



# how to *Fine Tune* your Bank's Insurance Program

By SCOTT SIMMONDS, CPCU, ARM, CMC

I've worked with bank insurance plans for most of my 28-year insurance career. In my consulting efforts for banks I see all types of insurance programs. Some are good; all can use some fine tuning. Here are a handful of ideas you can discuss with your insurance advisor.

## The Bid Process Will Improve Your Coverage and Control Your Premium

The current insurance marketplace is extremely competitive. Insurers are aggressive in their pursuit of new business. This means better coverage and better pricing for your bank at renewal if you manage the process correctly.

Telling your current agent to renew your coverage with the same insurer should result in modest savings. Having your agent enter the marketplace, getting alternate proposals with other insurers, will result in more aggressive pricing and

coverage enhancements. Setting up two agents in a competitive bid process will yield the best results. When agents and insurers compete, the marketplace is at its most aggressive.

*Special note: Several new insurers have entered the Maine bank insurance marketplace in the past few years. In addition, several old-name insurers have become more aggressive. If you are not getting competitive quotes, you are not getting the best insurance at the best price for your bank.*

## Use High Deductibles to Save Premium

Let the insurance company take care of the big claims while you manage the small, "normal" events.

Consider a property deductible of \$10,000 or more. Look at your auto policy's collision insurance. Review your director's and officer's insurance as well as your bond. Ask your agent what the

premium savings will be for doubling your deductibles?

## Check the Buckets and Aggregates on Your Directors and Officers Insurance

D&O insurance includes different coverage sections (i.e., coverage for directors, lender liability, entity coverage, employment practices and trust department protection). Many policies are structured such that a claim in one area reduces the amount of coverage available for future claims against other coverage areas. I simplify the discussion by referring to coverage limits as buckets of protection. Maximize your coverage by maximizing the buckets your policy allows.

## Review the Breadth of Your Bond Coverage

Look at your banker's bond (also called the financial institution bond). You will find a laundry list of coverage

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**Umbrella liability insurance is inexpensive protection against catastrophic losses.**

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sections – fidelity, off premises, counterfeit currency, safe depository, debit card, etc. Some policies have more than 20 different coverage areas. Ask your insurer to elaborate on coverage options you currently don't purchase. Ask for details on what coverage you are missing. Get optional quotes.

**Your Property Insurance Should Include Blanket Limits**

Talk with your agent about blanket property coverage – one amount of insurance for all your locations and property.

If the Elm Street location burned, the policy would pay up to \$750,000 for the repair of the building and \$400,000 for the replacement of the contents.

If the Elm Street location burned, the policy would pay up to \$3,600,000 for the repair of the building and for the replacement of the contents. Much greater flexibility.

**Claim Example – Specific Insurance**

- Main building coverage: \$1,700,000
- Contents of main building: \$750,000
- Elm Street branch building coverage: \$750,000
- Contents of Elm Street branch: \$400,000

**Claim Example – Blanket Insurance**

- Main building coverage: \$1,700,000
- Contents of main building: \$750,000
- Elm Street branch building coverage: \$750,000
- Contents of Elm Street branch: \$400,000
- Blanket amount of insurance: \$3,600,000 (1,700,000+750,000+750,000+400,000)

**Review Your Extra Expense Coverage**

After a fire or other covered loss, how much insurance do you have to pay for the increased cost of operations? These are costs incurred to resume business at that location quickly; for example, renting a bank trailer or taking over temporary office space.

A fire in a branch location may not result in loss of income or customers. However, your costs will undoubtedly be higher. Extra expense coverage, properly structured, can help with those costs.

**Add a “Per Location Aggregate Limit” to Your General Liability Policy**

Your bank's general liability insurance provides coverage for bodily injury and property damage. The policy contains an aggregate limit of coverage – the maximum it will pay for all claims.

Adding an endorsement to the policy that applies the aggregate limit to each location (rather than to all locations) expands your coverage at very little cost. In many cases, your insurer will add the coverage at no additional premium. Talk with your insurance advisor.

**Low Umbrella Liability Limits**

Umbrella liability insurance provides protection above and beyond what's offered by your general liability, auto liability and employer's liability insurance. It's an inexpensive way

to increase your level of protection against someone suing you. Premiums can be as low as \$750 per \$1,000,000 of coverage.

Consider doubling your current coverage. Get proposals from your insurance agent and make your decision based on the value of the extra coverage versus the additional premium.

For banks, the most likely catastrophic liability loss (multi-million dollar) is an automobile accident. A bank officer is on her way to see a customer. She spills coffee and swerves into a crowd of children (how's that for graphic?). Even if your officer is driving her own car, the bank will be named in any lawsuit.

Umbrella liability insurance is inexpensive protection against catastrophic losses.

**Consider Earthquake Insurance**

Earthquake is excluded under most property insurance policies. Consider adding the coverage.

Intense quakes can hit anywhere. An earthquake hit Boston in 1755 that damaged 1,200 buildings. More than one hundred chimneys were leveled. People on ships in the harbor felt that they had run aground, the quake was so great. Think what would happen now? Portland was hit by a quake in the 1950s that cracked foundations.

Talk with your agent. You may be surprised how inexpensive the coverage is.

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### Review the Perils Included In Your Mortgage Impairment Insurance

Mortgage impairment coverage pays for a loss to a building on which you hold a mortgage if the mortgagee has no insurance. The policy protects the bank's interest in the property.

Review the perils (causes of loss) included in the policy. Many banks have

limited coverage requirements on the mortgage contracts. Some impairment policies follow the coverage required by your mortgage contract. Claims like freezing of plumbing may not be covered.

Look for policy wording such as "balance of perils" to see if you have broad protection. Consider flood coverage, too. Get your agent to explain your coverage to you.

### Make Sure Your Name is Correct on Your Policies

Sounds like a simple thing. However,

I uncover many errors of this kind in my reviews of bank insurance. Is your holding company listed? How about your charitable foundation? Are you engaged in a joint venture that should be insured? How about subsidiary operations like insurance or investment services?

### Are All of Your Locations Listed?

This is another simple issue that gets overlooked as policies are renewed from one year to the next. Locations need to be listed both on your property insurance and on the liability section. Don't forget to add liability coverage on vacant land your bank owns.

### Are Your Parking Lots Properly Insured?

If your bank owns a open parking lot for customer or employee use, there is no need for special coverage. The problem comes when you are charging a fee to the public to park. You may need insurance to pay for damage caused to vehicles in your lot. Talk with your insurance advisor.

### What Limit of Coverage Do You Have for Your Computers?

In several bank insurance reviews I have found that computer protection is inadequate. In one bank, I found \$100,000 of coverage for \$1,200,000 of computer equipment. Build a chart that shows each location and an estimate of the replacement cost of the computer equipment at that location. Give the list to your advisor for review.

### Remember the Pollution Exclusion

Over the past 20 years, the insurance industry has been hammered by the courts on pollution claims. The result is that most standard insurance policies have pollution exclusions so broad that the industry calls them "absolute pollution exclusions."

Liability arising out of pollution is excluded by most general liability insurance policies. If the oil tank for your heating system leaks and pollutes a neighboring stream or basement, there is no coverage. Directors' and officers' policies also have pollution exclusions.

Your property insurance probably has an exclusion for damage to your



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property caused by pollution—your pollution or pollution caused by others.

The only exception to the above is for the cleanup of pollution on your premises caused by a peril included in your property insurance. Coverage is usually limited to \$25,000. Not much protection.

### Prevent the Most Common Bank Property Loss

Banks don't have a great many property losses. In the last few years, though, I have seen four banks with the same incident. It's a silly event and the cause of much embarrassment for all concerned – a truck getting stuck in the drive-through teller roof overhang.

Loss prevention is simple for this type of accident. Put up a sign or a hanging tube for the unwary to hit before they collide with your building.

### Check Your Valuable Papers Insurance Limit

Valuable papers insurance pays for the cost of recreating documents destroyed by an insured peril. It pays for the cost of research and copying the documents you need to run your business after a fire or other insured cause of loss.

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

Buying valuable papers insurance, however, is a lousy way to protect your bank's records. Physically protect documents or records that are important to your operation. 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! Implement a clean desk policy where paper files are stored in drawers each night.

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### Whatever Happened To...

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countries when I was in the U.S. Navy in World War II. I didn't particularly like the Navy discipline, but it was interesting to learn how other people lived and how they thought. I was in both the Mediterranean area and the China/Japan/Korean region. During my 80th year, I visited my 80th country. We are looking forward to taking the Tran-Siberian Railway from Moscow to Vladivostok this summer. We will be spending a night in Ulan Bator, Mongolia, where I did two consulting projects. I am planning to contact some of the people I worked with there.

#### Q: What do you miss and not miss from your days in banking?

I miss the stimulation of daily contact with outstanding staff members and the challenges of meeting the needs of a wide variety of customers.

#### Q: How did you get into banking?

My first job after graduating from Bates in 1950 was with Union Mutual

Life Insurance Co. in the Actuarial Department. I liked the work, but quickly realized that I needed to go back to school to get further education to continue in that field. With a wife and one child that didn't seem practical. I spent some time talking with the Guidance Director at Bates and we decided banking would be a good field for me. He made an appointment for me to meet George Ellis, then a recruiter for the Boston Federal Reserve Bank. He was looking for bank examiners. I felt a few years as a bank examiner would give me some good experience to learn the banking business so I applied and got the job. The rest is history.

There have been few dull moments, but I couldn't have been more satisfied with the experiences I have been lucky enough to have.

#### Q: Where can one find you these days?

A: When I'm not traveling, I am home at 263 Clifton St., Portland, ME 04103. I can be reached by telephone at (207) 774-6920, and e-mail at [wbonney@maine.rr.com](mailto:wbonney@maine.rr.com).

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