

# SIMMONDS

## ON BANK INSURANCE

Volume 4

Consulting On, But Never Selling, Insurance

Issue 3

## Directors' And Officers' Insurance Surprises Unpleasant Changes You Need To Know About

Bank directors' and officers' insurance policies are increasingly providing surprises for bank leadership. Insurers are adding two dangerous changes to many insurance policies — exclusions for lawsuits brought by regulators, and aggressive cancellation clauses. Neither one of these is a good thing for any bank D&O insurance program. Here are some suggestions:

■ **A DETAILED CONVERSATION** First, have a conversation with your insurance advisor. Talk about your coverage. What are the current exclusions and limitations? Ask specifically about coverage for the liability issues coming from lawsuits by regulators. Is coverage for regulatory issues missing? It's a yes or no question. Also understand what cancellation options the insurance company has. Can your insurer end your coverage in the middle of a policy term? Must the insurer offer a renewal quote? If you have a multi-year policy, can your insurer discontinue or restrict coverage on the anniversary date?

■ **KNOW THE COVERAGE CHANGES** The second step in protecting your insurance policy is to make sure that any change in coverage at renewal is discussed openly. Renewals are often, unfortunately, handled almost perfunctorily in the course of a bank's operation. Start the renewal process early. Complete the requested applications quickly and get them back into the hands of your agent. When proposals are presented by your insurer ask about coverage changes from the current policy. Understand any restrictions to coverage.

■ **ASK ABOUT REGULATORY EXCLUSIONS** Specifically discuss any restrictions to coverage over lawsuits brought by regulatory agencies. While not on every renewal, this exclusion is being added more often.

■ **ASK ABOUT CANCELLATION CLAUSES** Understand the conditions under which your insurer can cancel your policy. What reasons are valid? How much notice must the insurer provide? State law can also come into play. Talk with your insurance agent.

■ **START RENEWALS EARLY** Insist on at least an indication of your current insurer's intentions as to coverage, premiums, and terms well in advance of the renewal date. Your insurer should be willing to provide an estimate or indication at least sixty days before your policy expires. Consider getting proposals from competing insurers to assure that you have options as the expiration of your current insurance looms. The bank insurance market is very active. There are several new insurers providing coverage, upping the ante for the old standby bank insurance companies.



■ **DETAILED ANALYSIS OF PROPOSALS** No two bank insurance policies are alike. Every insurer has their own policy forms, definitions, and restrictions. Reviewing the proposals that come from multiple insurers is vital to selecting the right coverage. Get qualified help in analyzing the coverage offered.

■ **USING MULTIPLE AGENTS** Having more than a single agent involved in a bid process can be the best way to get the best price, service, and coverage at renewal. It is also very messy. However, competition makes us all better. The fear of losing your business spurs agents to work harder. The rules of the insurance road will cause confusion, though. Have a game plan in place.

■ **STAYING WITH ONE AGENT** Many banks have a close relationship with their agent. Some are like family. (Some *are* family.) There are certainly many circumstances where using your current agent and no others is the right course. Consider getting access to an unbiased, knowledgeable expert to supplement your agent's ideas.



## **Scott Simmonds, CPCU, ARM, CMC**

Scott Simmonds is the Unbiased Insurance Guy™, and banks are his specialty.

He provides information and advice to banks and other businesses around the US — and never sells insurance.

Scott has written five books 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*, on CNN.com, *Smart Money*, and countless local and industry publications, including several state bank association magazines.

Scott has 30 years of insurance experience, the last ten as an unbiased insurance consultant. He has provided insurance advice and counsel to hundreds of companies, large and small, throughout the US.

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

**“Your work for us is as important as any insurance policy we buy.”**

— Bill Swales, Bangor Savings Bank

## **Real Questions | Q&A | Real Answers**

■ **Besides computer hackers, what are our exposures for data breaches and violation of privacy?**

On a small scale, it seems to be your customer account statements. Having several statements stuck in the same envelope is one event I have heard of several times.

On a larger scale it's laptop computers. Oh, the misery!

This certainly goes beyond the banking industry. Thousands of laptops and smart-phones are lost and stolen every month. One statistic I saw puts the cost of a stolen laptop at \$89,000 — lost time, hassle... Even if you cut that by two-thirds, that still is a hit.

The obvious consequences of a lost laptop are lost data (solved by backups), private info falling into the wrong hands (customer or employee data), and the lost hardware.

There are several services out there that allow for tracking laptops. Some will wipe the hard-drive clean with a single command. I use Lojack for Laptops. There are several others. New protection measures are coming out all the time.

Laptops need to be protected everywhere. Bankers have lost laptops in airports, from home, and even from their offices. Laptops left in a parked car are a frequent target.

Your IT people can certainly suggest encryption solutions. However, a key tool is simple diligence. Employees with laptops should be regularly reminded of the consequences of a theft.



■ **In the last issue you mention that \$5,000,000 of umbrella liability coverage is a minimum. I have a \$3,000,000 umbrella and \$2,000,000 on our directors' and officers' insurance. Isn't that adequate?**

First, your umbrella liability and your D&O insurance are distinct coverages. There are few, if any, areas where there is an overlap of protection. The umbrella provides protection for bodily injury and property damage after your general liability, auto liability, and employers' liability (part of your workers' compensation) coverage has been exhausted. The umbrella does not “go over” your D&O.

The cost of umbrella liability insurance is exceptionally low right now. Many small banks are finding that each layer of \$1,000,000 is costing \$1,000 or less. Obviously the incidences of umbrella claims are low. However, the wrong event happening to the wrong people could expose your bank to multi-million dollar lawsuits. Why risk so much for so little in premium?

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Note: Your questions for this section are welcome. Email [Scott@ScottSimmonds.com](mailto:Scott@ScottSimmonds.com).

# Steps In The Insurance Review Process

The process begins with a review of your bank's exposures, operating entities, properties, operating units. What are the exposures to loss presented by trust operations, loans, e-banking, safe depositories, and ATM machines? Do you sell insurance? Are there investment advisory services?

Next comes the bank's current insurance program. What policies are purchased? What are the premiums? Who are the insurers? What losses have been paid? What are the current limits and structure of coverage? Are there penalties in the policies? What activities are excluded?

Then I compare the exposures identified with your insurance policies. What gaps exist? Are there overlaps? Are policies missing from the insurance program? Are the limits of liability adequate? Are the deductibles reasonable?

Do you have the right insurance company? What other insurers might be competitive? What services can insurance companies offer? What services should the agent provide? Should the bank consider changing insurance agents?

I build a list of issues and concerns. Typically, I end up with several pages of action items. We research each one so that decisions can be made. The best course of action may be, in fact, no action. For example, a bank on the East Coast may have no earthquake insurance. On review and in consideration of the premiums that would be charged by an insurer, the decision is made not to buy additional insurance. Another bank may come to a different decision. However, both have involved a considered assessment.

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A due diligence process can be valuable at any time. The process can work well in the middle of your insurance year or right after a renewal. It can also be a fruitful close to the end of a policy year. Use it to prepare or set strategy for your renewals.

The objective of the process is to assure you that you have the correct combination of coverage and price based upon your bank's exposure to loss. The sooner you can uncover potential problems with your insurance protection, the better.



## Associate's Degree In Bank Insurance

OK, it's not a real associate's degree. However, it's more than any college will ever teach you about managing your bank's insurance.

Download the recording of five fast-paced, information-filled sessions covering the whole range of bank insurance issues. Each class includes advice and information not available anywhere else.

Here, in less than 5 hours, is almost everything you need to understand the basics of insurance for your bank. Each session is available as an MP3 file so you can listen on your computer, iPod, or other digital player.

- **Session 1** Bank Directors' and Officers' Liability Insurance
- **Session 2** Financial Institution Bond (a.k.a. Bankers' Bond)
- **Session 3** E Banking, Employment Practices Liability Insurance
- **Session 4** Bankers' Property, Liability, Workers' Comp Coverage
- **Session 5** Insurance Management and Bidding Your Insurance

*For free access to ALL SESSIONS, just send me an email, no obligation – [Scott@ScottSimmonds.com](mailto:Scott@ScottSimmonds.com).*

## Looking Over Your Insurance Agent's Shoulder

You may have a close relationship with your insurance agents. Your agent may be a board member, a stockholder, or serve on an advisory committee. You may belong to the same Rotary Club, golf club, or serve on the same nonprofit boards. You may see your insurance agent on your walks down Main Street.

In about half my engagements with community banks, the current insurance agent at some point tells me, "I am so glad you're here!"

A local agent only insures a single bank: yours. How well-versed can anyone be on bank insurance issues when your program is the only such program he handles?

I supplement your agent's work and knowledge. I never take away anything from the insurance agent who is working in the best interests of their client. I add bank insurance experience to your team. I add industry knowledge to the work your agent does.

Of course, if your agent isn't doing the job, you want to know that too. My unbiased position helps.

**PLEASE HELP US  
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## Unbiased Bank Insurance Services

- **DUE DILIGENCE COVERAGE REVIEW** – Gain assurance that the coverage you need is the coverage you have.
- **BID MANAGEMENT / RENEWAL ASSISTANCE** – Help with getting the best insurance the marketplace has to offer.
- **INSURANCE MANAGEMENT SERVICE** – Help with all aspects of the management of your bank's insurance.

Visit [www.BankInsuranceConsultant.com](http://www.BankInsuranceConsultant.com) or call [207-284-0085](tel:207-284-0085) for more information.

## 62 Questions To Ask Your Insurance Agent

"I don't even know what questions to ask" is a comment I often hear from bankers.

**Do you have the right insurance for your bank? How do you know?**

Of course, a phone call to me would start you off right. Let's assume you're not ready for that, though.

I've come up with 62 questions you can ask your insurance agent. These are the key questions to start you on the path to finding out if you have the right insurance policies.

Send me an email. I'll gladly send you a free copy of my white paper:  
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