



The ABC's of Commercial Crime

Why buy it? Every company, regardless of size, is a potential target for criminals. While employee theft remains the leading cause of loss under crime policies, computer fraud by hackers is on the rise and social engineering is recognized globally as one of the largest emerging types of fraud.

What is it? Crime, synonymous with fidelity insurance, is a first party indemnification policy. The policy is peril specific and requires a direct loss of assets resulting from a named peril. The assets covered include money, securities and other tangible property that has intrinsic value as defined by the policy.

The policy is broken down into multiple insuring agreements, the named perils, to distinguish theft by employees and theft by non-employees. Each insuring agreement is intended to respond to a defined fact pattern. The **who, what, where, and how** are all important considerations in determining what insuring agreement may respond, in the event of a loss.

Insuring Agreements 101: The Standard Agreements¹

Employee Theft covers loss of or damage to money, securities and other tangible property that has intrinsic value resulting directly from theft committed by an employee, whether identified or not, acting alone or in collusion with other persons.

ERISA covers loss of or damage to money, securities and other property resulting directly from fraudulent or dishonest acts committed by an employee, whether identified or not, acting alone or in collusion with other persons.

Forgery or Alteration covers loss resulting directly from the forgery or alteration of the insured's checks or other written instruments of the insured instructing payment to be drawn on them (including direction for payment by an agent of the insured or that which are purported to be drawn by such agent).

Inside the Premises covers theft of money and securities from inside the insured's premises or the insured's banking premises resulting directly from theft, disappearance or destruction. Loss resulting from damage to the premises and a locked safe, vault, etc. on the premises resulting directly from an actual or attempted theft of money and securities is also covered. In addition, the insuring agreement covers robbery or safe burglary of other property.

Outside the Premises covers loss of money and securities or loss of or damage to other property outside the premises or financial institution premises in the care and custody of a messenger or armored vehicle company, resulting directly from theft, disappearance or destruction or actual or attempted robbery.

Computer Fraud covers loss resulting directly from a fraudulent entry, or change of electronic data or computer program, into a computer system that results in money, securities or other property being transferred, paid or delivered, or results in your account at a financial institution being debited or deleted.

Funds Transfer Fraud covers loss resulting directly from a fraudulent instruction directing a financial institution to debit your transfer account and to transfer, pay or deliver money or securities from that account.

Money Orders and Counterfeit

Money covers loss resulting directly from counterfeit money having been accepted in good faith in exchange for goods, money or services. This insuring agreement also covers loss resulting from money orders not being accepted and paid upon presentation.

Insuring Agreements 101: The 'Should Be' Standard Agreements

Client Property covers loss of or damage to money, securities or other property sustained by your client(s) resulting directly from theft committed by an identified employee or employees acting alone or in collusion with other persons.

Social Engineering covers loss of money resulting directly from the intentional deception of an employee by a person falsely purporting to be your client, vendor or employee through a fraudulent instruction which results in a transfer, payment or delivery of money or securities.

Claims Expense covers reasonable costs, fees and other expenses incurred by you, to determine the existence or amount of a covered loss.

Other notable features:

1. Your policy should have a per occurrence limit (no aggregate)
2. We recommend a loss discovered policy (covers losses that occur at any time and are discovered during the policy period).
3. Given the first party nature of a crime policy, a detailed, sworn proof of loss is required by insurers within a specified number of days following discovery and notice.

Every crime policy will also contain exclusions to coverage which should be carefully reviewed and tailored to fit your business and meet your risk management objectives.

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Footnotes:

¹ Language based on Insurance Services Office, Inc., 2015 Commercial Crime Policy (Discovery Form)

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