

FROM: Secretary to the Lloyd's Disciplinary Board,
LOCATION: 58/NW1
EXTENSION: 5530
DATE: 22 December 2000
REFERENCE: 090/2000
SUBJECT: ALEXANDER HOWDEN GROUP LIMITED
SUBJECT AREA(S): Disciplinary Proceedings
ATTACHMENTS: Notice of Censure
ACTION POINTS: **For information**
DEADLINE: **None**

Alexander Howden Group Limited (now known as Aon Group Limited), has admitted four charges of conducting insurance business in a discreditable manner.

This case was concluded before the Lloyd's Disciplinary Board. The following penalties have been imposed on Aon Group Limited:

- (1) A fine of £150,000; and
- (2) A Censure in the terms of the Notice of Censure attached to this bulletin.

In addition, Aon Group Limited has agreed to pay the costs of Lloyd's in the sum of £50,000.

Details of the events giving rise to the charges against Alexander Howden Group Limited are set out in the Notice of Censure.

This bulletin has been sent to all underwriting agents and members agents (corporate advisers), corporate members, market associations, the ALM and recognised accountants.

A.P Barber
Secretary to Lloyd's Disciplinary Board

NOTICE OF CENSURE

**AON GROUP LIMITED
(FORMERLY ALEXANDER HOWDEN GROUP LIMITED)**

Aon Group Limited ("Aon"), a registered Lloyd's broker, formerly known as Alexander Howden Group Limited ("Alexander Howden"), has admitted four charges of conducting insurance business in a discreditable manner.

In 1994, 1995 and 1996, Alexander Howden acted as the placing broker placing reinsurance on behalf of two Nigerian insurance companies. The original assured was Nigeria Airways Limited ("NAL"), a Nigerian state-owned airline.

Between 1994 and 1996, Alexander Howden issued cover notes and debit notes to the Nigerian insurance companies and directly to NAL which showed premiums greater than those which had been charged by underwriters. The total amount by which Alexander Howden increased the premiums was US\$2,502,200. Of this sum, Alexander Howden retained US\$517,000, as the premiums for the 1996 year were not paid.

In 1994 and 1995, Alexander Howden issued cover notes and debit notes directly to NAL which contained information which was wrong and misleading (in addition to wrongly increasing the level of premium agreed). In particular, the cover note and debit notes indicated that Alexander Howden had placed insurance for NAL, when it had only placed reinsurance for the Nigerian insurance companies in respect of the risk. These cover notes indicated that insurance cover was in place with underwriters, purported to set out the limits of such cover, indicated that the premium due for that cover was US\$1,450,000, and demanded payment for cover when that cover had not been placed by Alexander Howden on behalf of NAL.

After 20 June 1995, Alexander Howden sent a debit note dated 1 January 1995 to NAL demanding the payment of premiums totalling US\$6,850,000. NAL paid that sum on 26 July 1995. The debit note contained wrong particulars, in that Alexander Howden had not placed covers in respect of two of the three items shown on the debit note. In addition, it had not placed cover for NAL in respect of the Hull deductible risk, but rather had placed reinsurance for the Nigerian insurance companies in respect of this risk. The sum of US\$2,500,000 was not due in respect of the Hull deductible cover. The sum of US\$1,450,000 had already been demanded in respect of that cover by a debit note dated 22 February 1995 addressed directly to NAL.

The reason for the production of the debit note was that prior to 20 June 1995, Alexander Howden had provided funds to pay underwriters in respect of a proportion of the premiums due for the 1995 year of account because those premiums had not been paid. At a meeting on 20 June 1995, between Alexander Howden and a Nigerian insurance broker, whom Alexander Howden understood to be representing NAL, Alexander Howden agreed to assist NAL to pay the premiums by the use of an exchange rate mechanism involving the official currency exchange rate and the open market rate. It was agreed that Alexander Howden

would provide funds in US dollars which would be converted into Nigerian Naira at the open market rate (about N80 to US\$1) and then be converted back to US dollars using the much lower exchange rate provided by the official exchange rate (about N22 to US\$1). The use of this exchange rate mechanism required the consent of the Central Bank of Nigeria.

Following that agreement, Alexander Howden transferred the sum of US\$5,400,000 to an account in the name of the Nigerian insurance broker. These monies were subsequently used to purchase Naira at the open market rate and then converted back as set out above. The debit note wrongly dated 1 January 1995 contained a demand for payment in respect of non-existent cover in the same sum of US\$5,400,000.

In 1996, it was agreed between Alexander Howden and the Nigerian insurance broker that the exchange rate mechanism should operate in 1996 in order to enable NAL to pay the premiums due for 1996. On 21 May 1996, Alexander Howden sent two debit notes demanding a sum totalling US\$2,950,000 to NAL. These debit notes contained wrong particulars in that this sum was not due in respect of Hull deductible and aeroengine insurance. The sum of US\$1,300,000 had already been demanded in respect of that cover (which sum had wrongly itself been increased from the correct sum agreed with underwriters of US\$707,000).

In respect of both 1995 and 1996, Alexander Howden issued the incorrect debit notes in order to provide evidence to the Central Bank of Nigeria of “offshore liability” so that the Central Bank would give its consent to the use of the exchange rate mechanism.

In providing such documents, those at AH involved in its production acted outside AH’s usual method for producing cover notes. They knew that they were to be used in order to provide evidence to the Central Bank of “offshore liability” of NAL so that the Central Bank would consider granting consent to the use of the official rate. They knew that they would mislead the Central Bank; and that they contained demands for payment in respect of non-existent cover. In addition, they should have known that others examining the documents who were not aware of the true position would be liable to be misled. In those circumstances, Alexander Howden ought not to have produced such documents. Save that Alexander Howden believed that the use of the exchange rate mechanism enabled them to receive premiums due, there is no evidence that Alexander Howden benefited from the production of the 1995 and 1996 debit notes.

Alexander Howden failed to have in place any suitable systems and procedures that would have prevented the matters giving rise to these disciplinary proceedings from occurring.

There was substantial funding of premium by Alexander Howden on the account for the 1995 and 1996 years and evidence that the claims monies were applied in the direction of the ultimate assured NAL. Aon reported this matter to Lloyd’s promptly and has co-operated fully with Lloyd’s investigations. It has admitted liability at the earliest possible opportunity, thereby avoiding the necessity of a hearing before a disciplinary tribunal.

The following penalties have been imposed on Aon:

- 1 A fine of £150,000; and
- 2 A Censure in the terms of this Notice of Censure.

In addition, Aon have agreed to pay a contribution of £50,000 towards the costs of Lloyd's.

LLOYD'S DISCIPLINARY BOARD