



Inventory "Shrinkage" Causes Retailers to Lose Billions

Inventory "shrinkage" – a combination of employee dishonesty, shoplifting, vendor fraud and administrative error – is costing the nation's retailers a great deal of revenue.

According to the University of Florida criminologist, Richard Hollinger, director of the National Retail Security Survey, the single largest larceny category occurs in retail stores, yet employee theft can occur in any industry. The survey found that the most significant source of inventory shrinkage is employee theft. More importantly, *Insurance Journal* claims that the most trusted employees—the ones who have been with the company for a significant period of time and who never miss a day of work—are typically the ones who steal from their employers.

Methods Retailers Can Use to Protect Against Inventory Shrinkage

Employer-Generated Solutions:

Pre-employment screenings:

- Past employment history
- Criminal conviction checks
- Personal reference checks
- Drug screening
- Driving history checks

Employee awareness programs:

- New hire orientation discussions
- Bulletin/poster board notices
- Anonymous phone hotlines
- Follow up education
- Newsletters
- Payroll stuffers

Asset control policies:

- Refund control structures
- "Void" receipt procedure
- Employee Package checks
- Trash removal controls
- Inter-store transfer policy
- Exit door controls

Loss prevention systems:

- Burglar alarms
- Closed circuit TVs
- Armored car pickups
- Cables/locks/chains
- Secured display fixtures
- Electronic security tags
- Shoplifting signs posted
- Silent alarms
- Observation mirrors

Criminal Patterns

Typically, employees do not steal from his/her employer once and then never do it again. Instead, employees steal small amounts over an extended period of time. When businesses finally discover the indiscretion, they have lost a significant amount of revenue.

In addition, businesses generally do not discover that funds are lost until the economy takes a turn for the worst and the company examines why their revenue is not as they had expected. Only then, after questioning where the money went, do they notice that funds are missing.

Smaller companies with fewer employees tend to be victimized more than larger companies. Not only are these smaller businesses uninsured to cover their losses, they've built up trust and developed relationships with their employees. So, they often are unsuspecting of the criminal activity and trust their employees too much. Larger companies also have the budget for audit committees and risk managers to assess any indiscretions immediately.

Insurance Options

Employee dishonesty insurance, also known as crime coverage, employee dishonesty bond, fidelity bond and crime fidelity insurance, offers employers protection from fraudulent acts committed by their employees. By purchasing this type of insurance, you are able to recover financial losses as a result of employee theft and robbery of the following:

- Money
- Securities
- Computer fraud
- Forgery
- Funds transfer fraud
- Credit card fraud
- Money order and counterfeit fraud
- Other valuable property

Third Party Coverage

If your company is doing business for another organization, employee dishonesty insurance may also cover the losses of that business as your client, depending on your plan.

If you elect coverage that protects your client's property, the policy will cover the loss of money, securities and other property lost while working for that client.

Exclusions

There are several exclusions to these types of policies that employers must be aware of:

- Accounting errors
- Income lost in the event that the theft had not occurred
- Vandalism
- Governmental seizure of property

- Restatement or lost statement of profit
- Theft by yourself-coverage does extend to partners, trustees and directors

Don't become a victim of employee theft or shoplifting. Protect your business, your assets and your profits by obtaining employee dishonesty insurance. Contact us today at 800.929.1669 to learn more about our value-added services.



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