

Additional Bond Riders

Computer & Electronic Crime Rider

The Computer & Electronic Crime Rider covers losses incurred by the bank due to the theft of electronic data and fraudulent electronic funds transfers resulting from hacking or other fraudulent, illegal, or unauthorized entry into the bank's computer systems. Coverage extends to losses resulting from the use of third-party vendors contracted by the bank, such as Internet banking service providers and data processors.

Losses resulting from the customer's negligence or failure to deploy appropriate security measures, such as failure to safeguard passwords, deploy firewalls, etc., are not covered. This Rider covers.

- ≡ **Computer Hacker Theft** for loss of property, such as stolen customer account information, resulting from persons who are not bank employees and are acting alone or in collusion with others. This is also casually referred to as "Hacker or Cracker Coverage."
- ≡ **Fraudulent Entry of the Bank's Electronic Data or Computer Programs** for loss resulting directly from the fraudulent transfer of funds initiated through the financial institution's computer system. The source of this fraud may be:
 1. direct manipulation of or access to data contained in the bank's computer system through the Internet or other remote access;
 2. an employee acting in good faith upon fraudulent transfer instructions transmitted to the bank by email, telefacsimile, voice, or over the Internet from someone purporting to be a customer, bank employee, financial institution or automated clearing house.
 3. fraudulent ACH transfers, either inter-bank or intra-agency funds transfer.

If the transfer amount is over \$25,000, the bank must have generated a reciprocal verification call for coverage to occur. Regardless of the amount of the transfer, a prior written agreement must exist between the institution and the customer authorizing the institution to initiate funds transfers by voice, email or telefacsimile.

- ≡ **Destruction of the Bank's Data or Computer Programs**, providing costs to reconstruct data or programs damaged by **virus, hacker or employee sabotage**.
- ≡ **Toll Fraud** for charges from long-distance toll phone calls incurred due to fraudulent use of an account code or system password which allows access into the insured bank's voice-prompted computer system.

Not Covered: Bank's Customer's System	Covered: The Bank's System	
Activities generated on or through the customer's system are not covered, including: <ul style="list-style-type: none"> = Hacking into customer's system = Fraudulent entry of data = Theft of confidential information = Fraudulent wire transfer requests = Damage done to customer's system The customer's system includes the customer's computers, phones, servers and ISP providers.	Fraudulent entry into and loss, damage, recovery and restoration of the:	
	Bank's owned and operated computer systems	Bank's transaction and data processing platforms
	Bank's Internet banking systems	Bank's customer information and databases
	Bank's data/intellectual property and software programs in the care of third-party vendors	
Coverage extends to hacking or fraudulent entry committed through a third-party access provider, such as the Bank's ISP or Internet banking vendor. Loss or damage sustained by third-party access providers is not covered.		

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For Example

- ≡ A computer hacker gains access to a bank's system and fraudulently initiates ACH debits to transfer funds to his personal account.
- ≡ A customer gains access to a bank's proprietary system via a modem connection and posts unauthorized credits to her account.
- ≡ An individual pretending to be a customer of a bank initiates fraudulent instructions via email and fax to transfer funds from the actual customer's account to another account.
- ≡ A computer program owned by a bank is altered by a virus that destroys electronic data in the computer system. The bank has to hire a technical specialist to restore the lost electronic data.

ATM

The Financial Institution Bond covers automated teller machines (ATMs) located on the financial institution's premises, subject to the Insuring Agreement B "On-Premises" deductible. The ATM Rider extends coverage to off-site ATMs and permits the insured to schedule a lower deductible for all ATMs, both on and off-site. The Rider covers cash losses, but does not cover damage to the machine, failure of the machine to function properly or loss due to the fraudulent use of debit, ATM or credit cards.

For Example

- ≡ A bank-owned ATM in a grocery store is burglarized. The loss includes the cash missing from the ATM.
- ≡ An ATM on the bank's premises is burglarized. The ATM Rider provides coverage for the loss at a lower deductible level than that provided by Insuring Agreement B-On Premises.

Check Kiting Fraud

The Check Kiting Fraud Rider provides protection for losses resulting from the items of deposit from a depositor's account which are not "finally paid" for any reason.

For Example

- ≡ A customer maintains a business checking account at Bank A and a personal account at Bank B. Over a period of several months, the customer frequently deposits large checks into his personal account, drawn against his business checking account. Immediately following a deposit, the customer returns to Bank A and deposits checks drawn from Bank B. These deposits are performed every two or three days. The customer then periodically withdraws cash from these overlapped accounts as the balances became large.

Extortion - Threats to Persons and Property

The Extortion Rider provides protection in the event that an extortionist threatens a financial institution's employees or property. The Rider extends coverage for the loss of property surrendered as a result of threats to cause bodily harm or hold captive one or more of the following individuals: directors, trustees, employees, or partners of the financial institution or relatives or guests of one of the foregoing. The Rider also covers property surrendered as a result of a threat to do damage to property. Coverage is provided on a worldwide basis. The person receiving the threat must make a reasonable effort to report the extortionist's demands to an associate, the FBI, and the local law enforcement authorities.

For Example

- ≡ An extortionist arrives at a bank president's home and holds the president, his family, and a visiting neighbor captive. The extortionist places a demand to the executive vice president for \$1,000,000 for the release of the captives without harm. The executive vice president notifies the chairman of the board, the FBI, and the local police department. The demand amount is covered under the Extortion Rider, up to the limit of liability.

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Foreign Check Rider

Insuring Agreement D of the Financial Institution Bond excludes losses resulting from items of deposit which are not deemed “Finally Paid.” This exclusion frequently bars coverage when domestic banks honor fraudulent checks issued by financial institutions outside of the United States. The Foreign Check Rider expands Forgery coverage under Insuring Agreement D to include forged or altered checks drawn upon Canadian financial institutions.

Domestic banks are subject to the Uniform Commercial Code (UCC’s) Midnight Deadline as well as Federal Reserve Rule CC. These statutes and rules limit the amount of time a bank has to revoke settlement. However, foreign banks, such as Canadian banks, are not subject to the UCC or the Federal Reserve Rule CC. Instead, Canadian banks’ right to revoke settlement may be as long as one year from the date that the item is discovered as fraudulent. Because Canadian banks have an indefinite amount of time to revoke settlement, an item is never finally paid like domestic items. Therefore, foreign checks are unavoidably subject to Exclusion (o) of the Financial Institution Bond. This Rider remedies this issue with the following conditions:

- ≡ The customer’s account must have been opened continuously for no less than sixty (60) days with the insured bank at the time of the fraudulent deposit.
- ≡ The Canadian banking institution on which the Foreign Check is drawn must have initially paid the item even if it is subsequently returned or payment reversed after the insured bank releases the funds.

Key Definitions

Foreign Check refers to checks or negotiable instruments drawn on Canadian banking institutions only.

Finally Paid is a “term of art” referring to an item being finally paid as defined by Section 4-215 of the UCC.

Midnight Deadline is defined in UCC Section 4-104 as “...midnight on its next banking day following the banking day on which it receives the relevant item....”

For Example

- ≡ A customer deposits a Canadian check of \$65,000 into her savings account, which she has had at her (U.S.) community bank for 6 months. After the Canadian institution pays the check and her bank receives the funds, the customer withdraws the funds out of her account. Subsequently, the Canadian institution discovers that the check is counterfeit and returns it. Because the customer does not have sufficient deposited funds to offset the amount the bank is required to return, the bank suffers the consequential financial loss.

Money Order Issuers

The Money Order Issuers Rider expands **Insuring Agreement A - Fidelity** coverage to include third-party authorized persons, partnerships, or corporations who issue Registered Checks or Personal Money Orders drawn on the financial institution, while acting on behalf of the financial institution (coverage for bank employees issuing Money Orders is already provided under Insuring Agreement A of the Bond).

For Example

- ≡ An authorized grocery store issues a bank money order, but instead of sending the collected money to the bank, keeps the money and discards the money order receipts.

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Safe Deposit Box

The Safe Deposit Box Rider is comprised of two Insuring Agreements, which may be purchased separately or jointly. **Insuring Agreement A - Liability of Depository** covers losses the financial institution becomes legally obligated to pay for loss of customer's property and includes defense costs. **Insuring Agreement B - Loss of Customers' Property** covers the loss, damage or destruction of customers' property by burglary or robbery; coverage may be purchased "with **Money**" or "without **Money**." Coverage for both agreements extends to self-storage boxes outside of a vault at a higher deductible. There is no duty to defend. Alternatively, this coverage may be purchased on a "duty to defend" basis under the Combination Safe Depository Policy.

For Example

- ≡ A bank employee allows access to a safe deposit box to an unauthorized individual, who steals the customer's property. The customer sues the bank to recover the value of the lost items. The bank's legal defense costs are covered, as well as the resulting liability to the customer, up to the limit of liability.
- ≡ A bank is burglarized over a weekend. The safe deposit boxes are drilled and all of the contents removed. Agreement B would cover the contents of the safe deposit boxes. Currency and coins would not be covered unless Agreement B was purchased "with Money."

Servicing Contractors

The Servicing Contractors Rider extends the definition of "Employee" under **Insuring Agreement A - Fidelity** to include servicing contractors. A servicing contractor is a person, partnership, or corporation (other than a financial institution employee) authorized to:

1. Collect and record real estate mortgage or home improvement loan payments;
2. Establish tax and insurance escrow accounts;
3. Manage real property owned, supervised, or controlled by the financial institution; or
4. Perform other acts related to the above activities.

Coverage is provided for losses resulting from dishonest or fraudulent acts committed with intent to cause a loss to the financial institution and to gain a financial benefit for the servicing contractor or another. Coverage includes loss due to a contractor's failure to forward funds collected on behalf of the financial institution, provided that the contractor is legally obligated to do so. This Rider does not provide coverage for losses resulting from a contractor's failing to collect funds; a contractor's insolvency or bankruptcy; or loans to servicing contractors.

For Example

- ≡ A bank hires a servicing contractor to collect and record real estate mortgage payments. The contractor collects payments for a period of time, but fails to forward the funds collected to the bank. The bank is unable to locate the contractor and sustains a loss.

Stop Payment Rider

The Stop Payment Rider provides coverage for: 1) failure to comply with a customer's request to stop payment on a check, note, or draft (excluding travelers' checks); 2) wrongfully refusing to pay a check; and 3) failure to give proper notice of dishonor.

For Example

- ≡ A bank receives a stop payment request from a customer; however, the paperwork is not properly executed by an employee and the check is wrongfully paid by the bank.

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Transit Cash Letter

Cash letters are generally covered under **Insuring Agreement C - In Transit**. The Transit Cash Letter Rider extends this coverage by eliminating the deductible, providing reimbursement for reproduction costs, and extending coverage beyond the final destination of the cash letter to the financial institution upon which an item was drawn. As a condition of coverage, the front and back of each item placed in the cash letter must be photographed.

For Example

- ≡ A bank sends a cash letter to the Federal Reserve Bank. The cash letter arrives safely but disappears, and the individual items never reach the institutions on which they were drawn. Coverage under **Insuring Agreement C - In Transit** stops once the cash letter is delivered to the Federal Reserve Bank. The Transit Cash Letter Rider extends coverage until the items contained in the cash letter are delivered to the institution upon which they are drawn. Coverage also includes reimbursement for the costs associated with reproducing the items in the cash letter, at no deductible.

Unauthorized Signature

The Unauthorized Signature Rider covers losses resulting directly from the financial institution honoring negotiable instruments or withdrawal orders that bear unauthorized signatures or endorsements. An unauthorized signature or endorsement must be made by a person whose name is not reflected on the appropriate signature card for the account in question. To recover losses under this Rider, the financial institution must have the signatures of all persons authorized to sign on the account on file.

For Example

- ≡ A bookkeeper of a corporate customer signs her name as maker on a company check and deposits the funds into her personal account. When the bookkeeper disappears with the funds, the bank is held liable for the funds, as the bookkeeper is not an authorized signatory on the account. (Note that the loss would not be covered under Insuring Agreement D's forgery coverage as no forgery was committed.)