

# The Significance of Fidelity Guarantee and Employee Dishonesty

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2014-01-01



We all appreciate the potentially negative financial impact on a business of dishonest acts by employees. However, we may not fully appreciate that any short term cover not including Fidelity Guarantee is defective. The intermediary is left exposed and Professional Indemnity cover is at risk. Bluntly, Fidelity Guarantee cover should not be optional when it comes to arranging insurance cover for businesses, regardless of their size.

The following example is indicative:

The insured had a fabric manufacturing and retailing business. A routine audit determined that hundreds of metres of fabric were unaccounted for, and a subsequent investigation revealed that a number of

employees, acting in concert over several months, had stolen it. Their modus operandi was simple: on the days they committed the theft, they wore loose fitting clothes. They would cut fabric from large rolls, wrap it around their bodies and exit the business premises with the theft undetected by the firm's security officers.

A claim was lodged under the company's business insurance policy, specifically in terms of the Fidelity Guarantee section. The amount of the claim was substantial, but within the indemnity limit and the client was identified.

Fidelity Guarantee covers the theft of money or other property either belonging to or in the care and custody of the insured. The loss must be the result of fraudulent and dishonest activity of employees, acting individually or in collusion, and gaining from this fraudulent or dishonest activity. There are two bases of cover available:

- Blanket cover: includes all employees regardless of rank
- Named or position based cover: for specific individuals or those whose position is fully described so that in the event of a loss it is clear who is covered and who is not

Rating is based on the total number of employees and the actual Limit of Indemnity selected and is also subject to a First Amount Payable (Excess) and specific exceptions/conditions. Various clauses and extensions are included, for example the cost of an accountant to verify any claim is covered in addition to the Limit of Indemnity.

In assessing the risk exposure, underwriters would want to know what checks and balances are in place to minimize or eliminate fraudulent activity. Information required includes: how long the business has been in existence / reference checks before employing staff / any fraudulent activity by staff in the last five years / is a money policy in force and who is the underwriter / has an application to any underwriter been declined / how will cash come into the hands of employees / cash receipting and authorizing procedure / internal and external audit procedures / stock controllers.

The state of the economy has not only impacted negatively on businesses, but also on their employees. Unfortunately, the temptation to enrich oneself is an ever present threat, and the most unlikely person at times can succumb and commit fraud or theft— in the belief that he or she will not be caught. And our current economic environment has exacerbated the situation. The ever rising cost of living coupled with high unemployment has added to the financial burden of many. Fidelity Guarantee is a product that is available at a modest premium. Businesses without it face potentially dire consequences.