

Kidnap for Ransom Market Update February 2016

The motivation for this paper and the reason for its production is partly as a result of a greater number of carriers being involved in the business and partly because of some myth and misunderstanding about the market, the product and statistics proffered by a variety of (re)insurers, Managing General Agents (MGAs), brokers and consultants.

The Product

The kidnap for ransom insurance market has attracted a number of new players over the past couple of years and is dominated by competition in both the broker and insurer segments. Some of the newer participants have realised that the business is not as easy as they might have thought. The dominance of existing carriers, relationships with consultants and reduction in premium have all contributed to challenging conditions. Additionally, a lack of marine piracy losses has dramatically reduced premium income on this side of the business.

Most brokers are able to offer products from a variety of carriers but many lack the experience to react to incidents and to make certain that the products give the coverage that is really required. They mistakenly believe one size fits all and that price alone is key to meeting customer need.

Insurers have historically offered a “market” driven product ... reacting to enhancements introduced by others, rather than proactively thinking about the needs of their customers.

A small group of experienced intermediaries have earned a loyal following from their customer base by trying to stay ahead of the game and offering an enhanced policy, supported by experienced consultants particularly for private individuals and families.

Incidents of kidnap, extortion or detention can be very complex. Sometimes the incidents cross the boundary between what on the one hand may be one kind of insured event, which then manifests itself into something different and much more complicated. With an increase in insurers acting as brokers or sometimes MGAs, it is crucial to ensure that your adviser has both the will and the expertise to act for you and not want to protect “another agenda” in the event of a claim. There should be no greater motivation for buying a policy than wanting a degree of certainty that an incident will end up being treated as an insured event.

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Disputes are rare but buyers need to be careful of cases being brought in foreign (and thus alien) jurisdictions where the Assured may have to engage expensive lawyers with limited experience of such cases.

The policy is one of indemnity. In the event of an insured incident, insurers will provide access to their “retained” consultants and will pay their fees and expenses until resolution. Other costs and any ransom payment will be reimbursed as agreed, and according to policy terms and conditions, after the incident has finished. Given the case that no one incident is exactly the same, experience and negotiation are key at this critical stage.

The Consultant

The role of the consultant has not changed since the launch of the product but their job has become more difficult. Out of necessity, there are many more companies operating in this arena supporting a greater number of insurers who have relatively small portfolios generating a relatively small volume of losses.

The role is more difficult today for two principal reasons. The first is that the number of insured losses has been divided among a greater number of players resulting in less experience being gained by a larger number of firms and their “retained” consultants. Experience in responding to incidents is often key to understanding the best and quickest way to resolve incidents of kidnap, extortion or detention. There are only a small number of firms with global reach and enough “experienced” consultants. Many have to manage situations with inadequate levels of support ... be that hours on the job, first hand experience of language and culture or access to the right local connections wherever the incident might have occurred. An ability to access Governmental contacts in the victim’s own country (in the case of foreigners) can also be critical to achieving the right support from influential players.

The second reason why the role is more difficult is because of greater concern about kidnap being used to support international terrorism. Greater awareness and stricter controls governing the insurance industry’s potential for reimbursing ransoms to terrorist organisations in particular, has increased the need to ensure greater awareness and strict compliance with international law.

Some of the consultants are fiercely loyal to a single carrier – with some exclusive connections. Others maintain relationships with a number of carriers, giving them greater potential for handling a larger number of incidents from a more diverse geography and client base. Ultimately, all the response consultants have to be geared to being able to respond to multiple incidents in different locations using the right kind of experience and the best equipped team, whilst remaining in compliance with local and international law at all times.

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The Market

The traditional market for kidnap for ransom has been Latin America but a) because the policies cover much more than just kidnap and b) because of a rise in the risk of kidnap, extortion and detention across large swathes of the globe, their potential benefit in other areas is beginning to be much more understood.

But still, there are many who simply don't understand the way the policies work. This might be through perception or simply a lack of explanation. Well known brokers offer erroneous information about the relationship between insurer and response consultant and offer statistics about the average duration of incidents, the price of the product, the profile of a typical victim, or the mean amount of a ransom. The reality is that generalizations of this kind are dangerous and often misleading.

With greater competition, there is a greater tendency to want to be seen to have access to the best intelligence or a greater amount of information. The reality is that often those who say less, actually know more.

As new players have entered the market, and risk patterns have shifted (e.g. the piracy risk in the Indian Ocean), the overall premium written by the largest carriers has reduced. Some insurers have invested time in marketing to new regions such as Africa and the Middle and Far East. It is all the more important that the product is well presented in these areas. Most of the largest insurers ... be they Lloyd's syndicates or public companies (or both) have a product to offer and many of them have a "significant" portfolio distributed through either their own or local or international broker networks. The distribution network is often complex thus exacerbating the potential for a lack of clarity.

Many buyers have been loyal to consultants. Those who have historically given good advice or been involved in incidents involving a family or corporation, are often considered "part of the family" and valued as such. Increasingly, buyers will see or might have already seen other insurers offering significantly reduced premium from historical levels. In order to match the premium available from others, and still get access to a preferred consultant, brokers need to negotiate with carriers to obtain premium reductions. Increasingly insurers are being reactive to such market pressure.

It is very important for buyers to understand the alternative products available to them. It is critical for them to understand the relationship between the insurer and the consultant who are completely independent of one another. It is important to understand that price is not necessarily the only driver but experience and knowledge is a pre-cursor to the successful resolution of an incident.

With an increase in headline grabbing incidents in complicated parts of the world outside of South America, it is also important for those involved in the market to realise that this is not a "glamorous" product but rather something

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that needs to be clearly understood, well explained and properly sold. It is a more interesting line of business than others but the excitement of being associated with the business should not overtake the need to fulfill the role in a professional manner.

When the risk changes from being a “business enterprise” to being a “propaganda tool”, both client and adviser need to ensure that they are prepared for the most unpredictable and frightening of situations.

Appropriate risk mitigation is as important a part of the product as post incident response. But inappropriate advice given by unqualified advisers is always going to be more dangerous than anything else.

Advice

- Choose an intermediary who can explain the product.
- Understand the best product for you with a focus on the consultant who has the experience to deal with your area of risk.
- Be prepared for an incident and know what to do if something happens.
- Know your advisers and their experience.
- Understand how the product works.
- Think carefully about using the same broker for all lines of insurance ... specialists can add significant benefits for specialist lines.

Conclusion

There are different products linked to different consultants offered by different intermediaries. Price is important but not the only consideration. Experience and advice is also important and there are those who do not understand the product as well as they should.

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February 2016

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