NAPLIA
North American
Professional Liability Insurance Agency

EMPLOYEE DISHONESTY FAQ

What is employee dishonesty insurance?

This insurance protects the employer from financial loss due to the fraudulent activities of an employee or group of employees. The loss can be the result of the employee's theft of money, securities or other property of the employer.

Why do business owners need employee dishonesty insurance?

Fraud and embezzlement in the workplace is on the rise. The Association of Certified Fraud Examiners (ACFE) estimates business losses $400 billion per year or about 6% of total annual revenue. Small companies can be especially effected by theft and embezzlement because they can't afford extensive safeguards and aren't large enough to absorb losses. Workplace crime is carried out by employees 80% of the time. One in four employees who has committed fraud against their employer had been with the company more than ten years.

Is employee dishonesty insurance the same as a fidelity bond?

Yes, in most cases they are considered the same type of coverage. Employee dishonesty insurance is also sometimes called crime coverage, employee dishonesty bond, fidelity bond and crime fidelity insurance.

Who is covered under an employee dishonesty insurance policy?

An employer is protected from theft by its employees. In addition employers are protected from covered losses due to burglary and destruction. The exact definition of "who" is covered is defined in the policy, but should include all current or former employees, partners, members, directors, volunteers, trustees, seasonal employees and temporary persons at your direction and control.

What is covered under an employee dishonest policy?

Stand alone policies are designed to cover employee thefts, robbery and safe burglaries. Coverage can also include:

1. Forgery or alteration
2. Funds transfer fraud
3. Computer fraud
4. Credit card fraud
5. Money order and counterfeit fraud

Can an employee dishonesty policy also cover an Employee Retirement Income Security Act (ERISA) bond?

Yes, an endorsement can be added to include ERISA compliance. ERISA requires a bond equal to 10% of the assets up to a maximum limit of $500,000. This is very convenient and eliminates the need for a separate ERISA bond.

Is there a difference between an ERISA bond and fiduciary liability policy?

Yes, you are required by ERISA to bond or insure your plans from employee dishonesty in the lesser of $500,000 or 10% percent of all plan assets. The Department of Labor has the authority to prescribe a bond in excess of $500,000, up to 10% of the value of all plan assets as of the beginning of the plan year. Fiduciary liability is not required by ERISA.

What is a fiduciary liability policy?

A fiduciary liability policy protects the personal assets of a plan Fiduciary due to allegations of breach of fiduciary duties.

What is third party coverage on an employee dishonesty policy?

This coverage, added by endorsement, extends coverage to a client with which you are under written contract to perform services. The policy will pay for loss of or damage to money, securities and other property owned or leased by a client from theft by an employee of the policyholder. This endorsement modifies the policy to include coverage at the client's premises.

What limits should we purchase?

Limits will vary by the exposure and the needs of the insured. For firms that handle cash and securities, estimate the annual volume and multiply by 20% to get a starting point for limits. Minimum limits are $100,000 and many policies will cover $500,000 without significant additional premiums. Coverage for depositor's forgery, computer and funds transfers can also be purchased with separate limits.

Does my fiduciary bond cover my fiduciary exposure?

Although nearly 50% of Fiduciaries think their ERISA mandated fidelity bond protects personal assets, ***it does not***. The fidelity bond protects the ***plan*** from loss due to dishonest acts of those who handle plan assets.

What are some of the typical exclusions in an employee's dishonesty policy?

1. Accounting or math errors or omissions
2. Loss to income that you could have realized had there been no loss of or damage to money, securities or other property
3. Vandalism
4. Governmental action, seizure or destruction of property by the government
5. Restatement of a profit and lost statement
6. Theft by you for you. You can not steal from yourself; however coverage extends to partners, directors, members, and trustees.

Can employee dishonesty insurance be added to other insurance contracts?

Yes, business owner's policies and other commercial office packages can add coverage by the base policy or by endorsement. The AICPA accountants program adds by endorsement employee dishonesty coverage.

What are the disadvantages to adding this coverage to other policies?

1. Limits may be insufficient to cover real losses
2. Terms, conditions and exclusions may limit coverage and only cover employee dishonesty losses marginally
3. Business owners policies (BOP's) may limit employee dishonesty to $10,000
4. Usually only first party coverage is available
5. Employee dishonesty claims could impact your insurance policy designed for other exposures. (accountants error and omissions policies)

What are some of the limitations in the AICPA employee dishonesty endorsement?

1. Coverage is limited to employees doesn't cover partners or owners
2. Employee dishonesty is limited to dishonest acts committed by an employee. There is no coverage for theft against you by a non-employee
3. No coverage for money or securities in transit with an employee or armed motor vehicle.
4. No coverage for robbery, theft, disappearance or destruction at banking premises or in transit.
5. Coverage for losses on property owned or held by your clients on their premises while your employees are performing services is limited to property other than money or securities.
6. Legal expenses are excluded for any cause or loss
7. No coverage for computer fraud, transfer fraud by non-employees
8. No option for coverage under ERISA

How are prior acts covered?

The AICPA plan employee dishonesty endorsement is limited to a loss sustained basis. A loss must be sustained through acts committed or events occurring during the coverage period or extended reporting period. (No later than one year)

Stand alone* employee dishonesty insurance will pay for a loss sustained through acts or events committed or occurring at ***any*** time and which are discovered during the policy period or extended
policy period.

This FAQ is intended to provide an overview of employee dishonesty coverage and any policy comparisons are for illustrations only. To fully understand employee dishonesty coverage and differences would require that all policies be read in their entirety with all attached endorsements.

The AICPA employee dishonesty endorsement referred in the FAQ is G-138268-a (3/03)

****The Stand alone policy cited is the Hartford employee dishonesty policy form F-4201-0 (1998)***