

RISING FIDELITY CLAIMS

Fraud and embezzlement occur in even the most secure workplaces and are committed not only by “tapping the till” in a retail store, but also by carrying out sophisticated schemes involving the illicit transfer of millions of dollars of cash or securities. It is estimated that employee dishonesty causes as much as 20 percent of the nation’s business failures. Fidelity claims are on the rise, and success in combating such losses will require tightening of internal risk management controls.

What Fidelity Insurance Covers

Fidelity insurance protects organizations from the loss of money, securities or inventory resulting from employee dishonesty, embezzlement, forgery, robbery, computer fraud, wire transfer fraud, counterfeiting and numerous other criminal acts.

Liabilities covered by fidelity insurance generally fall into two categories, although many policies combine both types of coverage: Money and Security Coverage, which pays for money and securities taken by burglary, robbery, theft, disappearance and destruction; and Employee Dishonesty Coverage, which pays for losses caused by most dishonest acts of employees, such as embezzlement and theft.

Exploiting Weaknesses in Control Mechanisms

Fidelity schemes can involve fictitious employees, dummy accounts payable, non-existent suppliers and outright theft of money, securities and property. But what all such plans have in common is that they are able to take advantage of a weakness in one or more of the employer’s financial controls. These frauds can go on for years, and when discovered, the ultimate impact can be enormous. Smaller companies are especially vulnerable to fidelity crimes.

Loss Prevention and RA

Some business insurance policies exclude fidelity coverage altogether while others provide only nominal coverage for loss of money and securities due to employee dishonesty. The best protection, therefore, is loss prevention in the first place. GreenPoint Legal’s Risk Assessment experts pinpoint areas of vulnerability in your organization, thereby minimizing loss due to fidelity crimes.

Occurrence and Cost Statistics

According to a recent survey by an international accounting firm, the commission of fidelity crimes is on the rise — as is their cost to the economy:

- > Eighty percent of workplace crime is carried out by employees.
- > One in four employees has either committed or witnessed workplace fraud and abuse.
- > One in four employees committing fraud against their employer has been with the company for more than 10 years.
- > Only one in three of those who have witnessed a workplace crime bother to report it.

The Association of Certified Fraud Examiners’ statistics have revealed:

- > Fraud and abuse cost U.S. businesses more than \$400 billion annually.
- > Fraud and abuse cost employers an average of \$9 a day per employee.
- > The average organization loses 6 percent of its total annual revenue to fraud and abuse committed by its own employees.