

SPECIAL REPORT

WHY IS FORGERY OR ALTERATION NEEDED AS PART OF YOUR CRIME INSURANCE?

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According to the National Check Fraud Center, check fraud and counterfeiting are among the fastest-growing problems affecting the nation's financial system, producing estimated annual losses of \$10 billion and losses continue to rise at an alarming rate annually.

Forgery or alteration coverage protects against third-party forgery or alteration of written checks, bank drafts, or similar instruments made or drawn by you, or drawn on your account(s). Coverage only applies to outgoing financial instruments.

The following are common examples of claims under forgery and alteration coverage:

A third party alters or forges a check or draft made or drawn in your name to be payable to a fictitious entity.

A third party steals your blank checks and makes the drafts payable to various other entities or individuals.

A third party alters the amount of a check or draft.

Coverage for incoming check forgery, formerly available as an endorsement to your crime insurance program, is generally not available.

Coverage does not apply if the forgery or alteration was caused by an insured or an employee, including but not limited to officers, directors, and trustees. Employee dishonesty coverage must be secured to protect from this type of loss. Also, credit, debit or charge card forgery coverage is generally not covered unless added by endorsement.

Insurance buyers often assume that if a bank cashes a forged check that the check cannot be charged to the customer. This is not necessarily the case. Under the Uniform Commercial Code, which governs the bank's liability for cashing a check on a forged signature, the bank customer is required to exercise reasonable care and promptness in examining bank statements and canceled checks to discover unauthorized signatures or any alteration and must promptly notify the bank if this is discovered. This duty becomes operative when the bank sends the statement and canceled checks to the customer.

If the customer fails to discover and report forgeries and alterations, the customer is precluded from seeking reimbursement from the bank for any unauthorized deductions from the customer's account.

The Uniform Commercial Code also establishes that if there is a subsequent check that is altered by the same wrongdoer and the customer had the bank's statement for 14 calendar days and failed to notify the bank of the unauthorized signature or alteration, the bank is not liable.

In any event, under the Uniform Commercial Code, the statute of limitations for suing the bank is one year on forged signatures or any alteration to a check. That one year runs from the time the statement was made available to the customer. Because of the time pressures, business bank statements are not always reviewed promptly, if at all.

Forgery and alteration is a relatively inexpensive coverage to protect against this type of loss, typically costing several hundred dollars for a \$100,000 limit. Ideally, this coverage should be made part of every commercial insurance program.

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