COVERAGE INSIGHTS

Using Fidelity Bonds to Cover Employee Fraud

Errors and omissions insurance protects your business from losses caused by negligence or honest mistakes, but these policies won't reimburse you for any willful or malicious acts committed by your employees. And, although all employers want to trust their workforces, the simple truth is that many employees commit fraud against their businesses and customers.

Fidelity bonds are a type of insurance coverage that businesses can use to protect themselves from employees who engage in theft or other fraudulent acts. Additionally, some employers may be required to purchase certain types of fidelity bonds to comply with state or federal regulations.

Overview of Fidelity Bonds

Despite its name, a fidelity bond is a form of insurance and not a financial asset. It may seem strange to purchase insurance for your employees' intentional misdeeds, but high levels of trust can actually increase your risk exposures.

Employees with regular access to financial information, safes, cash registers or valuables can easily commit fraud, especially if their employers' don't consider the possibility of intentional fraud. Fidelity bonds can also protect your businesses from losses caused by a third-party contractor.

Insurance carriers determine the rate for fidelity bonds based on the amount of coverage, the number of employees included in the policy and your business's industry. However, rates can also vary depending on the type of fidelity bond that's being purchased.

The Three Main Types of Fidelity Bonds

Insurance carriers generally offer three main types of fidelity bonds:

- **Employee dishonesty bonds**—These bonds protect your business from any financial losses caused by your employees.
- **Business service bonds**—Businesses that regularly send employees to their clients' or customers' locations should purchase these bonds to cover any intentional theft or property damage.
- **Employee Retirement Income Security Act (ERISA) bonds**—Federal regulations require businesses with retirement plans to purchase ERISA fidelity bonds for employees who manage benefit funds. ERISA bonds must cover at least 10 percent of the funds handled by employees, but businesses should be sure to check their specific regulatory requirements when purchasing coverage.

Who Should Purchase Fidelity Bonds?

Although almost every workplace has risk exposures related to employee fraud, fidelity bonds are especially important for certain businesses:

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- Many states require businesses to purchase fidelity bond coverage before issuing business licenses.
- Businesses with retirement and other employee benefit plans need to purchase fidelity bonds to comply with ERISA requirements.
- Workplaces that allow employees to work near cash registers, safes and unsecure financial information should consider fidelity bonds, even if they monitor their workforces with cameras or digital IDs.
- Businesses that send employees to other workplaces or their customers' homes should have them covered under a fidelity bond. These employees frequently have extended and unmonitored access to valuables, making them a large risk exposure.

Getting the Coverage You Need

Your business relies on its employees to conduct your operations and promote success. However, you also need to purchase coverage for all of your risks, including employee fraud. Contact RiskSOURCE Clark-Theders to discuss your current policies and your fidelity bond options.