

Marketplace Realities 2007

& Risk Management Solutions

Special Contingency Risks

November 2006

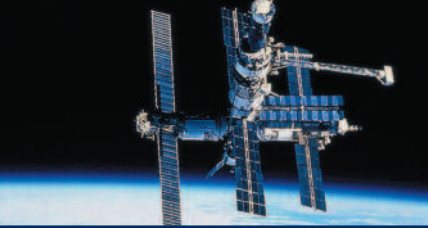
Over the last five years, the world security environment has deteriorated. The current Worldwide Caution Announcement by the US State Department warns that Al-Qaeda and affiliated organizations continue to plan attacks against US interests in multiple regions, including Europe, Asia, Africa and the Middle East, stating that these attacks can “employ a wide variety of tactics to include assassinations, kidnappings, hijackings and bombings.” At the same time, rapid shifts in regional political and economic climates are dramatically increasing security risk in many developing countries. These facts on the ground are challenging organizations with international operations to find cost-effective approaches to countering terrorism and doing business amidst new threats to their employees and property.

Kidnap

Latin America remains the focus of economic kidnap for ransom; however, regional spikes in activity have arisen in relatively short periods of time.

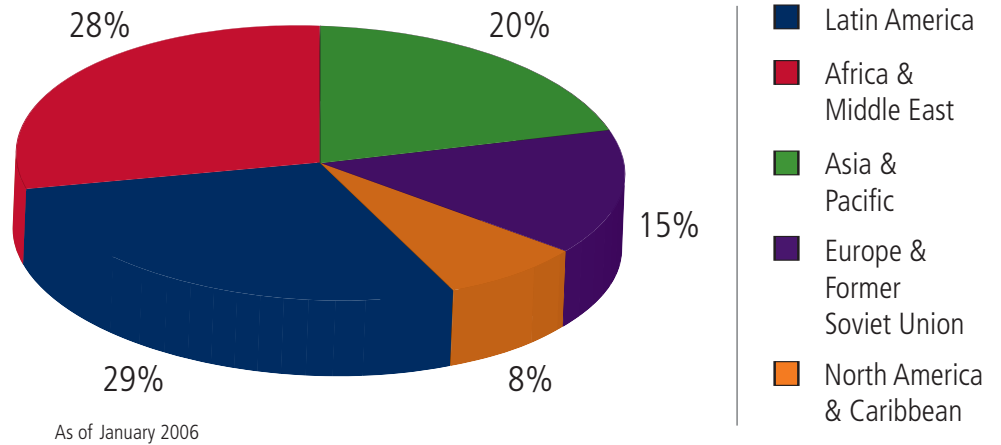
- **Iraq** has emerged as a major hub of both political and economic kidnap and looks to remain in the top-ten list of high-risk countries for the foreseeable future. The US Embassy in Baghdad reported that at least 439 foreign nationals were kidnapped in Iraq between April 2003 and April 2006, with a ransom demand being received in most cases. During this period, 60 non-Iraqi nationals were killed in captivity – 14 percent of the total taken.
- **Afghanistan** is witnessing the reemergence of the Taliban, which has translated into increased kidnap activity. In late January 2006, the US Embassy warned that there was an active kidnapping threat against foreign nationals working in Kabul, with particular emphasis on female expatriates.
- **Israel** is seeing record incidents following the vacuum created by the Israeli army’s withdrawal from the Gaza Strip. This has prompted many foreign nationals to leave these areas and has also raised concerns about non-governmental organizations and journalists operating in the region. The UN recently scaled down its operations in Jerusalem, as it did following the kidnap of two staff in July and August 2005.
- **Nigeria** has suddenly emerged as a major hotspot for kidnap, particularly of foreign nationals. A spate of kidnappings in July and August 2006 targeting oil workers prompted Nigerian President Olusegun Obasanjo to promise publicly that he would deal “firmly” with kidnappers. The militant Movement for the Emancipation of the Niger Delta (MEND), seeking to influence the government’s distribution of oil wealth, has actively targeted foreign nationals to bring attention to their cause and raise money through ransom demands.
- In 2005, **Mexico** surpassed **Colombia** as the number one kidnap hotspot in the world, with the highest estimates approaching 3,000 kidnap-for-ransom cases per year. Most crimes are not reported to the police due to concern that either the authorities are involved in the crime or a high-risk rescue attempt could endanger the victim. Mexico City is considered to be the most dangerous city in Latin America for express kidnapping (carjacking) after Sao Paulo (Brazil).
- **The Caribbean** has also seen a large increase in incidents. Both **Trinidad & Tobago** and **Haiti** have seen a surge in kidnap-for-ransom activity. At the end of 2005, kidnapping peaked at an average of 12 cases per day in Haiti, according to Control Risks Group.

The logo for Willis, consisting of the word "Willis" in a stylized, blue, serif font.

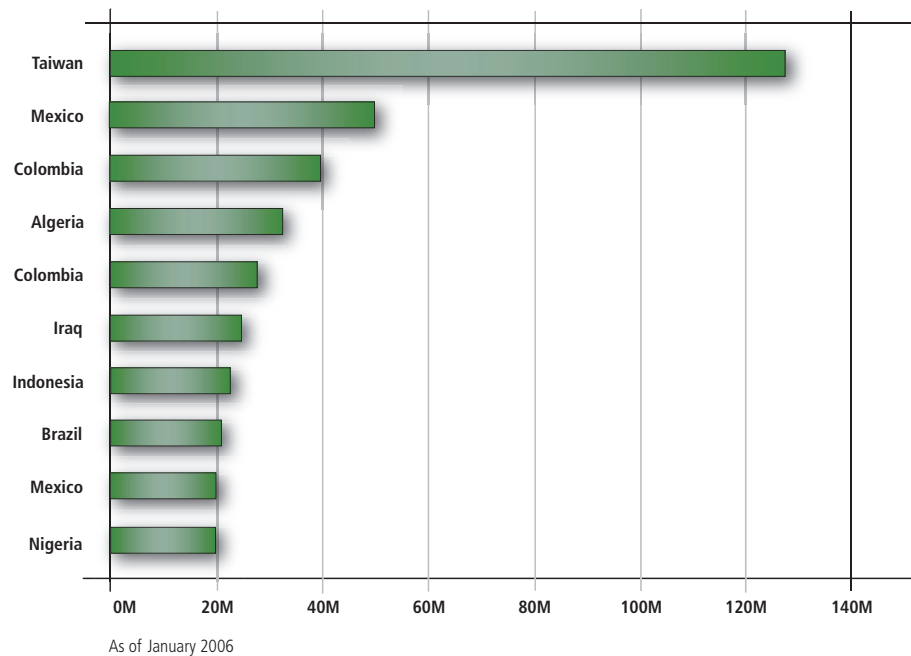


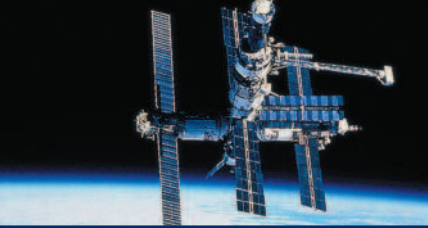
Kidnaps of Foreign Nationals Worldwide 2001 - 2005

Breakdown by Geographical Region



Largest Known Ransom Demands in US\$ (2001 - 2005)





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Evacuation

In July of 2006, Israel began air strikes against Lebanon after Hezbollah guerrillas kidnapped two Israeli soldiers. The air strikes closed down Beirut's international airport and road travel became extremely dangerous due to Israel's targeting of infrastructure throughout the country. Thousands of citizens from around the world scrambled to get out of the country.

Some countries, the US in particular, came under heavy criticism regarding the level of assistance provided to their citizens amidst the chaos. Thousands of expatriates were left stranded and the evacuation efforts were slow. Many attempted to find their own way after receiving little guidance from their governments.

The US State Department advises its citizens that they should not see embassies as "safe havens" in the event of a civil disturbance. They also make clear that "there are no guarantees that an evacuation can be safely executed, and US government evacuations are not free."

What happened in Lebanon demonstrated that the private sector cannot rely on their governments to arrange for the safe evacuation of their citizens. It is therefore imperative that organizations have emergency plans and procedures in place to protect staff overseas. Most companies with expatriate employees will have both corporate procedures and insurance coverage in place should an expatriate employee or business traveler need to be evacuated for medical reasons. However, planning for political or security-related evacuation is much less common.

Evacuation exposure is potentially best addressed under a Special Risk (K&R) policy; however, a number of factors should be evaluated when considering this coverage:

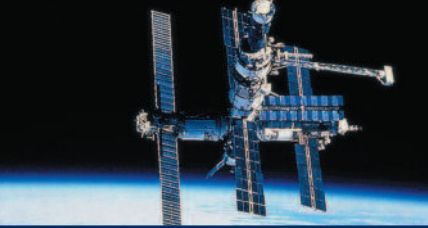
- Is coverage triggered solely by an advisory issued by an evacuee's government or can this be decided in consultation with the incident response consultants associated with the policy?
- Will response consultants deploy to the evacuation area to provide on-the-ground assistance in getting employees to a place of safety?
- Are there sub-limits applicable per person? Are they sufficient for anything other than commercial airline transportation, which may not be available in a crisis?
- Has the underwriter provided a premium credit available for development of an emergency evacuation plan with the assistance of independent security consultants?

Legal and Regulatory Environment

All employers have a duty to provide a safe work environment and to take reasonable care not to expose employees to unnecessary danger. It is common knowledge that if reasonable precautions are not taken to make sure that employees are kept safe in their workplace, there can be serious legal implications should events lead to injury or death of an employee.

While these issues are widely understood in a domestic setting, few companies link the duty to care for employees' safety to their international business travelers and expatriates when it comes to security. In fact, employees overseas represent a significant liability if reasonable security precautions and crisis response measures are not implemented.

The onus is on organizations to develop policies that will allow them to prove independently that they have met their obligations to business travelers and expatriates when cases are brought to court.



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To make their case, companies should demonstrate that they have carried out and reviewed risk assessments for their staff and operations overseas, made reasonable efforts to train personnel to operate in the environment to which they are being sent, and adequately prepared for security-related contingencies.

There are no clearly accepted guidelines, backed by precedent, on how these obligations should be met. This is due to the fact that there are few examples of security-related duty of care litigation actually reaching court. There are considerable incentives for the companies and individuals involved to settle.

It is also not commonly known that this exposure may be mitigated under a Special Risk (K&R) policy. A comprehensive program can potentially provide value in the following ways:

- Preventative consulting to provide employee training and assist organizations in their development of protocols for managing a security-related crisis
- Coverage for judgment, settlement and defense costs, should an employee or their family bring suit against the insured as a result of an insured event
- Coverage for fees and expenses of highly trained consultants to assist the insured in threat assessment and incident management
- Providing substantial benefits for the victim and their family, thereby promoting goodwill between the parties

Prevention Strategies

Many companies rely on facility security to protect employees and property. To avoid the potential impact of litigation and loss of a valued employee, an organization should facilitate an employee's ability to avoid dangerous situations, cope with an emergency and get home safely. This requires an approach to planning, organization and training that encompasses more complicated threats than facility security is usually equipped to manage.

The following are some of the basic concepts which should form part of a security risk management program:

- Security surveys of offices, project sites and facilities in high-risk environments
- Security awareness training for frequent travelers or expatriates in high-risk areas
- Pre-departure dissemination of country risk information for travelers
- Personal safety handbook provided to all business travelers and expatriate employees
- Formal crisis management with clear incident management protocols and lines of communication
- Simulated tabletop exercises to test plans

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