

---

## HOT TOPICS Archives

October, 2000 Edition

### Employee Dishonesty and Warehouse Coverage

What Happens if a Warehouse Worker Steals From Inventory?

What Can You Expect From Your Insurance Coverage?

While the topic of employee dishonesty continues to develop as new forms are prepared by the Insurance Services Offices, exposure to theft of property in the care custody and control of bailees is a hot topic. Goods in transit are often stored in warehouses. Modern logistics and fulfillment have created additional exposures. There are a variety of coverages available to the shipper. But, what happens if the shipper buys cargo insurance from the freight forwarder who also operates a warehouse. And, what happens if the goods are stored for a period of time not covered by transit insurance. Freight forwarders acting as bailees for goods in storage create a special exposure to theft of goods.

While no one likes to consider the possibility of an employees stealing freight from a warehouse; thefts do occur. Maybe the employee is in debt, has a drug addiction, or gambling problems; there are many reasons that an employee would circum to temptation.

The exposure to warehouse employee theft is real and difficult to cover. One recent occurrence involved a freight forwarders who had chosen to purchase a bailee coverage for his warehouse. His customer had twelve laptop computers delivered directly to the insured's warehouse for storage and future but undetermined shipment. The laptops were logged in and placed in a restricted but unlocked portion of the warehouse. During the next week, five of the laptops were discovered missing. No alarms sounded, no windows broken, no mysterious trespassers were noted. Only the sudden bad temper and unexplained absence of a short-term employee gave any clue to what had happened.

The \$25,000 claim has yet to be resolved. The bailee's coverage clearly excludes mysterious disappearance and employee theft. The employee dishonesty coverage was declined by the freight forwarder at the prior renewal. But, here is the coverage dilemma. The employee dishonesty coverage might have been of some help, but it would need to be endorsed to specifically cover goods in the forwarder's care custody and control. Why you ask? The employee dishonesty coverage typically excludes the exact coverage the forwarder wants for stored property. So when you store freight, employee theft is an exposure to review very carefully. Employee dishonesty coverage doesn't always provide the coverage that you expect. A specific endorsement adding coverage for property in the care, custody, or control of the freight forwarder needs to be added to the policy to obtain the coverage that everyone expects. Employee theft of bailed property is complex and requires special attention.

*Article contributed by Dick Councilll  
Regional Vice President, Roanoke Trade Services, Inc.*