



Patrick Gilham, Managing Director of Insurance Products

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A view from the Tower

It is some time since we last produced Bank Talk, a periodical which has in part been the trade mark of the Financial Institutions Division (FID) since the first edition in 1988. Our team has gone through a lot in recent times, namely with the passing away of our colleague David Martin just before Christmas. This is addressed more fully further on in this issue. David will be missed by friends and colleagues alike.

On the business side, we have been very busy, as you will note from the articles in this release of Bank Talk. On the Country front, we recently formalised a new association with Høgsberg in Denmark; we have continued to develop business in Australia; and the restructured presence of HSBC Insurance Brokers in Bermuda has now been in place for 5 years and continues to grow. On another front, the demand for Operational Risk support and know-how has seen HORC (HSBC Operational Risk Consultants) go from strength to strength. All this in addition to the expansion registered within the Insurance Products Team.

The Insurance Market

The Market both in terms of Providers (Carriers) and Purchasers (Insured's), have had an interesting year. Market capacity for all elements of the Financial Lines account is far greater than the majority of risks require and therefore by reason of the law of "supply and demand" market rates have come under severe pressure. The Hard Market was only with us for what seemed a passing moment before the Soft Market reappeared. Either as a purchaser or provider, you may question the inconsistency of the Market in its pricing of risks. To some extent, this is the beauty of the Market place in that the job of your broker is to negotiate a product that meets your requirements as a business, addressing the features of risk retention and desired spend. For most buyers, the key area to address is one

of coverage. The challenge is to embrace all of the current regulatory issues and then include as many "bells and whistles" as may be appropriate to the subject risk. To this end, prior to the commencement of the contract, there is exhaustive discussion involving clients, underwriters and brokers about the risk factors that differentiate between one client and another. The conversations will also address the clients need by way of cover both in terms of indemnity, limit and product. At the end of this discussion, if the broker has done his job, the client has a product that they feel meets their needs but for which they pay a little too much.

Conversely, the underwriter probably feels that they have provided a bit too much cover for not quite enough money. In short, a deal done.

Claims Handling

In the majority of cases, little time will have been spent reviewing what happens in the event of a claim. It is after all at this point that the insurance contract for which the client pays that agreed sum of money comes into play.

I am sure that everyone has heard the comment that insurer "X" pays claims while insurer "Y" does not. Recent experience would tend to suggest that this is neither a fair nor accurate statement. There is undoubtedly a difference between one carrier and another but how does that differentiation deal with your

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HSBC Operational Risk Consultancy launches Version 2 of OpRisk Modeller



In 2001, publication of the first Basel II consultative paper raised the issue of quantifying Operational Risk exposures in order to assign regulatory capital for this type of risk in a risk sensitive way. As the Basel II arrangements developed, three increasingly sophisticated approaches to calculating minimum regulatory capital requirements have evolved and in Europe have become enshrined in EU legislation.

Of the three measurement approaches, the two simplest (Basic Indicator Approach and the Standardised Approach) both involve use of a centrally defined risk factor and a scale indicator (Gross Income) to calculate a capital figure. Financial Institutions that opt for the more sophisticated Advanced Measurement Approach (AMA) will be allowed to develop their own modelling methodology to assess the extent of Operational Risk exposures within their businesses.

Firms using the simpler measurement approaches cannot disregard, however, the question of modelling Operational Risk.

The UK Financial Services Authority (FSA) has recently published its requirements for the Supervisory Review process for capital adequacy for financial institutions. This consultative paper makes it clear that regardless of the Pillar 1 methodology used to assess minimum Operational Risk regulatory capital requirements, firms will be expected to identify all material risks and subject these risks to stress testing under Pillar 2.

Two main methodologies have evolved to model Operational Risk:

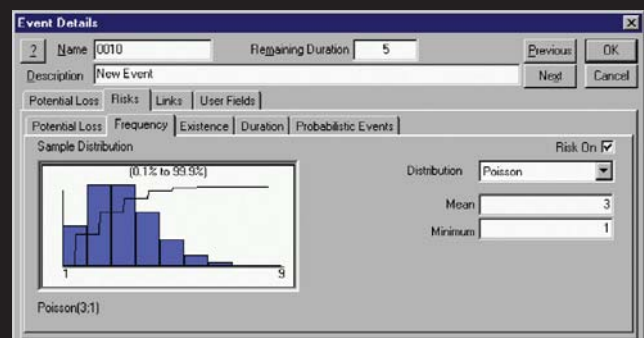
- **Scenario Based Approach** – which bases risk assessments on the knowledge of staff and management of the risk environment in their business areas,
- **Loss Distribution Approach** – based mainly on historic internal and external loss data.

In 2003, HSBC Insurance Brokers launched OpRisk Modeller as a scenario based modelling tool. The program was rapidly adopted by HSBC USA as the chosen application to support the Group's Advanced Measurement Approach to Operational Risk in the USA.

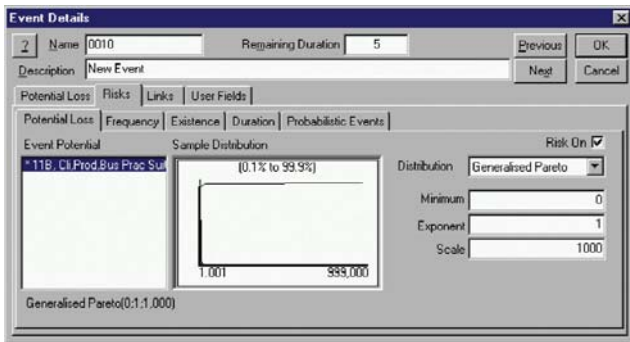
As a result of this work, and following substantial consultation with HSBC USA, HSBC Operational Risk Consultancy is now launching a new version of OpRisk Modeller providing significant upgrades to the product functionality.

The improvements to the software include:

- Introduction of frequency modelling capabilities to allow users to model uncertainty in the frequency of occurrence of a loss event using standard frequency distributions (Poisson, Negative Binomial, etc). This includes the ability to model uncertainty in the probability of occurrence of a single event.
- The provision of a substantially enhanced range of mathematical distributions for both impact and frequency modelling to provide a full range of bounded and infinite distributions offering both fat and thin tailed distributions.



- New distributions include Log-Gamma, Generalised Pareto, Inverse Gamma, Gamma, Levy, Kumaraswamy, Log-Logistic, Weibull and Poisson, allowing users to model defined mathematical distributions emanating from curve fitting software.



OpRisk Modeller is easy to install and will run on any PC with an operating system of Windows 98 or later. ■

David Breden MA (Oxon) FIOR ACIB, Managing Director,
HSBC Operational Risk Consultancy
Tel: +44 (0)20 7991 05 99 Email: david.breden@hsbc.com

- Addition of a wide range of thin and fat tailed distributions for both loss and frequency.
- Enhancement of mathematical distributions to permit the creation of unbounded distributions to facilitate the creation of extreme scenarios that will stress test a firm's resilience.

The enhancements equip the software with the ability to produce models using both a Loss Distribution or a Scenario Based approach for calculation of Pillar 1 minimum regulatory capital requirements. It also makes OpRisk Modeller an ideal choice for producing stress tests and scenario analyses as required under the Capital Adequacy Supervisory Review Process.

We regret to announce the death of **David Martin**, Project Director of HSBC Operational Risk Consultancy (HORC) in a motor accident on the 18th December 2006.

David had worked in HORC since January 2001 and had worked extensively in Africa and the Middle East delivering the software and consultancy services of HORC.

David will be remembered for his professionalism, good humour and dignity which made him a trusted advisor to both his clients and his colleagues and will be greatly missed by his friends around the globe.

David leaves a wife, Dianne and twin sons, Simon and James.

At **HSBC Bank USA** we have been using OpRisk Modeller for Operational Risk quantification for over 3 years.

Our approach is a scenario based method for the identification and measurement of operational risk exposure. During the past year US regulatory agencies have requested that we do more work in the area of statistical analysis of historical losses and that we develop a Loss Distribution Approach. The recent enhancements to OpRisk Modeller allow us to use one software product for either approach. The enhancements focus on improving the calculation of infinite distribution curve types by removing truncation of results by the software, the addition of several distribution curve types commonly used in the industry and the addition of the capability to incorporate a frequency distribution which was not possible with the old version of OpRisk Modeller.

We are just starting to use the newest release for quantifying operational risk, but we are very excited about the additional functionality and flexibility OpRisk Modeller now gives us.

Kenneth J. Fuerst (First Vice President, Risk Management Department, HSBC North America Holdings)

We are pleased to announce that **David Breden** has been elected to the **Council of Institute of Operational Risk**.

The Institute of Operational Risk (IOR) is an organisation that has as its primary aim the promotion of skills and standards associated with Operational Risks. The IOR is an independent, not for profit, professional body designed to support its members through the provision of : high standards against which membership and professional competency is judged, a recognised professional qualification and associated disciplines, external events for the promotion of ideas, ongoing professional development and networking, research to assist and ensure the continual improvement of methods, techniques and knowledge, and an educational programme.



A 5 Year Anniversary A 20 Year History

HSBC Insurance Solutions (Bermuda) Limited



The last 20 years has seen the Bermuda market transform from a leading offshore captive domicile to one of the largest insurance and reinsurance markets in the world. Capital, both financial and intellectual, has flooded into Bermuda in waves, in reaction to various market changing events and industry cycles.

The transformation started in the mid-1980's when ACE and XL, established operations in Bermuda to address the severe shortage of liability capacity at that time for large, mostly US corporations. The most recent wave of insurers and reinsurers was in direct response to the market dislocation caused by the storms of 2005. In between, there have been a several events that needed quick insurance solutions and each time Bermuda was the chosen domicile.

Over the last few years a number of Lloyd's insurers have elected to be domiciled and/or headquartered in Bermuda. Catlin, Amlin and Hiscox are a few of the London market insurers who have decided to have underwriting operations and senior management located in Bermuda. In addition, all major broking firms have a physical presence in Bermuda and are members of the Bermuda Insurance and Reinsurance Brokers Association (BIRBA).

HSBC Insurance Brokers have had a physical presence in Hamilton, Bermuda since 1987, and has witnessed and participated in the development of the Bermuda market. *"It's been quite a journey",* according to Roy Fellowes, who has managed HSBC's insurance operations in Bermuda for the 18 years he has been resident in the island. *"By comparison, business was simple back in 1988 when I arrived. Operating as wholesale brokers, we had two companies to approach, two products to offer (Excess Umbrella Liability and D&O), and a hard market, so business came to Bermuda without too much effort. One of my first underwriting meetings in Bermuda was with John Cox, the first CEO and President of ACE. At that time ACE had a total of approximately 25 employees, so John was also underwriting certain accounts. His experience and leadership guided ACE through the early days. He was also an extremely impressive underwriter. XL was a similar size in those days and Brian O'Hara, current President and CEO, has been there from the start. Both ACE and XL have gone on to become global players and two of the largest insurance companies in the world. You learn a lot working with such professional insurance companies."*

The Bermuda market has developed beyond recognition from the mid-1980's. A very broad range of traditional and non-traditional insurance products are offered by numerous insurers and reinsurers located on the island. Bermuda is now the largest property cat market in the world.

Summary of Bermuda Market Insurance Products:

- Excess Umbrella Liability
- Directors and Officers Liability
- Errors and Omissions Liability
- Comprehensive Crime Insurance
- Employment Practices Liability
- Punitive Damages
- Property Insurance
- Energy Insurance (onshore and offshore)
- Construction Insurance
- Healthcare Liability
- Restaurant Contamination Insurance
- Political Risks Insurance
- Terrorism Insurance (including NBC coverage)
- Structured Solutions.

HSBC Insurance Brokers' operations in Bermuda started initially as a joint venture with a local insurance agency, that provided office accommodation, support staff and local servicing. In July 2001, HSBC Insurance Brokers established a separate office, hired their own staff, and began life as HSBC Insurance Solutions (Bermuda) Limited (HISL). HISL started with five employees and 2,000 sq feet of office space in the Continental Building on Church Street in Hamilton. Two months later, the September 11 terrorist attacks in the US caused another disruption in the global insurance industry and again Bermuda was the chosen location for new market capacity. Bermuda works best when other markets are reducing or withdrawing capacity and HISL was well positioned to assist our producing brokers and clients access the Bermuda market. In addition to being a member company of the HSBC Group, one of the world's largest banking and financial services groups, HISL is also a partner firm in Assurex Global, the largest independently owned insurance brokerage group in the world.

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also a partner firm in Assurex Global, the largest independently owned insurance brokerage group in the world.

HSBC Insurance Solutions (Bermuda) Limited is now five years old and going strong. Operations include retail broking, wholesale broking and insurance management. As of January 2007, the total employee headcount is 36. Five original staff members who started in 2001 remain with the Company today. HISL is widely recognised as one of the leading independent insurance brokers and insurance managers in Bermuda. *"We are confident that the Bermuda market will continue to expand and we are excited about our own prospects for the future. This is a dynamic island where change is the only constant."* ■

Roy Fellowes, Managing Director
HSBC Insurance Solutions (Bermuda) Limited
Tel: +1 441 299 6840 Email: roy.fellowes@hsbc.bm

*Sidecar

In 2006, Bermuda lived up to its billing as 'the insurance laboratory of the world' with the introduction of the reinsurance **sidecar**. This is a special purpose reinsurance company, providing investors a flexible vehicle to take risk/reward on selected reinsurance contracts for a specific duration. Capital funding for sidecars has come from hedge funds and private equity investors. By the end of 2006, 10 sidecars were established, all in Bermuda, with total capital of well over USD 2 billion. HSBC secured investment funding and provide ongoing management services in Bermuda for one of the sidecars. While sidecars have written only property cat exposures to date, any risk can be insured or reinsured into a sidecar.

Events since 1 July 2001

- 2001 HSBC Insurance Solutions (Bermuda) Limited (HISL) established in Hamilton, Bermuda
- 2001 September 11 terrorist attacks – new Bermuda carriers
- 2002 Hard insurance market – pricing and capacity
- 2002 New professional lines capacity available in Bermuda
- 2002 New healthcare liability capacity available in Bermuda
- 2003 Hurricane Fabian (Class 3) hits Bermuda
- 2003 Bermuda market – 1 247 Insurers, Gross Premiums USD 95b, Total Assets USD 236b, Capital and Surplus USD 87b
- 2004 HISL management client Sage Life acquired by Old Mutual, grows to become HISL's largest client
- 2004 HSBC acquires Bank of Bermuda
- 2005 HISL establishes administration operations in Dubai
- 2005 HISL acquisition of BF&M captive management business
- 2005 HSBC Group captive moved to Bermuda – HISL client
- 2005 Assurex Global Reinsurance established – HISL client
- 2005 Hurricane season – new Bermuda carriers
- 2005 New property capacity available in Bermuda
- 2005 HSBC Segregated Accounts Company (SAC) established
- 2006 HSBC Insurance Brokers rebranding – The Intelligent Alternative
- 2006 Development of Sidecars* in Bermuda – HISL clients
- 2006 HSBC Insurance Management Restructuring – single global business
- 2006 HISL appointment managers for Hartford Bermuda Group of Companies

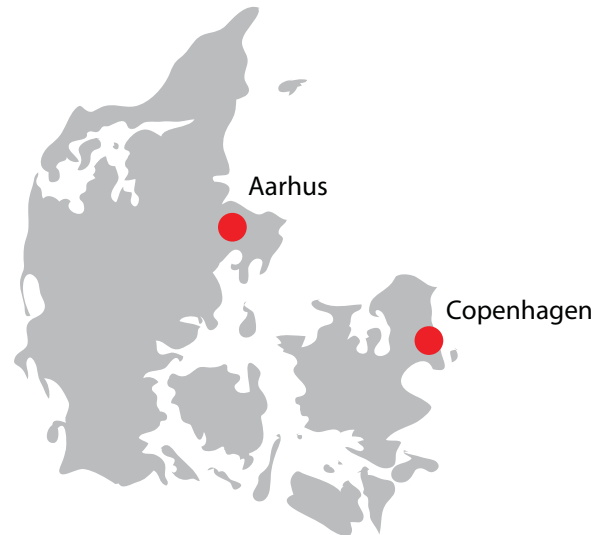


*From Left to Right,
Jon Smith, Robert Eastham, John Uprichard,
Kirstie Outerbridge, Roy Fellowes.*

The Høgsberg Story

Cooperation between HSBC Insurance Brokers and Høgsberg Assurance Service

*by Niels Christian Knudsen – Chairman,
Høgsberg Insurance Service A/S and
Philippe Garnier - Project Director - Denmark*



Philippe Garnier – On 24th November 2006, HSBC Insurance Brokers and Høgsberg Assurance Service A/S (Høgsberg) signed a strategic cooperation agreement.

Christian, how would you describe this new strategic cooperation for Høgsberg?

Niels Christian Knudsen

The strategic cooperation is intended to bring enormous benefits to both companies. It will strengthen Høgsberg's position as the leading Danish broker for Financial Institutions business which we hope will lead to market and business expansion for both companies.

A direct result of the strategic cooperation between the two companies, is the appointment of HSBC Insurance Brokers as our exclusive 'Broker of Record' in London. Høgsberg will also be able to market products and services for HSBC Insurance Brokers as a "Strategic Correspondent Broker". In addition, HSBC Insurance Brokers will provide business development assistance to Høgsberg. The latter applies particularly to a number of specified areas of strategic importance to the future development of Høgsberg's business.

Given the vast difference in size, though not in scope, between the two parties, readers of the Bank Talk Newsletter might be interested in some background information about the Høgsberg operations.

Keith Jones, Head of International and Intermediary Solutions – Financial Institutions Division and myself are of the view that at the start of this exciting new venture, we should give some background to the Høgsberg "success story": How it started; what the focus of its business is and who the clients are amongst other things. The answers offered here may help to explain how it was possible for the two companies to come together in the way that they have.

It all began with **Knud Høgsberg** known as Ken, now 62 who, some 20 years ago, decided to switch his career from accounting and auditing to insurance. In 1985 he joined the then still existing Danish insurance company, Hafnia, where he became an authorised underwriter in 1989. In 1994 Ken – a born entrepreneur – together with his wife, Bodil, founded Høgsberg Assurance Service, thus realising a desire to become independent.

To begin with, Høgsberg offered a wide range of products and services to an equally wide range of clients. Ken soon realised, however, that if his newly founded company were to be successful and survive, it would be imperative for him to find his own niche. He found that niche in the banking sector, and through extensive interaction with Keith Jones, whom he had met in 1996, he acquired the necessary skills and contacts to attack that market.

In 1997 Ken conducted, with Keith Jones as the main speaker, a seminar for the management of Odense-based Fionia Bank where I was serving as the Managing Director. Following the seminar where we obtained a thorough briefing on such - for most bankers not inconsequential - subjects as Bankers' Blanket Bond, Directors' and Officers' Liability, Computer Crime, and Professional Indemnity, we agreed to let Høgsberg prepare a proposal for Fionia Bank's future insurance programme. The result was a programme that meant a significantly better coverage, a substantial reduction in premiums, as well as a unique documentation of all the bank's risks and insurance coverage. Add to all this an equally unique personal attention and service, and you will understand why Fionia Bank soon became Høgsberg's first bank customer. Thus, the simple and credible key to Høgsberg's future success becomes apparent.

Word about this business philosophy soon spread within the Danish banking community and one by one, the larger banks were won over to Høgsberg, many of them from some of the giant international broking houses. Only the biggest two or three banks

are yet to be approached since they are still too large for Høgsberg to handle. Today, the top 25 banks, in terms of size, are now clients of Høgsberg's and another 5-7 are currently engaged in serious discussions to join them. So far, the customer retention rate has been an impressive 100%!

Until two years ago, all this was done by Ken and **Bodil Høgsberg** operating out of two small offices in their private home!

In 2000, Knud Høgsberg organised his company as a limited liability company, with himself as the sole shareholder and invited you to become Chairman of his small company. Tell us why you, who had in the meantime retired from a bigger institution, have been seduced into becoming a true supporter of Ken and his "mutualistic" approach?

I was simply attracted by the unique way in which he had started and developed his business after my bank became his first customer, and it has, indeed, been a great pleasure to follow and even to further this development.

For obvious reasons Ken was, and still is, the personification of the company, but with him approaching 65, some of the more important clients started expressing concern about the future of the company after his retirement. This, in turn, was a new challenge which spurred some intense discussions on the Høgsberg Board. We finally came to the conclusion that, rather than sell to an existing competitor, we would approach our bank clients and invite them to become owners of Høgsberg. The banks received this move very positively and in November 2004, ten of the banks bought 80% of Ken's shares with a commitment to buy the rest upon his retirement. Unorthodox as it may seem, such a mutual ownership structure with at least partial identity between owners and clients is by no means unusual in the Danish banking sector. Among others, notable examples are the payment systems infrastructure, which is owned in common by all Danish banks; joint ownership of computing centres by local and regional banks;

and additionally, Totalcredit, a large mortgage bank for home-owners which was recently sold to the largest operator in the market, Nykredit.

So what made you decide to approach HSBC Insurance Brokers?

The new owners of Høgsberg elected a new Board of Directors – asking me to remain as the Chairman for a year or two. The Board and Ken immediately went to work to address two issues of paramount importance to the future development of the company:

- to find a successor to Ken and
- to establish a permanent and formal relationship with a well respected broking house in London. The decision to approach HSBC Insurance Brokers followed naturally in view of Ken's earlier interaction with Keith Jones in the 1990s.

These two issues are clearly interdependent. Høgsberg is a very small company and was not financially strong. However, with a new group of owners who not only command the necessary financial strength but also have voiced their commitment to invest and develop Høgsberg into "fully fledged" insurance brokers, the position of Managing Director of Høgsberg, with the HSBC agreement in place following thorough and very positive discussions, has to be an attractive one.

The Høgsberg Board and Management are looking forward to working together with HSBC Insurance Brokers in order to reap the full benefits of this new set-up. We consider the agreement between the two parties to be a remarkable step in the development of Høgsberg's future business, one that will be noted in our insurance industry. At the same time, we are confident that the agreement will also open doors to the Danish/Scandinavian markets to the benefit of our friends in London. ■



Knud Høgsberg (Managing Director)
Høgsberg Assurance Services A/S
Email: kh@hogsberg-as.dk

Lars Stenbroen
Høgsberg Assurance Services A/S
Tel: +45 86.21.49.42
Email: ls@hogsberg-as.dk

Philippe Garnier ARM (Customer Relationship Management)
HSBC Insurance Brokers Limited
Financial Institutions Division
Tel: +44 (0)20 7991 0608
Email: philippegarnier@hsbc.com
Web: www.insurancebrokers.hsbc.co.uk/financial_institutions

*From Left to Right,
Jon Lundsgaard, Knud Høgsberg,
Niels Christian Knudsen, Keith LR Jones.*

Risk Partners and HSBC Insurance Brokers

Shareholder class actions and litigation funding in Australia

Risk Partners discuss the growth of shareholder class actions and litigation funding in Australia.

The Financial Institutions Division of HSBC Insurance Brokers has joined forces with Risk Partners to offer risk management and insurance advisory services to the Australian marketplace. The involvement of Risk Partners will give Australian clients access to the global strength of HSBC Insurance Brokers Financial Institutions Division in London.

Risk Partners

Risk Partners is an Australian insurance broking firm that specialises in professional and financial risks insurances. The breadth of our services is strengthened by utilising the services of HSBC Insurance Brokers. We focus on providing advice to boards and senior management on the exposures they face in their directorial, managerial and professional capacities.

Our team is unique because we are all former PI and D&O insurance underwriters.

As such we understand what underwriters are looking for, how they assess risk and calculate premiums and the cover provided by their policies. We also have experience working as insurance brokers, underwriters, reinsurance underwriters, and lawyers both in Australia and the UK.

Shareholder class actions in Australia

Australia is now reported to be the most likely place outside North America for a plaintiff to bring a class action. Class actions are relatively easy to commence in Australia and the procedure has been used to apply to a wide variety of situations.

Australia has the largest proportion of shareholders in the world with some 55% of Australian adults owning shares either personally or through managed investments or superannuation funds. It is widely recognised that this has resulted in shareholders taking a much keener interest

in corporate affairs and a general interest in "shareholder vigilance". Many of Australia's substantive laws (misleading and deceptive conduct, continuous disclosure) lend themselves naturally to class actions and the availability of litigation funding has made it easier for shareholders to be involved in litigation against companies.

Litigation Funding

Shareholder class actions fit the profile of litigation funders in that if they are successful they often result in a large judgement or settlement sum.

Litigation funders "invest" in legal actions that people cannot afford to pursue on their own. In return, the litigation funders get a proportion of the settlement or judgement.

Funding agreements typically provide that the plaintiff will pay nothing if it loses. The usual terms of the funding agreements in Australia are that the funder:

- takes a percentage of any settlement or judgement obtained, usually 30-40%
- pays the legal costs of the solicitors acting for the funded litigant
- provides security for the costs of the defendant
- has absolute discretion to terminate the funding agreement
- pays the costs of the defendant if the litigation is unsuccessful.

Historically, it was considered to be against public policy for one person to fund another's legal action if the funder had no interest in the outcome of the proceedings. There were even laws against it called Maintenance and Champerty. Attitudes and public policy are changing. The laws of Maintenance and Champerty have been abolished and the courts are taking a more

liberal approach to litigation funding. This coincides with the emergence of major litigation funders in Australia, most notably IMF (Australia) Limited (IMF), a publicly listed company which provides the funding of legal claims and other related services. It is estimated that of the more than 30 cases currently being funded by IMF approximately half are on behalf of shareholders. Given that it is also reported that IMF's portfolio includes claims totalling approximately AUD 1 billion, the potential risk to companies in Australia cannot be underestimated.

Recent shareholder class actions

Recent shareholder class actions include high profile public listed companies and their directors and include the likes of Telstra, Multiplex, AWB, Healthscope, Amcor, NAB, Challenger Managed Investments, Westpoint and Aristocrat. Most actions seek to recover shareholder losses relating to falling share prices or insolvency.

How is this reflected in claims?

During 2005, Australian APRA-regulated general insurers paid professional indemnity claims (including D&O) totalling AUD 295. As at 31 December 2005, insurers reported AUD 1.2 billion as case estimates for the further payments to be made on open professional indemnity claims. At that time there were over 12,000 open professional indemnity claims.

Of the individual professional indemnity insurance products, D&O claims had the AUD 229,000. Pure PI claims open at the end of 2005 had an average incurred cost of AUD 142,000.

The largest cause of loss for professional indemnity insurance is "Advice" which makes up 21% of the total incurred cost of open claims at 31 December 2005. The average incurred cost for claims reporting advice as the cause of loss is AUD 146,000.

D&O claims with a cause of loss of misleading and/or deceptive conduct have an average incurred cost of AUD 647,000, compared to AUD 84,000 for pure PI claims with the same cause of loss.

Solutions offered by Risk Partners

It is crucial that Directors have appropriate D&O insurance in place that will respond to a shareholder class action against the company and its Directors and Officers.

At Risk Partners we take a different approach to advising clients on their exposures and ensuring they have the right insurance in place.

We focus on understanding our clients' business, analysing their risks and evaluating the adequacy of their existing risk management and insurance programmes.

We then, in partnership with our clients, design a risk management programme that cost effectively addresses these issues.

As specialists in these policies and sectors we routinely uncover significant coverage deficiencies and ambiguities and/or find that insurance is placed with inappropriate insurers. This is because the client's activities and exposures are misunderstood and the policy is neither tailored nor updated in response to claims trends. Sound advice enables our clients to conduct their business with confidence, certain that their exposures are appropriately addressed.

We ensure underwriters understand the exact nature of our client's activities, and more importantly, what the client does not do. We arrange for our clients to meet, where appropriate, with prospective underwriters and discuss their risks. Professional and financial risks are complex areas of insurance where cover varies greatly from insurer to insurer and the

failure to secure the right coverage for a client's business can be disastrous in a claims scenario. Our client's reputation, licence, their clients and their own personal wealth may be affected.

Our clients have found that our approach delivers the most comprehensive and competitive terms and that they are insured with an appropriate insurer.

The relationship between HSBC Insurance Brokers and Risk Partners will benefit both HSBC's existing global clients in Australia and enable Australian financial and professional services organisations to utilise the local expertise of Risk Partners and the global knowledge and experience of HSBC. ■

These statistics are from the Australian Prudential Regulation Authority - Report by National Claims and Policies Database on Professional Liability insurance for the period 1 January 2003 to 31 December 2005 (issued 20 July 2006).





Steve Moss (Brit Syndicate)

Having worked within the Financial Institutions Division of HSBC prior to joining Brit Insurance I have seen numerous 'Bank Talk' publications go to press, however this is the first opportunity I have had to make a contribution as an outsider! I have worked in the insurance industry since 1997 having graduated from Birmingham University in Banking and Finance.

My career started on the Financial Institutions Broking side with Sedgwick after which I took the opportunity to join AIG to underwrite a varied book of FI business, specialising largely on the Fund Management sector. I enjoyed 4 years with AIG however the lure back to Broking was too great and I accepted a position as a Senior Account Executive with HSBC Insurance Brokers in 2002 with the responsibility of handling certain major placements and also developing insurance products through niche areas within the Bank.

I took the opportunity to join Brit Insurance in 2004 and, not surprisingly, many people cited this career change as 'poacher turned gamekeeper', not least my former colleagues at HSBC Insurance Brokers! Having made the transition several times I have lost count of the number of times people have referred to the poacher/ gamekeeper scenario!

Brit Insurance has developed into a major UK-domiciled international general insurance and reinsurance Group listed on the London Stock Exchange and a constituent of the FTSE 250. Our market capitalisation and premium income currently both stand at around GBP1bn. The Group's principal subsidiary for UK business is Brit Insurance Limited rated A+ (Strong) by Fitch Ratings and A (Excellent) by A.M. Best. Our worldwide business is written primarily through Syndicate 2987 at Lloyd's with £525m underwriting capacity, the capital for which is provided 100% by Brit Insurance. Reinsurance business is written in both entities.

In terms of operating structure, we use a common system of management across our entities which are organised into three Underwriting Centres:

- London Market
- Reinsurance
- UK.

The London Market underwriting centre writes business through both Brit Insurance Limited and Syndicate 2987. I am currently the Divisional Director of Financial Risks which employs 14 underwriters specialising in the following areas:

- **Financial Institutions – Bankers Blanket Bond**
 - Professional Indemnity
 - Directors and Officers Liability.
- **Financial Risks**
 - Mortgage Indemnity Guarantee
 - Structured Finance products.
- **Legal Expenses**
 - Retail
 - Structured.

Brit Insurance has experienced significant growth in recent years. However 2005 has gone down in history as a year of natural catastrophes of unprecedented frequency and severity for the insurance industry as a whole. This led to the market re-examining risk aggregation models and reviewing risk appetites across each class of business written.

“I believe that we have laid solid foundations to take our business forward and we remain extremely ambitious and optimistic about the future opportunities for both Brit Insurance and the FI market as a whole.”

This high level review has undoubtedly had an indirect influence on the FI market over the last 12 months or so, however it continues to be an area of strong profitable growth and certainly remains a core sector for Brit Insurance. In spite of some consolidation within the FI sector the market is constantly evolving in terms of new business areas, new products and updated regulatory regimes. The potential client base for this class is growing in both size and sophistication and this growth is matched by the need for suitable and efficient risk transfer solutions which we strive to deliver.

There is no doubt that the FI Market has recently shown signs of increased competition however I believe that the market has responded to this in a disciplined and controlled manner. Underwriters appear to be sticking to prudent underwriting principles based on sound financial and operational models and this trend seems set to continue for the foreseeable future creating long term stability and consistency.

Our own FI portfolio has experienced immense growth and we aim to capitalise on our current position in the market. As part of the Lloyds environment we strive to maintain a flexible and innovative approach to underwriting and product development. Importantly, we recognise that we form part of a specialist market competing in a global arena. As a leader in the market, we are in a position to focus on both our own reputation and that of the wider London market. This is a vital element for the London Market to maintain its collective competitive edge. The insurance market in general has experienced a period of significant market reform and we have played a significant role in the implementation of numerous initiatives that have recently been introduced. Whilst these initiatives have led to significant changes to traditional business processes the long term benefits of these reforms should not be overlooked or underestimated. Our commitment to Contract Certainty is a good example of this and I can see the proposals for further reforms in the future only enhancing the reputation of the market as a whole.

There is no doubt the coming years will be challenging yet we see vast potential opportunities. From an FI perspective we will continue to explore new areas and seek to increase underwriting profits combined with reduced volatility. Our unique team structure within Financial Risks enables us to take a high level view on product development by taking a combined view across our underwriting centres. With this in mind we are looking to establish links between the insurance and capital markets in addition to looking at potential opportunities that may emerge from the implementation of Basel II.

I believe that we have laid solid foundations to take our business forward and we remain extremely ambitious and optimistic about the future opportunities for both Brit Insurance and the FI market as a whole. ■



(Continued from front page)

claim when it arises? Are there commercial considerations taken into account including claims record, length of time with a carrier etc.? These questions are not for me to answer other than in relation to those clients for whom I have responsibility. I would however comment that in times gone by, underwriters went out of their way to establish a relationship with their insured's especially the larger clients. This "relationship" would extend to an active involvement in the decision making process attaching to any claim. I can recall, not many years ago having a conversation with a leading underwriter about a claim that one of our clients had reported days before. The underwriter in question having been fully briefed both by client and the investigating lawyer believed it had been established that the relevant incident was indeed a covered event albeit quantum had not finally been established. The client to the satisfaction of the insurer satisfied quantum and within a period of approximately 21 days a claim for several million pounds was settled, much to the satisfaction of the insured. Could this happen today? I suggest it would not.

Recently we introduced to all of our placements a Claims Protocol. This document was intended to lay down guidelines as to what would happen in the event that a claim occurred. The document, which was included as a Policy Condition in no way guaranteed that a claim would be settled but rather set a time line for the production of and response to information to be provided by both insurer and insured. In 2006, Lloyd's introduced a new claims scheme which it is now mandated all Lloyd's underwriters must utilise. This scheme only requires that any claim be notified to the leading underwriter and the Scheme Service Provider, Xchanging Services. There is one variation that has risks in a special category notified to both the leader and the second leading Lloyd's underwriter in addition to Xchanging Services. It is not the intention in any way to suggest that the Scheme Service Provider lacks technical capability, but what they do not have is that client relationship and understanding to which I have referred earlier. This surely detracts from the claims negotiation process.

I do know that a number of leading FI underwriters are rightly proud of their claims teams and their abilities (as indeed we are in FID), but how many people can lead a risk or at worst be the second lead? The answer is self explanatory. In addition to the relationship factor how can a Service Provider apply commercial judgement, surely they must act and react within the scope of the insurance contract as they or more likely their appointed lawyers understand same.

The introduction of the 2006 scheme in no small way created an environment where the option for one underwriter to disagree with another was minimised. I am not suggesting that we need to go back to the days when the market blindly followed the decisions of a leading underwriter. What I am questioning is whether this claims system promotes the best for an insured. After all, what is the sense in spending time explaining your business to a panel of insurers if when that day arrives that a loss is reported those underwriters, or at least a good part thereof have given away the decision making process to another?

Why the HSBC Claims Protocol?

The approach that we had taken by introducing the Claims Protocol was we felt more balanced in that both parties to the contract agreed before a problem arrived (a claim) how the event would be managed. The responsibility to produce information required to substantiate loss was well addressed as was the time within which the insurer (or their representative) was required to respond. In this way we felt that expectation as to how a claim was handled was established at the outset and thus the potential for problems or misunderstanding would be minimised. In short the Claims Protocol allows all parties involved in the negotiation process to clearly understand their role and the time constraints that apply to the process.

What is the conclusion?

Perhaps when next presenting to an insurer, meeting with a client or acting as a broker amongst all the questions about cover and cost someone should ask "how much commitment do you have to the claims process and how much do you influence / guide the outcome?" ■

Patrick Gilham – Managing Director of Insurance Products
HSBC Insurance Brokers
Financial Institutions Division
Tel: +44 (0)20 7991 0607
Email: patrick.gilham@hsbc.com

**For details of our services and products, please contact your account executive.
If you are not currently a client please email: insurancebrokers@hsbc.com**

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