

Editorial Contact: Richard Hahn (716-372-2443)

First North American Rights
© 2000 Richard Janis

Insurance With Assurance

Employee Dishonesty Insurance *by Rick Janis*

Do We Really Need Employee Dishonesty Insurance?

We all want to believe the best about our employees. You've probably even heard alarm company owners state with conviction that their employees would never steal from them. Maybe you've said the same thing. You've known your employees and people on your Board and you trust them.

In fact, you might not even know anyone in business that has ever had a real problem with employee dishonesty.

These are some of the reasons many small firms have shied away from purchasing Employee Dishonesty Insurance in the past.

Unfortunately, we can't assume all people are perfect. Employees with a drug, gambling or credit card problem can easily justify in their minds parting your company with dollars to bail them out. Many businesses that have had their bank accounts cleaned out will never admit it because they are too embarrassed.

That's why Employee Dishonesty Insurance should be seriously considered and included in your insurance portfolio when the business begins delegating check signing, depositing and reconciliation to people other than the owners.

We know of a large institutional client who carries Employee Dishonesty Insurance. The company was covered when their CPA discovered - 2 years after the fact - that \$125,000 had been taken by the assistant comptroller. This person was responsible for checkbook reconciliation. Of course, the books balanced until the CPA could not reconcile checks for purchase orders with bank balance statements.

For the most part, Employee Dishonesty Insurance covers only employees and specifically excludes owners, partners, officers and directors. The one exception to this coverage exclusion is the Employee Dishonesty Policy for many of the state burglar and fire alarm associations where coverage for directors and officers, as well as employees is specifically included.

Of course there are safeguards that should be in place to help reduce the possibility of dishonesty claims such as:

- Dual signature check signing
- Reconciliation of the checkbook by someone other than the person with authority to sign checks and make deposits

- Monthly or quarterly internal audit controls to review and prove checkbook balances and deposits. (remember deposits can appear to have been made in your account when they actually went somewhere else).

Loss of business property such as product, inventory and customers goods is also included in Dishonesty Coverage. Therefore it's important to include strict inventory controls and audits in your procedures. Inventory shortage due to miscalculation is excluded from the policy.

We all want to believe the best about our employees. As good as they are, extenuating circumstances cause people to commit acts they normally would not consider. The easy access and availability of your inventory and checkbook could prove just too tempting. Money and property are usually taken over periods of time so problems are not immediately detected. When finally discovered, amounts are frequently in the tens of thousands of dollars. Prudence shows that now is the time to arm yourself with coverage against a potential loss.

Rick Janis is a Certified Insurance Counselor and president of the Alarm Insurance Agency. With over 7 years of experience in the security industry, he has been responsible for developing and managing comprehensive insurance and bonding programs for alarm dealers and monitoring companies. Rick is CEU certified by NBFAA and teaches CEU courses to the alarm industry on General Liability/Errors and Omissions and Worker's Compensation. He can be reached at 800-474-0933 or by fax at 800-240-0631. You may also e-mail him at rjanis@alarmins.com.