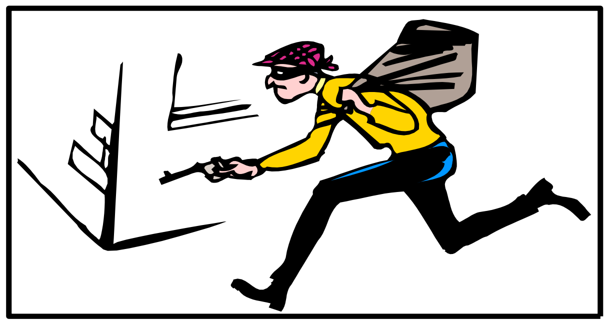
CHAPTER 9: COMMERCIAL CRIME INSURANCE

Let's Begin…



Crime Insurance

Crime insurance provides a vital form of protection for business organizations—and individuals. Modern society suffers from a serious crime rate, and many felonious acts involve the theft of money, securities, or other property.

While insurance cannot eliminate the problem—and may, in some instances, even contribute to it—coverage can protect policyholders against financial losses resulting from the dishonest acts of others.

Criminals have grown more sophisticated and there is no way to fully safeguard property from thieves. Before accepting a risk, underwriters may require the installation of new locks, alarms, and other security devices. But not all theft losses involve breaking and entering, or confrontations with armed criminals. Some losses are more difficult to control. Certain crimes are not easily detected when they occur—particularly when committed by someone having access to a premises or charged with handling money.

Commercial crime coverages may be written as a monoline policy or as part of a commercial package policy. One of the unique things about the commercial crime program is that jurisdiction is jointly shared by ISO and the **Surety Association of America (SAA).** Four of the coverages are written on SAA forms rather than ISO forms, but SAA and ISO forms may be attached to the same policy.

Most of the different crime coverage forms must be accompanied by a Crime General Provisions Form; this is the document that contains the general crime policy exclusions, conditions, and definitions. Each specific Crime Coverage Form contains additional exclusions, conditions, and definitions as well as other coverage specific information.

There are **17 major coverage forms** in the program, which may be combined in different ways under any of 10 coverage plans which are currently available. Each of the coverage forms in the program is designated by a letter. The names of the available coverage forms are:

Form A—Employee dishonesty (blanket or schedule options),

Form B—Forgery or alteration,

Form C—Theft, disappearance and destruction,

Form D—Robbery and safe burglary (property other than money and securities),

Form E—Premises burglary,

Form F—Computer fraud,

Form G—Extortion,

Form H—Premises theft and robbery outside premises (property other than money and securities),

Form I—Lessees of safe deposit boxes,

Form J—Securities deposited with others,

Form K—Liability for guests' property—safe deposit box,

Form L—Liability for guests' property—premises,

Form M—Safe depository liability,

Form N—Safe depository direct loss,

Form O—Public employees dishonesty—per loss,

Form P—Public employees dishonesty—per employee, and

Form Q—Robbery and safe burglary—money and securities.

After looking at the main policy conditions, provisions and endorsements, we will consider Forms C and A, respectively. Forms D and E—which we won't consider in depth here—are also applicable to almost any business. The other forms are for more specialized uses.

Any combination of the available crime forms included in the same policy completes what is known as a Commercial Crime Coverage Part. The same coverage forms are used to construct monoline policies (consisting only of crime coverages) and package policies (consisting of crime coverages combined with other commercial coverages).

Conditions

The Crime General Provisions are attached to every policy that includes crime coverages, regardless of whether it is a monoline or package policy. These provisions apply to all crime coverages which are part of the policy, and apply only to the crime coverage part. Having a separate form for general provisions reduces redundancy by eliminating the need to attach the same provisions to each coverage form.

Many conditions applicable to crime forms are similar to those found on other commercial forms. Various conditions describe the policy period, policy territory, your duty to keep records, terms for legal actions against the insurance company, treatment of loss when other insurance applies (commercial crime coverage will apply as excess), and the insurance company's subrogation rights when losses are paid. Key provisions which have a more specific application to the crime coverages are reviewed below.

Discovery Period

Crime coverages are subject to a "discovery period," because losses are not always immediately apparent, but a limitation applies. In order for a loss to be covered, it must be discovered no later than one year after the end of the policy period.

Example: An employee embezzles funds during the policy period, which ends on December 31, 1994. If the employer has employee dishonesty insurance, the loss will be covered if discovered before the end of 1995. There is no coverage if discovered at a later date.

Synopsis

> Discovery Period for Loss: We will pay only for covered loss discovered no later than one year from the end of the policy period.

Insured's Duties After Loss

In the event of loss, your duties include notifying the insurance company as soon as possible, submitting to an examination under oath and signing a statement of the answers given, providing a sworn proof of loss within 120 days, and cooperating with the investigation and settlement of claims. Combined with the one-year discovery period, the 120-day reporting period gives you up to sixteen months from the time of loss to provide official notification that a crime has occurred.

Of course, the insurance company would prefer to know a crime loss has occurred immediately. In many cases, the company will want to know a crime loss has occurred even if you don't intend to file a claim.

Although the general provisions do not say so, most of the individual forms add a requirement that you also notify the police.

Synopsis

> Duties in the Event of Loss: After you discover a loss or a situation that may result in loss of, or loss from damage to, Covered Property you must:
> a. Notify us as soon as possible.
> b. Submit to examination under oath at our request and give us a signed statement of your answers.
> c. Give us a detailed, sworn proof of loss within 120 days.
> d. Cooperate with us in the investigation and settlement of any claim.

More Than One Insured

This section clarifies the intent of the policy when there are multiple "insureds." The policy refers to the "first named insured" because commercial policies frequently have more than one named insured, due to subsidiary and affiliated companies being covered. Under the policy, the first named insured acts for all insured parties.

For the purposes of the insurance, knowledge of any insured person (or partner or officer) is treated as knowledge by all insured parties, and an employee of any insured is treated as an employee of every insured person.

Cancellation of coverage for any insured establishes a loss discovery period of one year from the date of cancellation.

Losses suffered by multiple insured parties do not increase the amount of insurance. The most the insurance company will pay is the amount that it would pay if all losses were suffered by one insured.

Synopsis

Joint Insured

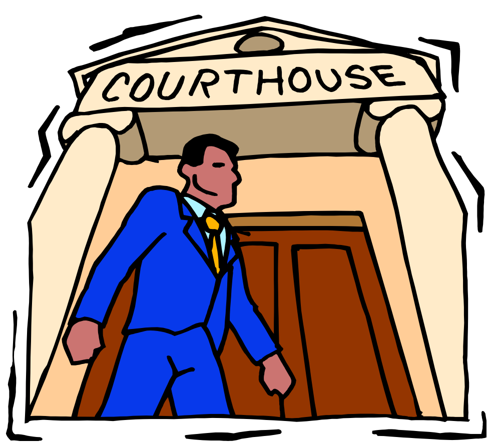
a. If more than one Insured is named in the DECLARATIONS, the first named Insured will act for itself and for every other Insured for all purposes of this insurance. If the first named Insured ceases to be covered, then the next named Insured will become the first named Insured.

b. If any Insured or partner or officer of that Insured has knowledge of any information relevant to this insurance, that knowledge is considered knowledge of every Insured.

c. An "employee" of any Insured is considered to be an "employee" of every Insured.

d. If this insurance or any of its coverages is cancelled or terminated as to any Insured, loss sustained by that Insured is covered only if discovered no later than one year from the date of that cancellation or termination.

e. We will not pay more for loss sustained by more than one Insured than the amount we would pay if all the loss had been sustained by one Insured.



Legal Action Against the Company

You may not sue the insurance company to recover for a loss unless all policy provisions have been satisfied and proof of loss has been filed for at least 90 days. No suit may be brought more than two years after a loss is discovered.

Synopsis

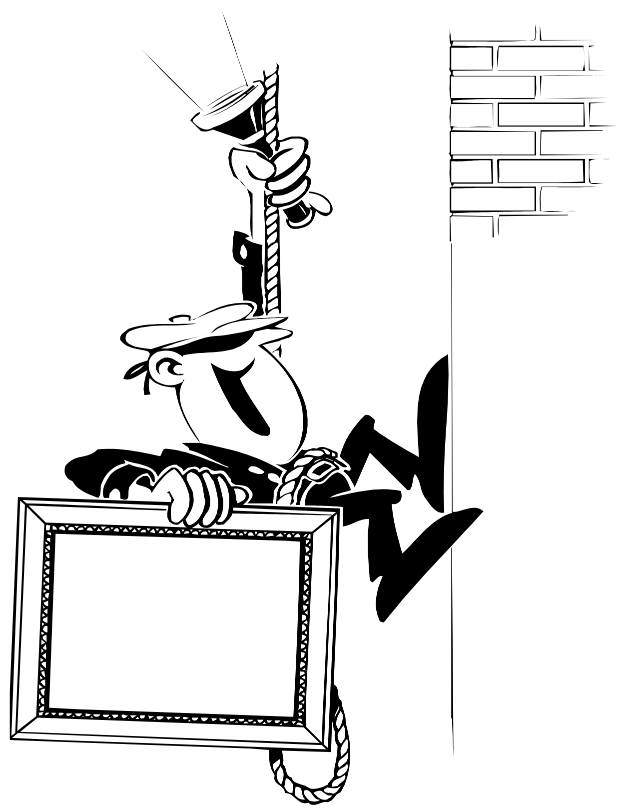
> Legal Action Against Us: You may not bring any legal action against us involving loss:
> a. Unless you have complied with all the terms of this insurance; and
> b. Until 90 days after you have filed proof of loss with us; and
> c. Unless brought within 2 years from the date you discover the loss.

Two or More Coverages

If two or more coverages apply to the same loss, the insurance company will pay the lesser of the actual amount of loss or the total of the applicable limits of coverages.

Synopsis

> Loss Covered Under More Than One Coverage of This Insurance: If two or more coverages of this insurance apply to the same loss, we will pay the lesser of:
> a. The actual amount of loss; or
> b. The sum of the limits of insurance applicable to those coverages.



Prior Insurance

Under certain conditions, the insurance company will pay under the current policy for a loss that occurred under prior insurance when the loss could have been recovered except for expiration of the discovery period under the prior insurance. This applies only when the current policy took effect on the date the prior policy terminated and the same type of loss is covered by the current policy. This feature provides seamless coverage across time, as long a crime policy is renewed immediately upon expiration.

The most the insurance company will pay under this provision is the amount of coverage under the current policy on its effective date or under the prior policy had it remained in effect—whichever is less.

Synopsis

Loss Sustained During Prior Insurance
a. If you, or any predecessor in interest, sustained loss during the period of any prior insurance that you or the predecessor in interest could have recovered under that insurance except that the time within which to discover loss had expired, we will pay for it under this insurance, provided:
(1) This insurance became effective at the time of cancellation or termination of the prior insurance; and
(2) The loss would have been covered by this insurance had it been in effect when the acts or events causing the loss were committed or occurred.
b. The insurance under this Condition is part of, not in addition to, the Limits of Insurance applying to this insurance and is limited to the lesser of the amount recoverable under:
(1) This insurance as of its effective date; or
(2) The prior insurance had it remained in effect.

Prior Policy Recovery Amount

If a loss is covered partly by the current policy and partly by a prior policy issued by the same insurance company, the most that will be paid is the amount of recovery under the current policy or the prior policy—whichever is larger.

Synopsis

Loss Covered Under This Insurance and Prior Insurance Issued by Us or Any Affiliate: If any loss is covered:
a. Partly by this insurance; and
b. Partly by any prior cancelled or terminated insurance that we or any affiliate had issued to you or any predecessor in interest.
The most we will pay is the larger of the amount recoverable under this insurance or the prior insurance.

Separate Limit Each Year

The amount of insurance for each policy year is a separate limit.

Example: If you discover a loss related to a crime that spanned two policy years, you can't claim a loss larger than the single limit applicable in either year. In other words, you can't combine the limits of two separate periods to obtain greater coverage than any one. If the limits applicable in one year are lower than those applicable in another, you may have to live with the lower limits.

Synopsis

> Non-Cumulation of Limit of Insurance: Regardless of the number of years this insurance remains in force or the number of premiums paid, no Limit of Insurance cumulates from year to year or period to period.

Other Insurance

Generally, coverage will not apply to any loss that is also covered by another policy. However, if the amount of the other insurance is insufficient, this coverage will apply as excess over the other insurance. It will not pay any deductible amounts or the amount of loss that exceeds the limit of insurance shown in the declarations.

Example: You have a $12,000 loss and another policy that provides $5,000 of coverage above a $500 deductible. This policy has a $10,000 limit, so it will only pay $4,500 ($10,000 minus $5,500).

Synopsis

> Other Insurance: This insurance does not apply to loss recoverable or recovered under other insurance or indemnity. However, if the limit of the other insurance or indemnity is insufficient to cover the entire amount of the loss, this insurance will apply to that part of the loss, other than that falling within any deductible amount, not recoverable or recovered under the other insurance or indemnity. However, this insurance will not apply to the amount of loss that is more than the applicable Limit of Insurance shown in the Declarations.

Territory and Transfer of Rights

To the extent that any payment is made under the coverage, any rights you have to recover damages from another party are transferred to the insurance company. This is known as a subrogation clause.

Example: After settlement of a theft loss, the guilty party is found. The stolen funds have been squandered, but the thief has other assets. The insurance company has the right to take legal action to recover its payment. Any recoveries will be distributed as described under the "recoveries" paragraph above.

Synopsis

> Territory: This insurance covers only acts committed or events occurring within the United States of America, U.S. Virgin Islands, Puerto Rico, Canal Zone, or Canada.
> 17. Transfer of Your Rights of Recovery Against Others to Us: You must transfer to us all your rights of recovery against any person or organization for any loss you sustained and for which we have paid or settled. You must also do everything necessary to secure those rights and do nothing after loss to impair them.

Valuation

Because of the nature of crime insurance, the valuation clause is important. All losses are subject to the limit(s) of insurance written.

Loss of money will be paid at face value, but loss of a foreign currency may be paid at its face value in that other currency or in the American dollar equivalent determined by the exchange rate on the day the loss was discovered (the value of a property loss in another country may be paid in the same manner).

Synopsis

> Valuation—Settlement
> a. Subject to the applicable Limit of Insurance provision we will pay for:
> (1) Loss of "money" but only up to and including its face value. We may, at our option, pay for loss "money" issued by any country other than the United States of America:
> (a) At face value in the "money" issued by that country; or
> (b) In the United States of America dollar equivalent determined by the rate of exchange on the day the loss was discovered.

Replacement of Securities

A loss of securities will be paid at their value at the close of business on the day the loss was discovered, but the insurance company has the option of replacing them in kind or purchasing a lost securities bond in connection with issuing duplicate securities.

Synopsis

> (2) Loss of "securities" but only up to and including their value at the close of business on the day the loss was discovered. We may, at our option:
> (a) Pay the value of such "securities" or replace them in kind, in which event you must assign to us all your rights, title and interest in and to those "securities";
> (b) Pay the cost of any Lost Securities Bond required in connection with issuing duplicates of the "securities." However, we will be liable only for the payment of so much of the cost of the bond as would be charged for a bond having a penalty not exceeding the lesser of the:
> i. Value of the "securities" at the close of business on the day the loss was discovered; or
> ii. Limit of Insurance.

Actual Cash Value

Loss or damage to a premises or property other than money and securities will be paid at its actual cash value on the date the loss was discovered, or (at the insurance company's option) the cost of repairing or replacing the property. The value or cost will be determined by arbitration if you and the insurance company cannot agree.

If you are interested in replacement value coverage, your insurance company may be willing to sell you a customized endorsement providing this—at additional cost.

Synopsis

> (3) Loss of, or loss from damage to, "property other than money and securities" or loss from damage to the "premises" for not more than the:
> (a) Actual cash value of the property on the day the loss was discovered;
> (b) Cost of repairing the property or "premises"; or
> (c) Cost of replacing the property with property of like kind and quality.
> We may, at our option, pay the actual cash value of the property or repair or replace it.
> If we cannot agree with you upon the actual cash value or the cost of repair or replacement, the value or cost will be determined by arbitration.

Currency Exchange

If property other than money and securities is lost or damaged in another country, the insurance company has the option of paying for the loss in the currency of that other country or in the U.S. dollar equivalent as determined by the exchange rate on the date the loss was discovered.

The insurance company has the right to take possession of any property it pays for or replaces.

Synopsis

> We may, at our option, pay for loss of, or loss from damage to, property other than "money":
> (1) In the "money" of the country in which the loss occurred; or
> (2) In the United Stated of America dollar equivalent of the "money" of the country in which the loss occurred determined by the rate of exchange on the day the loss was discovered.
> c. Any property that we pay for or replace becomes our property.

Definitions

Definition of Employee

The final section of the general provisions contains four definitions that apply to all crime coverages.

An "employee" means a natural person who works for and is paid by you, and whom you have the right to direct and control, including temporary personnel provided by an employment contractor or agency. But this term does not include an independent contractor, or any directors or officers of your company while acting beyond the scope of an employee's usual duties.

Synopsis

"Employee" means:
a. Any natural person:
(1) While in your service (and for 30 days after termination of service); and
(2) Whom you compensate directly by salary, wages or commissions; and
(3) Whom you have the right to direct and control while performing services for you; or
b. Any natural person employed by an employment contractor while that person is subject to your direction and control and performing services for you excluding, however, any such person while having care and custody of property outside the "premises."
But "employee" does not mean any:
(1) Agent, broker, factor, commission, merchant, consignee, independent contractor or representative of the same general character; or
(2) Director or trustee except while performing acts coming within the scope of the usual duties of an employee.

Definition of Money

Money includes coins, currency, bank notes, travelers' checks, and registered checks and money orders held for sale.

"Property other than money and securities" means all forms of tangible property other than money and securities except that which is listed as "property not covered" in the coverage forms.

Synopsis

2. "Money" means:
a. Currency, coins and bank notes in current use and having a face value; and
b. Travelers checks, register checks and money orders held for sale to the public.
3. "Property Other Than Money and Securities" means any tangible property other than "money" and "securities" that has intrinsic value but does not include any property listed in any Crime Coverage Form as Property Not Covered.

Definition of Securities

Securities include negotiable and non-negotiable instruments (such as stocks and bonds), and other items such as tokens, tickets, stamps and evidences of debt, but does not include money.

Synopsis

> 4. "Securities" means negotiable and non-negotiable instruments or contracts representing either "money" or other property and includes:
> a. Tokens, tickets, revenue and other stamps (whether represented by actual stamps or unused value in a meter) in current use; and
> b. Evidences of debt issued in connection with credit or charge cards, which cards are not issued by you:
> but does not include "money."

Other Definitions

There are several other definitions that impact crime coverage. These include:

"**Banking premises**" means the interior of that portion of any building occupied by a banking institution or similar safe depository.

"**Burglary**" means the taking of property from inside the premises by a person unlawfully entering or leaving the premises as evidenced by marks of forcible entry or exit. Visible marks or damage at the point of entry or exit are needed to confirm the burglary.

"**Custodian**" means the named insured, any of your partners, or any employee, while having care and custody of insured property inside the premises, but it does not include any person while acting as a watchperson or a janitor.

"**Extortion**" means the surrender of property away from the premises as a result of a threat communicated to you to do bodily harm to you or an employee, or to a relative or invitee of either, who is or allegedly is being held captive.

"**Messenger"** means the named insured, any of your partners or employees while having care and custody of property outside the premises.

"**Occurrence"** means all loss whether caused by one or more persons, or involving a single act or a series of related acts.

"**Premises**" means the interior of that portion of any building occupied by you for the purpose of conducting business.

"**Robbery**" means taking property from the care and custody of a person by someone who has caused or threatened to cause bodily harm, or who has committed an obviously unlawful act which the victim witnessed.

"**Safe burglary**" means the taking of property from within a locked safe or vault by a person unlawfully entering the safe or vault as evidenced by visible marks of forced entry upon its exterior, and it also means the removal of a safe from the premises.

"**Theft (larceny)"** means any act of stealing. Theft is a broad category. It includes all of the more narrowly defined acts of stealing, such as burglary and robbery, and goes beyond them in scope.

"**Watchperson**" means any person you retain to have care and custody of property inside the premises, and who has no other duties.

Endorsements

Cancellation and Nonrenewal Endorsement

In many states the law requires some minor modification of the commercial crime cancellation and nonrenewal provisions. In some cases, the number of days required for advance notice is altered. In other cases, statutory provisions concerning permitted grounds for cancellation must be attached. These changes are made by attaching a state-specific endorsement to the coverage part.

Policy Changes Endorsement

A general purpose "policy changes" endorsement may be used to make changes which are not specifically addressed by any preprinted form. The policy changes endorsement has a space for policy number, effective date, named insured and coverage parts affected. Otherwise it is blank. It has an open box titled "Changes," but has no preprinted text.

Miscellaneous Endorsements

Various endorsements exist to modify crime coverage in specific ways. An endorsement to exclude specific property may be used to schedule property which is not to be covered. Other endorsements may be used to include vandalism in some of the coverages, or to include robbery of a janitor in premises burglary coverage. Miscellaneous endorsements are available to increase coverage limits for specified property, to limit coverage for specified property or portions of the premises, and to exclude coverage for specified persons, premises, or types of property.

Theft, Disappearance and Destruction Insurance

The Theft, Disappearance and Destruction Coverage Form provides a common type of commercial crime insurance. It protects you against a broad range of exposures to the loss to money and securities which arise from external threats of loss, such as burglary and robbery. However, coverage applies both inside and outside of the premises. This form is frequently issued in conjunction with employee dishonesty coverage, which protects against internal threats of loss.

This form provides two major coverages (for loss inside and outside the premises) and three extensions of coverage. Although only "money and securities" is described under "covered property," two of the extensions cover other losses or damage caused during a covered crime. The coverages and extensions of coverage are:

- coverage for "money and securities" inside the "premises" or a "banking premises," and
- coverage for "money and securities" outside the "premises" while in the care and custody of a "messenger."

Form C - Theft, Disappearance and Destruction Coverage

This form provides theft insurance, which is broader than burglary or robbery coverage because "theft" includes all acts of stealing. It also provides more than crime coverage. Since it covers disappearance or destruction of covered property, it will cover some losses that do not result from theft or attempted theft.

Coverage

Coverage is provided for money and securities while inside the premises or a banking premises, when loss is caused by theft, disappearance or destruction.

Synopsis

THEFT, DISAPPEARANCE AND DESTRUCTION COVERAGE FORM
COVERAGE—We will pay for loss of Covered Property resulting directly from the Covered Causes of Loss.
1. Section 1. Inside the Premises
a. Covered Property: "Money" and "securities" inside the "premises" or a "banking premises."
b. Covered Causes of Loss
(1) "Theft"
(2) Disappearance
(3) Destruction

Containers of Covered Property

Coverage is provided for loss or damage to "containers" of covered property, meaning a locked safe, vault, cash register or drawer inside the premises, as a result of theft or unlawful entry.

Synopsis

> c. Coverage Extensions
> (1) Containers of Covered Property: We will pay for loss of, and loss from damage to, a locked safe, vault, cash register, cash box or cash drawer located in the "premises" resulting directly from an actual or attempted:
> (a) "Theft" of; or
> (b) Unlawful entry into those containers.

Owner of Premises

In addition to theft coverage, damage to the premises as a result of theft or attempted theft will be covered only if you own the premises or are liable for damage to it.

Synopsis

> (2) Premises Damage: We will pay for loss from damage to the "premises" or its exterior resulting directly from an actual or attempted "theft" of Covered Property if you are the owner of the "premises" or are liable for damage to it.

Outside the Premises

Coverage is provided for money and securities outside the premises while in the care of a messenger, when loss is caused by theft, disappearance or destruction.

Examples: Coverage would be provided if a messenger was held up, or if a messenger was involved in an automobile accident and money disappeared or was destroyed and there was no evidence of theft.

Synopsis

> Section 2—Outside the Premises
> a. Covered Property. "Money" and "securities" outside the "premises" in the care and custody of a "messenger."
> b. Covered Causes of Loss
> (1) "Theft"
> (2) Disappearance
> (3) Destruction

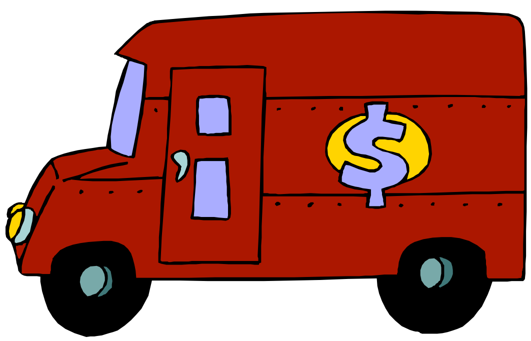
Armored Motor Vehicle Company

Coverage is provided for money and securities outside the premises while in the care of an armored vehicle company. This coverage applies only to the extent that you cannot recover a loss under any contract with the armored vehicle company or any insurance it has.

Example: When an armored car is held up, $20,000 of your money is lost. If the armored car company has insurance that will pay its customers up to $15,000 for any one loss, your policy will only cover $5,000 of the loss (minus any deductible).

Synopsis

> c. Coverage Extension
> Conveyance of Property By Armored Motor Vehicle Company: We will pay for loss of Covered Property resulting directly from the Covered Causes of Loss while outside the "premises" in the care and custody of an armored motor vehicle company.
> But, we will pay only for the amount of loss that you cannot recover.
> (1) Under your contract with the armored motor vehicle company; and
> (2) From any insurance or indemnity carried by, or for the benefit of customers of, the armored motor vehicle company.



Limit and Deductible

The limit of insurance and deductible(s) are shown in the declarations. The limit is the most the insurance company will pay for any one occurrence of loss. No loss is payable unless it exceeds the deductible, and then only the amount in excess of the deductible is payable.

If more than one deductible amount could apply to the same loss situation, only the highest deductible will apply.

Synopsis

> B. LIMIT OF INSURANCE
> The most we will pay for loss in any one "occurrence" is the applicable Limit of Insurance shown in the Declarations.
> C. DEDUCTIBLE
> We will not pay for loss in any one "occurrence" unless the amount of loss exceeds the Deductible Amount shown in the Declarations. We will then pay the amount of loss in excess of the Deductible Amount, up to the Limit of Insurance. In the event more than one Deductible Amount could apply to the loss, only the highest Deductible Amount may be applied.

Exclusions

Various exclusions and conditions apply to this coverage form in addition to those specified in the Crime General Provisions. Note that the exclusions eliminate coverage for losses which are not crimes, or which should be covered by other types of insurance, or which are covered by one of the other crime forms. You will find that some of these exclusions are repeated on other crime forms.

Accounting Errors and Omissions

Loss resulting from accounting errors or omissions is excluded because this is not a crime.

Synopsis

> Additional Exclusions: We will not pay for loss as specified below:
> a. Accounting or Arithmetical Errors or Omissions: Loss resulting from accounting or arithmetical errors or omissions.

Criminal Acts of Employees and Directors

Losses resulting from criminal acts of employees, directors or trustees are excluded under this form (but such coverage is available under the Employee Dishonesty Coverage Form).

Synopsis

> Acts of Employees, Directors, Trustees or Representatives: Loss resulting from any dishonest or criminal act committed by any of your "employees," directors, trustees or authorized representatives:
> (1) Acting alone or in collusion with other persons; or
> (2) While performing services for you or otherwise.

Property Exchange or Purchase

Loss resulting from giving up property in an exchange or purchase is excluded because no theft has been committed (although deception may have been involved). Also, you voluntarily participated.

Example: You agree to exchange one type of securities for another with a broker, and later discover that the securities you've received are nearly worthless.

Synopsis

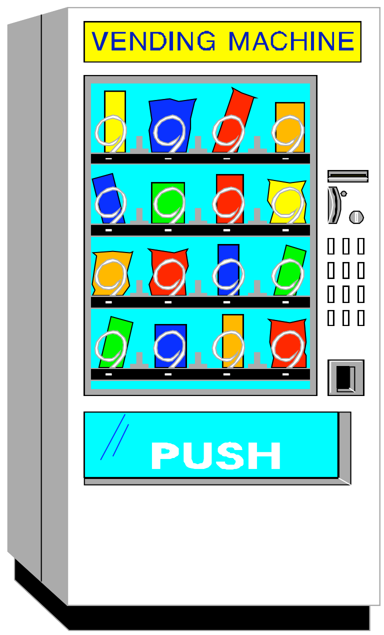
> Exchange or Purchases: Loss resulting from the giving or surrendering of property in any exchange or purchase.

Fire Losses

Fire losses are excluded because no theft is involved. Although some types of "destruction" are covered, you should keep money and securities in fireproof containers.

Synopsis

Fire: Loss from damage to the "premises" resulting from fire, however caused.



Money Operated Devices

Loss from any money operated device (vending machine, currency change machine, coin operated equipment, etc.) is excluded unless the machine is equipped with a device that records deposits. Without such device there is no way to verify the amount of a loss.

Synopsis

Money Operated Devices: Loss of property contained in any money operated device unless the amount of "money" deposited in it is recorded by a continuous recording instrument in the device.

Transfer of Property

Loss of property after it has been surrendered outside the premises or a banking premises on the basis of unauthorized instructions or due to a threat to do bodily harm or property damage is excluded under this form (but such coverage is available under the Extortion Coverage Form).

The exclusion of property after it has been transferred out of the premises does not apply to messenger coverage if you did not know of the threat at the time the property was transferred, or if you knew of a threat but the loss was not related to the threat. In either case, a robbery of the messenger would be covered. But when a threat is communicated to you for the purpose of extorting property, the crime becomes a subject for coverage under another specific crime coverage form.

This exclusion does not apply to property in the care of a messenger if you had no knowledge of any threat or the loss was not related to a known threat.

Synopsis

Transfer or Surrender of Property
(1) Loss of property after it has been transferred or surrendered to a person or place outside the "premises" or "banking premises":
(a) On the basis of unauthorized instructions; or
(b) As a result of a threat to do:
i. Bodily harm to any person; or
ii. Damage to any property.
(2) But, this exclusion does not apply under Coverage, Section 2. to loss of Covered Property while outside the "premises" or "banking premises" in the care and custody of a "messenger" if you:
(a) Had no knowledge of any threat at the time the conveyance began; or
(b) Had knowledge of a threat at the time the conveyance began, but the loss was not related to the threat.

Vandalism

Damage to a premises or containers of covered property caused by vandalism or malicious mischief is excluded (but such coverage is available under commercial property coverage forms).

Synopsis

> g. Vandalism: Loss from damage to the "premises" or its exterior or to containers of Covered Property by vandalism or malicious mischief.

Voluntary Parting with Property

Loss resulting from voluntarily parting with any property is excluded, even if induced by dishonest acts, because no criminal force was involved.

Synopsis

> h. Voluntary Parting of Title to or Possession of Property: Loss resulting from your, or anyone acting on your express or implied authority, being induced by any dishonest act to voluntarily part with title to or possession of any property.

Form A - Employee Dishonesty

Employee dishonesty coverage is one of the most common types of commercial crime insurance. It protects you against the internal exposure to loss when employees have access to money, securities, and other covered property. It is frequently issued in conjunction with other coverage forms, such as burglary, robbery, and theft that protect against external threats of loss.

The extent of an employer's exposure to employee dishonesty losses depends upon the type of business. The risk appears greater when employees handle large volumes of money or merchandise having high values. But even among service industries there can be a significant exposure to losses of office supplies, equipment, and company funds. This is why employee dishonesty insurance is an important commercial crime coverage.

This coverage form is one of four forms in the commercial crime program that falls under the jurisdiction of the Surety Association of America (SAA). In effect, the coverage is a **fidelity bond**. It provides coverage for losses resulting from employee dishonesty, and it covers money, securities, and property other than money and securities.

You have two options for coverage—it may be written on a **blanket basis** or on a **schedule basis**. When written on a **blanket basis**, the limit of insurance applies "**per loss**" regardless of how many employees contributed to the loss. When written on a **schedule basis**, the limit of insurance applies "**per employee" or "position**" and the definition of "occurrence" is changed to mean all loss caused by "each employee." Schedule coverage may be written on a "name schedule" or "position schedule" basis. (These coverages are virtually the same as the schedule and blanket fidelity bonds discussed at the end of this section.)

Coverage

The insurance company agrees to pay for loss or damage to covered property resulting from a covered cause of loss. Covered property includes "money," "securities," and "property other than money and securities" (these terms are defined in the crime general provisions). The only covered cause of loss is "employee dishonesty" (this term is defined later in this form).

Synopsis

> COVERAGE
> We will pay for loss of, and loss from damage to, Covered Property resulting directly from the Covered Cause of Loss.
> 1. Covered Property: "Money," "securities," and "property other than money and securities."
> 2. Covered Cause of Loss: "Employee dishonesty."

Coverage Territory

Normally coverage applies only in the defined coverage territory (U.S.A., U.S. Virgin Islands, Puerto Rico, Canal Zone and Canada). But coverage is provided for loss caused by an employee who is temporarily outside of this territory for not more than 90 days.

Synopsis

> Coverage Extension
> Employees Temporarily Outside Coverage Territory: We will pay for loss caused by any "employee" while temporarily outside the territory specified in the Territory General Condition for a period not more than 90 days.

Limit of Insurance

The limit of insurance and deductible are shown in the declarations. The limit is the most the insurance company will pay for any one occurrence of loss.

Synopsis

> LIMIT OF INSURANCE
> The most we will pay for loss in any one "occurrence" is the applicable Limit of Insurance shown in the Declarations.

Deductible

Because of the non-cumulation of limit of insurance condition (found in the Crime General Provisions form) the coverage limit may not accrue from year to year.

Example: If for six years you carried coverage with a limit of $80,000 and discovered that an employee had been stealing $80,000 per year for each of the six years, you could only receive the policy limit of $80,000 even though you had suffered a total loss of $480,000.

No loss is payable unless it exceeds the deductible, and then only the amount in excess of the deductible is payable.

Synopsis

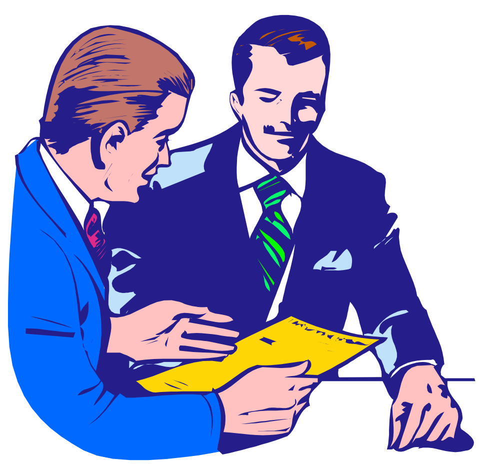
> DEDUCTIBLE
> 1. We will not pay for loss in any one "occurrence" unless the amount of loss exceeds the Deductible Amount shown in the Declarations. We will then pay the amount of loss in excess of the Deductible Amount, up to the Limit of Insurance.

Statement of Loss

You must furnish a statement of loss whenever it is requested, and must give notice of a loss even if it does not exceed the deductible. The insurance company requires notification of losses that fall under the policy's deductible amount—losses for which they will make no payment—so that they can identify and exclude from coverage the employee who committed the dishonest act. This also gives the insurance company a better idea of the size and shape of the risks it faces.

Synopsis

> You must:
> a. Give us notice as soon as possible of any loss of the type insured under this Coverage Form even though it falls entirely within the Deductible Amount.
> b. Upon our request, give us a statement describing the loss.



Additional Exclusions, Conditions and Definitions

The Crime General Provisions form outlines the exclusions, conditions, and definitions common to most crime coverages. These are additional exclusions, conditions, and definitions specific to the Employee Dishonesty Coverage Form.

In addition to the general crime exclusions, coverage Form A has two additional exclusions.

Cancelled Under Prior Insurance

No coverage is provided for loss caused by any employee for whom prior similar insurance has been cancelled, if such coverage was never reinstated.

Synopsis

> ADDITIONAL EXCLUSIONS, CONDITIONS AND DEFINITIONS:
> In addition to the provisions in the Crime General Provisions, this Coverage Form is subject to the following:
> 1. Additional Exclusions: We will not pay for loss as specified below:
> a. Employee Cancelled Under Prior Insurance: loss caused by any "employee" of yours, or predecessor in interest of yours, for whom similar prior insurance has been cancelled and not reinstated since the last such cancellation.

Employee Coverage Cancellation

The employee dishonesty form contains a condition that immediately cancels coverage for any employee upon discovery by you, or a partner, officer or director, of any dishonest act committed by that employee either before or after becoming your employee.

The last note is worth repeating: This condition applies even if the act was committed prior to employment by you.

Synopsis

> Additional Condition
> Cancellation As To Any Employee: This insurance is cancelled as to any "employee":
> a. Immediately upon discovery by:
> (1) You; or
> (2) Any of your partners, officers or directors not in collusion with the "employee";
> of any dishonest act committed by that "employee" whether before or after becoming employed by you.

Notice of Termination

The insurance company may terminate coverage for any employee by giving you at least 30 days advance notice.

Synopsis

b. On the date specified in a notice mailed to you. That date will be at least 30 days after the date of mailing. The mailing of notice to you at the last mailing address known to us will be sufficient proof of notice. Delivery of notice is the same as mailing.

Occurrence

Embezzlement may occur as an isolated incident or over a long period of time. An occurrence under this form means each separate loss situation, whether the loss is the result of a single act or a series of acts, committed by one person or more than one.

Example: Two employees of an appliance store have been stealing merchandise, acting in collusion. Upon discovery, it appears that 28 appliances with a total value of $14,000 have been taken over three months. This is a single loss occurrence.

Synopsis

"Occurrence" means all loss caused by, or involving, one or more "employees," whether the result of a single act or series of acts.

Employee Dishonesty

The term "employee dishonesty" means any dishonest act committed by an employee acting alone or with others with the intent to cause loss or to obtain illegal financial benefit for the employee or others. This covered cause of loss does not include acts which involve you or any partner (acts by the named insured and partners are excluded in the Crime General Provisions).

Synopsis

3. Additional Definitions a. "Employee Dishonesty" in paragraph A.2. means only dishonest acts committed by an "employee," whether identified or not, acting alone or in collusion with other persons, except you or a partner, with the manifest intent to: (1) Cause you to sustain loss; and also (2) Obtain financial benefit (other than employee benefits earned in the normal course of employment, including: salaries, commissions, fees, bonuses, promotions, awards, profit sharing or pensions) for: (a) The "employee"; or (b) Any person or organization intended by the "employee" to receive that benefit.

Fidelity Bonds

Most businesses face some risk that losses may result from the dishonesty (infidelity) of employees. Such losses can amount to huge sums. Occasionally an employee may attempt to steal a large sum of money or a considerable amount of merchandise. Other losses may result from repeated incidents over a long period of time. If an employee has been skimming small amounts of money or merchandise for years, the total loss can be a staggering amount by the time it is discovered. These are the types of losses covered by a fidelity bond. Since an employee is personally liable for his or her own dishonest acts, an insurance company that makes payment under a fidelity bond always has the right to seek recovery from the employee responsible for loss.

Coverage for dishonesty and forgery is available under two different types of contracts. One approach is to obtain the coverage through an insurance policy, and policies covering dishonesty have been available. The other approach is to obtain the protection through an instrument known as a fidelity bond. There are differences between the fields of insurance and fidelity bonding, but they share many characteristics. In fact, the differences are so minor that fidelity bond forms and insurance coverages can now be included as part of the same commercial contract.

Although the field of bonding includes both fidelity and surety bonds, only the surety bonds actually fit the technical definition of bonds. In theory, there are **three parties to any bond**, and this fact sets bonds apart from insurance. An insurance policy is drawn between two parties—you and your insurance company. In contrast, every bond involves:

- a **principal**—the party who has agreed to fulfill an obligation,
- an **obligee**—the party for whose benefit the bond is written, and to whom payment is made if the principal defaults, and
- a **guarantor**—the surety or insurance company providing the bond and agreeing to pay damages if the principal defaults.

In the surety field, it is the **principal who applies for and pays for a bond**, and three parties are clearly involved in forming the contract. This is not always true with fidelity bonds. Many fidelity bonds are issued to cover losses resulting from employee dishonesty.

Coverage

A fidelity bond will pay the employer if a bonded employee steals company funds, but it is the employer (obligee) who arranges for the bond and pays the premium. The employees (principals) may not even know that a bond is in effect, so they are not parties to the formation of the contract. This is what makes fidelity bonds so much like insurance. The terminology found on fidelity bonds also reflects the similarities to insurance—many fidelity bonds contain an "insuring agreement" and make references to the "insured" (terms that are not used with surety bonds). Fidelity bonds are often called "dishonesty insurance" rather than bonds, and the same coverages have been available under traditional insurance policies.

A typical fidelity bond agrees to indemnify the "insured" (the employer) for losses resulting from employee dishonesty. It covers direct loss of money or other personal property belonging to you or for which you are legally liable. The coverage is broad and it applies to losses caused by larceny (theft), embezzlement, and forgery. It also applies to losses by misappropriation, wrongful abstraction, or any other dishonest or fraudulent acts.

Conditions

Coverage usually applies to acts which are committed during the bond period. Fidelity bonds are usually continuous and do not have an expiration date. They have an inception date, and remain in effect until canceled.

An entire bond may be canceled at any time by the employer or the insurance company. If the insurance company cancels, a minimum period of advance written notice is required. Some bonds require at least 15 days notice. Others require 30 days notice.

Coverage for an individual employee terminates when employment ends or shortly thereafter. Many bonds extend coverage for 30 days because a newly-terminated employee may retain a key or continue to have access to the premises.

On most bonds, coverage for an individual employee automatically terminates as soon as the employer becomes aware that the employee has participated in a dishonest act which is or could be the basis of a claim. The act need not occur during the bond period. If the employer discovered that an employee once committed such an act, even if it occurred before the bond period or before being hired, coverage would no longer apply to that employee. This exclusion is written into the contract to prevent giving a second chance to one who has committed the kind of acts covered by the bond.

Fidelity Bond Forms

Fidelity bonds covering employee dishonesty may be written on any of the following forms:

- individual bond,
- Employee Dishonesty—Name schedule bond,
- Employee Dishonesty—Position schedule bond, and
- Employee Dishonesty—Blanket bond.

An **individual bond** covers a single named employee for a specific limit of liability. If an employer had only one employee, or only one employee with access to funds or valuable property, an individual bond might cover the exposure. A **name schedule bond** covers several specific individuals who are named on the bond, and allows you to list a separate limit of liability for each employee on the schedule. New employees who replace scheduled employees are automatically covered for 30 days, but the coverage is limited to a few thousand dollars. A **position schedule bond** is similar to a name schedule bond, except that it covers listed positions and does not mention the employees by name. A different limit may apply to each position, but the same amount of coverage will apply to all members of a given position.

Blanket Bonds

There are obvious drawbacks to the individual, name schedule, and position schedule bonds. Each leaves open the possibility that a loss may be caused by a person not covered by the bond. If a loss is discovered but the dishonest employee is not identified, each of these bonds would leave you with the difficult task of trying to determine which employee(s) caused the loss. These problems may be avoided by purchasing a blanket bond.

An employee dishonesty blanket bond covers all employees, and the limit of liability applies on a per loss basis regardless of the number of employees involved. Names and positions are not identified on the bond and new employees are automatically covered. If a loss is discovered but you cannot identify the employee(s) involved, the loss is covered by the bond. "Employee" means a natural person while acting in your service, but the definition does not include corporate directors or trustees who do not also serve as regular company officers or employees. The discovery period on an employee dishonesty blanket bond is one year.

Discovery and Loss Sustained Forms – Commercial Crime Insurance

The concepts of Loss Sustained and Discovery forms were introduced with the ISO Crime 200 forms. The difference between these two forms is the "trigger of coverage". The Loss Sustained from is the most commonly used of the two forms and is akin to the CGL Occurrence form. The Loss Sustained form covers losses that occur during the policy period and discovered either during the policy period, or up to one year after the policy expires. This one-year discovery period ends immediately when another Commercial Crime insurance policy is obtained.

The Loss Sustained During Prior Insurance condition, appears only in the loss sustained form. This condition provides that the policy will pay for a loss that occurred during the term of a previous policy but was discovered during the term of the current policy.

Coverage only applies if three conditions are met:

1. The previous policy's discovery period has expired
2. The current policy became effective on the date of the previous policy expired
3. The loss is covered under both current and previous policies.

The most paid for the loss is the lesser of the current or previous policy limits.

The Discovery form covers losses that occur at any time and are discovered either during the policy period or up to 60 days after the policy expires (up to one year for losses related to employee benefit plans). The discovery type of crime policy would pay for a loss that is found during the policy period, even if the loss occurs prior to the effective date of the policy. It can be compared to the Claims-Made CGL form.

A loss is considered to have been "discovered" when the insured:

1. initially becomes aware that a loss has occurred or will occur, even if the actual amount of loss or details of the loss are not yet completely known.
2. obtains notice of an actual or potential claim for a covered loss

The extended time periods to discover loss terminate immediately when the insured purchases other Commercial Crime insurance.