



Underwriting Freedom



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Kidnapping company representatives for ransom has become a modern-day scourge, and kidnap and ransom insurance policies are quietly offering victims a way out.

After the kidnapping in April 2009 of an American ship captain by pirates off the Somali Coast, viewers are left to wonder: how could this happen? In reality, this occurs more often than you think.

Expatriates working overseas on behalf of a company or organization are frequent targets of kidnapping, particularly as globalization takes business to new corners of the world. Thousands of kidnapping cases occur worldwide every year; as current events show, this number is growing.

“There is an intense focus right now on Africa and the region surrounding the Gulf of Aden due to the recent increase in piracy and kidnapping, but this is certainly not a new problem,” said Yan Bui, a commercial insurance executive at Clements International, a Washington D.C.-based firm specializing in international insurance solutions.

KIDNAPPING: A THRIVING INDUSTRY

The International Maritime Bureau reports that Somali pirates seized 815 crew members in 2008, proving that kidnapping is not an isolated activity. The threat has long existed and the number of events is increasing in many countries, in-

cluding Afghanistan, Mexico, Pakistan, the Philippines and Venezuela.

A Canadian woman was abducted in mid-April in the city of Kaduna in north-central Nigeria. Nigerian kidnappers demanded 20-million naira (Cdn\$136,000) ransom for the release of 45-year-old Julie Ann Mulligan, one of five Canadians on a Rotary exchange program in the country. Although kidnapping is common in this area, victims are usually oil workers or other contractors, making this a unique case. In another incident, two Canadian U.N. staffers were captured by Al-Qaida’s North Africa branch in Nigeria last December and released on Apr. 22. After months in captivity, the two men were released unharmed following negotiations with the Al-Qaida group. Although less publicized, hundreds of expatriates and Nigerian workers have been kidnapped in just the past three years. According to the 2008 *Kidnap Risk Brief* published by Clayton Consultants Inc., at least 172 foreigners were kidnapped in Nigeria alone in 2007.

The risk level for kidnapping remains high in Latin America and Africa, but Central Asia is seeing dramatic growth, particularly in Afghanistan and Iraq. However, the majority of kidnapping incidents are still occurring in Latin America. In most cases, the ransom is paid and the victim is safely released.¹

Organizations and financial institutions with a significant global presence can be targeted for ransoms ranging from thousands to millions of dollars. Expatriates working abroad face a credible risk in high-risk areas away from home,

where their companies cannot protect them. It may seem rare, but kidnapping is a thriving, corrupt business that is more common than companies would like to admit. Statistics are difficult to gather because only about 10% of incidents are reported on average.

KIDNAP AND RANSOM INSURANCE

The United States government recently intervened in negotiations to rescue an American ship captain kidnapped by Somali pirates, but governments are rarely involved in these cases. Absent the resources of a powerful government and military, insurance becomes increasingly important to an organization's ability to resolve kidnap and ransom situations both independently and expeditiously.

Companies rarely discuss kidnap and ransom (K&R) coverage unless asked, and most employees would not know to inquire in the first place, unaware that this type of coverage is even available.

Companies often avoid discussing kidnap and ransom (K&R) coverage because they do not want publicly to highlight the risk — or their viability as potential targets. But despite its minimal exposure, K&R insurance is carried by many organizations that operate in high-risk countries and employ executives overseas.

There are many compelling economic and ethical reasons for companies to invest in K&R insurance. Ransom demands can be staggering, particularly in the context of a struggling global economy. In recent years, more than 14 countries have recorded kidnapping cases involving ransom demands of \$25 million or more. Cases are usually settled for between 10% and 20% of the demand, but in certain territories, the kidnappers refuse to negotiate and resort to excessive violence until their demand is met. "Companies cannot afford to deny the threat that K&R poses to their operations and employees," said Bui. "It is imperative that they put mechanisms in place to safeguard against these risks, particularly as we work to grow and stabilize the global economy."

The tragedy of a kidnapping is overwhelming and most companies have no idea how to manage such an incomprehensible event. Therefore, a critical element of an effective disaster management plan is K&R insurance. This type of insurance coverage can be purchased by individuals or corporations and is available from many large insurance providers. Human resource executives, relocation professionals or corporate risk advisors should discuss possible options with their insurance agent.

K&R COVERAGE

Most policies cover the ransom paid connected with a kidnap or threat, hijack, wrongful detention, death or dismemberment, legal liability, crisis management team expenses and fees incurred while using an independent negotiator or public relations consultant. A K&R policy covers a ransom demand up to the limit of the policy. Most policies are written with a limit of at least Cdn\$1 million, but this figure can be higher depending on the number of possible targets and the sensitivity of the mission.

Also, most policies will reimburse the insured for covered expenses when a kidnapping, threat of property damage, extortion or ransom demand occurs. Expenses include:

- interest costs associated with obtaining the ransom;
- travel and accommodation for victims and relatives;
- salary of the kidnapped individual(s);
- medical and hospitalization expenses;
- personal financial loss of the insured;
- costs incurred during business interruption;
- interpreters;
- increased security; and
- job retraining after release.

The most important considerations when evaluating a K&R policy are coverage territory, definition of insured, policy limit and additional coverage. It is important to review the coverage territory to ensure it is applicable worldwide

so that incidents are covered no matter where they occur. Next, the definition of an insured person should be as broad as possible. A corporate policy will include directors, officers and employees, in addition to guests, relatives and residents of the individual's household. This assumes unintended people may also become victims. They may be relatives, servants, guests or simply innocent bystanders who suddenly find themselves in the middle of a dangerous situation. As a result, the policy should not discriminate against nor exclude those individuals.

The amount of coverage to purchase is a corporate decision. Each organization must review the possibility that their employees may be kidnapped and determine the right amount of coverage. The industry, resources, number of travellers and destinations are vital considerations in the decision-making process. The existence of issued policies remains strictly confidential, as the confirmation of this type of coverage can serve as an incentive for a kidnapping plot.

Finally, many K&R policies provide risk evaluation services to the insured. This helps an organization review its security policy or evaluate the risks of a potential location. If an insured person is contemplating a trip to a particular area, the risk evaluation service can provide a detailed description of the risks involved at that destination. These evaluations will describe the crimes that have occurred there, police protection and tips for travellers, including airport security and public transportation information.

If an organization is proactive in maintaining a crisis management plan, securing adequate insurance and requiring employees to follow travel guidelines, they can effectively reduce their exposure to kidnap situations. However, if the worst occurs, they will have an effective and organized approach to managing a truly unpredictable situation. **≡**
1 According to The Inkerman Kidnap and Ransom Monthly Review, the number of kidnap victims killed increased by 7% in January 2009, up to 19.3%.