

BANK INSURANCE AND RISK MANAGEMENT

Table of Contents

Preface	v
----------------	---

Part I: Risk Management for Financial Institutions

Chapter One

Introduction to Risk Management

1.1 Risk Management: Philosophy and Process	1-3
1.2 Philosophy: Establishing Goals and Objectives	1-4
1.3 What Is the Risk Management Process?	1-9
1.4 Definitions	1-12
1.5 Chapter Summary	1-21

Chapter Two

Loss Management Activities

2.1 Preloss Activities	2-3
2.2 Actual Loss Activities	2-11
2.3 Postloss Activities	2-14
2.4 Chapter Summary	2-16

Chapter Three

Risk Identification and Evaluation

3.1 Due Diligence and the Preservation of Assets	3-3
3.2 The Risk Manager's Ongoing Review	3-4
3.3 Consultation Services Available	3-7
3.4 The Broker/Consultant's Review	3-13
3.5 Chapter Summary	3-17

Chapter Four

Selecting Consultants, Brokers, and Insurers

4.1 The Selection of Consultants and Brokers	4-3
4.2 Changing Brokers or Consultants	4-8
4.3 The Selection of Insurers	4-10
4.4 Chapter Summary	4-15

BANK INSURANCE AND RISK MANAGEMENT

Part II: Insuring Against Risk

Chapter Five

Financial Institution Bonds

5.1	Forms in Use	5-3
5.2	Financial Institution Bonds: Standard Form 24 — Introduction	5-6
5.3	Declaration Section	5-7
5.4	Insuring Agreements	5-9
5.5	General Agreements	5-17
5.6	Conditions and Limitations	5-20
5.7	Riders	5-38
5.8	Broad Form Financial Institution Bond	5-44
5.8A	Coverages Purchased	5-45.1
5.9	Premiums	5-45.2
5.10	Access Device Fraud	5-46
5.11	Loss Control Security Systems	5-47
5.12	Other Loss Control Measures	5-48
5.13	Chapter Summary	5-52

Chapter Six

Other Money and Securities Risks

6.1	Introduction	6-3
6.2	Safe Depository	6-4
6.3	Money Laundering	6-10
6.4	Registered and First-Class Mail	6-15
6.5	Lost Instrument Bonds	6-19
6.6	Cash Letter	6-21
6.7	Credit, Debit, ATM, and Proprietary Cards	6-23
6.8	Computer Crime	6-25
6.9	Contingency Planning for Computer Systems	6-36
6.10	End-User Controls for Computer Systems	6-39
6.11	Excess FDIC Coverage	6-41
6.11A	Emergency Economic Stabilization Act of 2008 (TARP)	6-41.14
6.12	Electronic Commerce	6-43
6.13	Financial Institution Crime	6-69

BANK INSURANCE AND RISK MANAGEMENT

6.14	Economic Espionage	6-77
6.15	Chapter Summary	6-82

Chapter Seven

Professional and Trust Department Liability

7.1	Professional Liability — Introduction	7-3
7.2	Bankers Professional Liability	7-6
7.3	Trust Department Errors and Omissions	7-10
7.4	Welfare and Retirement Plans	7-12
7.5	Other Trust Department Liabilities	7-16
7.6	Other Professional Liabilities	7-21
7.7	Chapter Summary	7-23

Chapter Eight

Directors and Officers Liability Insurance

8.1	Introduction	8-3
8.2	Fundamental Reasons for Coverage; D&O Limits	8-5
8.3	The D&O Liability Policy	8-7
8.4	Premiums, Markets, and Claims Costs	8-15
8.5	Excess D&O and Other Products	8-20
8.6	Legal Restrictions on D&O Coverage	8-21
8.7	Potential Actions Against Directors and Officers	8-23
8.8	Criminal and Regulatory Enforcement Actions	8-30.6
8.9	Private Causes of Action: Trends	8-37.1a
8.10	(Reserved For Future Use)	8-37.1b
8.11	Employment Related Liability	8-37.1b
8.12	Suits by Creditors	8-38
8.13	Suits Involving IRA & Keogh Plans	8-40
8.14	Environmental Issues for Directors and Officers	8-41
8.15	D&O Suits May Be Filed by Financial Institutions	8-47
8.16	Allocating Claims Costs Between the Company and Its Directors and Officers	8-49
8.17	The Private Securities Litigation Reform Act of 1995	8-58.17
8.18	The Sarbanes-Oxley Act of 2002	8-58.39
8.19	Mutual Fund Governance	8-58.52
8.19A	FINRA	8-58.61

BANK INSURANCE AND RISK MANAGEMENT

8.20	Securities Litigation Uniform Standards Act of 1998	8-59
8.21	Class Action Fairness Act of 2005	8-62
8.22	Loss Prevention Programs	8-66
8.23	Examples of D&O Issues	8-76
8.24	Chapter Summary	8-85

Chapter Nine

Mortgage and Lending Risks

9.1	Introduction	9-3
9.2	Mortgage Insurance	9-5
9.3	Sale of Mortgage Insurance by the Institution	9-10
9.4	Flood and Earthquake Insurance	9-11
9.5	Title Insurance	9-13
9.6	Mortgage Impairment	9-14
9.7	First- and Third-Party Pollution Insurance	9-16
9.8	Lenders Errors and Omissions Arising From Mortgages	9-20
9.9	Mortgage Interest Insurance	9-23
9.10	Other Hybrid Policies	9-24
9.11	Lease Exposures	9-25
9.11A	Residual Value Insurance	9-28
9.12	Loaned Securities	9-29
9.13	Single Interest Collateral Protection Insurance for Lenders	9-29
9.14	Dual Interest Insurance for Lenders	9-31
9.15	Nonfiling Insurance	9-32
9.16	Unemployment Insurance for Mortgagors	9-32
9.16A	Mortgage Fraud	
9.17	Chapter Summary	9-34

Chapter Ten

Special Property Exposures

10.1	Other Real Estate Owned	10-3
10.2	Construction Projects	10-9

BANK INSURANCE AND RISK MANAGEMENT

10.3	Environmental Risks	10-12
10.4	Chapter Summary	10-32

Chapter Eleven

The Sale of Financial Products and Services for Profit

11.1	Credit Life, Accident and Health Insurance	11-3
11.2	Other Traditional Bank Insurance Products	11-5
11.3	A History of Challenges	11-7
11.4	The Financial Services Modernization Act of 1999	11-24
11.5	Prospects and Exposures	11-31
11.6	State Guaranty Funds	11-36
11.7	Chapter Summary	11-38

Chapter Twelve

The Specialty Marketplace for Financial Institution Insurance

12.1	Traditional Domestic Insurance Markets	12-3
12.2	Introduction to the Alternative Markets	12-6
12.3	Captives and Risk Retention Groups	12-9
12.4	Nontraditional and Difficult-to-Obtain Products	12-21
12.5	Tax Treatment of Captives	12-22
12.6	Fronting Insurers	12-34
12.7	Other Considerations	12-34
12.8	Services Provided by Captive Management Companies	12-35
12.9	Risk Retention Groups	12-37
12.10	Reinsurance	12-38
12.11	Solvency Issues	12-40
12.12	Lloyd's of London	12-41
12.13	Bermuda Insurance Market	12-43
12.14	Additional Offshore Captives	12-62.3
12.15	Onshore Captives, Risk Retention Groups, and Specialty Insurers	12-62.8
12.16	State and National Banking Associations	12-66.1
12.17	Chapter Summary	12-69

BANK INSURANCE AND RISK MANAGEMENT

Chapter Thirteen

Trends in Banking — New Exposures and Risks

13.1	A Blending of Markets	13-3
13.2	Identity Theft	13-11
13.3	Global Banking	13-16
13.4	Exposures and Risk Management	13-16
13.5	Combining Several Coverages Into One Policy	13-29
13.6	Cost of Risk	13-31
13.7	Chapter Summary	13-34

Chapter Fourteen

Political and Related Risks

14.1	Foreign Ventures and Special Risks	14-3
14.2	Classification of Foreign Risks	14-5
14.3	High Risk Exposures	14-7
14.4	Insurance Policies	14-8
14.5	Kidnap, Ransom, Extortion, and Detention Insurance	14-16
14.6	Special Insurance Policies for Financial Institutions	14-21
14.7	Insurable Risks and Exposures	14-23
14.8	Political Risk Underwriters	14-28
14.8A	Claims Handling	14-30.4
14.9	Terrorism Risk Insurance Act of 2002	14-31
14.10	Risk Management	14-33
14.11	Workplace Violence	14-34
14.12	Chapter Summary	14-44

Part III: Forms Appendix

Index

BANK INSURANCE AND RISK MANAGEMENT

Table of Charts & Statistics

Chapter	Chart	Title	Page
One	—	Risk Management Process Matrix.....	1-11
Five	5A	Bank Robberies	5-48
Six	6A	Debit Cards	6-24.1
	6B	Electronic Data Systems	6-37
	6C	E-Commerce Insurers — Selective Insurance Programs	6-66
	—	Glossary of E-Commerce Terms	6-70
Eight	8A	D&O Premium Distribution.....	8-16
	8B	Cases Filed with EEOC.....	8-37
	8C	Charges Filed with EEOC.....	8-37.2
	8D	Sexual Harassment Charges.....	8-37.4
	8E	ADA Cases	8-37.6
	8E.1	Employment-Related Liability Issues	8-37.12
	8E.2	Employment Practices Lawsuits	8-37.26
	8E.3	Solvency Test.....	8-39
	8F	Allocating Costs	8-50
	8G	Relative Exposure Theory	8-58.7
	8H	Broker Communications.....	8-58.14
	8I.1	Analysis of Securities Settlements	8-58.31

BANK INSURANCE AND RISK MANAGEMENT

Chapter	Chart	Title	Page
Eight	8J	Total Securities Case Settlements	8-58.33
	8K	Average Securities Case Settlement...	8-58.34
	8L	Claims Before and After PSLR Act of 1995	8-58.35
	8M	Dollar Loss Comparisons Per Filing...	8-58.36
	8N	Federal Securities Filings — Financial Services Industry	8-58.37
	8O	Sample D&O Issues, Fines, and Settlements	8-82
Nine	—	Residual Value Insurance.....	9-28.8
Eleven	—	State Guaranty Funds.....	11-36
Twelve	12A	Offshore Insurance Company Captive ..	12-27
	—	State & National Banking Associations	12-66
Thirteen	13A	Identity Theft Laws and Codes by State	13-15.21
	13B	Derivatives Sold by Commercial Banks.....	13-24
	13C	Number of FDIC-Insured Institutions.....	13-24.3
Fourteen	—	Exposures & Applicable Insurance Coverage	14-23
	—	Workplace Violence (activities list).....	14-35