

Flood Causes \$315,000 Safe Deposit Loss

A collector of antique musical instruments found out, too late, that he should not have put his instruments into his safe deposit box where water could reach them. Unfortunately for him, the water destroyed his musical instruments – and unfortunately for an unsuspecting bank, a jury offered him ample compensation.

This safe deposit box renter won a significant lawsuit against his bank for the loss of a rare violin and mandolin. Both instruments were seriously damaged when the Mississippi River's floodwaters swamped the bank's safe deposit vault.

1,200 Wet Boxes

During the flood, over four feet of water poured through electrical conduits into the bank's safe deposit vault. These conduits penetrated the vault wall and acted like mini-faucets. Within hours they filled the vault like a swimming pool. This terrible disaster caused damage to box contents belonging to over 1,200 of the 4,000 safe deposit box renters by filling their boxes up with water.

The unhappy renter mentioned above owned a custom musical instrument shop and had stored a violin and a mandolin in a large safe deposit box for safekeeping.

After they were damaged in the flood, he sued the bank and stated in his claim that, "...the bank did not exercise ordinary care and diligence to protect their renter's property left in their safe deposit vault."

Took every precaution possible...

At the trial, bank officials argued that they took every precaution possible to protect valuables stored in their vault. They testified that the vault door and walls were sandbagged, water was continuously pumped from the building, and the vault door edges were sealed with paraffin wax. These precautions continued through the night until authorities ordered bank employees to evacuate the building because of floating propane tanks nearby.

To the bank's surprise and dismay, after a three-day trial, the jury agreed with the renter and awarded him \$315,000 in damages.

Appeal Pending

Immediately after the jury verdict, an appeal was filed and granted to the bank attorneys. Because of this appeal, neither side is willing to disclose specific details about this case.

However, it is rumored that one of the primary reasons for the jury's decision came from the renter's accusations that bank employees made verbal statements which led him to believe their safe deposit vault was guaranteed to be waterproof.

Employees Questioned

It is speculated that during the trial, bank employees were put on the witness stand and asked specific questions about statements they might have made to their box renters. If their response under oath was, "Yes, we could have told renters that our vault was waterproof," this could have convinced the jury that the bank was negligent, and therefore guilty.

Because of this significant loss, financial organizations should caution all of their consumer-contact employees about the liability created by answering safe deposit questions incorrectly. These employees would include your tellers, new accounts, customer service, switchboard operator, and any other employee or officer who has contact with the general public. Any incorrect answer provided by your staff could confuse, mislead or totally misinform a consumer and could also create unlimited liability.

Frequently asked questions

Box renters ask question like:

- Do you or FDIC carry insurance on my safe deposit box contents?
- Are my contents located in a fireproof or waterproof vault?
- Can a Power of Attorney be used to enter my box?
- Is it legal to keep money or guns in my box?
- What happens to my box contents if I die?
- Can the IRS get into my safe deposit box?
- What should I store in my box?

You need correct answers!

Make sure all “need-to-know” employees know the answers to these questions, and other questions that your box renters may ask. Your renters will be much better informed, and you’ll have less chance of increased liability and lawsuits.

If the violin collector who rented the box to store his violin and mandolin had been advised when he signed the contract of the bank’s liability limitations, there would have been no possibility of winning a lawsuit against the bank. Well trained employees servicing the safe deposit area are the best insurance your bank can have against lawsuits. If you can’t answer all the questions above correctly, better review your internal safe deposit procedures!

About the Author: David P. McGuinn, President of Safe Deposit Specialists, is a former banker and is often referred to nationwide as the safe deposit GURU. In all 50 states he has trained over 200,000 safe deposit personnel since 1969 and has served as President of the American Institute of Banking and the American, Texas and Houston Safe Deposit Associations. He has created numerous safe deposit manuals, training videos, products, compliance forms and other products. During the past 35 years, McGuinn’s safe deposit manuals, videos, products and forms have been recognized as the national standard for the financial industry.