

COMMUNITY BANKS: THE RETURN OF THE MULTI-YEAR POLICY



Prior to the financial crisis that crippled the economy in 2008, many insurers of community banks were routinely offering multi-year policies for management liability and financial institution bond insurance coverage. During this time, the healthy economy helped banks of all sizes post stellar earnings and provided relative stability in the insurance market for purchasing these lines of coverage.

When the economy started to falter and banks began to deteriorate, the insurance market shifted. According to the FDIC, a total of 518 banks have failed since the beginning of 2008. The same insurance carriers that were offering multi-year policies held the bill for the failed financial institutions. The FDIC, depositors, former employees, shareholders, regulators and other stakeholders started looking toward the insurance carriers for restitution. The insurance market for the directors and officers of community banks hardened: terms and conditions became more restrictive, premiums and retentions rose, and even the healthiest institutions were not able to obtain multi-year policies.

Fast forward to 2016. The economy is recovering and the banking and insurance markets have stabilized again. Carriers have started to offer multi-year policies again, but on a more selective basis.

WHAT ARE UNDERWRITERS LOOKING FOR WHEN OFFERING MULTI-YEAR POLICIES? IN SHORT, STABILITY.

- Consistent earnings for at least 3 to 5 years
- Exemplary regulatory compliance (no regulatory orders)
- Capital levels well above the regulatory requirements
- Strong asset quality: low levels of non-performing loans, conservative loan mix, stable investment portfolio, etc.
- Earnings exceeding peer group
- Established and experienced executive management
- Low employee turnover rate
- Stable ownership
- Infrequent M&A activity
- Clean claims / loss history

HOWEVER, NOT ALL MULTI-YEAR POLICIES ARE CREATED EQUALLY. HERE ARE A FEW ISSUES BANKS SHOULD CONSIDER BEFORE PURCHASING:

- Does the policy have one aggregate limit or refreshed / reinstated aggregate limit each anniversary?
- Is the policy cancellable? A multi-year policy would be useless if the carrier can cancel the policy at any time.
- Does the policy have any special conditions? Some carriers will require banks to maintain certain capital levels, asset quality standards or remain claims free during the policy period or the bank can be re-underwritten at the anniversary date.
- Are the terms of the policy broad enough to cover any planned organizational changes during the entire policy period?
- Is the policy premium pre-paid or annual installments? Is there a pre-paid discount?

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CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker or marketing@amwins.com.

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WHY SHOULD BANKS PURCHASE A MULTI-YEAR POLICY?

- **Locked-in insurance program.** Avoid the cyclical nature of both the banking and insurance markets.
- **No renewal applications!** Banks can concentrate on banking instead of dealing with insurance applications and renewals.
- **Builds relationships.** A multi-year policy can help build long-term relationships between the carrier, broker, and bank because long-term commitments tend to be mutually beneficial. The bank hopes to receive better rates, terms, conditions, or claims-payment services than afforded by a single-year policy.
- **Tracks the exposure better.** In some situations, it may be appropriate to know that insurance will be in place for the entire period of a particular exposure. For instance, when a company is involved in a financial restructuring or an initial public stock offering, the company may be subjected to Securities and Exchange Commission (SEC) liabilities for a specific period of time. Under a single-year policy, the insured could be left with little or no coverage if the insurance market suddenly tightens and the insurer cancels or fails to renew. A non-cancelable, multi-year policy can make sense because it assures the insured of coverage during the course of the exposure.

Deciding if multi-year policies make sense for a bank requires careful consideration of all the above points. Insurance buyers will see the value in truly guaranteed-rates as well as multi-year policies that are non-cancelable providing many benefits over traditional annual policies.

As a specialty broker, AmWINS can help navigate the benefits and challenges of multi-year policies. Our professional lines brokers have access to a variety of proprietary tools and resources to assist with marketing, negotiating coverage and providing the best insurance solutions in addition to claim advocacy. Add that to our unmatched market access and superior customer service, and we are well prepared to serve the needs of retail agents and their clients.

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