



# **SPECIAL CONTINGENCY RISKS (SCR)**

**Kidnapping and extortion are evolving crimes. Newer styles, including express kidnapping and phantom extortions, pose less risk to kidnapers and enable criminals, experienced or otherwise, to target a wider cross section of society. No longer is this a crime aimed solely at ultra-high-net-worth individuals.**

Kidnapping in its various forms continues to represent a powerful means of extorting money, winning political concessions and garnering attention for an ideology or cause. These crimes are most prevalent in countries where there is a significant gulf between rich and poor, where law enforcement is weak, poorly resourced and susceptible to corruption, where the judicial system is ineffective and where criminal syndicates, drug cartels, guerrillas or terrorist groups wield significant territorial influence.

Governments have been fighting back with some degree of success. In Colombia, which has suffered for years at the hands of the rebel groups FARC and ELN, President Uribe has overseen a reduction in kidnapping and extortion incidents.

Unfortunately, when the situation improves in one country, it appears to deteriorate in another. Mexico experienced a significant rise in kidnapping and extortion following the economic crash of 1994, and is now experiencing the highest levels in the region. In the Mexican states along the drug routes leading to the U.S. border we have seen rising violence and an increase in kidnappings as federal forces battle with the drug cartels. The challenge to governing authorities is vast when their enemy is well armed, well trained and well funded. Companies with operations in this region face a renewed challenge to improve physical security measures and personal security.

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The surge in piracy off the coast of Somalia and in the Gulf of Guinea has continued. The international maritime community remains challenged to ensure appropriate protection through the deployment of naval forces, hardening of vessels and suitably training ship crews.

In some regions, notably in Latin America where there is a long history of kidnap and extortion, kidnapers mostly value the life of the victim, as the living person represents collateral in negotiating for ransom. Unfortunately, some gangs, most notably in Mexico, have been more violent in recent years and are likely to become increasingly so.

Regions with assertive terrorist or separatist groups or drug cartels will continue to suffer kidnap and extortion in its various forms – mostly because it is an effective means of generating monies. Kidnapping and extortion also arise as a source of income in the aftermath of war, as we saw in Iraq immediately following the invasion in 2003.



Terrorism continues to threaten the safety of business travelers, expatriates and the local workforce in many regions around the world. The hotel attacks in Mumbai in 2008 and Jakarta in July 2009 reminded us how immediate the threat is. The Mumbai event in particular demonstrated how quickly hostage situations can develop. These events can impact companies not only in terms of potential fatalities or injuries but in the ensuing disruption to operations and regional security. The implications of an event go even beyond the disruption of operations – the time and strain of dealing with an incident can present an enormous burden. The overall impact can be catastrophic. For companies and organizations who send employees, aid workers or independent contractors into conflict regions, security planning is imperative.

## THE EMPLOYER'S RESPONSIBILITY

International travel is of paramount concern to companies, large, mid-sized and small, who have a responsibility for their executives and associates at all levels. Arguments will continue about whether ransom payments encourage these crimes, but the experience of the last several decades tells us that the involvement of professional response consultants in careful negotiations yields the best resolutions. Fulfilling an organization's responsibility to protect its employees requires the assistance of a crisis response consultant.

The security consulting firms with a proven response capability will offer some or all of the following services: 24/7 emergency number, country and city information subscription services, daily and periodic briefings, alerts, travel tracking and emergency evacuation services. They will variously provide assistance in responding to a range of security incidents beyond kidnap and extortion, including physical threats to persons or property, hostage taking, disappearance, threats to proprietary information, customer identity extortion and political unrest. Companies are increasingly recognizing the need for advanced understanding of the crisis response process across specific corporate functions – risk management, corporate security and human resources – to ensure the safety of executives and associates.

Crucial to all of this is having a coordinated approach and implementing effective crisis management plans. One step in this direction has come from companies centralizing their travel through one booking agency. This offers various benefits:

- Leveraging cost savings
- Instilling tighter travel protocols
- Centralizing data, which enables companies to more easily identify their global travel exposure and crucially link travel data to a security provider who can be a source of information
- Helping monitor travel
- Providing a single point of contact for emergency situations

Plans and procedures provide a road map for addressing an incident. However, the most crucial element is having a strong team of individuals who are able to maintain calm under pressure, think logically and make intelligent decisions. Training and procedures are needed to ensure effective incident reporting and escalation through the overall crisis management structure. At the same time the core team of individuals involved in managing the crisis should be restricted to a small circle to maintain sufficient confidentiality. Tabletop exercises, often conducted by response consultants, can help organizations prepare for the issues and challenges they may face.

## THE MARKETPLACE

As in the insurance industry at large, the marketplace for Kidnap & Ransom insurance is competitive these days. Terms and conditions are negotiable, as the established carriers seek to maintain their position and relative newcomers look to win business. As always, you as a buyer must take care that your policy addresses your specific exposures. Your requirements will vary depending on the nature of your business, the size of your operations, your international reach and where you have permanent locations. For example:

- A financial institution with largely domestic operations will be more concerned about vulnerability to cyber attack, disruption, sabotage or computer system hacking. They might also be concerned about potential threats and extortions targeting executives and associates and the potential for a hostage situation at one of their premises.
- A manufacturing company with facilities near the U.S.-Mexico border will be concerned about physical security surrounding the facility and the exposure of their expatriate and local workforce to intimidation, assault, express kidnapping and phantom extortions. They will also be concerned about journey management issues and security for executives crossing the border.
- An international pharmaceutical company with global operations might be concerned about its research and development facilities, which may be located in more remote or higher risk countries and may also face intimidation and threats from direct action groups due to the nature of their operations.
- A hospital system or day-care facility will be acutely aware of the risks of infant or child abduction.
- A non-government organization with aid workers and advocates working in hostile environments, notably Afghanistan, Iraq, Pakistan and Somalia, might be deeply concerned about political detention, political threats or the potential need to evacuate the country in a hurry.
- A shipping, transportation or charter company with transit exposure through the Gulf of Aden will be mindful of the exposure of vessels, cargo and crew to pirates.
- A university or school will be conscious of their domestic exposure to issues of campus violence and the international security threats that students and faculty are exposed to when participating in study abroad programs, sabbaticals or other research field trips.

## CARRIER + RESPONSE & PREVENTION PARTNERS = PROTECTION

Carriers team up with response specialists as part of their Kidnap & Ransom risk management offering. In choosing a carrier, terms and conditions are important, but most crucial is access to the appropriate resources to help with prevention and crisis response. It is important to evaluate your exposures and ensure that you have the right support. There is little value in a team of consultants whose expertise and resources are limited to Latin America

when your footprint requires global capability. By the same token, if your exposure is predominantly in Africa, the Middle East or Asia, you want to ensure that the crisis response firm you retain has the capability and understanding of the styles and tactics of the kidnap groups and security issues in the region.

## THE PLAYERS AND THEIR PARTNERS

- **ACE** – retains Neil Young International Ltd.
- **Chartis** – retains Clayton Consultants
- **Chubb** – retains The Ackerman Group
- **Great American Insurance Company** – accesses Control Risks through their partnership with Hiscox
- **Hiscox** – exclusively retains Control Risks
- **Liberty International Underwriters** – retains Neil Young International Ltd.
- **PIA** – retains Corporate Risk International
- **Travelers** – retains ASI Global
- **QBE** – retains Terra Firma

## PRICE CONSIDERATIONS

The marketplace is competitive but also complex. First, the right response partner must be considered. Second, a broad range of coverage is now available through endorsements. You need to determine whether a competitively priced quote is offering “apples to apples” coverage. The track record and experience of your underwriters in policy wording and claim handling should all form part of your evaluation. The role of a specialist broker may be invaluable in determining the extent of coverage available and marrying your risk exposure to applicable coverage.

## CONTACT

### Steve Robinson

Special Contingency Risks – North America

212 915 8630

steve.robinson@willis.com