



When Good Employees Go Bad: Why You Need Employee Dishonesty Insurance

An employee in a high school's finance department steals \$279,000 to support her gambling habit and cover her mortgage payments. A bank employee in Pennsylvania allegedly embezzles \$750,000. The former CEO of a Colorado insurance brokerage pleads guilty to stealing \$353,400 from the brokerage's employee benefits plan. The office manager of a Texas law firm gets four years in prison for forging checks and depositing client payments in her personal bank account.

When people become desperate, they may succumb to temptation and turn to crime. The FBI reported that one in 28.2 employees was caught stealing from an employer in 2007, and that was before the worst of the recent economic downturn. Vendors' employees and other visitors to an organization's premises may also have the opportunity to steal computer equipment or network passwords.

Most business property insurance policies cover losses resulting from some types of crime. For example, they will cover the cost of cleaning up graffiti that vandals spray paint on an exterior wall or the value of merchandise burglars steal, plus the cost of repairing the damage they did breaking into the store. However, insurance companies did not design these policies to cover money stolen from a cash register or deposits never made to a bank; in fact, the policies almost never cover employee crime. For this reason, every organization should consider buying crime insurance.

Employee dishonesty insurance, often called fidelity coverage, pays for losses due to employee

theft of money, securities, and other property. It covers property the organization owns or leases, property of others in the organization's custody, and property for which the organization has legal liability. Insurance companies can provide one amount of insurance that applies separately to each loss, regardless of how many employees were involved in the theft and regardless of whether the



employer can actually identify the responsible employees. Alternatively, the policy can contain a list (known as a schedule) of either employee names

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or positions with a separate amount of insurance listed next to each one. The policy can cover permanent, temporary and leased employees for up to 30 days or more after they terminate employment. Some companies will extend coverage to certain non-employees who may have the opportunity to commit theft, such as equipment support technicians, consultants, and vendors.

Many policies include a "prior dishonesty" clause. This immediately cancels coverage for an individual employee if the organization discovers that the employee has committed a dishonest act, including acts other than theft and acts he committed prior to his current employment. Even relatively minor dishonest acts will eliminate coverage for that employee. Some insurance companies will amend the policy to cover certain individuals on a case-by-case basis, so the employer should work with the insurance agent and company to arrange coverage.

Insurance companies offer this coverage either as a separate policy or as part of a package policy.

If it comes as part of a package, the employer should carefully review the policy to determine whether the amount of insurance provided is adequate. Package policies often come with certain insurance limits built in, and they may or may not be enough for a given situation. For example, a package policy that automatically provides \$100,000 coverage may be fine for the smallest of businesses, but it would have been way too small to cover the losses described at the beginning of this article.

Employees can either make a business successful or drag it down. No organization wants to believe that its workers would steal from it, but unfortunately some of them will. To make sure that they have adequate protection, all employers should work with a professional insurance agent and purchase employee dishonesty coverage. With the right insurance, the organization and its trustworthy employees will survive a large loss caused by the untrustworthy few.



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