

Reputational risk insurance comes of age

Insurers have historically put reputational risk into the “too difficult” category. That is now changing. In this Beazley podcast we look at four innovative insurance products that protect reputations at times of great peril.

Podcast script

Welcome to Beazley’s podcast series, “Risk in the Digital Age”. I’m William Pitt and today we’ll be taking a look at a risk that for a long time was thought to be uninsurable. We’ll be talking about reputational risk.

Senior executives at our client companies consistently put reputational risk at the top of their list of concerns. Of course reputation has always mattered, but it’s also the case that bad news travels faster in today’s world and reputational damage can therefore happen much faster too.

For a long time, most insurers put reputational risk into the ‘too difficult’ bucket. That’s now beginning to change. And in the next few minutes we’ll take a look at four areas in which we’re starting to tackle reputational risk head on.

The first one is called – appropriately enough – reputational risk insurance. We launched it in May this year with the backing of two other Lloyd’s syndicates through a Lloyd’s consortium.

The coverage is designed to address the full life cycle of a crisis, as Beazley underwriter Rachel Turk explains:

We view the policy as almost circular in that we’re trying to deal with the entire life cycle of a crisis. So there is a big difference between crisis response PR and traditional PR. Crisis management PR moves at a much faster pace. There is also the element that says the outside-in view can be so vital. So you may have a PR team or external or internal comms – they know the company very well, but your crisis PR knows what’s going on with the stakeholders at the point that the crisis is developing.

The way you can imagine the product is as a virtuous circle. You have an event, then there’s some crisis management, which we’ve talked about. And if that’s not successful – or it could be successful but you still suffer a revenue drop – there’s a business interruption limit available. There’s also available an extra \$1 million within the \$35 million of limit of indemnity to provide reputation remediation.

Rachel Turk and the Beazley team took a long time designing the product to meet clients’ needs:

Some of this came out of the Ebola crisis in the US where we had many hospital clients asking us if we had a solution. If they had to close down parts of the hospital because of Ebola and they’d failed to spot it, would this have been covered? At the time we didn’t have a product, but it got us to thinking that maybe we should.



And in developing the product we took quite a novel approach in insurance in that we actually asked our clients what they wanted. We went to a lot of risk managers and ran three or four workshops with different risk managers. Out of that came two key elements: we needed crisis response management and we wanted a very simplistic way of measuring the loss adjustment if you had business interruption.

Beazley's reputational risk product provides all risks cover, but it does have some exclusions. One of these is for cyber incidents. Cyber insurance policies such as Beazley Breach Response already provide access to services that are designed to protect a company's reputation in the event of a cyber attack.

The reputational blowback from failing to manage a cyber incident properly can be very damaging, as Paul Bantick, international focus group leader for Beazley's cyber business, explains:

When a company experiences a data breach or some other kind of security breach, their reputation's on the line. At Beazley we've learned over the years that the key to managing your reputation is how well you respond to one of these events.

With so much at stake, Beazley has built in a variety of services designed to avert reputational damage:

For example if you have a data breach and someone's hacked and stolen sensitive customer information from you, how do you instruct a legal firm, correctly get forensics done, look at that forensics report, notify the regulator, notify the impacted individuals and manage the fear that they may have over this event? This is ultimately going to be how your reputation is judged. The aim that we have is to help clients come out of a data breach with their reputation intact the same way they went into one.

When Beazley Breach Response was first launched in 2009, the main concern of most clients was the loss of personally identifiable customer information. But since then cyber attacks that cause – and are often intended to cause – business stoppages have also become a major concern.

If you're a manufacturer with a huge supply chain and many, not only suppliers, but receivers of your goods, if you've experienced interruption and your supply chain's down and your factory's down, what do you do? How do you respond to that? How do you message to your customers that, actually, you are going to be getting back up and running and that you have got mitigation in place to help you respond quickly so that the damage and the impact on your clients is less?

Cyber is not the only line of insurance business which has a big reputational component. Indeed, there are some situations where the stakes are even higher than they are for a cyber attack. Suppose, for example, your organization faces allegations of failing to protect children or vulnerable adults from a sexual predator. It's a situation that thousands of organizations in the US confront every year.

In 2014, Beazley launched a product designed to support organizations in such a situation. The product, Beazley Safeguard, provides risk management advice, crisis management services and third party indemnity insurance, and like Beazley reputational risk product, it was the fruit of very extensive research.

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We sought advice and guidance from many people in this sector.

That's Paul Nash, the leader of Beazley's employment practices liability team and the underwriter behind Beazley Safeguard.

We met with risk managers, crisis response experts, law firms, brokers, clients and we crafted a 360 degree solution that involved crisis response, risk management and the actual insurance policy itself. There's no question that we've always believed strongly that prevention is better than cure. The risk management is an online platform designed by an expert in their field and it provides various options for all insureds. [These] can include screening of employees and or volunteers, hotline assistance to insureds that seek advice following a situation or a claim, and online training modules for all employees.

In addition to the more obvious risks, the product also covers failure to supervise, which – Nash says – is a major area of vulnerability:

Although this policy is designed to cover wrongful acts by employees on third parties, the definition of sexual misconduct also includes a failure to supervise. So in that instance it would respond to a claim where there was an allegation of misconduct between two minors on a school bus, for instance, and the school bus company is dragged into litigation because there are allegations of failure to supervise.

When an allegation is made, the pressure on an organization to respond immediately can be intense. Angelo Stio, a partner at the law firm of Pepper Hamilton, who works closely with Beazley Safeguard clients, says that an early priority is the creation of 'safe bases' for the organization:

A safe base is when you first get that crisis and the organization wants to say something. What can the experts come up with that will allow the statement to be made with without any additional risk or exposure?

Another situation that presents huge reputational risk is the handling of an active shooter or deadly weapon attack. Following an attack, an organization that says or does the wrong thing can lose the confidence of customers and other stakeholders very rapidly as Chris Parker, head of Beazley's terrorism and political violence underwriting team, explains:

Following an attack ... these things are very fast moving and it's important to do the right thing straight away. Because whatever you go out and say, that's going to live with you for the entire crisis. You can't change that. So working with these responders, that's what they are experts at. They will manage the crisis, they will manage the media; and more importantly as well they will manage the victims and the families of the victims, because they're the ones who have suffered this trauma. They need to be kept away from the press and everything else that's going on around them.

Beazley saw one scenario of this kind play out recently in Florida. Two adults were shot in the campus parking lot next to the football stadium of Palm Beach Central High School while a game was taking place. The incident is still subject to investigation, but it is thought that the shootings may have been gang related. Although those directly involved were not connected with the school, the impact on the school and local community of such an incident can be profound. Chris Parker takes up the story:

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So following this shooting at the Palm Beach School, obviously they got in touch with the police immediately and they came along and took care of the perpetrators – arrested them. Then the school, having been introduced to our response consultant beforehand and having done some work with them, called them straight away and within a matter of hours they had people deployed on the scene, they had counsellors there, they had counsellors on the telephone as well, and they had their own private investigator deployed.

The police are there to do their investigation but they're looking at it from a criminal perspective and we have to look at it from a slightly different perspective to make sure we've got the right facts, we know who did what, because quite often the facts you get to begin with are completely incorrect. So you have to have this investigation.

And the counselling was critical in particular to the parents, because this was a football game, lots of parents there. The fact that the school didn't suffer any adverse publicity - the policy paid for social media monitoring so you can see what people are saying about you and whether there's going to be any impending lawsuits. And there was nothing of that because they treated the victims in exactly the right way.

Reputational risk is a multifaceted problem. Insurance, as any insurer would admit, is not a panacea. But for perhaps the first time it can make a material difference in the heat of a crisis.

To learn more about the products we've been discussing on this podcast, please visit our website at Beazley.com

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