

# Is not enough Crime...a crime? Is your Association at risk for not having enough Crime Coverage?

## Steps to making your Association 'SAFE' from Crime...

You, as an Association, attempt to manage your risk to the best of your ability. You endeavor to protect your Association in every way possible. You diligently review your insurance policy to verify that you have enough property coverage in case of a fire or water loss. You hypothesize various circumstances to comfortably say you have enough liability coverage. But how much time have you spent making sure you have enough Fidelity coverage? Why not take the same care and concern to make sure your money is equally protected?

You would think in today's society, with today's circumstances, that having enough Fidelity coverage would be a top priority. But many Association's fail to even acknowledge their limit on an insurance policy, and fail to increase their coverage as the Association's circumstances change over time.

What is Fidelity Coverage? In simplest terms, it's crime coverage. Fidelity Insurance is provided to protect your Association from loss of money due to a crime. The most common types of Fidelity/Crime insurance claims are employee dishonesty, computer fraud, and embezzlement.

Now you might be saying to yourself, "We are an Association, we don't have any employees. I doubt we'll ever suffer a loss, so why pay for extra insurance we probably won't use?"

Unfortunately monetary theft is far more common than most Associations think. There are no pens and staplers to take from an Association. What there is to take... is their money.

So here are four STEPS you can make to ensure your Association is not being underinsured for their crime coverage.

**1) Start** by knowing the coverage you currently have.

You know that you have bought Fidelity/Crime coverage, but what's it called on my insurance policy and where can I find it? Many commercial insurance policies call their Fidelity/Crime coverage Employee Dishonesty. This coverage can be found under the Property section of your policy, or its own Crime section. Employee Dishonesty is a criminal act committed by a covered employee with the manifest intent to cause you, the Association, to sustain a loss. Your loss could be money, securities and tangible property. I bet you just thought to yourself, "Our Association doesn't have any employees..." Ah, but you do!

They are board members, committee members, and even employees of the management company. "Employees" don't have to be directly compensated by the Association to be considered covered employees on Employee Dishonesty Coverage. (We'll discuss this in more detail later in #4 of the outline.)

Now that you know you have Employee Dishonesty, what it is and where to find it, what about the other monetary exposures you have? Does your insurance policy provide any coverage for Money and Securities, Depositors Forgery or Computer Fraud?

**2) Anticipate what exposures will affect your Association.**

I know when we think about Fidelity insurance, we think if someone takes our money, we'll make a claim and get it back, it's simple. But do you know all the different types of Fidelity claims there are? An Association can suffer a loss from embezzlement, computer fraud, forgery, wire transfer fraud, counterfeiting, and even robbery. All of these are different types of Fidelity crime and are not covered by just one simple crime coverage.

Computer fraud, for instance, means theft of property by use of computer, to transfer property from inside a bank to somewhere outside that bank. This property includes money, securities and tangible property. This is a separate coverage from Employee Dishonesty.

Depositor's forgery means loss resulting from forgery or alteration to a covered instrument. Covered instrument means checks, drafts, and promissory notes. It also includes reasonable legal expenses that you incur if you are sued for refusing to pay for any covered instrument that you believe has been forged or altered. This also is not covered by Employee Dishonesty.

Unfortunately, most Association's do not have adequate coverage to cover a Fidelity loss in their Association. If you suffered a loss and didn't have enough Fidelity insurance to cover the loss, how will you replace those lost funds? Will your Association be able to bounce back from a large loss?

It's time to review your insurance policy. Do you have these additional coverage's? If so, how much coverage do you have? Is it enough?

**3) Fannie Mae Guidelines – are you in compliance?**

Fannie Mae lending guidelines impact people that are purchasing a condominium or townhome in an Association through Fannie Mae. The master insurance policy must meet the Fannie Mae guidelines in order for the purchaser's loan to go through.

Here is how your Employee Dishonesty coverage will meet Fannie Mae guidelines:

Add three months of assessments on all units to the entire reserve account. That total should be the minimum amount of Employee Dishonesty coverage your Association should have.

I can't tell you how many phone calls I get each day from Property Managers or Board Members scrambling to get an increase in their Association's coverage because what they currently have is inadequate and they have been informed that a purchaser's loan is being held up because of it.

First the Association needs to obtain a quote on the increased limit of coverage, then take it to the board for approval, then send it back to the insurance company for endorsement to the insurance policy, then send the proof via certificate and endorsement. This is not a speedy process, and many purchaser's and board members feel the pressure of this mad-dash to increase coverage.

The simplest way to avoid the mad-dash is to be proactive, not reactive.

#### **4) Extend coverage to the Management Company**

Employee Dishonesty coverage should extend to the Principal of the Management Firm in addition to the Management Firm's Employees. Some policies may not provide this coverage. Have you reviewed your insurance policy to see if your management company, its employees and its Principle is included?

Some policies provide coverage for the manager directly in contact with the Association funds, but have not thoroughly extended coverage to the Management Company principal, that also has access to your Association's funds.

Review your policy and make sure that the property manager and principal are extended coverage by either being named under the Who is an Insured section of the policy or added by endorsement.

Know what you have, know how much you have, and know how much you should have. If you find that you are not adequately covered, give your insurance agent a quick call and ask them to explain in detail the Fidelity coverage that is provided by their insurance carrier. Or better yet, ask them to give a presentation at a board meeting or at the management company so all employees and board members are aware of what the insurance agent offers, and what other options are available to them.

By following these 4 SAFE steps, your board members won't find it a crime, that they haven't been provided enough Crime!