What is Fidelity Bond?

The Credit Union Bonding Program

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What is a fidelity bond?

A fidelity bond is a three-way contract or agreement between the employer (the credit union), the employee and the insurance provider. The insurer guarantees the honesty or fidelity of an employee and agrees to indemnify the credit union for loss arising from a dishonest or fraudulent act of the employee. Fidelity bonding is therefore available only to those individuals who meet the highest possible standards of honesty, integrity, and good faith. In addition, as part of the agreement, the employee agrees to be held responsible for such loss incurred by the credit union on the employee's behalf. Upon payment of a claim, the insurer assumes the credit union's right to pursue all legal avenues for recovery against the employee(s) causing the loss.

Why does an employee need a fidelity bond?

Most positions of responsibility and trust require the person filling the position to be able to provide a fidelity bond guaranteeing they will perform the duties honestly. Credit unions require employee dishonesty coverage to operate, and the Bond policy will only provide coverage for an employee if they have been individually underwritten for Fidelity Bond coverage. The fact that bond coverage has been issued does not relieve an employee of their obligations to honestly perform their duties to the employer credit union.

What is the purpose of a fidelity bond application?

All employees are required to complete a fidelity bond application (FBA) when first hired and may be required to complete a new application periodically. The FBA acts as a preventative measure or screening tool used to identify potentially high-risk individuals or individuals who may have committed dishonest acts in the past.

How does the bonding process work?

The credit union will perform all the necessary background checks prior to hiring the individual and prior to recommending them for bonding. The employee must then fully complete the FBA, which is sent to the insurer along with a current credit report. A criminal record check will also be conducted. This information is reviewed by a fidelity underwriter and the insurance company must be satisfied that there is little likelihood that an employee will fail to carry out their obligation in an honest and trustworthy manner. If an applicant is not eligible for bonding under our program, the credit union will be notified accordingly.

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What are the employees' responsibilities after they have been bonded?

As part of the fidelity bonding process, the employee agrees to advise the insurer of any significant changes to the information originally provided in the FBA. This would include pending bankruptcy and or consumer proposal, financial distress, criminal conviction etc. It is important the employee recognizes their responsibility to disclose all relevant information to the insurer, even after bond coverage has been granted.

When is bond coverage terminated for an employee?

If the credit union becomes aware of a dishonest or fraudulent act by an employee, the bond coverage is automatically terminated, and any subsequent losses suffered by the credit union will not be covered. Once the credit union becomes aware of any type of potentially dishonest act, the insurer will need to be advised. In some cases, further investigation will be required. The insurer may also terminate an employee's fidelity bond upon 15 days written notice to the credit union. This may occur even if a dishonest or fraudulent act cannot be proven.

How does a bond claim or termination affect an employee's future?

Once an employee's bond has been cancelled, they will find it difficult to secure a position of responsibility within a financial institution. If a dishonest employee has caused a loss to the credit union, the insurer will pursue full recovery of the funds lost. In such cases, any assets held by or on behalf of the dishonest party will be recovered by the insurer and the credit union.

Can a bonding termination be appealed?

The insurer's bonding decision is based on the fidelity bond underwriter's assessment of an individual risk, and therefore cannot be appealed. A decision may be re-evaluated by the underwriter only if the information provided to the insurer contains material factual errors.

Privacy

All information received by the insurer, CUMIS Services Inc., is held strictly confidential.