

SIMMONDS

ON BANK INSURANCE

Edition 5-3

Consulting On, But Never Selling, Insurance

June 2011

The Biggest Secret In Bank Insurance

Here it is: the biggest secret in the bank insurance world is that everything in your bank's insurance program is negotiable. Everything. Terms, exclusions, definitions... all of it, negotiable.

That is, until a claim occurs.

■ **NEGOTIATION IS THE ESSENCE OF WHAT I DO FOR MY BANK CLIENTS.** I find an exclusion I don't like, and I try to get it changed. I find a definition that hurts the protection my client gets, and I work to get the underwriter to amend it.

Sometimes I play one insurer off another: "Zurich will do this. Why won't you?" It's all a part of getting the best insurance program for my clients.

■ **YOU CAN NEGOTIATE YOUR INSURANCE, TOO.** There was a time when few insurers were willing to provide broad coverage to banks. In the past few years, though, several new insurers have come on the scene. They are offering broad, innovative coverages, with premiums below the levels of five years ago. Competition brings out value.

There are ten insurers offering community bank directors' and officers', financial institution bonds, and e-banking insurance around the country. That's just the specialty insurance programs. If your bank is healthy and has had few claims, at least five of the ten (depending on what state you are in) will be itching to compete for your bank insurance policy renewals.

Competition means that everyone is working hard to keep or win your business – and that means innovative, broad coverage, liberal policy terms, and aggressive premiums.

Then there are the standard lines of insurance – property, auto, liability, umbrella liability, etc. Banks are a preferred class of business for most standard insurers. There are probably ten insurers who are aggressive in your area for these types of policies. From the big boys like Zurich and Travelers, to the regional insurers like Cincinnati, Hanover, and even State Farm.

It is a buyers' insurance market right now. Even troubled banks will have insurers competing for their business. If you are a bank that struggles with claims and/or regulatory issues, you really need several insurers trying to win your business. It's competition that gets banks the best coverage at the best price, and with the best service.

Strong, claim-free banks have an advantage in the coverage and policy terms that insurers will offer. However, you are not competing with the bank down the street for your insurance. The insurers are competing for *you*. I have worked with several banks that have been in trouble. Insurers have that restricted



coverage and increased premiums. Having two insurers working on proposals increases your odds of getting what you need and want.

■ **THE OTHER PART OF INSURANCE NEGOTIATIONS: IF YOU DON'T ASK, THE ANSWER IS ALWAYS NO.** You don't have to wait for your insurance to expire to negotiate policy terms, either. Sit down with your insurance agent. Have her review your coverage with you. When you learn that something isn't covered, ask why. Push. Ask for optional quotes on important coverage extensions like e-banking, privacy remediation, and debit card coverage. See that your general liability insurance offers coverage for mental anguish claims. Make sure your property insurance has high limits of coverage for extra expense insurance and valuable papers coverage.

Some bankers tell me they don't know what questions to ask. That's why I wrote the white paper, *The Questions Bankers Should Ask Their Insurance Agents*. It's ten pages of questions and guidance to help you get the answers you need about your insurance coverage. Email me at Scott@ScottSimmonds.com for a free copy.



Bank Insurance Teleseminar – D&O for Dummies

Join me for a fast-paced, information-packed 45 minutes of unbiased insight into bank insurance coverage issues. My teleseminars provide information on the bank insurance market, as well as tactics you can benefit from to immediately improve the insurance your bank buys. Practical, easily implemented ideas every bank can use.

You will not get a sales pitch here. You will get valuable information that is implementable now. Learn some of the common coverage holes.

When: June 22, 2011 - 1:00 pm Eastern
Where: Call in and listen from any phone

Bankers, register for free by emailing Scott@ScottSimmonds.com. Just ask to be added to the attendee list. No obligation, of course. Seats are limited. Register now.

DID YOU MISS OUR OTHER BANK INSURANCE TELESEMINARS? In February we had a session on an introduction to bank insurance – *Bank Insurance 101*. The April teleseminar covered *Banker's Bond Bugaboos*.

Get access to the recordings for free by emailing Scott@ScottSimmonds.com.

Questions to Ask Your Insurance Agent

Some banks prefer the “Do It Yourself Approach” to bank insurance. Get my free white paper that outlines some of the questions you need answers to. It contains over 60 questions for your insurance agent that will help you get the best insurance coverage. This is the best way to start a discussion that can lead to a better insurance program for your bank.

For your free copy just email Scott@ScottSimmonds.com.

Diary of a Typical Bank Insurance Review

Well over 75% of the calls I get are from bankers who want a review of their bank's insurance coverage. The process is straightforward. Send me your policies and other information. I'll review it, ask some questions, and report the issues I find. Once I get the info I need, I can finish a review and have your bank moving towards improved insurance coverage within 15 days.

Here is the timeline from one of my recent projects:

■ **DAY 1** CFO of ABC Bank emails me. He is interested in a review of his bank's insurance. We discuss his bank's situation, current insurance, and his objectives. The call takes less than twenty minutes. Later that night I email a proposal that outlines the project's objectives, accountabilities, and fee.

■ **DAY 5** The CFO gets back to me, asking to move forward. He signs the proposal and cuts me a check for my fee. I email him a letter to send to his agent requesting information for the project — summary of insurance, loss runs, and the like.

■ **DAY 8** I receive a box of the bank's insurance policies, sent by the CFO. I start my review of coverage. (Note: more and more banks are scanning their policies and emailing them. This speeds up the review process.)

■ **DAY 10** I receive information from the bank's current insurance agent. Since I have the info I need, I call the CFO and we set a date for the review conference call.

■ **DAY 15** I email the CFO a copy of my findings to be used in our phone call later in the day. At the appointed time we review the issues and I provide my recommendations. The CEO, CFO, and SVP of the bank are on the call. We set action plans and accountabilities for each issue. We set a date for the next conference call to review progress.

A Complete Insurance Review in 15 Days

To start the process just send me an email at Scott@ScottSimmonds.com or call me at 207-284-0085. After a short conversation, I will send you a proposal, bank references, and everything you need to make the decision to go forward.

Once I complete a review of your bank's insurance, you will have a better understanding of your insurance. You'll know the coverage you have, and the coverage you don't have. You'll have specific recommendations on how to improve your coverage, and tactics to broaden your insurance protection.

It all starts with a phone call or an email.

Problems In Bank Insurance



HELLO AND GET US OUR POLICIES

This newsletter has been coming out in various forms for five years now. I'm almost embarrassed by what the first edition looked like. The publication has grown now to a bi-monthly newsletter with ideas, hints, advice, and comments on bank insurance issues. Each issue is mailed to over 3,000 community bankers around the US. I get calls and emails from bankers. Insurance people call me too, asking questions and seeking advice.

So it dawned on me that this might be a good place for me to try and get some stuff changed in the bank insurance world. Right now, things are pretty good. There are lots of insurers chasing banks. Competition is hot, and it's a buyers market. Things are not perfect though. I want to see if we can't move things towards perfect.

LET'S START WITH SOMETHING SIMPLE. Insurance companies, stop making bankers wait for their insurance renewals and endorsements. Some of my clients wait three months for a new policy to be issued after a renewal. It's only a few hundred pieces of paper! Quote the policy a few months before it expires. When we tell you to go ahead, push a button and get us the policies! A few days should be more than enough time. I'd even accept a week. Three months? Come on! It's 2011, for goodness sakes. Maybe you could save a few steps (and a few trees) and just email us our policies. Computers, you know, seem to be able to do all kinds of stuff these days.

Scott Simmonds, CPCU, ARM, CMC

Real Questions | Q&A | Real Answers

We just learned that our insurance program does not cover us for pollution. Is this standard, or did our agent miss something?

Most bank insurance programs exclude pollution coverage. That means that if your land is polluted, there is no coverage to clean it up. If a heating oil tank at one of your branches leaks and pollutes the next door neighbor's property, there is no coverage. If you foreclose on a property that turns out to have hazardous waste, your insurance will not respond.

There is usually no coverage on your general liability or in your directors' and officers' insurance. Your bank's auto insurance will include coverage if a bank-owned vehicle is involved in an accident and the fuel tank leaks. However, if your courier is delivering cleaning supplies and an accident causes the supplies to leak into a stream, you will probably have no coverage.

Your insurance coverage probably does have a limited amount of coverage when there is damage to your building and pollution leaks onto your land. An example would be a fire at



a bank branch that causes a ruptured fuel oil tank. Usually banks have \$25,000 of coverage for this type of event.

Your biggest exposure is foreclosed properties. Make sure you know what you are taking over before you foreclose. More than

one bank has found themselves to be the not-so-proud owner of a mini-hazardous waste dump when they take over a remote piece of land or building.

There is insurance available for pollution liability and cleanup. It is sold by specialty insurers, and the premiums are at least \$7,500. Your insurance agent should be able to help you find coverage. Or call me.

Do you have any advice on bank-owned life insurance?

I just do not have the expertise to review life insurance. I do think a due-diligence review of life insurance policies (including those managed by a bank's trust department) is a part of sound risk-management practices. I have made a connection with actuary and fee-only life insurance consultant Scott J. Witt, of Witt Actuarial Services (www.wittactuarialservices.com). Scott does not sell insurance. Like me, he only works on a fee basis. Tell him you read about him here.

Note: Your questions for this section are welcome. Email Scott@ScottSimmonds.com.

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Multiple copies? Let us know.

Contact Scott
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207-284-0085

HOW MUCH COVERAGE IS THE RIGHT AMOUNT OF COVERAGE?

WHILE NO CHART CAN TELL YOU HOW MUCH INSURANCE IS ENOUGH, I CAN TELL YOU WHEN YOU *DON'T* HAVE ENOUGH. From a wide range of sources and experience I have put together a matrix of minimum insurance coverage for a wide range of bank asset classes. I call it Recommended Coverage Minimums. Should you have \$1,000,000 in fidelity coverage or \$3,000,000? Is \$3,000,000 of directors' and officers' insurance enough? *How much umbrella liability insurance should you have?*

For your free copy or my recommended minimums just email me at Scott@ScottSimmonds.com.

Professional Gratitude

"Scott's approach to our insurance review was very professional and timely. We discovered several areas in our policies that had significant gaps in coverage or no coverage at all. Scott's knowledge of financial institution insurance coverage needs is the best I have ever encountered. His opinions and thoughts are unbiased, because he is not representing an insurance company or receiving any commissions. I believe his fee was more than recovered by our premium savings, though our goal was not the cost of our policies but the coverage within the policies. It was all about peace of mind."

— *Wade Gort, President
Premier Bank Rock Valley, IA*

Some of Our Clients

- Fairfield National Bank, Fairfield, IL
- Bank of Putnam County, Crossville, TN
- Premier Bank, Rock Valley, IA
- Clear Mountain Bank,
Bruceton Mills, WV
- Mechanics Savings Bank, Auburn, ME
- Premier Bank of the South, Cullman, AL
- Tidelands Bank, Mt. Pleasant, SC
- Greenfield Savings Bank, Greenfield, MA
- Sanford Institution For Savings,
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- First Trust Company, New Orleans, LA
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