

## FIDELITY BOND - CRIME INSURANCE

Beginning January 1, 2019, associations are required to carry what many refer to as a "fidelity bond." They are actually purchasing an insurance policy that covers employee dishonesty (fidelity) plus non-employee theft. This is not the same as [D&O Insurance](#).

**Employee Dishonesty.** Employee dishonesty coverage protects an association against dishonest acts such as [embezzlement](#) committed by an employee as defined by the policy. In a common interest development, the definition of "employee" must be broadened to include the board of directors as non-compensated employees of the association, as well as the community manager and management company.

**Computer and Funds Transfer Fraud.** This protect against dishonest acts committed by third parties. Unlike a typical local embezzler who would be inclined to steal a little bit at a time to avoid detection, these individuals don't live in the association, are not on the board, and have no emotional connection to the community. Depending on their geographic location, they may feel they are unlikely to be tracked down and prosecuted for the crime. As a result, they are more likely to transfer as much money as they can, as quickly as they can, from an association's accounts.

**Amount of Coverage.** As required by [Civil Code §5806](#), associations must:

- purchase a fidelity policy with coverage limits in an amount equal to or greater than the combined amount of the reserves and total assessments for three months unless the governing documents call for greater limits),
- cover all persons handling funds, including officers, directors, employees, managing agents and the management company, and
- include in the policy coverage for "computer and funds transfer fraud" in the same amount or greater (unless the governing documents call for greater limits).

**Management Companies.** Management companies should carry their own fidelity insurance to protect against losses resulting from the dishonest acts of management company employees.

**Reporting Requirements.** Actual and potential claims must be [timely reported](#) to the association's insurance carrier or the association may lose coverage.

**Internal Controls.** [Internal controls](#) can help avoid losses but cannot guarantee it. Thus, the need for insurance.

**ASSISTANCE:** Associations needing legal assistance can [contact us](#). To stay current with issues affecting community associations, subscribe to the [Davis-Stirling Newsletter](#).

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