



INSight

Insurance Issues for Your Bank

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Privacy Issues – Are you covered?

Since the introduction of the basic computer into the banking environment, one primary concern for bankers has been the use of hacking to steal money from the bank. In no time at all, funds can be taken from accounts. Subject to the coverage and limits chosen, and to the exclusions contained within the Financial Institution Bond policy, banks are protected from a myriad of possible loss scenarios arising from the theft of money from their institution. But what else can happen if someone hacks your computer system? The answer is loss of private information.

“Financial institutions are required to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of customer information that could result in substantial harm or inconvenience to any customer.”^[1]

The statement above comes from the FDIC and sets the standard for how banks should address privacy issues at their bank. Bankers collect and maintain personal information from their customers that include Social Security numbers, PINs, address, place of employment, salary and much more. Keeping this information private is a priority for banks as it relates to the integrity of the bank and regulatory compliance. The opportunity for breach of privacy is great in the financial industry and liability is a concern to many banks.

In today’s market, banks embracing Internet banking and social networking sites as a means of

communication to meet the needs of their customers now find hackers, employee sabotage, fraudulent transactions, and damage to data increasing their risk of loss. In addition to the Internet and computer systems, bankers should watch for other exposures that can create liabilities for the bank. Something as simple as leaving confidential documents open on a desk, forgetting a company laptop in the hotel, or documents that were to be shredded ending up in the parking lot dumpster can result in a breach of confidentiality. The result is once again a privacy issue, but from a source other than the bank’s computer system.

Bankers have always realized the precaution needed to protect the bank’s integrity and to maintain regulatory compliance, but may not know if they are fully protected financially. This brings up the question, “Am I protected under my Bond policy?” Unfortunately not, since most policies contain language that, in layman’s terms, exclude theft due to the release of confidential information. And so you wonder, do I have the right privacy coverage?

Traditional insurance policies such as your Financial Institution Bond policy may leave gaps in your coverage since they do not address all of the risks involved in Internet business. Insurance companies have the ability to handle risk exposure in a number of ways, but they are not handled the same. In some instances, the coverage is built into the policy. Others require added endorsements. Some years ago, insurance companies began offering Cyber coverage, also known as Internet Liability or Electronic Banking Liability, to protect banks in the event of loss of private and confidential information obtained via computer systems. Note however that the main thrust of this coverage deals with the release of private information obtained via the bank’s computer systems, and therefore gaps still remain.

^[1] FDIC: Privacy Act Issues under Gramm-Leach-Bliley



Here are a few things to think about as you reflect upon the insurance program for your bank:

- Do you currently have Cyber coverage?
- Do you currently have protection from outside privacy?
- How does the terminology and coverage compare with others offering this product?

We encourage you to review your policies and address this topic with your executive management team, Board of Directors or Insurance committee. FNBB Insurance Agency, LLC provides risk management advice and services tailored to community banks.

We can help you understand the difference between Cyber and Privacy policies. Our experienced professionals will help you identify your risk exposure and review your insurance policies to assure you have proper coverage to protect your bank and employees. Contact Delvan Irwin today to schedule an appointment!



*300 Concourse Boulevard, Suite 100
Ridgeland, MS 39157
601-856-4069
dirwin@bankers-bank.com*

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