Banking on a Secure Future: How Captive Insurance Empowers Banks During Turbulent Times

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CIC SERVICES

Turning Risk Into Wealth

In an age defined by technological upheavals, economic uncertainties and regulatory shifts, the year 2023 left an indelible mark with the Silicon Valley Bank collapse – the largest bank failure since the 2008 financial crisis, and the lesser mentioned, but even more critical collapse of Credit Suisse, the second largest bank in Switzerland (a country known for their banking industry), and clearly indicating this is a global issue, setting the stage for a historic year of bank failures and eroded consumer trust. As we step into 2024, the landscape remains fraught with the continuation of escalating cybercrime, evolving compliance regulations and shifting customer expectations. Amidst the palpable pressure and vulnerability felt by bank directors, like yourself, in these tumultuous times, there emerges a beacon of resilience – an increasing number of banks, both large and small, turning to captive insurance as a strategic risk management solution.

Captive Insurance Utilization on the Rise

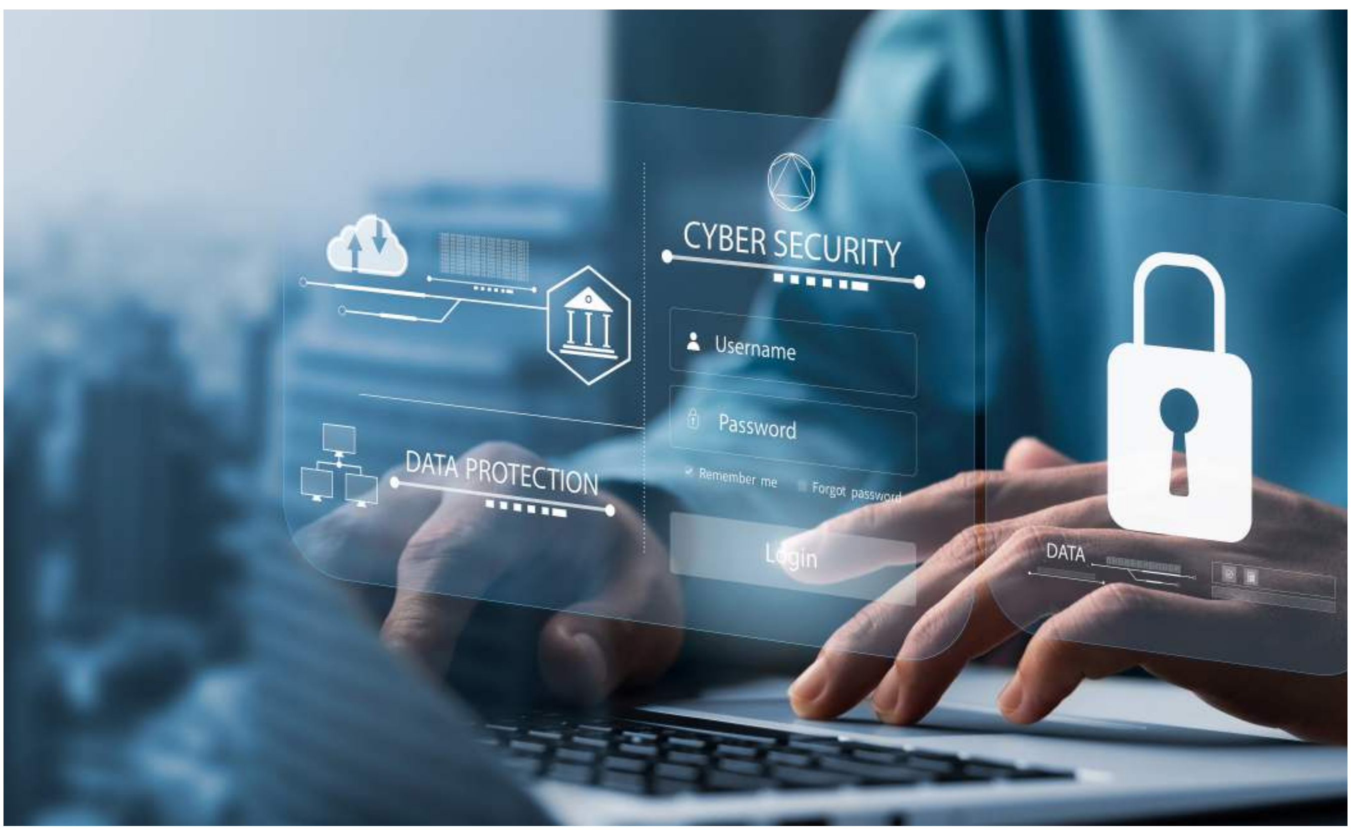
Captive insurance offers a bespoke risk management strategy designed to adeptly address complex and evolving risks, often deemed difficult, impossible, or costly to insure through traditional channels. By empowering banks to retain a portion of the premiums paid, minus claims, as profit, captive insurance not only serves as a bulwark against unforeseen challenges but also injects vitality into cashflow, fortifying financial institutions to navigate challenging periods with heightened agility and resilience. This proactive approach not only offers comprehensive risk coverage but also fortifies the bank's capacity to weather uncertainties by steadily accumulating retained earnings.

It comes as no surprise that the banking industry's embrace of captives is on the ascent. The Federal Reserve, as cited by Jonathan Wegner in "Captive Insurance Subsidiaries Proliferate Among Bank Holding Companies," reports a recent surge in captives among banks. The pandemic fueled a remarkable increase in captive insurance formations across industries, nearly doubling in 2020 and contributing to a staggering $60 billion in gross premiums, a notable uptick of over $6 billion, as outlined in the Captive Landscape Report. This ongoing trend in captive insurance adoption aligns seamlessly with businesses seeking greater control over their destinies in an ever-evolving economic landscape.

A Look at Captive Insurance in Action

A Cybersecurity Example

The application of captive insurance can be best illustrated with an example such as this: Imagine a bank that has been struggling with compliance costs and penalties associated with regulatory requirements, particularly related to cybersecurity. The bank has experienced several data breaches, resulting in substantial financial losses and reputational damage. Establishing a captive insurance company focused on cybersecurity risks could have provided benefits including enhanced cybersecurity coverage that is customized to address specific risks and vulnerabilities. The bank could have tailored protection against the risks it faces, like data breaches, privacy violations, legal expenses and potential regulatory fines.
While this is a hypothetical example demonstrating the role of captive insurance, real banks are utilizing this financial strategy to protect against cyber risks and the corresponding fallout.



Bank Client Captive Insurance Case Study

CLIENT PROFILE:

A prominent financial institution faced challenges securing comprehensive insurance through traditional means. The leadership recognized the need for a more customized solution. They aimed to leverage the captive insurance for enhanced risk mitigation and profitability.

BACKGROUND:

Traditional insurance options for the bank's cyber liability fell short due to numerous exclusions, particularly related to cyber breaches originating from foreign states. Recognizing the limitations of conventional coverage, the bank leadership sought a tailored approach to safeguard the bank's interests.

CIC SERVICES COLLABORATION:

The bank partnered with CIC Services to establish a captive insurance company, a strategic move to address their cyber liability concerns. By creating a captive insurance structure, the bank aimed to assume a portion of the risk associated with cybersecurity incidents. This approach not only provided tailored coverage but also served as a catalyst for the implementation of stronger risk mitigation measures.

KEY BENEFITS:

- **Customized Coverage:** The captive insurance model allowed the Bank to design coverage specifically tailored to their unique cyber risk profile, overcoming the limitations of traditional policies.
- **Incentivized Risk Mitigation:** By assuming a share of the risk, the Bank was motivated to invest in robust cybersecurity infrastructure and implement best practices. This proactive stance on risk management contributed to strengthening the overall cybersecurity posture.
- **Underwriting Gains and Profitability:** The captive insurance structure incentivized a proactive approach to risk management, with underwriting gains directly impacting the bank's bottom line, enhancing overall profitability.

BUILDING REPUTATION THROUGH PROACTIVE RISK MANAGEMENT:

The Bank's commitment to proactively managing cybersecurity risks through a captive insurance company also played a pivotal role in enhancing its reputation. The demonstration of a strong risk management framework and robust insurance coverage signaled to stakeholders that the bank was taking necessary steps to protect customer data, thereby fostering trust.

Providing a Stronger Approach to Risk Management and Profitability for Banks

The banking industry's resilience hinges on innovative risk management solutions as they navigate the intricate landscape of risks, encountering hurdles such as higher insurance premiums, regulatory compliance pressures and challenges in managing unique risks. Whether seeking to gain control of rising insurance costs, filling in gaps in coverage, granting greater control and flexibility over insurance programs or accumulating surplus funds and generating investment income from successful captive management, captives serve as a beacon for bank directors during challenging and unpredictable times–which is why CIC Services' launched BankInsure: comprehensive insurance specifically for small to mid-sized banks.

How BankInsure Is Tailored to Address Banks' Unique Risks, Providing a Secure Future

BankInsure
Banking on a Secure Future

BankInsure is tailored to address the distinct risks banks encounter, such as cybersecurity threats, regulatory changes, and economic fluctuations. What sets BankInSure apart is its captive insurance approach, allowing banks to retain premiums as profit. This profit accumulation serves as a financial buffer, ensuring stability during times of uncertainty and when risks materialize.

With BankInsure, your bank gains a strategic advantage, securing the financial future while thriving in an ever-evolving industry.

Policies for BankInsure are specifically tailored to address the risks banks are most likely to face:

- **Commercial Risk Indemnity:** Provides financial protection to businesses by covering potential losses and liabilities associated with various commercial risks, offering indemnification for covered events.
- **Commercial Crime - Excess (Inc. Gap & Ded):** Provides coverage to businesses against financial losses resulting from crimes such as employee theft, fraud, forgery, and other dishonest acts.
- **Employment Practices Liability - Excess (Inc. Gap & Ded):** Provides protection to businesses against financial losses arising from employment-related claims, such as discrimination, wrongful termination, harassment, or other violations of employees' legal rights.

- **Cybersecurity and Data Breach- Excess (Inc. Gap & Ded):** Banks handle sensitive customer data and are prime targets for cyberattacks. A cybersecurity insurance policy can help cover the costs associated with data breaches, including legal fees, notification costs, and reputation management.
- **Directors and Officers (D&O) Liability - Excess (Inc. Gap & Ded):** This policy protects bank executives and board members from personal liability in case of lawsuits alleging wrongful acts or mismanagement. It can cover legal defense costs and settlements.
- **Professional Liability - Excess (Inc. Gap & Ded):** Provides coverage for professionals against financial losses resulting from claims of negligence, errors, or omissions in the performance of professional services. It's especially important for banks involved in investment advisory services.
- **Healthcare Stop Loss Reimbursement:** Provides coverage to self-insured employers or groups, reimbursing them for costs exceeding a predetermined threshold for individual or aggregate claims in their employee health benefit plans.
- **Legal Expense:** Covers legal costs and expenses incurred by a bank in various legal actions, including litigation, regulatory investigations, and legal defense
- **Tax Indemnity:** Provides indemnification for tax-related liabilities, safeguarding the bank against unexpected tax liabilities or disputes
- **Dental Reimbursement:** Offers coverage for dental expenses incurred by the bank's employees, providing financial support for dental care
- **Administrative Actions:** Covers legal costs resulting from regulatory or administrative actions against the bank, ensuring protection in the face of regulatory challenge
- **Disability of Key Employee:** Provides financial protection in the event of a key employee's disability, offering compensation or coverage for associated costs
- **Loss of Permit:** Covers losses resulting from the revocation of necessary permits, ensuring financial protection in the face of permit-related challenges
- **Regulatory and Legislative Changes:** Helps manage financial impacts arising from changes in regulations or legislation affecting the bank, offering a buffer against unforeseen compliance challenges
- **Reputational Damage:** Provides coverage for losses related to damage to the bank's reputation, including costs for reputation repair and marketing efforts
- **Special Catastrophic Risk:** Covers unique and severe risks that may have catastrophic financial consequences for the bank, offering a safety net for extraordinary events
- **Loss of Key Customer, Loss of Key Employee, & Loss of Key Supplier:** Mitigate financial losses due to the departure of critical customers, employees, or suppliers, safeguarding against disruptions

** Inc. Cap & Ded" refers to "Including Cap and Deductible" in the context of these insurance policies. This indicates that the coverage specified in the policy includes both a cap (maximum limit) on the amount the insurer will pay for covered losses and a deductible (out-of-pocket amount) that the insured must pay before the insurance coverage takes effect. The cap and deductible terms help define the financial parameters and responsibilities for both the insurer and the insured in the event of a covered claim.

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Meet Your BankInsure Experts

BankInsure is an insurance product by CIC Services, LLC, a trusted name in captive insurance management since 2005, awarded the 2023 Captive Insurance Manager of the Year by Captive Review. Led by a team of risk management experts with a wealth of credentials and experience in captive insurance, they've led the way in thought leadership with articles published in leading media outlets including Entrepreneur, Risk Management Magazine, Treasury & Risk, CPA Practice Advisor, Insurance Journal, Advisor News, Insurance Thought Leadership and more.

Christopher Gallo spent his career in risk management as a regulator with the Connecticut Insurance Department. He has taken the lessons learned from over three decades to apply them to improving risk-mitigating strategies for businesses. Chris graduated from Central Connecticut State University with a Bachelor of Science degree in Administrative Science and obtained his Certified Financial Examiner Designation from the Society of Financial Examiners. After retiring from his regulatory career, he joined CIC Services in 2020, and consults directly with business owners, CEOs and CFOs in the formation, and as a regulatory liaison, of captive insurance programs for their respective businesses.

Randy Sadler started his career in risk management as an officer in the U.S. Army, where he was responsible for the training and safety of hundreds of soldiers and over 150 wheeled and tracked vehicles. He graduated from the U.S. Military Academy at West Point with a Bachelor of Science degree in International and Strategic History with a focus on U.S. – Chinese Relations in the 20th century. He has been a Principal with CIC Services, LLC for 7 years and consults directly with business owners, CEOs, and CFOs in the formation of captive insurance programs for their respective businesses. CIC Services, LLC manages over 100 captives.

Get Started with

BankInsure

Banking on a Secure Future

BankInsure makes owning and operating your captive simple and turn-key.

Contact our BankInsure expert, **Chris Gallo**, at **chris@cicservicesllc.com** or **865-410-9697** to schedule a consultation to learn about whether BankInsure is the right fit for your bank.

In the meantime, learn more about how captive insurance effectively addresses cyber risk for banks in this article that was originally published in the Connecticut Banker's Association (CBA) Quarterly.

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