



Protection From Protectors

Dealing with Theft by Guards

Companies have shown strong predilection towards out sourcing of blue collared jobs. Peons, office boys, pantry staff, drivers, cleaning staff and guards etc. are now routinely being hired from specialized companies that provide such man power.

Although such outsourcing provides economical and administrative benefits, it also opens companies to new risks, which insurance and risk managers many times fail to take into account.

A manufacturing company in Gurgaon had hired guards from a reputed security services company. One of the guards drugged his colleagues one night and allowed his partners in crime to come inside the company warehouse to steal goods worth Rs. 1 crore. Although the company had taken a burglary and theft policy, the insurer could not pay the claim as the loss had happened with the complicity of the guard employed by the company. A clause in the burglary policy specifically excludes losses due to connivance of the staff. The company tried to recover the loss from the security company that had provided the guard. After much acrimony and negotiation they could recover only 20% of the loss amount.



This is a very relevant risk that almost all organizations face today but unfortunately very few have taken steps to mitigate this risk. Most organizations take a Burglary and Theft insurance, however this policy covers losses due to burglary or theft done by any party not connected with the insured in any way. Loss of company property due to complicity of the insured's employees either directly employed or hired from an outsourcing agency, are not paid under a Burglary and Theft policy.

If this is so then how can such a risk be mitigated? The subsequent paragraphs would provide an insight into the alternative solutions to the risks of employee dishonesty.

Risk Transfer in the Form of an Insurance Cover



Fidelity Insurance (more commonly known in India as “Fidelity Guarantee insurance”) is designed to provide cover to the employers against dishonesty of the employees. The policy covers theft of not only the money but also goods/ stock belonging to the insured. Both, an opportunistic theft or misappropriation of funds over a period of time, are covered under this policy. Thus a loss because of a security guard stealing stocks of garments from a retail store in connivance with outsiders, will not be covered under a Burglary policy. However a Fidelity Guarantee policy will cover this loss.

Certain Key Words Used in the Operative Clause of the Policy

- “Loss of money or goods” - The policy covers loss of money or goods.
- “Belonging to or held in trust by the insured” - Goods and money belonging to insured (employer) or which he is responsible for are covered under the policy e.g. if the employee runs away with the money or personal property of a visitor/ or a neighbour , for which the insured is not responsible , the loss will be not be covered under the policy.
- “Caused directly by fraudulent and dishonest act” - The policy covers only direct losses. Consequential financial losses are covered.
- “In connection with his employment with his/ her employment with insured” - The policy will not cover theft by an employee outside the course of his/ her employment.



From the above discussion, it gets established that any direct losses of money and material due to the dishonesty of employees can be covered under Fidelity Guarantee Insurance. This will also include any thefts with the complicity of the employees.

Now the next question to be tackled is that guards provided by a manpower outsourcing organization like a security agency are not employees of a company. Therefore, will any thefts done by them or with their complicity be covered?

Insurers do not cover outsourced staff under Employee Fidelity Insurance. Hence it should not be implicitly assumed that all persons working on the premises of the insured would stand covered under the fidelity policy. However insurers have covered outsourced guards, peons, pantry boys etc. in the past, on payment of extra premium. Therefore the best course would be to specifically declare such staff and negotiate the terms of cover with the insurer.

In our next publication we will deal with another emerging risk, financial liability arising from theft of material or data by employees from a client.

Please Send Your Feed Back and Queries on info@optima.co.in

Head Office

M-4, Greater Kailash-II, New Delhi-110048. Ph: 011- 40 50 51 52

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Mumbai, Bangalore, Chennai, Ludhiana, Dehradun, Chandigarh, Bhopal, Jaipur