

SIMMONDS

ON BANK INSURANCE

Edition 5-4

Consulting On, But Never Selling, Insurance

August 2011



Bankers' Bond Alert – Coverage Changes

Insurers are always changing their coverage forms. Sometimes it's little stuff. Sometimes it's big. Sometimes they tell you. *Often, they do not.*

The first coverage in bank bonds is fidelity insurance, AKA employee dishonesty. There have traditionally been three requirements for coverage to apply:

- 1) An employee dishonestly acts to harm the bank.
- 2) There is an expectation that someone will benefit or profit from the scheme.

Insurers are adding another provision regarding losses involving employee dishonesty incidents where a loan is a part of the scheme.

- 3) If some or all of the loss resulted directly or indirectly from loans, that portion of the loss is not covered unless the employee

colludes with another party and receives an improper financial benefit.

These are two important changes. First, someone besides a sole employee must be involved. Is a loan posted to a fictitious account covered? Not unless there is a second party to the crime.

Second, the employee must obtain an improper benefit. If the money goes into the employee account, the case is clear. What if the money benefits a friend or relative and does not benefit the employee – other than being a “good” friend or relative?

Review your policy and watch your renewals. Get an outside opinion. Consider another set of eyes. ■

Recent Bank Insurance Renewal Results

A Midwestern bank came to me with concerns about their upcoming renewal. Their insurer was not enthusiastic and their agent seemed resigned.

The bank's current insurance premiums were \$88,000 for the bond, directors' and officers,' and cyber liability.

I poked and prodded the agent, who agreed to alternative quotes from another insurer. The initial renewal quote was \$97,000. I knew we could do better.

After negotiations (combined with gnashing of teeth and stomping about) the final quote was \$65,900, with coverage far in excess of what the bank had before. The bond was increased from \$2.5 million to \$4 million. The D&O was increased from \$2 million to \$4 million. Coverage was streamlined, and the insurer was pushed to provide a three-year policy. Many policy conditions were moved from benefiting the insurer to benefiting the bank.

A lackluster renewal with a higher premium was turned into a \$23,000 premium reduction with exceptional insurance enhancements.

This is the work I do. I guarantee valuable results for all my clients. ■

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. ■



Bank Insurance Teleseminar – August 23, 2011

“Stuff You Should Know About Your Bank's Insurance” – 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 use to immediately improve the insurance your bank buys. Practical, easily implemented ideas every bank can use.

No sales pitch here. Valuable information, implementable now. Learn the common coverage holes and tools to plug them.

When: August 23, 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*. In June we talked about *Directors' and Officers' Insurance – D&O for Dummies*.

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. ■

Bank Insurance Commentary | Kansas Bankers Surety



I had a most interesting conversation with a representative of Kansas Bankers Surety Co. recently. Their approach to bank specialty insurance is quite different from other insurers. Their policies have coverage restrictions unlike what any other insurer includes. Unfortunately, what KBS sees as coverage advantages, I see a significant coverage restrictions. For example, their employment practices insurance provides defense cost coverage only. Their professional liability insurance covers only lender's liability. The bond quote I saw had no coverage for debit card fraud.

To their credit, they have firm arguments why their policies actually are better than their competitors. I was intrigued but not convinced. Frankly, the conversation was one of the most interesting insurance conversations I have had in some time. KBS is a solid insurer with a

definite philosophy of coverage and claims. Their forms are just not broad enough for my liking.

The above is a perfect example of why you need insurance advice from an unbiased advisor. A conversation with KBS will leave anyone with a feeling that theirs is a better approach. A conversation with the people at ABA Insurance, Zurich, or Travelers will result in equally strong arguments in their favor.

An unbiased advisor can uncover the best solution based on your real needs.

Scott Simmonds, CPCU, ARM, CMC

Real Questions | Q&A | Real Answers

Q: Our bank requires that some officers and directors are active in nonprofits in the community. Does our bank directors' and officers' insurance provide coverage to directors and officers while they are serving on nonprofit boards?

A: There is coverage in most D&O policies. *However, it is limited.*

Board members and officers of the bank are covered for their actions in an "outside position" while working as directors or officers of a nonprofit if "service in such position is with the knowledge and consent of, at the direction or request of, or part of the duties regularly assigned to the directors or officer by the (bank)."

Service on the local Rotary Club board (with consent of the bank) would be covered. Ditto for United Way. Coach of a Little League team would not (it isn't management), but serving on the Little League board might be – if at the direction of the bank.



Being on the board of a church would probably not be covered.

Coverage does not apply if it is the outside entity that is suing the board member. (You serve on the board of the United Way and the United Way sues you.)

Coverage only applies in excess of any D&O insurance purchased by the nonprofit, and only after any indemnification by the

nonprofit – the nonprofit's insurance must be exhausted and the nonprofit must be out of assets.

The coverage provided is for the bank's board and officers only – not staff employees and not the other directors of the nonprofit.

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

**PLEASE HELP US
KEEP OUR MAILING
LIST UP TO DATE.**

Wrong person? Wrong address?
Multiple copies? Let us know.

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QUICK INSURANCE CHECK: Do You Have Catastrophic Property Insurance Coverage?

I have bank clients affected by the recent tornados in Alabama and Missouri. The experience has made me take a second look at a scenario that was almost beyond thought: what if all a bank's locations were hit by one disaster? Three areas to look at. First, how much total coverage do you have for a single disaster? Second, how does business interruption, extra expense, and loss of rents coverage respond to a multiple location claim? Third, will the coverage pay for the expenses of running a generator when power is lost over an extended period of time? ■

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 brought an understanding of community bank insurance that neither our bank nor our agent possessed. As soon as we signed our contract, Scott became a member of our team and was only concerned with our best interest. I just wish we had contacted him sooner."

— *Joey Hungerford, CFO
Fairfield National Bank
Fairfield, IL*

Some of Our Clients

- Dacotah Bank, Aberdeen, SD
- First State Bank, Joplin, MO
- First National Bank, Clinton, MO
- First State Bank, Shallowater, TX
- Coastal Commerce Bank, Houma, LA
- Bank of Commerce, Rawlins, WY
- 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
- Greenfield Savings Bank, Greenfield, MA
- Tidelands Bank, Mt. Pleasant, SC
- Sanford Institution For Savings, Sanford, ME
- First Trust Company, New Orleans, LA

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