Bond D & O / Commercial Package

<u>What is a Financial Institution Bond</u>

The Financial Institution Bond Policy is used to insure banks and other financial institutions against employee dishonesty, burglary, robbery, forgery and similar crime exposures. Previously called a “bankers blanket bond”. Coverage may be provided on the standard forms promulgated by the Surety Association of America (SAA) or on a special form drafted by the insurer.

Banks and financial institution are especially susceptible to such criminal activities and their effects can be devastating. Financial Institutions Bond Insurance (FI) protects financial institutions against crime-related losses resulting from: Employee infidelity, premises risk (loss or damage to property resulting from theft), cash in transit (loss of money on site or in transit), forgery or alteration of checks and securities, counterfeit currency, and damage to offices and content to name a few.

<u>What is D & O Insurance</u>

Directors and Officers Liability Insurance provides financial protection for the directors and officers of your company in the event they are sued in conjunction with the performance of their duties as they relate to the company. Think of Directors and Officers Insurance as a management Errors and Omissions policy.

Directors and Officers Liability Insurance can usually include **<u>Employment Practices Liability</u>** And sometimes Fiduciary Liability. The former involves harassment and discrimination suits, and is where the majority of your exposure will be.

Directors and Officers Insurance is often confused with **<u>Errors & Omissions Liability.</u>** The two are not synonymous; Errors & Omission is concerned with performance failures and negligence with respect to your products and services, not the performance and duties of management. Generally it is a good idea to carry both Directors and Officers Liability Insurance and Errors and Omissions Liability Insurance.

You need Directors and Officers Liability Insurance when you assemble a board of directors. They will frequently make the requirement.

Investors, especially Venture Capitalists, will also usually require that you show evidence of Directors and Officers Liability Insurance as part of the conditions of funding your company.

Also having employees opens management up to employment practices lawsuits – which usually can be covered under D & O Insurance.

Like D&O Coverage, not all community banks are created equal. Recognizing this fact, financial institutions should seek D&O Coverage that provides maximum flexibility so that coverage can be tailored suit the needs of the company and its board of directors.

The following policy benefits should be sought when negotiating D&O Coverage:

Preservation » Preserving personal liability when the corporation cannot provide indemnification.
In the event indemnification is unavailable. Financial institutions should consider D&O Coverage that includes a separate and non-rescindable limit of liability to protect the personal liability of directors and officers. Additional Side-A coverage is available in various forms depending on the Insurer and is an important way to maximize protection for
your directors and officers.

Preserving personal liability coverage when the entity is implicated.
Recent corporate litigation has raised questions as to how to best protect the personal liability of directors and officers in situations where the D&O Policy has been expanded to cover the corporate entity. When shopping for D&O Coverage, be sure to maximize your personal liability protection given this scenario. Choose from:

Separate Limits of Liability - Purchase a separate limit of liability to cover the corporation for securities liability,
scheduled professional services, or all professional services. This option equates to purchasing a separate entity (Company Liability) policy.

Shared Limits of Liability - Entity coverage can also be purchased as a shared limit with the D&O Policy. Even in
this event, many Insurers build these features in to provide maximum protection to the directors and officers. If entity coverage is purchased as a shared limit:

A non-erosion feature stating that if a claim is paid on behalf of the entity, it will not erode the limit of liability available for the directors' and officers' personal liability.

An order of payments feature stating that the Insurer will first pay for loss incurred under Insuring Agreement A (personal liability) and remaining policy limits are then applied to indemnifiable claims (Insuring Agreement B) and finally
to those made against the Company.

<u>What is Commercial Package</u>

Property and Casualty Insurance protects a property owner from losses incurred as a result of things like fire, water damage, theft, etc., for the physical property and against liability exposure to the owner as a result of injury to a visitor on the property. P & C Insurance is one of the line items on any business' annual budget, and in addition to the basic coverages, should also include any specialty coverages.