Protecting Your Bank's Assets

What Community Banks Need to Know About Corporate Insurance

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Know Your Risk

When reviewing your bank's insurance policy options, you and your management team must identify the risks facing your organization, evaluate the likelihood that one or more will occur, assess the potential severity of the risk, and determine the potential impact of a loss on your organization's bottom-line. This process has become increasingly complex and difficult, especially given the demands on your time and the expense.

Hazards Facing Your Organization

The hazards facing your organization are unique to your industry. For example, while **Cybersecurity** is a concern of most businesses, the Cyber exposure facing financial institutions is multi-faceted and potentially catastrophic. Let's say a bank employee receives an external email with an internet link, clicks on the link, and causes malware to be installed on his or her computer. Hackers now have access to the bank's email system and any attachments therein which contain sensitive customer or bank information. The bank must investigate the cause and scope of the breach, identify customers whose information may have been affected, determine the notices that must be given, and defend any litigation commenced by affected customers. All of the above are merely the tip of the iceberg if an investigation uncovers more pervasive infiltration such as the bank's computer network.

Lending risk and related fallout is ongoing with concern turning to the agricultural segment in particular. Disputes often arise when the bank takes steps to foreclose on a loan or exercise its rights to collateral under the loan agreement. For example, take a bank customer with loans secured by its business, land, its owner's home, and personal guarantees. The customer has difficulty keeping current and signs an authorization agreement for the bank to sell a building and real estate. After a sale of assets, the customer disputes the right of the bank to sell personal property or equipment. The customer claims the bank owes it more than $1 million after the sale of these items and application of proceeds to the past due loan.

Fraud remains a top concern with employee dishonesty and **fraudulent wire transfers** leading the way. A typical fraudulent wire transfer involves an email request to the bank by a purported bank customer. Often the transfer request involves a recipient bank located in Hong Kong, Singapore, or similar foreign location. Often the "bank customer" is out of the office, say at a funeral, and cannot be reached for verification the day of the request. An alternative cell phone number is provided for verification as the funds must be transferred ASAP. A bank employee, trying to provide good customer service, processes the wire. Days later the actual customer learns of the unauthorized transfer, and informs the bank of the fraud.

Know Your Policy Provisions

As you may be aware, there are specific provisions in your bank's Financial Institution Bond requiring you to follow certain procedures before a **fraudulent wire transfer** will be covered. Do you know the requirements in your bank's bond and is your bank following them? If you are not, you run the risk of a significant uninsured loss.

Know Your Carrier

There are many high quality insurance companies offering insurance for banks. There are other companies with more questionable financial strength. Know which category your insurer falls into before you select the carrier as your risk transfer partner. What is the carrier's claims paying reputation? Does the carrier have claims reserving issues which affect its ability to pay your bank's claim down the road? Does your insurance carrier pass your vendor-management protocol? What is your company's A.M. Best rating?

Cyber Hype

The cyber risks facing financial institutions in the 21st century are real and not merely cyber-hype. From fraudulent wire transfers to social engineering schemes and ransomware attacks, banks are experiencing "cyber" losses. It is important to know which of your policies, if any, address these exposures. Perhaps more importantly in the case of fraudulent wire transfers, it is important to determine whether the loss is the bank's responsibility **or that of your customer** who has incurred its own cyber loss and should be carrying appropriate insurance to cover.

Cyber protection policies are changing daily. Does your carrier offer and has your bank purchased so-called "first party protections" in the event of a suspected breach? First party coverages include forensic, breach notification, public relations, credit monitoring, and business interruption expenses and should be purchased in amounts sufficient to cover the bank's exposure. Does your carrier offer select vendors for these services? Have you done a cyber breach claim walkthrough to familiarize yourself with the steps that need to be taken before a breach occurs?

Insurance Tools to Save You Time

There are a number of insurance products which are designed to improve the bank's efficiency while offering important protections. These include Mortgage Impairment, Lenders Single Interest, Excess FDIC Insurance, and Blanket Commercial Equipment coverage. We can educate you on the benefits provided by these programs and determine whether they are viable solutions for your bank.

All Insurance Advisors Are Not the Same

Community banks often face pressure to use a "local" insurance agent, a board member, or a large depositor. Unless those agents are community bank specialists, that choice may not be in the bank's best interest. A specialist will guide you in the areas of appropriate coverage and limits, proper carrier evaluation, and optimal pricing and terms. You do not want to find out after incurring a large uninsured claim that your agent does not have the expertise to insure your bank. Furthermore, not all agents are able to represent all carriers that insure banks. The best carrier available to you may not be available to your agent. We at UBA can guide and assist you in these matters.