

# FINANCIAL GUARDRAILS FOR ASSOCIATIONS

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*Featuring:*

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NARdotRealtor



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# TOPICS

- Coverage review
- Coverage Issues & Best Practices
- Financial Solvency Requirement
- Implementing Financial Controls
- Q & A

# DISCLAIMER

*This is a summary of the policy and features offered through the NAR Insurance Program. All coverage determinations are made by the insurer at the time a claim is made.*

# WHY ARE WE HERE?



**Employee Theft**

**Stolen Checks**

**Fake Invoices**

**Fraudulent Transfers**

**Identity Theft**

**\$4,000 to \$700,000**

# ARE WE COVERED?

## NAR Institutes, Societies & Councils

- State and Local Chapters
- Subsidiaries

## State and Local REALTOR® Associations

- Charitable Foundations
- Political Committees
- Educational Endeavors

MLSs wholly-owned and operated by two or more Associations

# ARE WE COVERED?



## Coverage only applies if the insured entity:

Maintains their governing documents in full compliance with the Constitution, Bylaws, and Policies of NAR and ...

# ARE WE COVERED?

Adheres to and follows in their day-to-day activities the procedures and requirements of their governing documents (and NAR policies).

*Source: Policy document, page 2*

# WHAT'S COVERED?



**Professional Liability**



**Cyber Liability + Response**



**Patent Infringement**



**Crime Loss**

*Separate policy issued by RPX  
Covers Associations/MLSs*



# WHAT'S COVERED?

## Crime Loss (Clause I.D.) covers:

- Employee theft
- Forgery or alteration
- Theft of money or securities
- Funds transfer fraud
- Money orders/counterfeit money
- Social engineering fraud

# WHAT'S NOT COVERED?

- Employee benefit plans
- Seizure or destruction of property by order of the government
- Inventory shortages
- Trading losses

**See the policy for a complete list of coverage, definitions and exclusions.**

# WHAT ARE POLICY LIMITS?

**\$10,000 per claim**

\$3,000 deductible

# WHAT ARE POLICY LIMITS?



**A covered entity may increase claim limits by purchasing “excess coverage” between January 1 and April 1 each policy year.**

*Excess crime loss coverage is available up to \$1 million. See the annual virtual mailing packet for details.*

# REPORTING A CLAIM

- File a claim with Chubb
- Report to law enforcement
  - Local police, FBI, IC3.gov
- Alert your legal counsel, bookkeeper, tax adviser
- Cooperate with Chubb's investigation
  - Sworn proof of loss within 120 days



# JOHN MACKO

Aon Financial Services Group

## Crime Policy Coverages

### Employee Dishonesty

Covers loss of or damage to property resulting from theft committed by an employee.

### Premises & In Transit

Covers loss of money and securities on premises from specified perils while lodged or deposited within the Insured's premises or in transit while in the custody of an employee, armored motor vehicle or any other person authorized by the Insured. Limited coverage for loss of property

### Forgery

Covers loss resulting from forgery or alteration of negotiable instruments - checks, promissory notes, bills of exchange or similar written promises

### Computer Fraud

- Loss resulting from a fraudulent entry or change of data or programs into or within any computer system operated by the Insured **provided that the entry or change causes property to be transferred, paid or delivered, or an account of the Insured or of its customer to be added, deleted, debited, or credited**
- Highlighted text is the key difference between Cyber and Computer Crime coverage.

### Social Engineering Fraud

Covers loss of money or securities resulting from the transfer, payment or delivery of money or securities by an employee acting in good faith on a fraudulent transfer instruction. Can also include fraudulent instructions received by an employee and sent to a financial institution.

## Crime Policy Key Exclusions

- Loss of trade secrets, confidential processing method or other confidential information of any kind
- Loss of income not realized as the result of a covered loss (indirect loss)
- Loss or damage of property due to fire
- Loss as a result of a kidnap, ransom or other extortion payment



## Loss Examples

### Example 1 Employee Dishonesty

An employee perpetrated false billing schemes in which he utilized price overrides to reduce the actual amount billed to a customer and received a kickback from the customer with whom he was in collusion.

### Example 2 Employee Dishonesty

Employees, in return for kickbacks and other benefits, conspired with an outside vendor to bill the insured for services which were not provided and to overcharge for services which were provided.

### Example 3 Social Engineering

A vendor's e-mail is hacked. The hackers send an email to an employee notifying them to send all future payments to a new account. Payments are made into the hackers account for several months until they are contacted by the vendor for failure to pay.

### Example 4 Social Engineering

Five funds transfers were made over a seven-day period totaling over \$10 million. An employee received verbal instructions from an outside imposter purporting to be the Insured's CEO who was engaging in a confidential acquisition and advising an outside attorney would provide instructions for the wire transfer. The employee then received emails from the alleged attorney with transfer instructions and account numbers.

## Recommended Best Practices\*

- **Verify E-Mail Requests by Telephone:** Make a phone call to a known, pre-arranged phone number
- **Segregate Responsibilities:** Establish procedures that require multiple people to review and approve wire transfer requests, pay an invoice or change bank account information
- **Multifactor Authentication (MFA):** Provides an additional layer of security beyond a username and account password
- **Purchasing Controls:** Consistency among locations, master vendor lists, procedures to approve the existence of vendors



# DAN DOEPKE

**Director, Member Policy**  
National Association of REALTORS®



# WHAT ARE CORE STANDARDS?

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- Code of Ethics
- Advocacy
- Consumer Outreach
- Unification Efforts and Support of the REALTOR® Organization
- Technology
- Financial Solvency

# FINANCIAL SOLVENCY

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Every association must adopt policies to ensure the fiscal integrity of their financial operations.

# FINANCIAL SOLVENCY

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All associations, state or local, with revenue of \$50,000 or more must annually submit a report from a CPA which includes either an audit opinion or an accountant's review report.

# FINANCIAL SOLVENCY

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- For associations with annual revenues of less than \$50,000, a compilation report prepared by a CPA is acceptable.
- Thresholds apply to all associations whether tax exempt or for profit.
- Frequency of an audit versus a review is at the discretion of each Association.





# **RESOURCES**

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**Frequently Asked Questions**

**Core Standards Financial Resources**



# SAMPLE POLICIES

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- Finance Division Principles of Operations
- Budget Policy
- Employee Conflict of Interest Policy
- Member Conflict of Interest Policy
- Employee Travel Policy
- Member Travel Policy
- Fraud Prevention Process and Controls
- Non-Solicitation Policy
- Non-Disclosure (Confidentiality) Agreement Policy
- Whistleblower Policy
- NAR Statement of Investment Policy



# CHRISTINA CHOW

Senior Director of Legal Affairs  
Georgia Association of REALTORS®

# What can my Association do to avoid falling victim to these hacks and scams?

- Constant Staff Training
- Maintain up-to-date malware and virus protection software
- Strong financial policies
- Checklists & Other Processes
- Review vendor agreements



# Financial Policies

- Generally accepted accounting procedures
- Multiple bids when seeking new products or services
- Regular reconciliation of payments
- Process for onboarding and verification
- Who should be authorizing payments / signing checks
- General oversight
- Regular audits



# What should I look for in Vendor Agreements?

- Conduct due diligence into vendor
- The right to audit
- Minimum security requirements for handling sensitive data
- Requirements for notification of security breaches



# What else can I do?

- Have checklists that outline your processes
- Monitor bank accounts on a regular basis
- Constantly change and update your passwords
- Have a process or protocol in place for when/if your systems get hacked
- Don't rush and just go through the motions





# RESOURCES

## **CORE STANDARDS**

**[Core Standards home page](#)**

**[Frequently Asked Questions](#)**

**[Core Standards Financial Resources](#)**



# **NAR INSURANCE PROGRAM**

## **Insurance Program**

- Copy of the policy
- FAQs
- Employment hotline
- Excess coverage details

## **Reporting a Crime Loss Claim**

## **What Officers and Directors Need to Know**

# QUARTERLY RISK REPORT

Available on  
[nar.realtor/nar-insurance-program](https://nar.realtor/nar-insurance-program)



# RISK MANAGEMENT

- Antitrust
- Cybersecurity
- ADA Websites
- Defending Professional Standards Decisions



**Next webinar: December 2023**

*details coming soon!*

## **INSURANCE REMINDER**

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**The 2024 Insurance Program mailing will be virtual.**

## **MORE INFORMATION**

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NAR INSURANCE PROGRAM

**[nar.realtor/nar-insurance-program](https://nar.realtor/nar-insurance-program)**

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# THANK YOU.

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NARdotRealtor



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THAT'S WHO WE 

 NATIONAL  
ASSOCIATION OF  
REALTORS®