

Kidnap & Ransom Insurance

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Of late there has been a dramatic increase in the incidence of kidnapping and it is no longer confined to the world hot spots (Latin American Countries). The latest additions are Iraq, Afghanistan and Nigeria. In fact Indian working in Nigeria Delta of Nigeria have been victims of kidnapping. Though no harm came to them and they were subsequently released, we do not know whether any ransom amount was paid. The domestic kidnapping in India is also on the increase. Even though most of the cases of kidnapping are not publicly reported, it is common knowledge that extortion and kidnapping are no longer rare happenings.

Why this situations and what should be done about it? We are living in a dangerous world. Kidnapping, detention, extortion and hijacking are now global phenomena. There is no doubt that prevailing political turmoil; unrest, bad governance, poverty and above all terrorism are fueling kidnapping.

The basic purpose of all kidnappings remain making fast and quick buck. Then there are political motives. Sometimes, there are business / commercial contents also. However, most kidnappings are carried out in order to obtain ransom. Even though the motive is money, kidnapping are often given political colour. If we look at the various kidnappings that have taken place and analyze the sequence of events, the picture that emerges may have surprises for us. Most kidnappings are carried out briskly, and efficiently and in a very professional manner. In fact kidnapping today is a well-organized enterprise. The people behind work like cool professionals who are very clear about their goals and the strategy to achieve the same. At this stage statistics relating to kidnap and ransom may be of interest to us. According to Lloyds of London statistics.

1) Of reported kidnappings worldwide between 1992 & 2002:

77% occurred in Latin America

15% occurred in Asia (particularly S.E. Asia)

3% occurred in Europe

2% occurred in North America

As seen, we can add Iraq, Afghanistan and some areas in Africa as the new hot spots.

2) During the same period (i.e. 1990-2002), of the settlement - payments known to Lloyds of London Syndicate in respect of foreign nationals kidnapped:-

40% were between \$ 100,000 & \$ 500,000

12% were between \$ 2 million & \$ 5 million

30% were \$50,000 & less

These statistics are indicative in nature and do not correctly reflect the true picture and dimension of the problem. It is believed that 90% of the kidnapping and extortions are not reported publicly and because of the safety concerns rescue operations are rare. Successful rescue operations generally take place in cinemas only. For obvious reasons most of the ransom payments are kept confidential. However, kidnappers generally settle at between 10 to 20 % of the demand. It will be of interest to also know the kidnap - outcomes:

15% released without payment

7% rescued

9% killed

2% escaped

67% Ransom paid

Again these figures are more indicative in nature. There has been a noticeable increase in average ransom payment in recent years. The numbers of kidnapping is also showing an upward trend. That being the situation, kidnap, extortion and detention are real dangers for companies operating both overseas and in domestic markets in India. The globalization of economy and emergence of multinational companies with world wide operation vis-à-vis the uncertainties of the dangerous world we live in, has exposed the companies to corporate extortion and kidnapping of employees. Big multinational

companies are seen as having deep pockets and hence from the points of view of kidnappers they are better targets and hence more exposed. The awareness of the exposure and preparing for the same should form part of any company's risk management programme. Any such risk management approach should include –

- i) Creation of a crisis management team which should include key functional heads along with CEO
- ii) Information and evaluation about the nature and level of risk in areas where the company operates or expects employees to travel.
- iii) Appropriate training to employees and family members
- iv) Appropriate security measure – both for people and property.

In addition, there is a need for insurance coverage which provides for not only ransom and extortion expenses but also for professional security services which should also act as crisis response team. These services include advice on ways to prevent such incidents, negotiate release and also provide post-incident services. The goal is to achieve safe release, support the victims family, protect the company's legal and commercial interests and minimize management disruption and stress. Ransom and extortion payment can inflict on a business a very severe blow both financially and in terms of other consequences that follow. There is no substitute except for appropriate insurance cover.

For the purpose of this article, we are more concerned with the insurance part of it having seen the real danger that the companies are exposed to on account of kidnapping and extortion and the host of problems that they bring. So let's now discuss about the kidnap and ransom insurance. But before that, two recent developments need to be looked into. With the way Information Technology is revolutionizing the conduct of business and commerce and the kind of electronic security measures now in place, abduction of individuals for the purpose of access to the desired information for industrial espionage is a new trend. The other noticeable trend is smaller groups are now selling the kidnapped person to other bigger groups who have better network and bargaining power. Both these factors have their own implication.

Benefits and services which are typically available under Kidnap and Ransom Insurance Policy:-

- Ransom / extortion money
- Expenses associated with the crises (outlined in the policy / approved by the insurer)
- Loss of ransom money in transit
- Legal liability for alleged negligence in not preventing a kidnapping or incompetence in handling the crisis
- Death or dismemberment, medical cost, etc.
- Interest on loan for ransom payment.

Thus the insurance provides coverage for kidnappings and other events through a combination of financial indemnification and expert crisis management service. The general perception is kidnap insurance is only a ransom benefit policy which is not correct. The policy is issued on reimbursement basis. Most policies include limits per loss as well as policy aggregate. Policies are underwritten based on the exposures a company faces in each of the places in which it does business. Premium depend upon perceived risk and the underwriter takes into account a variety of variables when deciding on a price. These include geographical location, no. of employees in a particular location, employee's travels, past kidnapping and Ransom incidents, etc.

Kidnap & Ransom insurance is not a new products. Lloyd's of London introduced it way back in 1932 in response to the then very famous kidnapping case of a 20-month-old baby of Aviator Charles Lindbergh. Initially when it was introduced, wealthy families and companies doing business overseas in dangerous areas purchased this form of insurance. Today, the coverage under the policy is much more wider. If you want to operate globally, perhaps a kidnap and ransom insurance is a compulsory requirement. Ransom / extortion demand can put companies to its financial brink. Insurance is an

inexpensive method of securing financial and other resources needed to manage a crisis arising out of kidnapping and extortion.

The Kidnap and Ransom policies issued have their own terms and conditions, exclusions, etc. laid down in the policy. Because of the peculiar nature of the policy, it is a condition that the existence of the policy is kept confidential.

India is slowly becoming a global power. There are numerous cases of Indian working abroad having been kidnapped. In India also lot of kidnapping are taking place. The exposure of the Indian Companies as well as individual person is real and as a part of a good risk management policy taking Kidnap and Ransom Insurance makes sense.