Commercial Crime Insurance

What Is Commercial Crime (Fidelity) Insurance?

Commercial crime insurance offers protection against the theft or loss of an Insured's monies or securities, or their client's monies or assets while in their possession or control. Employee theft, certain types of fraud by third parties, theft of property on premises and social engineering are just a few types of ways theft or loss of money or securities can take place.

Why Does My Client Need A Commercial Crime Insurance Policy?

Although most companies work to create solid internal controls and believe they hire trustworthy employees, there's always the chance those trusted individuals could go astray. Additionally, cyber theft is a significant and growing area for commercial crimes. Bank accounts can be compromised by experienced hackers and novices alike. Your client's assets are at risk for wire transfer fraud, as well as employee theft. Standard liability policies do not typically cover these exposures. Having a standalone commercial crime policy allows you to customize coverage to the specific needs of your client.

What Does A Commercial Crime Insurance Policy Cover?

A typical commercial crime policy is divided into several coverage parts. A client may buy one or all coverage parts depending upon the industry and the carrier. **A summary of the coverage is as follows:**

- Employee Theft
- Burglary & Robbery
- Forgery & Alteration
- Fraudulent Money Orders
- Theft of Client's Property or Securities
- Counterfeit Money
- Telephone Toll Fraud
- Assets/Monies in Transit
- Computer/Funds Transfer Fraud
- ERISA/Employee Dishonesty

Commercial Crime Insurance vs a Financial Institutions Bond (FI Bond) or Cyber Liability Insurance.

Financial institutions such as banks, non-bank lenders, asset managers, and insurance companies would typically be provided with a financial institutions bond vs a commercial crime policy. The main difference being funds transfer fraud/social engineering and other cyber crime-related losses and theft are typically covered up to full policy limits within a financial institutions bond, while a commercial crime policy may sub-limit coverage for those types of cyber crime-related losses. Furthermore, a cyber liability insurance policy may provide coverage for cyber crime-related theft or loss of assets. However, many of those cyber policies have specific coverage triggers and include sub-limits typically much lower than would be available within a financial institutions bond. Its not unusual for a cyber policy to provide no cyber crime coverage for a financial institution as that Insured entity should have a robust financial institutions bond in place for that risk.

It is also important to evaluate where a cyber policy would overlap certain coverages provided within a commercial crime policy. There are specific insurance clauses that could come into play if a loss or theft of assets or monies triggered both a crime insurance policy and a cyber insurance policy. Both a crime insurance policy or an FI bond should be in place alongside a robust cyber policy. There should not be a scenario where a robust cyber liability policy is meant to replace a robust crime insurance policy or FI bond and vice versa.

Who Needs Commercial Crime Insurance?

Any company or non-profit organization is at risk of loss or theft of their money or securities. If a client has commercial bank accounts, it's important to know their corporate bank accounts are not afforded the same protections under the FDIC as personal accounts. Almost any client with a bank account is vulnerable to wire transfer, ACH fraud or forgery and alterations risk. Any organization that handles monies or securities of others in addition to their own needs commercial crime insurance.

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Statistics

Currently, it's estimated that U.S. companies lose more than **$50 billion** annually due to employee fraud. Recent studies have confirmed that most of the harm comes from employees, not from a disreputable bookkeeper.

90%

of all significant workplace theft losses come from employees.

1 in 3

workplace perpetrators commit more than one type of fraud.

85%

of managers have committed workplace fraud at least once.

1 in 3

business bankruptcies in the US are caused by employee theft.

Claim Scenarios

Property Manager

A property manager was committing fraud with various vendors providing services to the properties under their management. Vendors and the property manager were overbilling for services rendered or charging for services never provided and keeping the difference. Insufficient controls were in place regarding these vendors leading to six separate losses totaling just under $2 million in losses.

Security Breach

A small escrow company handled transactions primarily for residential sales. There was a breach in their security and a half million dollars was wired out via several individual wire transfers. When the company was finally aware of what was happening, they contacted their bank and put a freeze on the account. The bank tried to recover the funds by contacting the financial institution where the wire transfers had gone directly. The escrow company was held liable for lost funds of their clients. The suit settled for $1.5 million.

Stolen Corporate Funds

A company executive delegated her assistant to set up travel arrangements and gave the secretary a corporate credit card and account information for payment. The assistant used information to make personal purchases. The assistant stole over $800,000 during a 5-year period.

These are only claims examples: minor changes from actual suits have been made to protect the confidentiality of all clients.

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