

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

INFORMATIONAL MEMORANDUM



December 20, 2001

To: The Chief Executive Officer
All Farm Credit System Institutions

From: Roland E. Smith, Director
Office of Examination

Subject: Insurance Considerations for E-Commerce Activities

Many Farm Credit System (FCS) institutions have introduced E-Commerce products and services to meet the needs of their customers. But, E-Commerce may result in additional risk for FCS institutions to manage. Because insurance can be a key component of a risk management strategy, FCS institutions should evaluate the level of their current insurance to ensure adequate coverage for the risk of E-Commerce activities. Your evaluation should consider the following:

- Traditional fidelity bond coverage may not cover losses related to E-Commerce.
- Availability, cost, and covered risks of E-Commerce-specific policies vary by insurance carrier.
- Losses exceeding the insured limit of present insurance could materially impact your institution's capital position.
- Insurance supplements, but does not replace sound internal controls.
- Damage to your institution's reputation cannot be controlled by insurance coverage.

The National Credit Union Administration recently issued a letter addressing common questions on E-Commerce and insurance coverage. Many of the issues highlighted in the letter apply to FCS institutions. You can obtain a copy of that letter at the following link:

<http://www.ncua.gov/ref/letters/01-CU-12.pdf>

If you have any questions about this memorandum, please call Tom Glenn, Special Examination and Supervision Division, Office of Examination, at (703) 883-4412, or correspond with him on his e-mail address GlennT@fca.gov.