

## **Insurance With Insurance**

### **Do We Really Need Employee Dishonesty Insurance?**

*by Rick Janis*

"My employees wouldn't steal from me," stated one alarm company owner with conviction.

"I know these people on the Board and trust them."

"I don't know anyone in business who has had this problem."

Sound familiar? Maybe you've heard one of those statements from a business acquaintance or uttered one yourself. Those 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.

I have 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 who was responsible for checkbook reconciliation. 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 I write 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

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.

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