

SIMMONDS

ON BANK INSURANCE

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Consulting On, But Never Selling, Insurance

Issue 4

Computer Crime Coverages in Your Bond: They Should Be in There...

First, let's set the stage. Your financial institution bond provides insurance coverage for your bank's losses caused by fraud. In insurance terms, we say it's a first-party coverage. The bond protects the bank. If the bank has suffered a loss of money and the incident involves fraud or destruction of data, look to the bond for coverage. Here are some of the bond coverage sections that relate to computer fraud:

■ **COMPUTER SYSTEMS' FRAUD** Covers loss from a fraudulent entry of electronic data or computer program within a covered computer system. Some carriers provide additional clarification by stating, "Covers loss resulting directly from a fraudulent entry or change of electronic data or computer program in a covered computer system, which causes property to be transferred, paid, or delivered; an account of the insured, or its customer, to be added, deleted, debited, or credited."

■ **DESTRUCTION OF DATA OR PROGRAMS BY HACKER** Covers loss resulting directly from the malicious destruction of or damage to computer programs owned by the bank, or for which the bank is legally liable, while stored within the bank's computer system. Protection is usually included for the cost of duplicating damaged or destroyed data or computer programs from backup sources. If the computer programs cannot be duplicated from a backup, the insurance company will pay the additional costs to restore damaged or destroyed data.

■ **DESTRUCTION OF DATA OR PROGRAMS BY VIRUS** Covers loss from the malicious destruction of, or damage to, electronic or computer programs owned by the bank, or for which the bank is legally liable, while stored within a computer system. Protection is usually included for the cost of duplicating damaged or destroyed data or computer programs from backup sources, or the additional costs of restoring the damaged data.

■ **A NOTE ON LIABILITY** A loss covered by the bond as described above does not preclude a liability loss. Hackers moving money from one account to another is a fraud loss. It could also result in a claim that your customer's privacy was violated, triggering a claim on your general liability, umbrella, e-banking insurance policy, and/or directors' and officers' insurance.

Your insurance protection can mean the difference between an uncomfortable bump in the road and a catastrophic crash. A comprehensive, unbiased insurance review



gives you the comfort of knowing your coverage is well designed. Call me to learn how a review could work for you.

How would a \$100,000 uninsured loss look on your financial statements?

www.BankInsuranceConsultant.com

207-284-0085



Scott Simmonds, CPCU, ARM, CMC

Scott Simmonds is the Unbiased Insurance Guy,[™] and banks are his specialty.

He provides information and advice to banks and other businesses around the US — and never sells insurance.

Scott has written five books for insurance buyers, including

Simmonds on Bank Insurance and *The Bank Insurance Assurance Toolbox*. He has been quoted in the *Wall Street Journal*, *Money*, *Inc.*, *Fortune*, *Investor's Business Daily*, on CNN.com, *Smart Money*, and countless local and industry publications, including several state bank association magazines.

Scott has 30 years of insurance experience, the last ten as an unbiased insurance consultant. He has provided insurance advice and counsel to hundreds of companies, large and small, throughout the US.

He lives and works with his family on the coast of Maine.

“Your work for us is as important as any insurance policy we buy.”

— Bill Swales, Bangor Savings Bank

Real Questions | Q&A | Real Answers

Q: Some of our officers also serve on nonprofit boards. Should they have separate directors' and officers' insurance?

A: Nonprofit organization board members face the same liabilities that bank board members do — personal liability for their actions and decisions. There are few instances (if any) where I would counsel a bank officer to serve on a nonprofit board when the organization does not have D&O coverage. That said, most bank D&O insurance extends coverage to covered officers for nonprofit board service; usually after the nonprofit's insurance and the dilution of the nonprofits' assets. I consider it last ditch coverage for your officers.

Q: Do I really need an insurance agent?

A: There are some bank insurers who will work directly with a bank on the bond, D&O, and ebanking liability insurance. Actually, I can only think of one such insurer. You will need an agent for your property, workers' compensation, and other insurance policies. Why not have the same agent manage your bank special coverage?



Q: Our CEO drives a bank-owned vehicle. Over the weekend he let his neighbor drive the car. Is there an insurance problem if this happens again and there is a car accident?

A: Most business auto policies provide exceptionally broad coverage for the auto liability exposure, regardless of who is driving a bank-owned vehicle. So the bank should be well covered.

The question then becomes, is the CEO covered for his part in the accident? Your bank should have coverage for “employees as insureds” on your auto policy (a separate endorsement for some policies). Ask your insurance advisor. The CEO also may/should have coverage under his personal auto insurance policy.

Note: Your questions for this section are welcome. Email Scott@ScottSimmonds.com.

Diary of a Bank Insurance Review

I can often complete a review of your bank's insurance within 15 days of the start of a project. Here is a timeline from one of my recent projects:

■ **DAY 1** CFO of ABC Bank emails me. He is interested in a review of his bank's insurance. I call the CFO and we discuss his bank's situation, current insurance, and his objectives. The call takes less than twenty minutes. Later that night I email a proposal to the CFO.

■ **DAY 5** The CFO gets back to me asking to move forward. I email him a letter to send to his agent requesting information for the project – summary of insurance, loss runs, and the like.

■ **DAY 8** I receive a box of the bank's insurance policies sent by the CFO. I start my review of coverage.

■ **DAY 10** I receive information from the bank's current insurance agent. As I have the info I need, I call the CFO and we set a date for the review conference call.

■ **DAY 15** I email the CFO a copy of my findings to be used in our phone call later in the day. At the appointed time we review the issues and I provide my recommendations. The CEO, CFO, and SVP of the bank are on the call. We set action plans and accountabilities for each issue. We set a date for the next conference call to review progress.

To start the process just send me an email at Scott@ScottSimmonds.com or call me at 207-284-0085. A short conversation later and I will be able to send you a proposal, bank references, and everything you need to make the decision to go forward with getting you the information you need to make risk management decisions.

Professional Gratitude

"BPC Corporation is a multibank holding company with the Bank of Putnam County being family-owned for 109 years. Scott's professional expertise has been a valuable addition to our organization. His knowledge and ability to explain the coverage in a "common sense" approach has enhanced our understanding of the insurance we currently have and identified additional areas of coverage available. Scott has always been very responsive, objective, and unbiased in his answers to various questions. We look forward to a long-term working relationship."

– Gary Medley, CFO, BPC Corporation, Cookeville, TN



Associate's Degree in Bank Insurance

OK, it's not a real associate's degree. However, it's more than any college will ever teach you about managing your bank's insurance.

Download the recording of five fast-paced, information-filled sessions covering the whole range of bank insurance issues. Each class includes advice and information not available anywhere else.

Here, in less than 5 hours, is almost everything you need to understand the basics of insurance for your bank. Each session is available as an MP3 file so you can listen on your computer, iPod, or other digital player.

- **Session 1** Bank Directors' and Officers' Liability Insurance
- **Session 2** Financial Institution Bond (a.k.a. Bankers' Bond)
- **Session 3** Ebanking, Employment Practices Liability Insurance
- **Session 4** Bankers' Property, Liability, Workers' Comp Coverage
- **Session 5** Insurance Management and Bidding Your Insurance

For free access to ALL SESSIONS, just send me an email, no obligation – Scott@ScottSimmonds.com.

Privacy Breach Remediation Expenses

A hacker gets into your computer system. Private customer data is released. Your bank's ebanking insurance will/should provide coverage for lawsuits that come from the breach. How about the expenses of informing customers of the breach and providing credit tracking services?

Simply put, there is often no coverage in your bond, D&O, or ebanking insurance for these expenses. Some insurers add coverage by endorsement (with a separate charge). Some offer coverage within the package policy (Chubb and OneBeacon, namely).

The only way to really know if your coverage is right for your bank is an unbiased insurance review. After a fifteen-minute phone call I can have a proposal to you.

**PLEASE HELP US
KEEP OUR MAILING
LIST UP TO DATE.**

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Unbiased Bank Insurance Services

- **DUE DILIGENCE COVERAGE REVIEW** – Gain assurance that the coverage you need is the coverage you have.
- **BID MANAGEMENT / RENEWAL ASSISTANCE** – Help with getting the best insurance the marketplace has to offer.
- **INSURANCE MANAGEMENT SERVICE** – Help with all aspects of the management of your bank's insurance.

Visit www.BankInsuranceConsultant.com or call **207-284-0085** for more information.

Do-It-Yourself Insurance Consulting

I got a call recently from a banker who said, "I thought we were covered." Turns out they were not.

Do you have the right insurance for your bank? Are you sure? Do you know the questions to ask your insurance advisor? Let me help.

I've come up with 62 questions you can use to help you learn the quality of your insurance program. Here are the key questions you can ask your insurance agent to start you on the path to finding out if you have the right insurance coverage.

Send me an email for a free copy of my white paper: Scott@ScottSimmonds.com.



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