

# SIMMONDS ON BANK INSURANCE

Edition 6-4

Consulting On, But Never Selling, Insurance

August 2012

## Insurance Topics Nobody Talks About

On average, I review ten bank insurance programs a month. I know of no other unbiased consultant who sees the variety of insurance programs I do. Big banks, little banks, stock banks, mutual banks, 5-star banks, and — well, you get the picture.

Some issues come up all the time. Here are some of the mistakes I see frequently.

### NAMED INSURED

Ninety-five percent of bank insurance plans have an error in the named insured. Misspellings, words reversed, entities left off, long-gone entities left on. Give your agent a list of the entities your bank is involved with and tell them you need them all insured and correctly listed. Legal entities only. Leave off the “doing business as.”

### VALUABLE PAPERS INSURANCE

Valuable papers insurance pays for the cost of recreating documents destroyed in a fire, windstorm or other insured peril. It pays for the cost of researching and copying the documents you need to run your business after a calamity.

**Example:** Fire destroys part of your office that contains important loan records. The information is vital to your bank and to your regulators. The data must be recreated. Valuable papers insurance will pay the restoration costs.

**Side-note:** Buying valuable papers insurance is a lousy way to protect your bank's records. Physically protect documents or records that are important. Put your vital



documents in fireproof filing cabinets or a vault. Better yet, scan paper records and store them digitally — with proper backup, of course.

**Question for your agent:** How much coverage do we have for valuable papers?

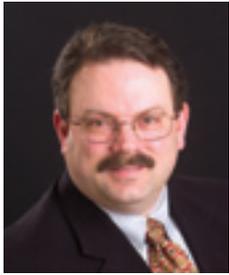
**Coverage minimum:** I suggest that even the smallest banks have at least \$250,000 of coverage for valuable papers. For loan processing operations, think about doubling the coverage.

### DEBRIS REMOVAL

After a fire or other insured damage to your building, there likely will be debris that needs to be removed. Most policies limit coverage to 25 percent of the loss. (\$100,000 fire means you get \$25,000 of insurance to pay to haul away the debris.) That sounds like a lot, until you look at the cost of disposal. To help, insurers provide an additional amount of coverage (usually \$10,000) to pay for the cleanup in addition to the 25%. Some insurance companies increase the additional amount to \$25,000 or \$50,000.

*Continued on page 3*

## Bank Insurance Commentary: Unique Issues Discussed Over and Over



In the lead article for this issue I talk about some of the issues I see over and over in my reviews of bank insurance programs. The points I raised are fixable. Coverage limits can be adjusted. Coverage clauses can be added. Exclusions can be reworded or removed.

There are issues that insurers are unwilling to fix. I've talked in past newsletters about the problems of construction defect claims and pollution liability. These two exposures exist in almost every bank and yet insurers are (as far as I have seen) unwilling, at any price, to offer a fix.

As I write this I am finishing up my third bank coverage review this week. In each I have had to talk to the bankers about the problem of no coverage for "dishonest employees."

All bank bonds exclude coverage for embezzlement by an employee who is known to have committed a dishonest act in the past. However, no bank bond defines "dishonest act." Some things are straightforward. If an employee stole a car a year ago, clearly that meets the exclusion. Few banks would keep someone like that as an employee. No problem.

### How about an employee who exaggerates their resume? How about taking home pads of paper or pens? Does making a personal phone call on work time constitute a dishonest act?

How about an employee who stole a car 20 years ago, when they were 15 years old? How about an employee who exaggerates their resume? How about taking home pads of paper or pens? Does making a personal phone call on work time constitute a dishonest act? How about a fudged expense account, or having an extramarital affair?

I've had underwriters tell me I'm being bombastic about these points. Perhaps. Why not clarify the policies? How about telling us what you mean when you put words in an insurance policy? Every insurance policy defines at least fifteen words. Why not add one more?

Scott Simmonds, CPCU, ARM



## Bank Insurance Teleseminar: Workers' Compensation 101 For Bankers

Join us for a discussion of workers' compensation insurance for your bank. What are the coverage issues? How can you control premiums? What can you do to make insurance companies want you? What questions should you ask your agent? What services should your insurer offer?

**When: August 14, 2012–1:00 p.m. Eastern**  
**Where: Call in and listen from any phone.**

Register for free by emailing [Scott@ScottSimmonds.com](mailto:Scott@ScottSimmonds.com) or go to [www.ScottSimmonds.com/teleseminar](http://www.ScottSimmonds.com/teleseminar). No obligation, of course. Seats are limited. Register now. ■

## Free Bank Insurance Resources

**BECOME A MEMBER OF MY "INNER CIRCLE"** to get free access to a wealth of bank insurance information. No other resource offers more information designed to help bankers who buy insurance for their banks. Access is free; just email me at [Scott@ScottSimmonds.com](mailto:Scott@ScottSimmonds.com).

**GET ACCESS TO MY PAST BANK INSURANCE TELESEMINARS** – Sessions have included: How To Renew Your Bank's Insurance, Lender Asset Protection Insurance, What You Should Know About Your Bank's Insurance, D&O for Dummies, and Banker's Bond Bugaboos.

**QUESTIONS TO ASK YOUR INSURANCE AGENT** – Sixty questions to ask your insurance agent to help you understand your bank's insurance coverage.

**HOW MUCH COVERAGE?** – Recommended insurance limits for banks. Do you have enough? Includes bond limits, executive risk, umbrella liability, cyber liability, and property insurance. Answers to the most common question I get: How much coverage should we buy? ■

*Continued from page 1*

Consider your buildings. Will special disposal of rubble and debris increase the cost of reconstruction? Asbestos or other hazardous substances (found in older buildings) may point to the need for additional insurance.

**Question for your agent:** How is coverage provided for debris removal in our insurance?

**Coverage minimum:** 25% of the loss plus \$50,000.

### SIGNS

Signs attached to your buildings are covered by most standard building insurance policies. Freestanding signs need to be insured specifically or with a special policy endorsement.

**Question for your agent:** How are our signs insured?

**Coverage minimum:** Coverage to the replacement cost of your bank's signs.

### PERSONAL AND ADVERTISING INJURY LIABILITY

I usually describe personal injury coverage as protection against lawsuits for hurt feelings. Most policies include coverage in this section for libel, slander, defamation, wrongful eviction, and false arrest.

Advertising injury is coverage for events similar to personal injury items, but in advertising. Coverage is included for infringement of copyright in your marketing materials.

**Question for your agent:** Are there any unusual restrictions on our personal injury coverage?

### DAMAGE TO PREMISES RENTED TO YOU

This section provides coverage for damage to a building you occupy or rent from others — also called fire legal liability or fire damage liability. The general liability policy excludes damage to property in your care, custody, or control. This section of coverage brings back protection for damage to property you occupy but don't own.

If you rent an office that represents 40% of a building, that part of the building is under your control. If your coffeepot causes a fire that destroys the building, your landlord's insurer may (depending on your lease) expect that you will reimburse them for the loss. Your general liability insurance has no trouble paying for the 60% you do not control. It's your part of the building that is the problem. Hence the reason for this coverage section.

Most policies provide \$100,000, but you may need more.

**Agent question:** (Ask only if you are a lessee of a location.) Do we need additional limits of coverage for damage to locations we rent?

### BOATS AND PLANES

Review your bank's use of watercraft and aircraft. The general liability policy excludes coverage for owned watercraft and non-owned boats over 26 feet. Aircraft of any type is excluded (except where you are a fare-paying passenger).

It is not uncommon for banks to host chamber of commerce functions or customer/employee events on party boats. You may also have loan officers or executives with large boats. Entertaining bank customers or employees may be a normal part of business. If the boat is over 26 feet, the bank may be exposed to a lawsuit if an accident occurs.

I have several bank clients who own planes. Using an executive's Cessna to go to a bank association event might put the bank in a situation where there is no liability insurance in case of a crash. Again, talk with your insurance advisor.

**Question for your agent:** How does our policy respond to incidental use of boats and planes?

### RENTING CARS

When renting cars (short-term rentals from the well-known rental car companies located at every airport), either buy the coverage offered by the rental car company or use a credit card that provides the same insurance. Call your credit card customer service department for the details of your credit card company's service.

The issue is not that your business auto policy is inadequate. The problem is the requirements and hassles that the credit card company will put you through. The paing of not having the collision damage waiver is just too extreme. But the rental car company's coverage. At \$15 or \$20 it is almost extortion. However, buy it.

**Question for your agent:** This one isn't in your agents' bag of tricks. They can't fix what the rental car companies break.

### SUMMING UP

Peace of mind comes from understanding the insurance coverage your bank has. Identifying problems, offering options, and making adjustments is vital in the management of insurance. Talk with your agent. Consider the advice of other experts — maybe even a bank insurance consultant. ■



**STAY CURRENT ON BANK  
INSURANCE ISSUES.**

**JOIN OUR INNER CIRCLE FOR  
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## Step-By-Step Bank Insurance Coverage Review

I'm often asked how my reviews of insurance work. Here's a timeline from one of my recent bank insurance review projects:

■ **DAY 1:** The 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. In a few hours he has a proposal outlining costs, my approach, objectives, and value.

■ **DAY 5:** The CFO gets back to me, asking to move forward. He signs the proposal and cuts me a check for my fee. The bank emails me copies of the policies. I forward a survey of exposure questions to help me understand the bank. I start my review.

■ **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.

■ **DAY 16:** I send the call participants a summary of the issues we discussed, clarifying my recommendations. The CFO calls me with questions as the issues are addressed. I often talk with the bank's agent about my suggestions. We are all on the same team.

■ **VALUE:** My clients get better insurance, better premiums, and easier insurance administration. My clients don't wonder about the quality of their insurance. They know it.

Send an email to [Scott@ScottSimmonds.com](mailto:Scott@ScottSimmonds.com) or call 207-284-0085. After a short conversation, I'll send you a proposal for your consideration.

With 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. ■



## Insurance Renewal Coaching Services

Does your insurance come up for renewal in the next six months? My bank insurance renewal coaching services are designed to help your bank get the best coverage at the best price in your next renewal.

Should you keep the same coverage? Are you missing protection? Is your agent working as hard as she should? Are you missing opportunities? Is this really the best there is? What insurers should be in on the process? How do you select other agents to participate?

The best time to start working on your renewal is 120 days before the expiration of your current policies. My tactics can help even if you are days away from the due dates.

Contact me now to discuss your bank's situation: [Scott@ScottSimmonds.com](mailto:Scott@ScottSimmonds.com) or 207-284-0085. ■



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