



Long Term Trusted Employee

The term “long term trusted employee” generally conjures up a warm fuzzy feeling about the recipient of such praise. Generally bank management, fellow employees, bank customers and the community trust, admire and respect “long term employees.” While the overwhelming majority of those described in this way deserve the trust, respect and admiration given to them, some do not. It has been BancInsure’s experience that many large fidelity (embezzlement) claims involve “long term trusted employees.” These embezzlements often involve fraudulent entries to the correspondent bank accounts, unauthorized withdrawals from customer deposit accounts or fictitious loans in the names of customers. Most of these embezzlements go on for years without detection. The typical reaction to the discovery of the embezzlement is shock and dismay.

The embezzlers are able to perpetuate their crimes over extended time frames due to several factors. Because of their tenure they usually have risen to an officer status with considerable authority. They thoroughly know the bank’s operating and internal control systems and are able to exploit the weaknesses in them. Being long term employees, they are trusted by bank management, the bank’s customers and bank examiners and auditors. If discrepancies arise, they are able to offer plausible explanations or to move the “problem” to another account without detection. Based on their knowledge of the bank’s operations and the trust placed in them by bank management and the bank’s customers, the embezzlers are able to continue their schemes until something happens while they are on vacation or at lunch, or someone becomes curious enough about an unusual transaction to investigate it.

The solution to the problem is an effective internal control system. The writer of this article has never seen a major embezzlement that did not involve major weaknesses in an internal control system. The most prevalent one being lack of separation of duties. The ability to control the disbursement of funds and recording the entries in the books of the bank is an open invitation to the less than honest employees to help themselves to the bank’s funds. Trust in a long term employee should not be a substitute for sound internal controls.

Over the years, BancInsure has paid numerous major claims involving “long term trusted employees,” including a fairly recent one of over \$750,000.

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