

More Myth Busting on Crime Coverage

In our June *Alert*, we tried to put to rest the most prevalent misconception about Fidelity insurance – that like crime itself, it doesn't pay. Here we present several more myths in need of a bit of myth-busting as well.

Myth #2: This kind of coverage is only for the big boys, the Fortune 1000 companies that have big budgets for buying whatever insurance they want. I'm a middle market CFO. This isn't for me.

The facts: The Fidelity marketplace likes middle market risks, and the coverage is priced accordingly. In the fact, the marketplace is distinctly *less favorable* for larger companies, and only a few markets will deal with them. Why? Because the larger the company, the more difficult the task of thorough oversight, and the more likelihood of hands reaching into company cookie jars. Local management is usually better positioned to keep watch on employees and on the books. Larger companies also experience larger losses: there's more to steal, and once a system of fraud is set up, it may remain active for years without being detected. Smaller buyers will frequently find market interest reflected not only in attractive premiums but in smaller deductibles.

Myth #3: Our vendor certification process requires our vendors to carry Crime coverage. If there were to be an incident where the vendor stole something of ours, we'd be covered.

The facts: The answer here is sometimes yes, sometimes no. Sometimes the coverage will apply, but often it will not. The reason is that Fidelity policies do not cover crimes committed by company owners. Many vendors, particularly consultants or professional services providers, are small companies, or even sole proprietorships, with the work done – and the crimes potentially committed – by the owners. This is just as often the case for vendors

working with very large companies as it is for those working with smaller firms. In fact, in one recent incident, a collection agency handling large amount of cash was involved in a scheme in which the owners stole more than \$100 million. Regrettably, this was not covered by the collection company's Fidelity policy.

One potential solution to this gap in coverage is an agent coverage endorsement, in which a buyer's policy specifically lists vendors as agents covered under the buyer's Crime program. Such endorsements, however, may be quite difficult to come by in the marketplace today.

Another potential solution is to make sure that the vendor has a client property endorsement in its policy, which may or may not circumvent the issue of the owner committing a crime, but still provides important protection.

Myth #4: Our vendor has a joint loss payee endorsement. If there's a loss involving us and a claim is paid, the check goes out to the vendor and us, the client. So we're covered, right?

The facts: While not a bad thing at all, a joint loss payee endorsement does not offer nearly the protection of a client property endorsement or agent coverage. As a client, you cannot file a claim when your only protection is the vendor's joint loss payee endorsement. If the vendor does not wish to file a claim, you could well have layers of struggle in front of you: first, fighting the vendor to submit a claim and second, fighting the carrier to pay it. You might be waiting a long time for that check to go out.

Myth #5: The pension fund I sponsor or manage must be bonded according to federal law, so the plan is fully protected.

The facts: Under the Employee Retirement Income Security Act (ERISA), funds must in fact be bonded, with a minimum required amount of \$500,000 per plan. But losses from pension fraud incidents are mounting, and this protection may well be insufficient. And don't forget that according to law, you need to use a special ERISA bond form or rider rather than rely on your standard commercial Crime insuring agreements for protection.

Now that our myth-busting is done for the moment, what is the true story on protection on these exposures? The ultimate solution to Fidelity risks, internal and external, is a well thought out, thorough Fidelity policy.

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