

More Myth Busting on Crime (Fidelity) Coverage

In our June *Alert*, we tried to put to rest Myth #1 about Fidelity insurance – that like crime itself, it doesn't pay. Here we present several more misconceptions 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 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 a 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 at all a bad thing, 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 a struggle in front of you: first, fighting the vendor to submit a claim and then 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.

The chief contributor to this article was Stephen Leggett, Willis' North American Product Leader for Commercial Crime/Fidelity and part of the Willis Executive Risks Practice. Steve has been focusing on Crime/Fidelity coverage for more than 25 years.

Executive Risks Regional Contacts

Boston, MA

David Goldstein
P- 617 351 7498
F- 617 351 7430
david.goldstein@willis.com

Chicago, IL

Brian Gauen
P- 312 621 4855
F- 312 621 6870
brian.gauen@willis.com

Denver, CO

Jim Iacino
P- 303 218 4039
F- 303 218 4058
jim.iacino@willis.com

Los Angeles, CA

Chris Crawford
P- 213 607 6294
F- 213 607 6301
chris.crawford@willis.com

New York, NY

Steve Pincus
P- 212 915 7940
F- 212 519 5460
steve.pincus@willis.com

Radnor, PA

Matt Schott
P- 610 254 5642
F- 610 254 5600
matt.schott@willis.com

San Francisco, CA

Michael Mahoney
P- 415 291 1535
F- 415 982 7978
mike.mahoney@willis.com

Toronto, ON

Jonathan Ashall
P- 416 646 8351
F- 416 869 1649
jonathan.ashall@willis.com

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