For the good of the Order! ABA February 2023

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Let’s not beat about the bush on this: Employees steal, they commit fraud, they embezzle. And the problem worsens when the economy worsens.

There are plenty of [statistics](https://safeatlast.co/blog/employee-theft-statistics/#gref) about this but here are the most salient:

* Employee theft costs employers up to $50 billion annually.
* Approximately 75% of U.S. businesses are affected by employee theft.
* On average, 5% of an organization's revenue is lost to employee theft each year.
* 22% of small business owners have experienced employee theft.

For those of us who work in risk management, these figures underscore the importance of one policy above all others: crime insurance.

Regardless of the industry you’re in, going without crime coverage would simply leave you with no way to recover losses when a theft or fraud occur.

Crime insurance policies are typically written on a “named perils” basis, meaning that a loss must fall within one of the categories of crime specified in the policy to trigger coverage.

Examples of when a crime insurance policy would pay a claim include cash stolen from a cash register by an employee; money [embezzled](https://www.investopedia.com/terms/e/embezzlement.asp) by an employee through an electronic payment system; money lost by forged checks or payment authorizations, or inventory stolen.

A crime policy can also cover losses caused by non-employees, including fraudulent manipulation of your computer system – a hacker, for example, transferring funds to an outside account – and fraudulent electronic funds transfer instructions sent to your bank by someone purporting to be you.

**Watch for these Danger Signs**

The motives for employee theft vary, but a need for money is typically the main reason for many of these crimes. Employees upset by changes in the workplace they don’t like also are inclined to steal. You can spot trouble brewing through a range of behavioral red flags including:

* A sudden devotion to their jobs or working later than normal hours.
* Evidence of drug or alcohol abuse.
* Lodging strong objections to changes related to financial, inventory or supply matters.
* Living above their means.
* Moonlighting in a parallel business.

**Preventing Employee Theft**

Buying a crime policy is, of course, a good idea. [But business owners](https://www.mahoneygroup.com/business-risk-management-insurance/) also need to ensure their internal controls, policies and procedures are as strong as possible. Here are six ways to help you prevent employee theft.

1. **Run background checks**. When making hiring decisions, don’t just check a prospective employee’s references. Run a complete background check. It may seem a little pricey, but it can be money well spent if it prevents you from hiring a future thief.
2. **Have an anonymous system to report issues.**Most honest workers don’t enjoy working with a dishonest employee. But they may be hesitant to point fingers in public. Provide an anonymous way for employees to blow the whistle on suspicious behavior.
3. **Divide financial responsibilities.**Unless a business owner handles all accounts personally, don’t have a single person do it all. For example: Separate paying the bills and handling receivables from the recording of transactions. The farther apart you separate functions, the harder it is for anyone to doctor the books to hide theft.
4. **Require employees to take at least one full week off annually.**Long-term theft schemes are often successful because an employee never leaves his or her post. These acts of fraud and theft get discovered after an employee passes away or is forced to be out of work because of a serious illness.
5. **Use a buddy system.**Keeping more eyes on a process can cut the risk of theft. Any time you have incoming inventory, a sale has to be voided, or credit given to a customer, you can reduce risk by requiring more than one person to be present and witness what is happening.
6. **Bond with employees.**It's much easier to steal from someone you don’t know very well. Getting to know your employees and creating a psychological bond can make it more difficult for them to steal from you.

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