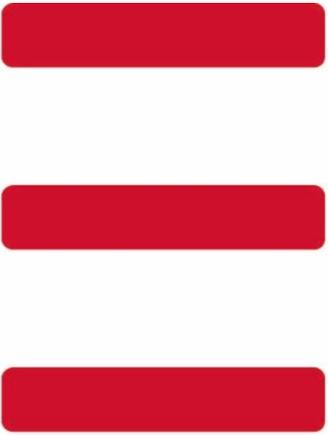


AP  **X**
Partner of Choice

AP  **X**
Partner of Choice



Bankers Blanket Bond

A closer thorough look.



Comprehensive Crime Insurance

Section A: BBB

Section B: Computer Crime

Section C: Professional Indemnity

(Section D: Directors and Officers)



Purpose:

- Discuss the main BBB Insuring Clauses
and,
- Compare them in KFA '81 and NMA 2626 wordings.



General Notes



- Interpretation of the Policy
- Discovery / Notification
- Single Loss?



Interpretation of the policy

- The wording is intended for **Worldwide use**
- **Jordanian (local) law**, applied to the English text.
- Generally, terms used will have dictionary meaning or any specially defined meaning given within the policy (e.g Property)
- **all as then applied in accordance with Jordanian (local) Law**



Discovery.

- The policy applies to **loss discovered** by the assured **during the policy period.**
- Discovery occurs **when the assured become aware of facts** which would cause a reasonable person to assume that a loss covered by the policy has been or will be incurred,
- even though the exact amount or details of loss may not then be known".



Notification of Loss; Proof of Loss



- As a condition precedent
- **Notification:** the assured shall, as soon as possible and in any event within 30 days after discovery.
- **Proof of Loss:** within 6 months after such discovery, furnish to the underwriters affirmative proof of loss in writing together with full particulars”.



Single Loss in Sections A and B



- All losses attributable to acts or omissions of **one person**, or in which one person is concerned or implicated, are ... one loss."
- Fewer deductibles apply as a result.
- Discovery of **all** parts of one such loss will by implication be allocated to the (earliest) policy period in which **any part** of it is 'discovered'



THE BLANKET BOND

it is not new!



- The Blanket Bond has been in a form recognisable since 1900 bringing together **infidelity, theft** and **forgery** insurances.
- The modern forms have progressed over the years and offer a great deal of variety in manuscript form whilst maintaining the same basic concept.



General

- The Blanket Bond affords cover to Financial Institutions against crime-related losses which are all too common in this present day world.
- The Bond has significant benefits as it can provide uniform cover with one insurer and eliminates the danger of gaps occurring between individual policies.
- Also, there are certain types of losses, such as forgery, which are included in the Bond coverage and for which it is almost impossible to obtain cover elsewhere.



BBB Wordings



DHP 75

LPO 218 ('77)

KFA 81

DHP 84

NMA 2626 ('94)

Standard Form # 24 (used in USA)



BBB

APEX
Partner of Choice

In Jordan, the KFA '81 is the most common wording, then the NMA 2626.



The Preamble

The proposal form

- The written proposal form is the basis of insurance contract.
- The proposal form being incorporated in and forming part of the policy.
- This has implications in English law, that the statements in the Proposal might be considered to be warranties.

Both the KFA and NMA are equivalent in effect, though using different language.



The Preamble



Underwriters agree to make good to the assured:

- Direct Financial Loss
(consequential loss, such as
Interest, not covered)
- Subsequent to Retroactive Date.
- Discovered within Policy period.
- (A notable advantage of the Blanket Bond is that cover is on a "losses discovered" basis instead of a "losses sustained" basis.)



BBB- Insuring Clauses



1. Fidelity.
2. On Premises.
3. In Transit.
4. Forgery and Alteration.
5. Securities.
6. Counterfeited Currency.
7. Offices and Contents.
8. Legal fees.



General



The majority of claims paid by underwriters fall into the category of Fidelity (Employee Dishonesty). An approximate split of claims paid would be:

- Fidelity : 65%-75%
- Forgery : 10%-20%
- Premises : 7.5%
- Transit : 5%
- Computer Theft : 2.5%



Insuring Clause 1: Fidelity



- Loss resulting solely and directly from dishonest or fraudulent acts by employees of the assured,
- committed with the manifest intent to cause the assured to sustain such loss or to obtain a financial gain for themselves,
- wherever committed and whether committed alone or in collusion with others,etc

KFA '81



SECTION A

Insuring Clause 1 – Fidelity - *What is covered*



- dishonest or fraudulent acts of any Employee ..
alone or in collusion
- *with manifest intent* to cause the Bank loss or
for improper ...financial gain for the Employee..



Insuring Clause 1 – Fidelity

However;

...Trading, loans, credit etc... committed with the
manifest intent to make and which results in
Improper personal financial gain.



KFA 81 vs NMA 2626

“Manifest Intent”



- There might be a great difficulty in providing proof of loss in the words “*manifest intent*” (in KFA ‘81), (meaning that the intent must be patent and obvious).
- In NMA 2626, **only “improper financial gain”** in Trading and Loans wording is used. So that “intent” in NMA2626 would be preferable.



SECTION A

Ins Clause 1 – Fidelity related to other coverage



- Outside of the 'intent' limitations, cover is virtually 'all risk' as to dishonest/fraudulent Employee acts.
- Fidelity includes computer crime by Employees (all other Insuring Clauses of Sections A (BBB) and B (Computer Crime) exclude computer crime and acts of Employees).
- Liability for Dishonest or Fraudulent acts of Employees is covered in Section C (Professional Indemnity).



Insuring Clause 2 – On Premises

Loss of Property resulting directly from:

- Theft, larceny (burglary & robbery), false pretense, hold up...
- Mysterious unexplainable disappearance
- Being damaged, destroyed or misplaced howsoever or by whomsoever caused.



On Premises



- While such Property is within the assured premises,
- and /or while in the possession of any customer of the assured, within the premises of the assured.. Excluding loss caused by such customer. (KFA '81).
- KFA appears to be wider in the cover than the NMA 2626 for customers' Property while the customers are on premises including mysterious disappearance and damage, destruction or misplacement (NMA2626 covers only 'theft' at this point).



Premises

KFA vs NMA

- Also, when compared to the definition of 'Premises' in NMA2626, KFA81 seems slightly wider in its reference to "any recognised place of safe deposit" (*though this is then limited to UK institutions*).
- On the other hand, KFA limits cover for Property on other banking premises to "the Assured's correspondent banks" while NMA2626 is wider by including "the office of another Banking Institution"

Both forms would be benefited by widening cover to include any premises



Insuring Clause 3 – Transit

Loss of Property:

- From any cause, while in transit anywhere (beware of the territorial limits).
- In custody of employee or designated messenger or
- In custody of an armored vehicle company
- Cover being upon receipt of Property and ends upon delivery to designated recipient.

KFA '81



Insuring Clause 3 – Transit

- KFA '81 – Any employee **OR** designated messenger **OR** security company **OR** armoured motor vehicle company.
- NMA 2626 – Any employee **BUT only** security company ..



In Transit



The KFA & NMA forms seem equivalent in this Clause.

While NMA2626 does not include, "Armoured Motor Vehicle Company" it does define "Security Company" as, "a company licensed by a governmental authority to transport valuable goods as a security company" (which would probably be inclusive of Armoured Motor Vehicle Company).

To remove doubt, it might be advisable to seek to add "Armoured Motor Vehicle Company" to NMA2626 at this point



Insuring Clause 4 – Forgery / Fraudulent Alteration



Coverage for specific document types only:

- a) Of cheques, bills of exchange, LC's, money orders etc..
- b) Transfer of funds by forged signature
- c) Forged altered Promissory Notes



Forgery / Fraudulent Alteration



- KFA: Reliance and proximate cause.
- NMA 2626: actually specific (Forged Signature or the Fraudulent Alteration either of which shall have been material and shall have caused the loss).
- NMA's use of this provision could prove an obstacle to proof of loss or even to coverage



**Insuring Clause 4 – Forgery /
Fraudulent Alteration
KFA vs NMA**



- The **KFA81** includes “telegraphic, cable/ teletype (transfer) instructions and treats mechanically reproduced facsimile signatures” the same as handwritten ones, while **NMA2626** in its base version, does not.
- **NMA** includes Bankers Drafts and Acceptances while **KFA** does not specifically mention these.
- **KFA** includes Letters of Credit, **NMA** does not.
- **KFA** mentions money orders and orders on public treasuries which are not referred to in **NMA**.
- **NMA** limits COD’s to those issued by the Assured.
- **NMA** limits cover for withdrawal receipts to those payable at and paid by the Assured.



Insuring Clause 5 (Securities)



Loss resulting directly from the Assured having, in good faith and in the ordinary course of business, acted upon

(e.g Share Certificates, Bonds, Promissory Notes, Mortgages on Real Property, Bills of Lading..)

Which have been:

- i- Forged to the signature, or
- ii- Fraudulently Altered, or
- iii- Counterfeited
- iv- Lost or Stolen



Securities

KFA vs NMA



- NMA2626 does not limit the identity of those whose signature is forged (KFA specifies maker, drawer, issuer, endorser, assignor, lessee, transfer agent or registrar, acceptor, surety or guarantor)
- KFA does not specify that the Assured must have relied on the “Forged Signature or the Fraudulent Alteration either of which shall have been material and shall have caused the loss”. NMA’s use of this provision could prove an obstacle to proof of loss or even to coverage



Insuring Clause 6

Counterfeit Currency



- Loss by reason of the receipt by the assured in good faith of any counterfeited or altered paper currency or coin issued or purporting to have been issued :
 - (a) By the bank of England , the dominion of Canada , the United States of America and any Western European country ; or
 - (b) By any country in which the assured's office sustaining the loss located.
- NMA does not limit the countries whose currency is counterfeited



Insuring Clause 7 Offices & Contents



Loss of or damage to

Furnishings, fixtures, equipment (except computers , computer systems, computer networks and peripheral equipment, computer programs and other computer related equipment) , stationery , supplies or safes and vaults within any office of the assured, **caused by burglary, robbery, hold-up, theft or larceny, or any attempt threat, or by vandalism or malicious mischief,**

➤ Fire is excluded (Property Policy should cover this risk) 

Insuring Clause 8 KFA '81 (General Condition 1 NMA 2626) – Legal Fees

- Reasonable legal fees, costs and expenses
- Incurred and paid by the Bank in the defense of any claim etc.
- Only covered if proceedings involve acts which would be covered under Insuring Clause 1-7
- Paid in addition to the limits specified in the policy (unless stated otherwise).



Insuring Clause 8 & (General Condition 1)

– Legal Fees cont/d

- Does not cover costs in establishing a claim under Policy
- Underwriters can take over defense at any time



Legal fees

- NMA2626 stipulates prior consent of Underwriters to the fees and expenses. KFA does not but in practice it is likely that Underwriters would expect to be consulted when the potential loss was advised.
- KFA provides the cover in addition to the aggregate limits but this is always amended to a 'costs inclusive to limits' basis.



Final Note



Financial Institutions differ widely in the nature of their operations, also conditions vary from one country to another.

It is, therefore, possible to add, delete or suitably tailor the policy to meet individual requirements.





Thank you for listening

