Simmonds on Bank Insurance

THIS ISSUE

BANK BOND HOLE
What you don't know about your bond can hurt you.

Q & A
Questions from readers and clients. Expert answers.

COMMON BANK INSURANCE ERRORS UNCOVERED
Oversights and mistakes that are commonly found in our review of bank insurance plans.

BANK INSURANCE 101 TELESEMINAR SERIES
Five sessions to help you manage your bank's insurance. Get better coverage at a better price.

Your Bank's Bond Has A Hole In It

There is a hole in every bank bond I have reviewed in my 30 year insurance career.

Nine out of ten bankers I speak with do not know of this hole. Most are shocked to find out that this particular exclusion is in their policies.

If you or any other executive in your bank learns of a past dishonest act by an employee, there is no employee dishonesty coverage for that employee.

No notice, no grace period. There is no wiggle room. If an employee has committed a dishonest act in the past and you know about it, there is no coverage for embezzlement by that employee.

It does not matter that the employee was 18 when he got caught shoplifting and that he is now a 55 year old VP. The policy does not define "dishonest act" and does not put limits on the time in the past that the act occurred.

If your HR director learns that the head teller lied on her employment application by exaggerating her past job responsibilities, she has committed a dishonest act and coverage is void on anything she does in the future.

I have had people tell me that all employees make personal phone calls and "borrow" tablets of paper. I cannot tell them that such relatively minor acts would not exclude coverage.

Your insurance policy does not elaborate. Your insurance company will judge the coverage after you report that the employee in question has embezzled $500,000.

Action Plans:

- All managers should know of this policy provision and bring to the attention of upper management any information they have on any employee.
- Managers should be regularly reminded of the issue of past dishonesty.
- Request that your insurer provide clarification on their position on prior dishonest acts.
- Regularly review all your insurance policies for exclusions and policy limitations that could impact the risks your bank faces.

Learn the Common Bank Insurance Mistakes We Find
See Page 3

Every bank insurance program is different. There are no standard contracts. Each insurance company uses their own policy forms, definitions, exclusions, and limitations. A regular, detailed, unbiased coverage review is vital for all banks.

Bank Insurance Q&A

What is coinsurance?

Coinsurance is a penalty provision found in most property insurance policies for underinsurance. It never helps you. It can only hurt at the time of a loss.

Example – Underinsured Building with Coinsurance

Property value: $1,000,000

80% coinsurance clause (requires the purchase of $800,000 of insurance)

Amount of insurance: $750,000   Amount of fire loss: $75,000

Loss calculation: What you bought, divided by what you should have bought, times the amount of the loss.

Claim payment = $750,000 divided by $800,000 = .9375

.9375 multiplied by $75,000 = $70,313

$75,000 - $70,313 = $4,687 Coinsurance penalty

Example – Correctly Insured Building with Coinsurance

Property value: $1,000,000

80% coinsurance clause (requires the purchase of $800,000 of insurance)

Amount of insurance: $850,000   Amount of fire loss: $75,000

Since the amount of insurance is more than the $800,000 required by coinsurance, the loss payment is the full $75,000 (less any deductible).

Most insurers will eliminate the coinsurance clause at your request. Many carriers will add a clause to the policy agreeing that the amount of insurance meets the coinsurance clause—called the agreed amount endorsement. Work with your insurance advisor to eliminate any coinsurance clauses from your policies.

Does our bank's D&O policy protect our employees who are serving on nonprofit boards of directors?

Well, kind of. Most bank D&O insurance steps in after the nonprofit's D&O is exhausted of coverage, and after the assets of the nonprofit are completely depleted. Most bank D&O policies provide no coverage for activities in for-profit companies other than subsidiaries of the bank.

Your employees who serve on non-profit boards of directors should be aware of the responsibilities and risks of service. They should insist that the non-profit carry adequate directors' and officers' insurance. Have your insurance advisor review the coverage protecting your employees.

Your questions welcome. Email to Scott@ScottSimmonds.com.

ABOUT SCOTT

Scott has been called, “The Guy with the Big Insurance Brain.” He provides unbiased information and advice to banks and other businesses around the US.

As an insurance consultant Scott does not sell insurance. He does not accept fees or commissions from the insurance agents and companies he works with for his clients.

He has written five books on insurance issues for insurance buyers, including *Simmonds on Bank Insurance* and *The Bank Insurance Assurance Toolbox*. He has been quoted in the Wall Street Journal, Money, Inc., Fortune, Investor's Business Daily, CNN.com, Smart Money, and countless local and industry publications including several state bank association magazines.

Scott has 30 years of insurance experience and has built a specialty practice of helping banks improve their insurance.

He lives and works with his family on the coast of Maine.

Common Bank Insurance Errors Uncovered

In our review of bank insurance programs there are some common problems found. Here are a few:

- Missing Entities - Some insurance policies require that entities be listed on the policy for coverage to apply. Some banks have real estate operations or mortgage operations that are separated legal entities. Many community banks manage charitable foundations. These all should be listed.

- Coinsurance Penalties - See the explanation of coinsurance on page two. Coinsurance can be eliminated by adding the agreed amount endorsement to property insurance policies.

- Low Deductibles - Property deductibles of $1,000 are common in the reviews we make of bank insurance. A more reasonable deductible is $5,000. It will save you premium dollars as well as preserve the future desirability of your bank to insurance companies.

- Inadequate Umbrella Liability Limits - To me $5 million of umbrella liability coverage is the minimum for even the smallest bank.

- Inadequate Extra Expense Coverage - After a fire or other insured loss extra expense insurance pays for the increases in costs necessitated by the bank’s need to continue operations. The coverage can pay for such things as temporary office space, the rent of a bank trailer, and the retrofitting of current office space to handle more people.

- Inadequate Perils in the Mortgage Impairment Insurance - Mortgage impairment insurance pays for losses to properties you hold a mortgage on when the customer defaults on their loan due to a fire or other catastrophe. Many policies limit the coverage to perils required by mortgage documents - a very low standard in most cases. Look for coverage for special perils, all risk, or other perils basis.

- Missing Protection on the Banker’s Bond - Most insurers offer a wide range of coverages on the banker’s bond policy. Many seem to only offer the coverage they are asked to provide. Ask your insurance advisor what other coverage can be added. Safe depository coverage and debit card coverage seem to be the most frequently overlooked.

Get Info on Our Unbiased Bank Insurance Review Process

www.BankInsuranceReview.com

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Dec. 02, 2009 - Bank Directors' and Officers' Liability Insurance
Dec. 07, 2009 - Financial Institution Bond (AKA Bankers' Bond)
Dec. 09, 2009 - E Banking, Employment Practices Liability Insurance
Dec. 14, 2009 - Bankers' Property, Liability, Workers' Comp Coverage
Dec. 21, 2009 - Insurance Management and Bidding Your Insurance

What you need to know to manage your bank's insurance plan. Better coverage. Better premiums.

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