

Managing Risk in a New Technology Environment

By Gary Erickson

Financial institutions are faced with a growing number of e-commerce exposures. As banks move from merely having access to the World Wide Web, to establishing a presence with “brochure-ware,” on to transactional capability for their customers, many institutions discover that they have opened themselves to a new level of risk.

The St. Paul company recently surveyed over 1,500 executives in corporations throughout the United States and Europe about the new challenges facing corporate risk managers in the e-frontier.

Overall, the survey found that companies are overconfident and under-prepared for technology risks. However, financial service companies were identified as being ahead of the pack when it comes to awareness, identification and management of technology risks. They are more likely to proactively monitor and manage technology risks and report fewer losses than financial institutions.

Financial Services Companies Are Well Prepared

The St. Paul’s study found that:

- Financial services insurance managers say that technology risks are the most important risks facing their companies today.
- Most financial services firms say they are more likely to identify and manage technology risks today, because of their experience with Y2K.
- Financial services risk managers describe their current property liability insurance as being very or somewhat adequate.
- Financial services companies are less likely than all other companies to have experienced technology losses.

Banks Are Not Prepared for Risk

While financial services firms lead the pack in their overall preparations, most financial institutions lagged behind.

- Financial institutions are overconfident and under-prepared for technology risks. A significant percentage of companies have not analyzed technology exposures at all

and are not as prepared as for traditional property and casualty risks.

- In terms of technology risks, companies and their managers have entered uncharted waters. The global nature of e-commerce, the varying legal systems involved, and the speed at which innovations and technology are brought to market, complicate the challenges facing organizations. Customers have increased access to company data and information in an environment with untested legal liabilities.
 - What lies beneath the surface poses the biggest and least understood risk. The survey found that while computer security gets all the headlines, liability exposures may pose the biggest threat. Companies have focused on increased system security and reliability through preventive measures such as anti-virus software or firewalls, yet have not identified exposures such as intellectual property, advertising or other exposures that arise from doing business on the Internet.
- A complete copy of the e-frontier survey



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report has been placed on the ACB Web site at www.AmericasCommunityBankers.com. Just click on the ACB Partners icon, and look for the survey under "What's New."

To help financial institutions proactively manage their e-commerce exposures, The St. Paul has developed two new products that address certain e-commerce risks and exposures. Our Internet Liability form covers loss caused by certain defined wrongful

viruses or hacking events; computer-system and fund-transfer fraud; and telecommunication theft. Other benefits include loss from a dependent business, post loss security services such as costs to mitigate, prevent or decrease loss, public relations crisis management expenses, and rewards for information leading to arrest and conviction for computer or telecommunications fraud or denial of service attacks.

including the e-commerce and technology risks that may impact an ACB member's operations. (Descriptions of products are abbreviated and are not meant to amend or affect the terms of the policy or represent coverage that would exist for a particular claim.)

The St. Paul has been ACB's sponsored provider of business insurance to members since 1993. More than one third of ACB

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acts including infringement of certain intellectual property rights on the Internet, unauthorized use of advertising in both print and on the Internet, as well as coverage for libel, slander, and disparagement. Financial institutions that have established a presence on the Internet should consider this coverage.

The policy also provides a defense for suits seeking injunctive relief for covered loss that is caused by a wrongful act. Optional coverage may be purchased for liability for failing to protect private or confidential information of authorized users of your website or any of your private communications networks.

The second product, the NetworkerSM, is a property form developed to address certain e-commerce exposures for your property. This form covers business interruption and extra expense from denial of service computer viruses or hacking events; damage to computer hardware and software from computer

Internet Liability and NetworkerSM are intended for use with The St. Paul's general liability and property coverage forms to round out business liability coverage

members currently participate in the ACB/St. Paul Insurance Program. The program includes an exceptional array of insurance products to cover a wide range of community banking risks. The coverages include directors and officers liability, employment practices liability, bankers professional liability, financial institution bond, computer theft, kidnap and ransom insurance, property, general liability, internet liability, workers' compensation and automobile.

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A cornerstone of the ACB/St. Paul Insurance Program is the belief that the best risk protection program comes from an effective collaboration between the ACB member, the member's independent agent and The St. Paul. Working together, this team can develop insurance solutions tailored to your bank's needs. **15**

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Most Important Risks Companies Will Face in the Next Few Years

A Survey by the St. Paul Companies asked: Thinking ahead over the next few years, what would you say are the three or four most important areas of risk that you company will be facing?

Note: Only the most frequent responses are shown.

	Response by:	
	US Financial Services Risk Managers	Total US Risk Managers
Computer/Internet (e-commerce, e-mail, etc.)	50%	30%
Employment (employee liability, worker's comp. and 401(k) administration issues)	26	39
Business operations	22	20
Product liability	12	19
Data security	9	6
Interest Rates	5	-
Weather	4	8
Hardening/Shrinking of Insurance Market	4	-

Base: U.S. financial services industry risk managers (202) and total U.S. risk managers (502).