

SafeAlertSM



A loss control advisory from the ABA-sponsored insurance program underwritten by Progressive

Review Depository Contracts Before Granting Internet Access

Sound banking practices dictate that only authorized signatories should be allowed to write checks or otherwise transfer funds from a depository account. **Eager to promote the use of Internet banking, however, some banks are lax in confirming authorized signatories before extending online access to commercial accounts.**

When granting Internet access, the bank must be vigilant about adhering to the terms and conditions of depository agreements, or it may fall prey to fraud-related liability.

Over the years, Progressive has seen numerous lawsuits against community banks alleging negligence for permitting funds transfers in violation of the terms and conditions of depository agreements. Most often these situations arose from bank personnel's familiarity with the customer or a presumption of authority based on the individual's stature in a company. In other instances, funds were released in reliance upon a single signature, whereas the depository agreements required two signatures.

More recently, community banks have been sued for negligently permitting unauthorized individuals to access business accounts via the Internet, resulting in the theft of funds.

Granting Internet access without reviewing depository agreements increases the risk of an unscrupulous employee or business partner embezzling funds from a customer's account, particularly if the authorized party is unaware of this access. Unless the bank is vigilant about adhering to the terms and conditions of depository agreements, it may fall prey to fraud-related liability. To protect your customers and the bank itself, ensure that front-line personnel know how important it is to review depository contracts before granting online banking privileges – even to the bank's best-known and most trusted customers.

For more information, contact Judi Kovach, Loss Control Manager at 800-274-5222.