WORKBOOK: 109 questions to ask about insurance

Facing dozens of risks, how well protected is your bank? Really?

Is protection like this possible for your bank? You won't know until you ask your agent lots of questions. Don't assume anything.

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If you took all the "hats" you wear as the leader of a bank you could probably outfit a whole baseball team.

Insurance, for most CEOs and CFOs, is but one hat. It is a hat you wear infrequently-- at renewal time and when there is a claim. It is also, for most bankers, an uncomfortable, ill-fitting hat.

I can't make insurance more stylish. I can make it more understandable. This article will give you resources that will help you be more comfortable with the topic.

Four key parts to
your bank's insurance

A typical bank's insurance policies fall into four areas:

• Bankers Fraud-Bond

Fraud and deceit insurance: Covers dishonest acts of
employees and outsiders by embezzlement, funds-transfer fraud, robbery, and computer hackers.

This policy is most often called the financial institution
bond. I added the descriptive "fraud."
The fraud-bond covers losses to the bank where fraud or deceit is used.
The policy has multiple parts for different forms of loss and fraud--employee dishonesty; loss in transit; loss on premises (robbery, fire); computer fraud; counterfeit currency; ATM loss; loss to a safe depository; funds transfer fraud; fraudulent mortgages, etc.

• Management Liability

Management-decision malpractice insurance: Coverage sections include: directors' & officers'; employment practices; cyber liability; fiduciary liability; and bankers' professional liability.

The common theme here is liability. Claims in the management liability policy involve lawsuits brought against officers, directors, and employees by regulators, stockholders, employees, or customers.

If a lawyer is involved and the issue involves a decision (as opposed to an accident) look to the management liability policy.

• Lender Asset Protection

Covers loan-administration mistakes: Policies include: foreclosed/forced-placed property insurance, lenders single interest, and mortgage impairment.

These policies protect the collateral used to secure loans.
The issues that cause the losses could be a customer who fails to buy insurance; foreclosure that forces you to take back the property; incorrect flood zone determination; defective title; or other impairment to your collateral.

• Standard Lines

Standard business insurance: These coverages include property, general liability, automobile, workers' compensation, and umbrella liability.

These insurance policies are purchased by almost every business. The dentist office down the street from you buys similar insurance. Some agents call this the easy stuff. Even so, in my reviews I find many mistakes in the design of the standard lines of insurance.

You have to ask questions to get it right

So now you have a bit of a grasp of the insurance coverages your bank buys. How can you be sure you have what you need?

Most banks depend upon their agent or insurer for advice. Have a conversation with your insurance agent. Ask the agent or insurer the following questions to gain an idea of the issues of concern:

Financial Institution Fraud-Bond Issues:

• What is the policy's aggregate limit of coverage?

• How much coverage is there for the different coverage areas?

• What is the deductible for claims?

• How much coverage is there for computer systems fraud?

• How much coverage is there for EFT fraud?

• Are there any limitations as to call-backs or other procedures the bank must follow for funds transfers?

• How much coverage is there for destruction of computers and data by employees--or former employees-in other words, sabotage?

• How much coverage is there for loss involving a debit card?

• What coverage does our insurance company offer that is not now included?

Management Liability Insurance Issues

• What types of incidents are covered? Ask for an explanation of how "claims-made" insurance works and how prior acts are covered.

• Who is insured by this policy? Provide a list of named insureds.

• What coverage limit does the bank have in the aggregate?

• Are defense costs a part of the deductible?

• What types of claims reduce the aggregate limit available?

• What types of claims reduce the amount of insurance available for future claims against the directors of the bank?

• Do employment practices liability claims reduce the amount of coverage available to pay D&O claims or professional liability claims?

• Is the bank permitted to select any attorney we want to defend us, or does the insurance company?

• If there is employment practices liability coverage, do claims reduce the limit of coverage available for other claims within the

D&O policy?

• Does the policy include coverage for lender liability claims?

• Do lender liability claims reduce the amount of insurance available for other losses?

• Does the policy include coverage for the bank (also known as "entity coverage")?

• Does the bank have coverage for errors in the administration of the bank's employee benefit plan?

• What coverage exclusions are of concern?

• Are there exclusions on our D&O insurance?

• Does the policy include coverage for civil money penalties assessed against the board?

• Is there an exclusion for the lawsuits brought by regulators?

E-Commerce / Cyber
Liability Insurance Issues

• What is the policy's aggregate limit of coverage?

• What is the policy deductible?

• What events are covered by the policy?

• Does the policy pay for allegations of violation of privacy? Digital and non-digital data breaches?

• Does the policy pay for the costs to notify those whose data has been compromised in a data breach?

Mortgage Impairment Issues

• What is the total limit of liability? What are the deductibles?

• If a customer fails to insure the collateral of a loan and there is a fire, windstorm, or other loss, how is the bank protected?

• Does the policy include protection for real estate tax loss?

• Is there coverage for errors made in life and disability insurance?

• Is there coverage for title errors and omissions?

• Does the policy offer to expand the perils beyond those required in the mortgage documentation?

• Is there coverage for loss of guarantees from the Federal Housing Administration, the Department of Veterans Affairs, or the Small Business Administration.?

Foreclosed and
Force-Placed Property Coverage

• How are repossessed vehicles, snowmobiles, motorcycles, boats, ATVs, and other such equipment insured?

• How are customers' uninsured mortgaged properties covered?

• How are foreclosed and owned properties covered?

• What perils are covered for foreclosed, owned, and force-placed property?

• Is flood a covered peril?

• Is earthquake a covered peril?

Property Insurance Issues

• Does the bank have replacement cost coverage on its own bank buildings and contents?

• Are the limits of property coverage adequate?

• Are there coinsurance penalties in the bank's policies? Can they be removed?

• Are the bank's property deductibles coordinated? For example, in a fire, will two deductibles be assessed--one for property and one for computers?

• Is the bank covered for flood?

• Does the bank have earthquake coverage?

• What property insurance is the bank missing?

• Is the bank's business income coverage written to protect it from a calamity?

• Is the bank's extra expense coverage properly designed and adequate?

• Is loss by flood and earthquake included in the bank's extra expense coverage?

• Are all locations included in the loss of business income/extra expense coverage?

• How does the policy protect the bank from power failure?

• How does the policy protect the bank from loss of communications--phone, internet, etc.?

• How are computers covered? What limits of coverage do we have for computer equipment?

• At what location (s) are computers covered?

• Is there coverage for the demolition of the undamaged part of bank buildings after damage is caused to another part and a civil authority forces the demolition?

• Do we have coverage for the increased cost of reconstruction to meet current laws and building codes?

• Do we have coverage for laptop computers that are away from the bank?

• Do we have coverage for equipment owned by our bank that is at employees' in-home offices?

General Liability
Insurance Issues

• Does the bank have adequate general liability coverage?

• Are the aggregate limits high enough?

• Does the bank's general liability insurance include a per-location aggregate?

• Are there any limitations on the defense cost coverage in the bank's general liability policies?

• Are the bank's pollution liabilities properly covered?

• Does the bank have coverage if an employee assaults a customer?

• Are foreclosed properties included in liability protection?

• Does the bank have adequate coverage for libel, slander, false arrest, wrongful detention?

• Does the bank's liability policy insure it for emotional distress and mental anguish alleged to have been caused to others?

• Have you reviewed liability insurance looking for exclusions of concern?

• What suggestions can the agent make regarding how the bank can use certificates of insurance to limit loss exposures to contractors?

• Is the bank covered for the liability issues that come from boats, planes, or other such property that it may acquire?

Corporate Auto
Insurance Issues

• What are the limits of liability on the bank's auto policy?

• Does the bank have "any auto" liability coverage?

• Does the bank have coverage for liabilities when an employee drives a personal vehicle on bank business?

• Are employees covered if they are responsible for injuries to fellow employees?

• Does the bank have liability coverage for vehicles it has repossessed?

• Does the bank have physical damage coverage for vehicles

it has repossessed?

Workers' Compensation
Issues

• Is the bank missing any discounts on its workers' compensation policy?

• Has the bank's workers' compensation insurer provided maximum credits on the policy?

• Is the bank in the insurer's preferred rating plan/company?

• Has the agent reviewed the open losses on the bank's workers' compensation claims record to spot over-reserved claims?

• Has the agent reviewed workers' compensation audits for errors in employee classification?

• Has the agent reviewed workers' compensation experience modification for errors or opportunities for savings?

• Is the bank's limits of coverage for employer's liability adequate?

• What services can the bank request from its workers' compensation insurer that will help it control losses?

Umbrella Liability
Insurance Issues

• What are the limits of the bank's umbrella liability coverage?

• Are the policy's aggregate limits adequate?

• Has the agent recently quoted higher limits for the bank?

• Are there limitations to the coverage for defense of claims?

• Are there areas where the umbrella policy is not as broad as the bank's underlying policies?

• Are foreclosed properties included in the bank's umbrella liability protection?

General questions for your agent

• If we were a prospect and not a client, which insurance company would you recommend we consider for our bank's policies?

• How comfortable are you with the quality of the service provided by our insurer(s)?

• Have you reviewed our leases for insurance issues and required coverage?

• Have you reviewed the certificates of insurance for our tenants?

• Does your agency have services we are not now taking advantage of?

• Does our insurance company have services we are not using?

• How do you assure us that you have reviewed the insurers you represent for a better insurance program than the one we have now?

• What insurance changes do you see coming at us in the current insurance marketplace?

• What is your plan for the coming year's renewal?

• What should we consider for coverage improvements?

• Can we consolidate any of our policies into one and/or move them to a common expiration date?

• What's your biggest concern with our insurance program?

• Have you reviewed the named insureds on each policy and are you comfortable that we have the correct entities included?

The most important question to ask yourself

Here is the most telling question of all.

This is the single question that trumps all the others.

If the answer to this question is not instantly and unequivocally, "Yes," it is time to hunt for some major changes in your insurance protection.

"Imagine you are standing by the smoking rubble that was once one of your bank's branch locations. The fire department is still there. The building is a total loss. Will you be comfortable at this moment that your insurance agent is going to help make this catastrophe survivable?"

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