was all they were able to account for. And an insurance broker whose office manager was able to convert \$160,000 over a 19 year period!

Prior to the February, 2008 IBAH luncheon will be a new, free, one hour seminar on Fidelity Coverages. It will include the application of the Surety Association formula and discuss some 24 ways to invite Employee theft and, of course, words of advice that you can discuss with your clients to prevent such occurrences.

On a totally different note, you may not be aware but this article is the **100th edition of Jim's Corner**. This first article was written in December, 1997 and has continued ever since. I hope you have enjoyed and benefited from my experiences. I must admit, after writing 100 articles obtaining ideas for new topics is getting more and more difficult. If you have any topic ideas, I would appreciate your thoughts.

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