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Renewal Ruminations - Your Bank's Insurance Program

Hopefully, you only have to think about your bank's insurance once a year: when your insurance is due to renew.

Let me make that annual affliction a bit easier for you by giving you some insight into the current insurance marketplace.

I divide bank insurance into two parts.

First, there is the specialty insurance purchased by banks. The bond provides coverage for fraud against the bank. Directors' and officers' insurance protects the management of the bank from lawsuit. Ebanking insurance provides liability protection for alleged negligence in the control of information and on-line banking.

The second part is the property, general liability, workers' comp, auto, and other coverages common to all business enterprises.

Banks with solid financials are seeing aggressive competition for the renewal of their bond, ebanking, and directors'/officers' insurance. There are at least four insurers actively looking for new Maine bank clients. A new insurer has entered our market with a gusto - aggressive pricing and exceptional coverage. Insurers are actively competing for business.

Contrary to what some agents and insurers are saying, three-year bond, d&o, and ebanking policies are being offered to banks who intelligently use competition to leverage the current market.

Coverage improvements are being offered in the areas of data-breach notification expense, employee dishonesty coverage, wage/hour defense costs, and e-banking liability coverage.

Troubled banks have options, too. Several insurers have built special expertise in putting together necessary protection. Coverage will not be as broad as in past years. However, there seems to be an insurer for every bank.

Here are some overall thoughts on bank specialty coverage renewals:

- A bid cycle of 3 years seems to work well. If your insurer will lock rates into a three year policy, all the better.
- In years where you are not bidding your insurance, insist on getting renewal quotes at least 60 days before your policy expires. You then have time to get alternative quotes should your current insurer give you a premium or coverage surprise.
- Key coverage considerations are protection for debit card fraud, data breach / privacy violation liability, data breach notification expenses, and adequate limits of coverage on traditional bond and d&o coverage sections.
- Review the limits of coverage on your directors' and officers' insurance. Claims for lender liability events, employment practices claims, and bankers' professional liability insurance incidents may reduce the limit of coverage available to pay for claims against your directors. Learn how your policy uses your policy limits.

The marketplace for property, liability, workers' compensation, and auto insurance remains competitive for most banks. Expect your premiums to stay level with last year's costs. That being said, if your premium has stayed flat for the last three years, you may benefit from a competitive bid process. Your standard insurance premiums (excluding work comp) should be about 20% below what you paid three years ago - assuming that you have not increased your payroll or property values.

There is competition in workers' compensation too. Certainly Maine Employers' Mutual is the most common insurer for Maine banks. However, other insurers are making it a horse race for MEMIC. My single complaint about MEMIC is that they rarely meet the marketplace without the preverbal gun-to-the-head provided by direct competition.

Here are some general thoughts on bank insurance renewals:

- Start the process early. Meet with your agent 120 days prior to renewal. Get directors' and officers', bond, and ebanking applications into the hands of your department executives early. Running out of time will kill your chances of getting competitive premiums.
- Relationships are important. Your relationship with your agent is important. The relationship with your insurer is important. However, both have to meet your expectations and provide value. Testing the relationships by the use of competition will assure you of getting the best coverage and pricing the marketplace offers.

- Several banks in Maine have more than one insurance agent providing policies. The practice of "spreading the wealth" often results in uninsured loss exposures.

- Consider larger deductibles on your property, bond, and d&o policies. You take care of the small stuff. Let your insurer take on the big stuff. A \$5,000 property deductible is almost a minimum for most banks.

- Even the smallest bank should have at least \$5,000,000 umbrella liability coverage. I don't think that \$10,000,000 is too big for most Maine Banks. Your biggest exposure to a catastrophic liability claim is not in your d&o policy; it's an auto accident involving a car driven by one of your employees while on bank business. Horrific accidents happen every week. If one happens to one of your employees, lawyers will act like a bullseye has been painted on your bank's front door.

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