

Employee Dishonesty

Although there are many things that can be done to prevent Employee Dishonesty, there is always the chance that employee theft will go undetected, and often this can amount to a large loss to a business owner.

Below is an article from Nightclub & Bar Magazine that gives you an example of how employee theft can affect your bottom line. It also provides you with some strategies you can implement to reduce theft in your establishment.

If you don't carry it already, consider purchasing Employee Dishonesty coverage to protect you against these circumstances. The coverage is relatively inexpensive, usually costing in the \$500 range for a \$20,000 limit.

Sting or Be Stung

Strategies to Reduce Employee Theft

Recently, a nightclub owner called me and asked for help to catch one of his bartenders who was stealing from the cash register and possibly stealing stock from the liquor room. Among many other questions, I asked what he was prepared to do to the bartender if we did catch him stealing.

The owner said, "Fire the bastard." I asked why he didn't want the person arrested and prosecuted. He told me he felt that the time and trouble going to court was just not worth it. I explained that the police, a detective and the district attorney will do all the work and that he just had to be available for further questions and a possible court appearance. At first he was very skeptical, but after we gathered the evidence to prove the employee was stealing, he agreed to have the person arrested and prosecuted.

We turned over all of the evidence to

prove the theft in court to the police. The officers wrote their report and gave it to the detective. A day later, the detective arrested the bartender for grand theft and took him to jail. The bartender spent two days in jail and after approximately two months, after only one court appearance, the bartender plead guilty to petty theft.

The judge put the bartender on two years probation and ordered that he pay back the owner more than \$1,000 in restitution payments.

This owner learned a great lesson and has changed his current practices dramatically. (cont'd pg.2)



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THE LIST

What follows is a list of points the owner implemented after our discussion.



Acceptance. The industry attitude of adding employee theft losses into the operating cost of running the bar must stop. Owners must stand firm that theft isn't acceptable at any level.



Written Policy. Employees must have a clear and written policy surrounding the view of employee theft. This policy must be set in stone and followed to the letter. Use buzzwords like "terminated", "arrested", "prosecuted" and "civil lawsuit."



Criminal Background Checks. For as little as \$20, operators can find all criminal arrests or convictions on potential employees. Remember, your managers, bartenders and servers will be handling several thousand dollars per night.



Cameras. Every alcohol service venue should have a camera system. I recommend digital systems and a minimum of eight cameras. The cameras should be placed in areas to aid in stopping employee theft as well as showing patron actions should they have a problem and want to later sue the operator.



POS System. Good POS systems are very reasonably priced today. Nearly all can integrate with your digital camera system. A POS system can keep track of nearly every sale and keystroke on cash registers while being able to generate quality, detailed reports. These reports can show both the hidden and the obvious thefts.



Secret Shoppers. Use of a professional spotting company or any person who knows the industry can help catch employees taking money or bottles of booze, drinking on the job and so many other things owners should not have to tolerate.



Zero Tolerance. If an employee is caught stealing, owners must have a set plan and be ready to stick to it. If they don't, other employees will see that they can still get away with stealing. Have this Zero Tolerance policy written for employees to read. Have the policy outline steps for managers or owners to follow.

THE RESULTS

The owner from the above story implemented nearly all of the listed items. He had all current and new employees read the new theft policy and sign a document acknowledging they were aware of the zero tolerance policy. Strangely enough, out of his 21 current employees, five of them refused to sign the document and quit on their own that day.

Within the first month of having the policy, the cameras and new POS system in place, the owner saw a 21 percent increase in profits. Over the next five months, four other current employees left on their own. Three other long-term employees came forward together and told the owner they knew several of the employees who quit were stealing but never had the guts or courage to tell the owner.

Yes, theft will occur even with all of the listed tools. If it does, have the thieves arrested, fire them, prosecute them and, if you need to, sue them in small claims court.

Good luck, and don't let employees keep stealing your profits!

Reference: *Nightclub & Bar Magazine*

http://www.nightclub.com/NCB_Magazine/NCB_March_2007/Sting_or_Be_Stung/

DID YOU KNOW...

- **5% of revenues of any business are lost due to employee theft.**
- **It is estimated that 33% to 75% of all employees have engaged in such behaviors as theft, fraud, vandalism, sabotage, and voluntary absenteeism.**
- **The US Chamber of Commerce estimates that 75% of all employees steals at least once, and that half of these steal again and again. The Chamber also reports that one of every three business failures are the direct result of employee theft.**

Business Interruption Insurance – Should You Insure Ordinary Payroll?

LUKE HORCICA

Business Interruption claims are usually the most challenging of any type of claim we see, regardless of industry.

Among the many decisions an employer makes when buying business interruption insurance is whether or not to insure ordinary payroll; this would include servers, bartenders, security and anyone else not considered a “key employee”, and if so, for how long? We review this specific issue with you at every renewal because each client’s situation is different and can change from year to year. The skill level of employees, type of operations, plant and office locations and the economy all need to be considered when determining whether or not to purchase ordinary payroll coverage. These same factors will also help determine the length of time the coverage will be needed.

Ordinary payroll is defined as payroll, employee benefits (if directly related to payroll), healthcare payments, union dues, etc. Payroll for officers, executives, department managers and employees under contract is automatically considered to be included for coverage as part of the overall business interruption coverage form, since without these key people, a business could not recover.

In most cases, there should be little question about whether continuation of all payroll during a brief shutdown is “necessary.” However, without proper documentation, your insurer may contest keeping some employees on payroll during a prolonged shutdown. You can eliminate coverage for ordinary payroll completely or you can insure the cost of ordinary payroll for a limited period of time. Normal limitations for payroll would be 90 or 180 days.



If you chose to eliminate ordinary payroll coverage, you will reduce your insurance costs. However, doing so creates what may be an important uninsured exposure. We can provide you with alternatives, including and excluding ordinary payroll. More importantly, we can review this and many other critical issues concerning your business interruption insurance.

If you haven’t done so already, I strongly recommend you complete a Business Interruption worksheet, which is a one-page document that can be completed in a very short time.

Because there are Co-Insurance clauses (see the next article in this newsletter for more information on co-insurance) attached to Business Interruption coverage, it is very important that you are insuring up to the adequate limit.

As always, please feel free to call me for more information regarding this or any insurance matter.



Any questions???

If there are any insurance topics or suggestions you would like to see in our newsletter, please email them to:

Christine Tenove at ctenove@lloydsadd.com

Understanding Coinsurance

Taking the time to understand your insurance policies is well worth the effort. An insurance policy is a complex contract that often contains provisions that assign certain responsibilities to the policyholder, such as a coinsurance clause.

Co-Insurance is likely one of the most misunderstood concepts when discussing insurance. It's a clause attached to every policy that basically means this: if you underinsure, you will be penalized in your settlement. It applies to buildings, contents, and business interruption coverage.

The best ways to ensure that your limits are sufficient are to (a) get a "Replacement Cost" appraisal on your building or Contents, and (b) complete a Business Interruption worksheet for your "profits" coverage.

We have gathered the basics on coinsurance to help eliminate any potential confusion.



CALCULATING COINSURANCE

In the simplest terms, the coinsurance provision in a property policy requires the policyholder to carry a limit of insurance equal to a specified percentage of the value of the property to receive full payment at the time of a loss. For example, a building with a value of \$1,000,000 and a policy with an 80 percent coinsurance clause must be insured for at least \$800,000 to avoid a coinsurance penalty at time of loss.

Here's where it gets a bit more complicated: If there is a claim, the formula to determine the recovery is based on the property's replacement value at the time of loss. If the replacement amount is less than the coinsurance percentage, a penalty is applied, reducing the claim payment.

What you did insure for				
What you should insure for	X	Amount of loss	=	Amount you receive

For example, a policyholder has \$600,000 of property insurance and a fire causes \$200,000 in damages. The claim is calculated by dividing the amount of insurance purchased (\$600,000) by the value at time of loss (\$800,000). This factor (75 percent) is multiplied by the amount of the loss (\$200,000 x .75 = \$150,000). In this example, the policyholder would receive \$150,000 (less any deductible) for a \$200,000 claim.

\$600,000				
\$800,000	X	\$200,000	=	\$150,000

WHAT POLICIES INCLUDE A COINSURANCE CLAUSE?

Property insurance policies typically include a coinsurance clause. Building, business personal property and inland marine policies all contain the coinsurance clause mentioned above. Some policies require 100 percent of the value to be insured.

What can you do to mitigate a coinsurance clause? The coinsurance clause included in the policy language can be "suspended" for the term of the policy by adding an agreed amount endorsement. This is a provision where the insurer and the insured agree that the amount of insurance is adequate and the coinsurance clause will not apply to a loss.

Important Note: Co-Insurance Penalties apply as of the Date of the Loss. Even though you might be insured adequately today, you may still face co-insurance penalties if the loss occurs late in the policy term. When considering your limits, think at least 2 years in advance. Consider a loss occurring on the very last day of your policy, and also consider that it could take a couple years for construction. Ask yourself two questions:

(1) are my building and content limits sufficient after considering inflation, rising construction costs etc. for a 2-3 year period, and

(2) considering my worst case scenario, how long would it take to re-open my business? The standard Business Interruption Coverage indemnity period is 12 months (payments stop after 12 months even if you aren't back up and running). This period can be extended to 18 months or 24 months. Please call me to discuss if this is a concern.

Congratulations Michelle,
Welcome Nicole!



Lloyd Sadd is happy to congratulate your hospitality Account Assistant, **Michelle Kane**, on her newly adopted son, **Joseph**. Michelle and her husband are welcoming 14-month old Joseph home this month. Her last day before parental leave will be October 22nd. We wish Michelle all the best and we can't wait to see her back next year!

Replacing Michelle while she is away will be **Nicole Knudson** who has recently moved to Edmonton from Rothesay, New Brunswick. Welcome Nicole!

Safe Classifications

There continues to be confusion about the rating of safes in restaurants, bars and nightclubs.

Safes are classed by the insurance industry from Class 1 to Class 6. A higher number indicates increased burglary resistance.



Class 2 and 3 safes are recommended for restaurants, bars and nightclubs. Class 1 safes are basically any steel box (min. 1/8" steel wall and doors) with a combination lock. This includes fire rated safes that may look very large and heavy. Fire rated safes will keep the contents from reaching 350° F for 1 hour. These safes are rated as a Class 1 burglary safe as they provide only minimum burglary resistance.

Approved Labels

Safes having an approval label with a burglary resistance rating (located on the inside of the safe doors) are easy to rate.

UL (Underwriters' Laboratories) labels:

TL-15	Tool resistant for 15 minutes	Class 2
TL-30	Tool resistant for 30 minutes	Class 3
TR-30	Torch resistant for 30 minutes	Class 4
TRTL-30	Torch/tool resistant for 30 minutes	Class 4

Most insurance companies have a limit of only \$250 coverage when the business is closed and cash is not kept in a Class 2 safe.

If you are unsure whether or not your safe meets Class 2 requirements, please contact a lock and safe specialist.

Reference: Alberta Hotel & Lodging Association Loss Prevention Bulletin