

**CARIBBEAN ASSOCIATION OF BANKS
INSURANCE SCHEME
17th January 2013**



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EXECUTIVE SUMMARY

Cost effective, Tailored, Consistent, High Quality Protection for Comprehensive Crime, Professional Liability, and Directors and Officers Liability

The attached document provides an analysis and evaluation of the proposed Comprehensive Crime and Liability collective insurance policy for members of the Caribbean Association of Banks.

Your Association's interest in making available to its members a special insurance scheme offering high quality insurance protection at much reduced cost is a most significant and important development. We had to be cautious as to how far to press the point from the platform at the Conference but it would be true to say that the scope of protection hitherto provided to banks in the Caribbean region has failed utterly to keep pace with the many changes and improvements offered to other banks elsewhere in the world by the Financial Institutions insurance market over the last 25 years. This failure extends both to the limited, old fashioned, out of date policies which have been offered as well as to the very high levels of premium being charged for these manifestly substandard insurance products.

To illustrate this, we have been able to deliver cost savings of well over 20% to banks in your region - reducing the insurance costs of one major bank by no less than 45% - whilst at the same time dramatically broadening and improving their scope of insurance protection. We are aware of other banks for whom large premium reductions and greatly improved coverage can also be obtained.

This is a most unusual scenario and one primarily due to lack of competition and inferior advice. Our aim is to address and correct this situation throughout the Caribbean region in cooperation with your Association.

We are able to offer your Association a collective insurance policy designed to provide to its member banks very high quality Crime and Liability insurance protection at a cost which reflects the benefits of purchasing insurance on a group basis. This insurance policy would offer your members, via the Association, a cost effective, consistent, high quality policy wording tailored to address the exposures faced by banks operating in the Caribbean market. A collective buying approach would give your members not only much greater certainty as to the quality of their insurance protection but also the comfort that it had been purchased at a considerably reduced cost. It would also provide regulators with reassurance as to the consistency and quality of the insurance protection carried by your members.

We are in discussion with several major insurers all of whom are expressing strong interest in participating in this project. They, in conjunction with ourselves, have the skills and resources necessary to design and to service a high quality level of insurance protection at a significant cost reduction to your members. In addition to the insurance policy coverage a complimentary annual risk survey would be offered to your members along with workshops designed to provide up-to-date information on internal controls and procedures and how they might be improved. The risk survey and the workshops would enable your members to access specialist advice on risk exposures and the protection which is available.

The attached document describes and explains in user-friendly terms the way forward which we propose.

CARIBBEAN ASSOCIATION OF BANKS INSURANCE SCHEME

Cost effective, Tailored, Consistent, High Quality Protection for Comprehensive Crime, Professional Liability and Directors and Officers Insurance

Introduction:

Howden Insurance Brokers was founded in 1994 in the UK as a specialist wholesale broker and has developed into an international insurance group with four key operating platforms: wholesale, retail, reinsurance broking and underwriting. Howden are part of the Hyperion Insurance Group, with over 50 offices across more than 20 countries, employing approximately 1,400 people. We are a top 5 UK based broker.

With a primary area of specialisation being Comprehensive Crime, Electronic Crime, Cyber Liability, Professional Indemnity and Directors' and Officers' Liability Insurance, Howden are recognised as a leading specialist financial institutions broker. We pride ourselves on the diversity of our product offering and on our expertise in delivering these products to our clients.

Summary:

The aim of this scheme is to provide cost effective, high quality, tailored and consistent Crime and Liability insurance for member banks of your Association. Participants would benefit from access to catastrophe protection, well beyond their normal insured limits, at minimal cost by means of a unique program structure. Pricing, deductibles and access to this additional protection would be on a fully transparent basis, ensuring that all participants are treated fairly, so as to ensure full participation both now and over the longer term.

As an integral part of the scheme, and at no additional costs, we have negotiated insurers' agreement to a comprehensive risk awareness and loss reduction program. This would make available to your members, expert consultants, risk surveys and market events, where best practice, emerging trends and policy/coverage education would be undertaken.

Member Banks:

Your Association's members range in size from small local retail banks to substantial, complex and multi-geographic Caribbean banks. Most, if not all of these banks purchase some form of Crime Insurance. Some also purchase Professional Indemnity, Directors and Officers and Cash in Transit Insurance. Policies currently offered to these banks have been poorly structured and overpriced.

General Benefits:

Cost effective, Tailored, Consistent, High Quality Cover

Howden would design for the member banks of your Association a cost effective, tailored for the region, consistent, high quality wording offering exceptionally broad and wide ranging protection. This would give your members much more certainty as to the quality of their protection and confidence that group purchasing power had achieved this on the most competitive and cost effective basis. Regulators would also be reassured as to the consistency and breadth of protection carried by your members.

Claims

There would be a clear formula for claims handling. This, together with consistency in interpretation, would ensure that the cover and the intent of the policies was respected, that capital adequacy in member banks is not undermined as a result of a major crime or professional liability loss, and that confidence in the banking system is maintained.

Insurers

We have held discussions with several major insurers specialising in these classes of insurance. All have expressed strong interest in this project. Participating insurers would be required to have a minimum S&P 'A' rating, with automatic provision for the immediate replacement of any insurer whose rating fell below this level. There is a considerable appetite among Financial Institutions insurers in London to be given the opportunity to compete for Caribbean financial institutions business. We have as a result been able to agree solutions for your member banks which greatly improve levels of protection hitherto provided as well as offering considerable cost savings.

Reduction in Exposure

The provision of a comprehensive program of bank risk surveys is aimed at reducing exposure to fraud and liability. Over time, a positive consultancy and educational input will enhance members' risk profile resulting in improved terms and conditions of insurance.

Distribution/Contact

Howden would supply all the necessary information, contracts, documentation, back office administration and payment processing.

Standardised Risk Disclosures

Insurers have agreed to standardise informational requirements and risk disclosure forms. These may need to be supplemented with additional information for certain higher risk activities or larger/complex historic losses, but this would be an easy and efficient process for those involved.

Participation

The more banks that participate, the lower the annual premium per member. A major aim of this scheme is to provide significant premium savings to your member banks.

Benefits to the Association

The Association would receive an annual commission based on the overall scheme premium. This commission is intended to cover all of the Associations' administrative costs involved in the initial and on-going process.

Continuity

We would include within the policy benefits the payment of a substantial Continuity Bonus. This Continuity Bonus would be payable every three years. It would be shared equally between, on the one hand those banks which had participated in the scheme for the previous 3 years, and, on the other hand, the Association as a reflection of its contribution in administering the scheme.

Scheme Structure:

Primary Insurance

Each member bank would be allocated into one of 4 different levels of insurance based on its staff numbers, number of locations, asset base and activity profile.

The sum insured applicable to each of these 4 levels of insurance would be, respectively, USD 1m, USD 2.5m, USD 5m and USD 10m.

The smallest banks would be insured at the lowest level and the largest banks at the highest level. Medium sized banks would fall into one of the middle two levels.

Within each of these 4 levels or bands of insurance there would be two separate and distinct limits. One limit would protect the bank against Crime and Professional Liability losses/claims. The other limit would protect the Directors and Officers for claims made against them.

Thus, for example, in the case of a bank in the lowest of the four bands, a total of USD 2m would be available to meet claims or losses reported during any single insurance year – up to USD 1m for Crime and Professional Liability claims/losses and up to a further USD 1m for claims against Directors and Officers. Each of these 4 levels represents what we call primary insurance.

Self-Insured Amount/Deductible

It is normal under Crime and Professional Liability policies for there to be a deductible, a self-insured amount which applies to each and every loss/claim. Each bank will be given the option to choose the level of deductible best suited to it, although loss experience plays its part in this consideration. We would envisage banks in the lowest level of insurance having a deductible of between USD 20,000 – USD 50,000 with banks in the highest level of insurance having a deductible of between USD 100,000 – USD 500,000.

No deductible would apply to the Directors and Officers Liability section of the policy.

Catastrophe Protection

Above the primary protection carried by each bank, there would be a USD 50,000,000 umbrella shared by all of the banks collectively. This umbrella is designed to provide catastrophic protection. That is to say, the umbrella is designed to protect the balance sheet of each participating bank against unforeseen catastrophic loss over and above whichever of the four limits it is insured under.

The USD 50,000,000 umbrella would apply only to Crime and Professional Liability Risks. Examples of the way this catastrophe protection would work are shown in the Appendix.

Pricing

All banks would be priced for primary insurance on their individual risk characteristics ensuring that member banks do not cross subsidise each other. All would be priced using the same pricing methodology and pricing tools. This would ensure consistency and transparency.

The pricing for the catastrophe layer would be on a fully pro-rata basis. That is to say, each bank would pay its share of the catastrophe insurance premium in the same proportion as its primary insurance premium bears to the total of all primary insurance premium under this scheme. Thus, if the premium for one particular bank equated to 3% of all primary layer premiums paid by participating banks then that bank would also pay 3% of the catastrophe insurance premium.

Next Steps:

If what we have proposed in this discussion document is of interest to and meets with the approval of the Board of the Association the next steps would be: -

1. To seek the agreement of member banks to participate with this scheme.
2. For the Association to gather the necessary information from each bank interested in participating. Howden would provide an appropriate questionnaire. We would need to discuss with the Association a formula showing which bank falls into which of the 4 primary insurance levels/limits. Information contained in the completed questionnaire would enable a quotation to be provided to each bank in respect of primary insurance. The pricing of the catastrophe layer would be confirmed following the pricing of the primary layer of all participating banks.

We would be happy to respond to any questions or queries which arise from the Association's consideration of this document. We would also be pleased to attend any meetings for this purpose.

Blair Buchanan

17th January 2013

APPENDIX
THE CARIBBEAN ASSOCIATION OF BANKS
INSURANCE SCHEME

There would be four primary levels of insurance for Limits of USD 1m, USD 2.5m, USD 5m and USD 10m with a Catastrophe umbrella of USD 50,000,000 protection for crime and professional liability risks only sitting directly above the four primary levels.

Below are two examples of how this structure would work in the event of a claim: -

Example 1 -

- A bank purchases primary insurance of USD 5,000,000
- The bank suffers an insured professional liability claim of USD 4,000,000 leaving only USD 1,000,000 available to protect this bank against any further crime or professional liability losses during the balance of the insurance year.
- The catastrophe layer would then automatically drop down to fill the USD 4,000,000 gap thereby ensuring continuing protection for losses of up to USD 5,000,000
- Because of this USD 4,000,000 drop down, the limit under the catastrophe umbrella would also reduce by USD 4,000,000 i.e. to USD 46,000,000.

Example 2: -

- A bank purchases primary insurance for USD 10,000,000
- The bank suffers an insured crime loss of USD 25,000,000. The primary USD 10,000,000 limit is totally extinguished by this loss with a further USD 15,000,000 being available from the catastrophe insurance umbrella to meet the balance of the USD 25,000,000 loss.
- This then results in a reduced limit in the catastrophe umbrella of USD 35,000,000. However, out of this reduced USD 35,000,000 limit, USD 10,000,000 then drops down as primary insurance to meet claims which might arise during the balance of the policy period. This further reduces the catastrophe umbrella to USD 25,000,000.