Don’t Overlook Insurance As A Source Of Protection From Losses Caused By Fraud Or Theft

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Widely cited reports and estimates find that employee theft and embezzlement causes billions of dollars in losses for businesses annually. The approaching new year – often a time for insurance renewals – offers businesses the opportunity to take a fresh look at whether they are sufficiently covered for these potentially devastating losses. Insurance frequently can be the most promising source of recovery after fraud or theft losses given that efforts to recover stolen funds from the wrongdoer may be futile.

Coverage can be available from a variety of sources. Standard fidelity policies, for example, provide coverage for losses caused by an employee’s dishonest or fraudulent conduct. Financial institution coverage may reimburse losses caused by fraudulent conduct occurring in the course of obtaining loans or funds from a financial institution. Likewise crime coverage provisions contained in many commercial package policies cover losses resulting from employee theft, or from the forgery or alteration of documents. Once a business has this coverage in place, when it discovers that it has suffered a financial loss as a result of fraud or embezzlement, there are a host of issues that require attention. The discovery of the loss typically triggers a flurry of activity designed to figure out the extent of the loss, how it occurred and whether stolen funds can be recovered.

One task that is sometimes overlooked, but should be high on the priority list, is consulting the company’s insurance policies to determine what coverage may be available for the loss. As is the case with any type of loss that may be covered by insurance, it is important to review potentially applicable policies as promptly as is possible under the circumstances. It also is critically important to carefully ascertain and follow the requirements for providing notice of the loss to insurance carriers.

Many policies that cover losses caused by dishonest or fraudulent conduct contain specific provisions addressing when notice must be provided, when a proof of loss must be submitted, and what information must be provided in support of the claim. Failure to adhere to these requirements potentially could result in unnecessary coverage disputes. It is important to address the insurance issues that may be implicated by theft or embezzlement early and thoroughly, both at the time of insurance renewal and after a loss has occurred.

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