



## **HOW MUCH IS ENOUGH?**

How much is enough is a question you face most every time you decide how much insurance coverage you need for a particular risk. Excessive coverage limits are obviously wasteful in that they lead to higher premiums; however, too little coverage can be even more expensive. BancInsure recently paid a claim that points this fact very clearly. The bank in question had total assets of approximately \$125 million and purchased a Directors' and Officers' Liability Insurance Policy from BancInsure in the amount of \$1,000,000 with a retention (deductible) of \$25,000.

A bank decided to go through a Subchapter S conversion. The result would be that the number of shares of stock and shareholders would be reduced. Individuals that were no longer to be shareholders were to be paid fair market for their shares of stock. The conversion went through, but three of the former shareholders sued the directors of the bank alleging that the price they received for the stock surrendered was not fair. The bank and its directors initially believed that there was little merit to their claim. As the case progressed it became apparent that the former shareholders were raising questions and issues that while defensible, they presented substantial exposure to the directors. The court ordered a settlement conference. At the time of the settlement conference, BancInsure had indemnified the directors approximately \$435,000 for defense costs. With BancInsure's approval the matter was settled for \$1,490,000. Since BancInsure had already paid out approximately \$435,000, BancInsure contributed approximately \$565,000 toward the settlement of the matter. The bank on behalf of the directors contributed the remaining \$925,000.

While it is easy to second-guess decisions, it appears that this may well be a case of being under insured. Given today's legal climate, the litigious nature of many segments of the population and the propensity of juries to be generous in their awards, proper coverage is essential to protect your bank's capital base.

The second lesson from this story is that in decisions that affect the value of the bank's stock, the bank and its board of directors should be very careful that all decisions are not only fair, but are perceived in that manner. All decisions should be supported by appropriate documentation.

We trust that these comments have been helpful.

BancInsure has become a leading writer of Directors' and Officers' Liability Insurance Policies in the United States by providing a sound stable market, excellent service and fair claims treatment. If you would like to learn more about BancInsure's Directors' and

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