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Comments on the Consultative Document on Operational Risk issued January 2001 by Basel Committee on Banking Supervision

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Introduction

In January 2001 the Basel Committee on Banking Supervision published their paper entitled a Consultative Document on Operational Risk as a Supporting Document to the New Basel Capital Accord.

Section C "Review of Other Issues – X. Risk Transfer and Mitigation" sought views on the subject of Insurance.

In particular the following issues were identified with regard to the possible use of insurance as a mitigant to operational risk exposures faced by banks:

- Does insurance introduce a new level of counterparty risk?
- Insurance can be voided – how can this be overcome?
- Insurance is a contract of indemnity that requires loss adjustment and this in turn can lead to delays in payment.
- Loss data will include insurance recoveries having the effect of mitigating the impact of operational risk events.

This paper comments on these issues but first summarises the value of the use of insurance and its role in the mitigation of risk and the regulatory process.

Background

Ever since 1900 when a Lloyd's Underwriter first conceived the idea of a blanket operational risks insurance contract specifically for banks, known as the Bankers' Block Policy, the insurance industry has kept pace with the changing face of operational risks in the banking community and provided specific insurance contracts to cater for these.

Taking the simplistic "macro" view it is undeniable that a bank that carries some sort of insurance against operational risks is less likely to fail as a consequence of an operational risk related loss incident than a like bank that carries no such insurance.

Up until the latest proposal contained in the Consultative Document on Operational Risk this subject has been left to the boards of directors who are governed by the various codes and duties articulated under the generic heading of "corporate governance". It is now proposed that a new capital adequacy regime be introduced that recognises operational risks whether by means of additional capital or the reallocation of existing capital or a combination thereof.

The new regulations concerning capital adequacy are not designed to substitute "corporate governance" and the fiduciary duty that this imposes upon the board of

directors, rather the intention is to create a global "level playing field" for the new global economy.

In framing the new capital adequacy regulations with regard to allocation of capital for operational risks, regulators must take account of how the directors carry out their fiduciary duty. An important part of that fiduciary duty is risk management and a key function of risk management is the transference of risk by means of insurance where this is prudent and practical.

If it is implied in the new capital adequacy regulations relating to operational risks that the purchase of insurance against the impact of an operational risk failure makes no difference to the capital allocation process, then a conflict could arise between the fiduciary duties of the board of directors and its desire to comply with the new capital adequacy framework.

The new capital adequacy framework applicable to operational risks must be seen to support and reward good "corporate governance" principles since the interests of these two elements run in parallel.

The conclusions then must be that the purchase of insurance against operational risk events that lead to pecuniary loss (whether as a consequence of litigation or not):

1. **Makes a bank less likely to fail**
2. **Should be recognised in some manner in the new capital allocation for operational risks**

The Issue

Insurance is a broad heading used to cover a wide variety of techniques that can be divided into two groups

Traditional Insurance: ***the spreading of the losses of the few among the many***

Financial Insurance: ***The spreading of ones own financial losses across a series of fiscal periods***

When reviewing the various mechanisms employed by banks to manage operational risks, regulators must consider the issue of whether the risk is being transferred in substance as well as technically. Most traditional insurance does involve the transfer of risk to a counterparty that is totally unrelated to the insured. Some forms of financial insurance do not involve any substantial transfer of risk to a third party. Rather they seek to defer or reduce the impact of a loss but will involve the substantial portion of the loss ultimately being funded by the insured or mitigated by the dilution of equity, etc. It should be born in mind that a serious operational failure in a bank can lead to a crisis of confidence. It is unlikely that a bank in such a position could meet repayment schedules often contemplated by financial insurance techniques.

Any comments contained in this paper relate solely to the application of true "traditional insurance" contracts where a risk is transferred to or swapped with a counterparty for a premium with the express intent of spreading the loss among a risk bearing pool that is managed by that counterparty.

As has been stated, insurers have considerable experience of providing banks with protection against the impact of what has recently become known as an "operational risk" event. There are no traditional style insurance policies that will respond to all of the risks encompassed in the broad definition of "operational risks" provided by the Basel Committee on Banking Supervision being:
"the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems from external events (including legal risks)".

It is inconceivable that over the next four years the insurance community will make the transition from its current range of insurance contracts, that have evolved over a period of one hundred years, to an "all risks" operational risk insurance contract where the insuring clause will mirror that of the above definition. Equally, no other market offering true "risk transfer" has shown itself willing to step forward and assume this mantle.

It therefore follows that regulators must be willing to accept that fact that insurance cannot assume 100% of the operational risks of any bank.

If it is accepted that:
- a bank that has insured some operational risks is less likely to fail than a bank that has no such insurance and that
- no operational risks insurance can offer a perfect hedge against all operational risk events

the issue becomes the development of a method to evaluate the degree of protection afforded by insurance currently available. This is made more complex by the fact that different types of insurers insure different operational risk events and the various insurance policies offered are at different stages of development.

A secondary issue the regulators must also consider is how insurance against operational risk events might be changed over the next few months to better respond to the specific or implied regulatory "drivers".

Illustrations

Physical Loss of or Damage to Buildings and Contents (including losses consequent thereupon) - such insurance policies began life covering named perils such as Fire, Lightning, Explosion etc. but have expanded to apply to All Risks of Physical Loss or Damage. This evolution took a long time. Each year one or two new perceived causes of loss were added until insurers could think of no additional risks that they would be assuming by making the leap from "named perils" to "all risks". This transition duly occurred.

Electronic & Computer Crime Insurance - such insurance policies were first offered to banks in 1981. Insurers have kept pace with the development of electronic banking

by continuously modifying the standard insurance contracts on offer. Such policies still tend to cover specific named risk exposures that can be identified and evaluated and an "all risks" computer crime policy is still a long way off.

It can be seen that each generic classification of insurance is at a different stage in its development. Thus a building destroyed by fire is more likely to be fully insured irrespective of cause than is a computer crime of whatever nature under a bank's computer crime insurance policy.

An added layer of complication is that there are very few examples of standard template insurance contracts so "apples" might be compared with "oranges" even though they both appear to arrive in a crate with the same labelling.

The Bankers' Blanket Policy/Bond - one of the pillars of a bank's insurance, it was derived from the original Bankers' Block Policy. There are many different versions of this contract and it is likely that each bank will have customised one of these to achieve the desired level of coverage that they require. In the 1930s the Federal Deposit Insurance Corporation "FDIC" required the management of each bank to purchase a Bankers' Blanket Bond at the bank's own expense. This required that four questions be answered:

- What was meant by a "Bankers' Blanket Bond"?
- What level of coverage should be purchased by each bank?
- What level of self-insurance was permissible?
- How would this purchase requirement be policed?

The answers were:

- A working group of bankers and insurers developed a common standard language for the Bankers' Blanket Bond insurance contract, designated Form 24. Each bank protected by the FDIC is required to purchase Bankers' Blanket Bond insurance on a Form 24 or the equivalent. Form 24 is regularly reviewed and enhanced to keep pace with banking developments.
- A table relating the sums insured to asset size was developed.
- A table relating the maximum self-insured retention to the asset size was compiled.
- The bank's auditors are required to file a statement confirming the level of Bankers' Blanket Bond insurance purchased and that the sums insured, self insured retention, and policy form are in regulatory compliance.

It can be seen from the above that recognition of insurance as a mitigator of operational risk exposure brings logistical problems. If insurance against operational risk events is to be recognised in the new capital adequacy framework, achievement of a regulatory "level playing field" will require these issues to be addressed.

It will not be sufficient to say that an insurance policy will be accepted as a mitigator of capital. The Basel Committee on Banking Supervision will need to recognise the issues confronted by FDIC and find a method of addressing them globally.

The Basics of Recognition of Insurance

As one of the leading insurance brokers operating in the area of operational risk insurance for financial institutions, we have witnessed many losses where indemnity for loss provided by way of insurance has prevented a serious operational risk event impairing the capital of a bank.

If the board of directors of a bank has carried out its operational risk management fiduciary duties and has availed the bank of a "state of the art" insurance programme, a loss arising from an operational risks event is more likely than not to be reimbursed by insurance.

As has been explained earlier however, there may be a difference between the interests of "corporate governance" and those of the regulators in establishing capital adequacy provisions. There is an array of insurance policies available for banks to protect against the many facets of operational risks. Some of these policies relate to issues where the impact of the loss event is unlikely to be catastrophic and others tend to relate to loss events where a serious catastrophe can occur (this is not necessarily the same issue as is discussed under Section A "Introduction" –II. Definition of Operational Risk paras. 9 to 11.)

It is important for any regulator to differentiate between the insurance of operational risks that might form part of a prudent "corporate governance" process and those where past events in other banks have demonstrated that a catastrophic loss event could occur and would erode the bank's capital base. For example, credit card fraud is an area of operational risk where many banks purchase insurance. It is unlikely that a single or series of credit card fraud loss events, even as a result of change in trends, could prove a serious threat to any bank's solvency. By contrast, the largest single operational risk loss events have occurred in the area of employee dishonesty or unauthorised trading and the purchase of the right level of insurance coverage in these two important areas could make the difference between a bank becoming insolvent or surviving such a loss event.

The objective of the New Basel Capital Accord is to make the banking world a safer place by recognising the issue of operational risk and implementing a fair process of allocating capital in such a manner that it makes the banking community less likely to suffer from the impact of one or more operational risk events.

As we have stated, insurance has played a major role in making banks more secure in the area of operational risk and it is self-evident that a bank that has such insurance is safer than a bank that does not.

The FDIC recognised the need to protect itself by imposing a regime of compulsory insurance on its insured banks. It identified what it viewed as the "state of the art" operational risk insurance policy, namely the Bankers' Blanket Bond and established a method whereby standards could be effectively imposed and policed to ensure a level playing field for all United States based banks. If we had to be critical of the FDIC it would be in the fact that their requirement for operational risks insurance has not kept pace with the development of specialist insurance protection for banks. For example, in 1981 Electronic and Computer Crime Insurance became widely available

and most banks in the EU or USA will now purchase this coverage as an adjunct to their Bankers' Blanket Bond. The FDIC has not seen fit to impose a requirement that its insured banks should purchase Electronic or Computer Crime insurance in addition to a Bankers' Blanket Bond insurance contract.

Trends in banking change and with them the emphasis on areas of operational risk. In the 1960s the big event losses were all related to employee dishonesty or forged documents. In the 1990s the emphasis had shifted toward unauthorised trading, computer crime and litigation following negligence or breach of fiduciary duty.

The insurance industry tends to respond quickly to new operational risk loss events. There are many specialist financial institution operational risk event insurers competing around the globe. When an event shows that conventional insurance does not provide coverage owing to an unidentified change in banking operations or trends, insurers quickly respond by offering insurance to protect against the newly identified risk area. (For example, following the Rifkin – Security Pacific operational risk event loss, Lloyd's developed the first Electronic & Computer Crime Insurance Policy launched in 1981).

Insurance also plays an important role in the low frequency/high severity operational risk event loss area. Major events rarely occur. For example, insurance rates for physical loss of or damage to bank buildings are low e.g. euro 0.5 per euro 1,000 of protection. It is extremely difficult for such catastrophic events to be planned for and the use of insurance in such cases is commensurately critical.

Insurance has long been applied by banks to release capital and reserves for their genuine banking activity. In the above example it is safe to assume that for every euro 1,000 of risk exposure insurers need to collect euro 0.5 to pay for the occasional loss of insured assets and produce a satisfactory return on capital employed. If this same risk were to be carried by a bank on its own balance sheet with no insurance in place, the "reserve" for such an event (were this permissible under accounting rules) would need to be built at a much faster rate and to a greater level e.g. say euro 10 per euro 1,000. In addition, the bank would need greater capital or standby loan facilities available to meet a loss in the early stages of its self funding.

If all banks around the world purchased a suite of insurances designed to protect their capital providers against the impact of certain specific operational risk catastrophic events up to a designated level of coverage, the banking industry would be demonstrably safer from operational risk. The Basel Committee on Banking Supervision can develop a code that acknowledges certain specific operational risk insurance contracts and, via the application of capital relief mechanisms or capital surcharges, encourage the world banking community to move in the direction of purchasing the correct range of insurance coverage. This would have three benefits:

1. A comprehensive and consistent code of insurance purchase practice would be established among the international banking community.

2. Banks would be forced to undergo security audits imposed by insurers. The process of transferring risk to a counterparty in itself contains an inherent risk analysis process. Insurers tend to view certain operational risks as "binary"

when it comes to insurance availability i.e. a risk can only be accepted for insurance if certain minimum levels of security are met. On occasion banks will decide not to purchase a particular insurance for fear of failing the insurer's security audit. Regulators should be concerned about a bank that is not prepared to open its doors to an insurance inspection and the FDIC has used the inability of a bank to secure Bankers' Blanket Bond insurance to justify taking a closer look.

3. Broadening the spectrum of banks purchasing operational risk insurance would encourage a reduction in premium levels. The principle of traditional insurance involves the spreading of the losses of the few among the many. The more buyers of operational risk insurance there are the more efficient the insurance market becomes. At the moment the trend is for large and mid-sized banks to purchase a broad range of operational risks insurance for significant sums whilst many of the smaller institutions in the less developed parts of the world purchase little or none. In practice this exposes insurers to major catastrophic risk areas on a narrow premium income base. If more smaller banks were encouraged to purchase the full range of operational risk catastrophe event insurance to an adequate level of indemnity, insurers would gain premium income without a commensurate increase in exposure. This would reduce the price of operational risk insurance overall and make it more available.

Regulatory Requirement and Corporate Governance

The Basel Committee on Banking Supervision has the opportunity to develop and implement a practical regime of operational risk event insurance buying. However, if operational risk insurance policies are to be recognised as mitigators of operational risk, regulators will need to begin today to build the framework for establishing standards and policing methods if they are to be effective in time for the changes in capital allocation proposed.

There is a range of insurances available providing indemnity to banks in respect of specific operational risk events. It is unlikely that the shape of these insurances will change enormously between now and the implementation of the new capital adequacy framework. The fewer the insurance contracts to be considered, the more easily regulators will be able to create and maintain a "level playing field". We have commented upon the fact that the FDIC only impose the purchase of a Bankers' Blanket Bond upon their insured banks and questioned whether this is adequate. We would say however that the policy of "compulsory insurance" appears to have been most effective.

The regulation of insurance purchase would be facilitated by the adoption of the Standardised Approach. Bankers' Blanket Bond insurance is offered by a specialist insurance market on a global basis in a similar form and structure to any bank wherever situated. By contrast, Unauthorised Trading insurance is very new and purchased by less than 100 banks throughout the world.

To encourage/impose the purchase of Bankers' Blanket Bond insurance on all banks on a global basis would not be unreasonable. To encourage/impose Unauthorised Trading insurance on all banks would create a massive problem with insurers since they are not geared up to meet such demand. Equally, not all banks have significant exposure to catastrophic unauthorised trading loss events.

Any regime that recognises the purchase of operational risks insurance as a possible mitigator of capital requirements must therefore take account of the following issues:

1. Certain operational risk related insurances are important from a corporate governance point of view but the risks that they cover are not life threatening to the bank.

2. Certain specific operational risk events that can be insured against can also give rise to truly catastrophic losses that could easily impact the capital base of a bank.

3. Certain specific operational risk events that can be insured against can give rise to truly catastrophic losses that could easily impair the capital base of banks that conduct specific activities to a larger extent than the norm e.g. proprietary trading.

Adoption of Insurance

The Basel Committee on Banking Supervision has a number of options open to them when it comes to the "adoption" of insurance. We consider these to be:

1. Keeping insurance out of the capital allocation process but seeking to establish regulatory methods whereby operational risk insurance becomes part of banking regulation.

2. Making specific recognition of insurance as a capital mitigator a key part of the capital allocation process.

3. Developing a system of capital surcharges that will be applied to banks that do not carry adequate operational risk insurance.

In all three cases a framework will be needed to establish what is meant by the term operational risk insurance. A policing structure will also need to be developed.

It is both impractical and inconceivable that all forms of operational risk insurance could be recognised and policed by any regime. Most regulatory bodies when faced with the issue of recognising insurance first identify the area where a regime of "compulsory" insurance will have the greatest impact (using historical data) and then focus on the process of implementation based on this.

In addition to FDIC protected banks, there are many instances where operational risk insurance is made compulsory or "encouraged" by regulatory bodies. Insurance brokers in the United Kingdom are required by their regulatory body to purchase Professional Indemnity insurance. This also applies to Lawyers, Accountants etc. In all of these cases the requirement for insurance has not been broadly drawn. Rather the regulators have sought to establish the areas of risk where operational risk loss events are most likely to have catastrophic impact and concentrated on getting the insurance right for these.

No single insurance policy can provide all risks protection in accordance with the broad definition of operational risk but a series of policies can provide insurance protection against the majority of risks. It will be necessary therefore to identify those insurance policies available for operational risk events that might have the most impact. We know from experience that employee dishonesty is the single greatest cause of operational risk losses. A requirement to purchase insurance against the impact of employee dishonesty losses would considerably enhance banking safety worldwide. By contrast, a requirement for a bank to maintain insurance against the impact of loss resulting from accepting counterfeit currency (one of the insuring clauses of a Bankers' Blanket Bond Insurance Policy) is unlikely to have any significant benefit.

A method of notional scoring needs to be developed. This would recognise the insurance coverage and the likely severity, not the frequency, of the loss event. The notional scoring would be expected to vary according to the type of institution.

If insurance is to be recognised as a mitigator of operational risk, within the new capital adequacy framework, then the Basel Committee on Banking Supervision needs to determine what sort of insurance will be recognised and how this requirement will be implemented and policed. This work needs to be done quite quickly if an effective and clear direction is to be framed in time for 2004.

In this context Willis offer their support and help to the Committee.

Other Issues

As stated at the beginning of this paper the Committee sought comment on the following key issues

- Does insurance introduce a new level of counterparty risk?
- Insurance can be voided – how can this be overcome?
- Insurance is a contract of indemnity that requires loss adjustment and this in turn can lead to delays in payment.
- Loss data will include insurance recoveries so this will have the effect of mitigating the impact of operational risk events.
- Managing litigation

Does insurance introduce a new level of counterparty risk?

The transfer of risk from one party to another inevitably introduces counterparty risk. It is our belief, however, that this should be considered only after issues such as voidability and promptness of payment, which exacerbate the counterparty aspect, have been addressed.

Insurance can be voided – how can this be overcome?

A standard insurance contract can be voided. In cases where regulators have expressed concerns over this provision, insurers have specifically agreed to give up their rights. For example, it is compulsory for solicitors in the United Kingdom to purchase Professional Indemnity Insurance from one or more of the panel of approved insurers. The standard policy required to be used by members of the panel of approved insurers contains the following Special Conditions:

"*Underwriters shall not exercise their right to deny or void this insurance or seek to be discharged from liability on any grounds whatsoever including, without limitation, non-disclosure, misrepresentation, or breach of warranty, whether fraudulent or not.*

Underwriters shall not reduce or deny their liability under the insurance on any grounds whatsoever including, without limitation, any breach of term or condition of the insurance except to the extent that one of the exclusions contemplated applies."

In exchange for this condition it is likely that insurers will require the right to seek reimbursement from any individual who:
- was responsible for a non-disclosure, misrepresentation or breach of warranty, or
- was in breach of the terms or conditions of this insurance, or
- was dishonest or fraudulent in any way.

This latter requirement should not impair the insurance contract's ability to respond in all cases not specifically excluded in the policy form without being voided.

Insurance is a contract of indemnity that requires loss adjustment and this in turn can lead to delays in payment.

Insurance contracts are indeed contracts of indemnity. In the past, insurers have been confronted with situations where liquidity following a loss event can be a problem for an insured party. This problem has been overcome in two ways:

1. The issuance of Letters of Credit against unadjusted loss amounts by the insurers to facilitate liquidity.

2. A facility whereby immediately after a loss is quantified a loan facility is established for 100% of the quantified loss. The loss is then adjusted in the normal manner and as soon as the true indemnity amount is known it is compared to the loan amount advanced. If the amount due exceeds the sum already advanced the balance is paid. If the amount is equal no further

payments are required. If the amount advanced exceeds the amount of true indemnity then the excess amount is repaid with interest.

In practice, the only time that regulators are interested in immediate liquidity is the point at which the bank's capital is impaired by an operational risk event loss. Equally, this is the point at which insurers are most concerned about advancing funds in respect of an "unproven" loss incident. It will be necessary therefore for an insurance policy to provide that "support" will be made available immediately to a bank sustaining an operational risk loss event covered by the policy and requiring further regulatory capital as a direct consequence.

At the moment, most bank insurances contain strict provisions relating to the taking over of a bank by any regulatory agency. It is normal for such insurances to automatically cancel in such an event. The reason for this is mainly historical and the terms of the insurance contract can be changed if necessary. Insurers could confirm that a policy of insurance would not be cancelled upon such an event and that the full policy limit would be available to the regulator by way of indemnity for insured operational risk loss events.

There is a willingness among many of the main operational risk insurers to enter into a dialogue with the regulators to determine a satisfactory method of addressing this issue and to consider amendments to the provisions of insurance contracts should this be necessary to meet regulatory needs.

Loss data will include insurance recoveries having the effect of mitigating the impact of operational risk events.

This is correct and will require to be monitored if arbitrage opportunities are to be avoided. "Insurance" has many guises. Many techniques used in today's insurance industry do not involve real risk transfer. For example, it is possible to construct a finite insurance programme whereby insurers pay out 100% on an indemnifiable operational risk loss event and the bank undertakes to repay, say, 70% of the loss to the insurers over the next three or five years as insurance premium. This form of insurance equates to a standby credit. It is classified as insurance for regulatory purposes but would have the effect of reducing the nett loss registered in the data by the amount paid out initially by the insurer. The insurance premium due or "loan" amount would not then be offset against the indemnity amount. Its repayment would be reflected in the accounts as payment of insurance premium.

Many of the largest banks operate captive insurance companies. These are separately regulated and the failure of the bank may not necessarily lead to the failure of the captive insurance company. However, insurer capital adequacy requirements differ from those of a bank and taking account of insurance indemnity payments when recording operational risk data may highlight the capital arbitrage opportunities for banks that this represents.

In our opinion it is impossible to define insurance in such a manner that only true risk transfer insurance is considered when allowing the recording of operational risk losses nett of insurance payments. To avoid any distortion or confusion we recommend that

the Basel Committee on Banking Supervision require all operational risk loss events to be recorded gross of insurance payments received.

Managing Litigation

Most institutions, be they banks or insurance companies, find it difficult to manage litigation losses. Frequently they do not like to face up to potential litigation events at an early stage. Many do not carry out full "polling"* in an adequate manner to ensure potential litigation is identified at an early stage. This presents two problems:

- failure to identify and reserve for potential litigation can distort operational risk loss data and
- failure to identify and therefore report to insurers in a timely manner can impact insurance coverage.

Many of the criticisms of insurance can be traced to such situations.

In this instance both the Basel Committee on Banking Supervision and the insurance industry have a common interest. The timely recognition of litigation events and the establishment of appropriate reserves and mechanisms for reporting to insurers for these is critical.

***** "polling" refers to the practice carried out in some banks on an annual basis and prior to any restructuring whereby all directors and officers of the bank are required to complete, sign and date a questionnaire seeking details of all litigation and to confirm that they know of no other circumstances that might give rise to litigation at some point in the future. This questionnaire has two main objectives:***

(i) to remind directors and officers of the duty to report such incidents

(ii) to provide evidence to insurers should a "late reporting" occur that the bank took all reasonable steps to prevent its occurrence.

Conclusion

The Basel Committee on Banking Supervision's Consultative Document on Operational Risks Section C "Review of Other Issues" – X. Risk Transfer and Mitigation paragraph 50. states "*The Committee agrees that, in principle, such mitigation should be reflected in the capital requirement for operational risk*".

We would argue that existing insurance products provide protection against a broad range of risk events and that the use of insurance evidences a bank's prudential attention to risk. Operational risk insurance for banks is at its most crucial point in its one hundred year history. If it is not recognised in any meaningful way by the regulatory process its growth and expansion will slow.

By contrast, regulatory encouragement will foster insurance innovations to meet the needs of banks and their supervisors. If the Basel Committee on Banking Supervision establishes a method whereby insurance can be recognised as a mitigator of capital requirement for operational risk exposures, it is our view that the insurance industry will respond constructively. The current providers of operational risk event insurance

for banks are keen to see their "products" recognised and will adopt a positive attitude towards meeting the concerns of regulators.

Any resulting changes in insurance coverage will be incremental. We do not consider it possible for the insurance industry to develop a new unconditional operational risk insurance contract that can respond on an all risks basis to all perceived operational risk events as defined by the Basel Committee on Banking Supervision on a true risk transfer basis. However, we do believe that the providers of current insurance products will be able to propose terms and conditions responsive to the needs of banks and accommodating regulatory reservations and requirements.