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# CRIME COVERAGE

*Is the policy triggered when the crime occurs or when it's discovered?*



There are many decisions to make when considering and selecting a Crime Coverage policy. Most people focus on how much insurance to buy and the risks they want insured. An important but often over-looked decision is whether to purchase Crime Coverage for criminal acts that are discovered during the policy period or Crime Coverage for criminal acts that occurred during the policy period.

Before delving into discovery triggered coverage or loss sustained coverage, it is important to understand what a Crime Coverage policy is intended to insure.

In particular, Crime Coverage insures certain **exposures** that aren't covered by a Property policy, such as money and securities, jewelry, furs, etc., and **causes of loss** that aren't covered by a Property policy, such as theft committed by an employee.

When deciding between Crime Coverage with a discovery trigger or a loss sustained trigger, it is important to remember that crime losses can take a long time to discover. Unlike a property loss, which is usually immediately apparent – a tree falls on a building or a fire damages a facility – a crime loss may not be discovered until well after the incident occurred. Further, such crimes may occur over an extended period of time. As a result, insurance carriers have two main coverage triggers for crime losses – Discovery Coverage and Loss Sustained Coverage.

## THE BASICS OF DISCOVERY COVERAGE

A Discovery Coverage policy will generally provide insurance for crime losses that are **discovered** during the policy period.

Thus, it usually doesn't matter when the loss actually occurred; it only matters that the loss is discovered during the policy period.

An important consideration when contemplating Discovery Coverage is the retroactive date. The retroactive date is the date when a crime policy will no longer provide coverage if the crime occurred prior to that date. Usually, insurance carriers make the retroactive date the same as the date that they first started writing coverage for that particular insured. Thus, when changing insurance carriers, the new carrier may want a retroactive date that is the date of the change. This obviously severely limits the efficacy of the coverage as many crime losses can occur months if not years before they are discovered.

As a result, it is very important to maintain a consistent retroactive date even when changing insurance carriers.

## THE BASICS OF LOSS SUSTAINED COVERAGE

Unlike Discovery Coverage, Loss Sustained Coverage usually only insures losses that both **occur and are discovered** during the policy period.

Loss Sustained Coverage will typically allow a loss to be discovered and reported for up to one year after the end of policy period. A loss that is discovered after the policy period and / or extended discovery period can still be covered, but only if the insured has maintained uninterrupted coverage and the limits of the policy during the policy period in which the loss occurred will apply.

Therefore, it is very important to maintain uninterrupted coverage and policy limits from year to year.





# CRIME COVERAGES IN ACTION

To better understand how the forms apply, let's review a few examples.

## EXAMPLE 1

ABC Manufacturing Co. has a policy period that runs from 1/1/18 to 1/1/19. One of its employees steals money from a bank deposit on 1/14/17 – before the policy period began. Here is how coverage would play out under different scenarios.

<b>Policy Period: 1/1/18 – 19</b> Employee steals money from the bank deposits on 1/14/17	<b>The theft is discovered on 3/1/18</b> (during the policy period)	<b>The theft is discovered on 3/1/19</b> (after the policy period)
<b>Loss sustained during policy period?</b>	✗ No (theft occurred before the policy period).	✗ No (theft occurred before the policy period).
<b>Loss discovered during policy period?</b>	✓ Yes.	✗ No.
<b>Loss covered by Loss Sustained Coverage?</b>	✗ No. However, coverage may be available if the policy provides extension for loss sustained during prior insurance or if reported within 1 year of policy expiration (1/1/19).	✗ No. However, coverage may be available if ABC Manufacturing Co. maintained uninterrupted coverage.
<b>Loss covered by Discovery Coverage?</b>	✓ Yes. However, coverage depends on whether the Retroactive Date is before the theft date.	✗ No. However, coverage may be available under subsequent policy.

## EXAMPLE 2

In this example, the circumstances are the same, except the theft occurred on 1/14/18 - during the policy period.

<b>Policy Period: 1/1/18 – 19</b> Employee steals money from the bank deposits on 1/14/18	<b>Loss is discovered by the Controller when reconciling accounts on 3/1/18</b>	<b>Loss is discovered when reviewing books for tax filing on 3/1/19</b>
<b>Loss sustained during policy period?</b>	✓ Yes.	✓ Yes.
<b>Loss discovered during policy period?</b>	✓ Yes.	✗ No.
<b>Loss covered by Loss Sustained Coverage?</b>	✓ Yes.	✓ Yes (discovered within 1 year of policy expiration).
<b>Loss covered by Discovery Coverage?</b>	✓ Yes.	✗ No (discovered after expiration of 60 day reporting window). However, coverage may be available under the 1/1/19 -20 renewal policy.

From these two examples, it's clear that Discovery Coverage may offer more protection, especially for insureds that are more likely to discover crime losses after they occur.

However, the specifics of the policy make a big difference. Pay close attention to reporting requirements, maintain uninterrupted coverage, and scrutinize renewal policies for changes to retroactive dates.

Ultimately, the coverage you select will depend on these specifics, as well as the insurance carriers' offerings, your price sensitivity and the specifics of your current policy.

Crime claims can be both frequent and severe. While improvements in financial controls, procedures, and electronic monitoring can be helpful, fraud and employee dishonesty remain a significant exposure to many organizations.

To place crime coverage or to review your current crime coverage policy,

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