

SIMMONDS

ON BANK INSURANCE

Edition 5-6

Consulting On, But Never Selling, Insurance

December 2011

Sometimes, Insurance Is About The Little Things – *Little Things That Are Not So Little.*

Inside every insurance policy there are big things and little things. How do you tell the difference?

When banks call me to review their coverage, I offer two choices. Option number one is to review their bank specialty insurance policies – the bond, the executive risk (AKA D&O), and cyber coverage. That's what most bankers are interested in – it's the big, complicated, and expensive insurance policies they buy.

These policies may be the policies that their local insurance agent is less comfortable with. It is the insurance your board of directors are concerned about.

The second option is a review of all a bank's insurance – bond, D&O, cyber, property, liability, auto, mortgage impairment, workers' compensation, and umbrella liability. The works. Two-thirds of banks ask me to review everything.

Every bank that has me review their "other policies" is surprised at the issues I find. After a loss, the small stuff becomes big stuff.

Here are some coverages and coverage designs to consider in your bank's property insurance.

BLANKET COVERAGE – Insure all your property in one amount of insurance instead of specific coverage on each building and the contents of each building.



AGREED AMOUNT – This clause removes the coinsurance penalty from your property insurance policy. Yell at your agent if you have coinsurance on your policy. Yell long and loud. Coinsurance means your agent is not looking out for your interests. I'll fight anyone who says I'm wrong.

BACKUP OF SEWERS AND DRAINS – Your property insurance excludes damage by water that rises up from flooding or comes from underground. You can usually get \$25,000 or \$50,000 of coverage for damage from water that comes up from drains and

sewers (Yech!). You have to ask for it, though.

VALUABLE PAPERS – This coverage section pays for the re-creation of paper records (think about your loan department) after a fire or other covered cause of loss. I think \$150,000 is a minimum for any bank building. Some of you need at least \$250,000.

DEBRIS REMOVAL – Most property insurance policies pay to remove the damaged part of the building after a fire or windstorm. Coverage is limited (usually) to 10% of the loss to your building, plus \$10,000. Get that

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Info Packed Bank Insurance Teleseminar – Dec. 13, 2011

Kidnap, Ransom, and the Finer Points of the Bankers Bond – We usually talk about the big parts of the bond. In this session we go into the coverages that are important, but not often thought of, in your bank's bond.

Join in for 45 minutes of solid information you will not hear anywhere else. Questions are encouraged and discussions are welcome. If you manage insurance for your bank, you need to be in on this call.

When: Dec. 13, 2011 – 1:00 p.m. Eastern
Where: Call in and listen from any phone

Bankers, register for free by emailing Scott@ScottSimmonds.com or go to www.ScottSimmonds.com/teleseminar. No obligation, of course. Seats are limited. Register now. ■

Listen To Our Prior Bank Insurance Teleseminars

October, 2011 – *Lender Asset Protection Insurance.*

August, 2011 – *What You Should Know About Your Bank's Insurance.*

June, 2011 – *D&O for Dummies.*

April, 2011 – *Banker's Bond Bugaboos.*

February, 2011 – *Bank Insurance 101.*

Email Scott@ScottSimmonds.com for free download instructions. .

Professional Gratitude

"In today's banking environment, both Fidelity and D & O Insurance need to contain the varied and robust coverage that institutions require to protect the bank, directors and employees against risks. I used Scott for my last renewal. He prevented me from making a huge mistake by contracting with the wrong company. He steered me the right way with the best company and coverage negotiations, and got me a guaranteed 3-year-level premium. Bottom line, he knows all the buttons to push that bankers simply do not have the experience with. I recommend him highly for all banking-related insurance needs and will use him again."

– Mark Taylor
President and CEO
First State Bank,
Shallowater, Texas



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
- Mascoma Savings Bank, White River Junction, VT
- Union Bank, Morrisville, VT
- Bangor Savings Bank, Bangor, ME
- Northeast Bank, Lewiston, ME
- Gorham Savings Bank, Gorham, ME
- Androscoggin Bank, Lewiston, ME

Bank Insurance Commentary



MARKET MACHINATIONS The bank insurance marketplace continues to change, and not in a good way for bankers. The last three years have been pretty good for most community banks. Sure, if you were having regulatory problems your insurance choices were limited. Now I am starting to see “good” banks face premium increases and coverage restrictions. Start your renewals early. Get good advice. Make informed decisions.

TELESEMINARS This newsletter comes out on the “even” months – February, April, June, August, October, December. I also put on teleseminars in those months on bank insurance topics. The whole collection of sessions is available at my special site – www.ScottSimmonds.com/InnerCircle. Download a session for free

and listen. If you have trouble downloading, do what I do and ask a 12-year-old for help. They’re usually much better at these things.

NEGOTIATION Everything in your bank’s insurance is negotiable until you have a loss. Ask your underwriter for coverage expansions, the removal of an exclusion, the clarification of a definition. Bank insurance underwriters are almost always among the brightest insurance people in an insurance company. They have to be to stay on top of the risks and changes in the industry. Most will work with you to get the coverage your bank needs. You have to ask, though.

Scott Simmonds, CPCU, ARM, CMC

Real Questions | Q&A | Real Answers

Q: Should our bank consider self-insuring our workers’ compensation?

A: Don’t even think about it until you’re at \$250,000 in premium. Don’t do it until you’re at \$500,000, and probably not even then. Most community banks see workers’ compensation as a fairly minor expense. Claims are few and the costs are small relative to some of the other policies you buy. My recommendation is that you focus on being a bank and not on being your own insurance company. Have a procedure in place to manage the claims that do occur.

Most bankers do not think of the catastrophic losses that can happen. Three execs in a car are injured in an accident. A robbery goes very wrong and multiple employees are injured. These are just some of the many examples of catastrophic loss that can happen.

Have your insurance company help you with loss prevention. Remind managers on a regular basis that safety is important, and that running a safe company is part of their job. Let the insurers take the risks.



Q: We reviewed our bank’s mortgage impairment insurance and decided a few years ago that there was not enough coverage for us to buy. It just didn’t seem that the coverage was worth the premium.

A: The primary coverage in mortgage impairment protects the bank from the loss (fire, windstorm, etc.) to a mortgaged property when the customer has failed to buy

insurance. So, unless all your customers insure their property and/or your system to monitor the insurance is perfect, I would rethink not buying insurance. Premiums for this coverage are usually pretty reasonable. Often policies allow you to cut back on the administrative work you are doing to track your loans. The savings in the administrative expenses help pay the premium on the policy.

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

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Multiple copies? Let us know.

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bumped to 10% plus \$50,000.

FINE ARTS & ANTIQUES – Do you have any valuable furniture or art work? Insure it for its market value. Get appraisals of unusual items.

ADDITIONAL PERILS – Most property insurance policies exclude flood and earthquake. Get quotes. Make an informed decision as to if you really need these coverages. If the events are unlikely, the premium will be cheap and could save your bank from a catastrophic loss.

FREESTANDING SIGNS – Many banks I review have coverage for signs attached to their buildings, but little for that expensive sign by the road. Buy enough to replace the sign if it is destroyed.

LOSS OF RENTS – Are you renting out a building or a part of a building? Loss of rents insurance covers your income should you have a fire and the tenant has to move away for a while. Buy 100% of your annual rental income for each location.

EXTRA EXPENSE – This is a big deal that is often overlooked – or under-insured. Extra expense coverage pays for the cost of relocating employees, renting temporary office space, or renting a temporary bank trailer. Here is my rule of thumb for extra expense: Take the number of employees at a location and multiply by \$5,000. Add \$100,000. If it's your computer center we are

talking about, add another \$50,000. Use the result or \$300,000, whichever is highest.

EXTRA EXPENSE FOR FLOOD – If you buy flood insurance, make sure you have extra expense coverage.

EXTRA EXPENSE FOR EARTHQUAKE – Ditto earthquake. This is often left off. Make sure your property insurance is complete – it pays for the damage and pays for the increased expenses of staying in business.

EXTRA EXPENSE FOR OFF-PREMISES LOSS OF UTILITIES – A branch without electricity is closed. Your town may have a disaster that shuts off power – without damaging your building. This coverage section pays for the costs of renting a generator (or running one) during the weeks it might take to get power back up and running.

ORDINANCE OR LAW – Your local or state laws may impose additional costs on you after a disaster. You may have been “Grandfathered” for the new sprinkler codes, or for other ordinances. This coverage section pays to get you up to code. It can also pay for the demolition of an undamaged portion of your building when such is mandated by your local fire department.

These are just some of the issues I see in my review of bank insurance policies and in the policy that most agents call the “easy” stuff. Can you imagine what tiger-traps exist in the more complicated policies?



White Papers And Reports

Get your free copy of our bank insurance white papers. Email Scott@ScottSimmonds.com. Ask for the report you want – or all three.

How Much Coverage? – **Our proprietary matrix** of recommended insurance limits for banks. Do you have enough? Includes bond limits, executive risk, umbrella liability, cyber liability, and property insurance.

Questions to Ask Your Insurance Agent – Sixty questions to ask your insurance agent to help you understand your bank's insurance coverage. Gets to the heart of insurance issues.

How to Fine-Tune Your Bank's Insurance Program – Straight talk on managing your bank's insurance coverage. Learn what coverage you should have and the issues that trip up many banks.

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