

How would you like to explain this to senior management?

Consider these scenarios:

Expense:

Your new outside auditor has questioned several years of employee expense reports. The hotels and restaurants listed on the reports appear to have never existed.

Computer:

The bank notified you that your account is overdrawn. Over the weekend, there was a large online transfer of funds from your account to a foreign country.

Vendor:

There is a problem with a vendor's federal identification number. The vendor's address is a P. O. Box. The person who entered the vendor into the purchasing system is no longer working there.

Check:

At month end, your bookkeeper tells you that several checks have been cashed, posted to your account, and are out of numerical sequence. These checks were part of a recent shipment you ordered.

Third party:

The monthly bank statement indicates proceeds for the company-sponsored fund-raiser were not deposited. The volunteer who allegedly made the deposit filed for bankruptcy.

These losses may be the result of crimes. You may have even purchased a crime insurance policy. However, there might not be coverage. Why? Crime policies are written to cover specific types of losses. This coverage is one of the more misunderstood forms of commercial insurance available. Crime insurance is not as all encompassing as the name might imply.

Here are some issues to consider:

- Who is actually covered by your policy?
- Are volunteers considered employees?
- How is computer fraud different from employee dishonesty?
- Do you know how many outsourced vendors you use?
- What exactly is a spear phishing scam?

Sounds confusing! It only gets worse.

A recent survey by the Association of Certified Fraud Examiners indicates that fewer than 8 percent of fraud perpetrators had a prior criminal conviction. This percentage casts doubt on the effectiveness of pre-employment background and credit checks. What does all of this potentially cost? According to the ACFE study, the median loss for a small business is estimated at \$160,000. Nearly one-quarter of the frauds involved losses of at least \$1 million.

Even with good controls in place, it can be difficult to detect embezzlement. These individuals can be ingenious. According to the ACFE study, the frauds lasted a median of 18 months before being detected.

A crime insurance policy must be tailored to meet your organization's specific needs. Limits apply to various exposures, but endorsements customize the product to your unique operations. Customize is the keyword.

Coverage can include employee theft or dishonesty, forgery or alteration, theft of monies and securities on and off premises, computer fraud, and funds transfer fraud. A crime policy purchased to satisfy the Employee Retirement Income Security Act of 1974 (ERISA) bond requirements will not provide you the broad coverage you require.

A qualified, independent expert not imbedded in the purchasing process must analyze this type of policy. An individual who stays up-to-date on evolving coverage forms and their impact on various types of businesses should perform policy evaluation. A policy should be reviewed annually, at each renewal. Evaluate your coverage limits as your business changes. Has anyone ever discussed the importance of the discovery period clause with you? The coverage clock is ticking...

For more information contact:

Arlene Petersen, CPCU
T.E. Brennan Company
330 South Executive Drive, Suite 301
Brookfield, WI 53005-4275
Phone: (262) 754-1162
(888) 271 2232
www.tebrennan.com
consult@tebrennan.com