

The Next Big Thing in Insurance Coverage



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Brand & Reputation is a Top Board Concern

- “Aside from financial risk, which of the following areas of risk management are most important to your boards?”¹
 - Reputational Risk 69%
 - Regulatory Compliance Risk 61%
 - CEO Succession Planning 55%
 - IT Risk 51%
 - Product Risk 34%
 - Privacy & Data Security 33%
 - Risk due to fraud 21%
 - Outsourcing Risk & Tax Strategies 14% each
- 79% of surveyed business decision makers expect a crisis within 12 months²
- Yet, only 54% of same survey participants have a crisis management plan²

¹ Second Annual Board of Directors Survey, EisnerAmper: May 25, 2011
² 2011 Crisis Preparedness Survey, Burson Marsteller & Penn Schoen Berland



2

Advent of Insurance Coverage

- Certain coverage types have contained sub-limits or extensions for Crisis Management coverage
 - Cyber Liability
 - Kidnap and Ransom
 - Product Recall
 - Directors & Officers
- Heightened awareness (and significance) of Brand and Reputation has led to product demand
 - Coverage for all crisis circumstances
- Natural alignment with other lines of coverage
 - Effectively mitigating a crisis management event can help reduce the severity of, or eliminate: D&O litigation, EPL suits, post-data breach class actions
 - Inherent incentive for insurers to make Crisis Management work



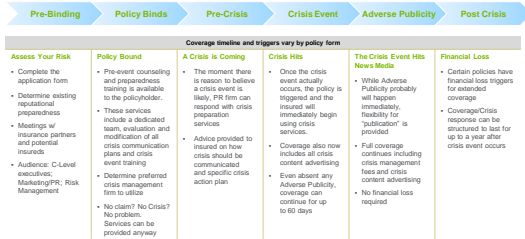
Coverage Fundamentals

Markets	✓ Zurich, Chartis, Munich Re
Product Coverage	✓ Provides crisis management response services for up to one year from an approved crisis management company for services before, during and after a public relations crisis
Maximum Limit of Liability	✓ USD50m per crisis / USD100m annual aggregate ✓ Lower per crisis and annual aggregate limits available
Crisis Events	✓ "Named Peril" or "All Risk"
Excluded Events	✓ Change in market conditions or economic environment ✓ Recall Costs ✓ Force Majeure
Minimum Deductible/SIR	✓ Retentions as low as \$10,000 for middle market firms ✓ \$1M retentions anticipated for Fortune 500 or comparable
Coinurance	✓ All carriers have a co-insurance requirement ✓ Varies by policy form and coverage component
Maximum days covered	✓ One year after crisis event
Rate	✓ Individually underwritten ✓ Pricing can start at \$10,000 per \$1M of coverage for middle market firms or comparable



Coverage Triggers

Through an entire crisis, the policy provides a powerful value proposition



Scope of Coverage

- Blackmail & Extortion
- Breach of IT Security
- Counterfeit Goods
- Criminal Proceedings
- Damage to Premises
- Detention or Kidnapping
- Environmental or Climate Change Impairment
- Environmentally Borne Disease
- Financial Statement Restatement
- Food Borne Illness
- Industrial Espionage
- Loss of Key Executive
- Major Litigation
- Mass Tort
- Personal Endorser
- Product or Service Boycott
- Product Recall and Malicious Product Tamper
- Terrorism
- Workplace Violence
- Other



Notable Exclusions

- Change in population, economic conditions, customer tastes or competitive or business environment
- Bankruptcy or insolvency of the Insured, or any change in the financial rating of an Insured
- Direct and foreseeable consequence of an Insured's decision to change or discontinue the use of any business strategy, manufacturing process, vendor, supplier or distributor
- Acquisition or merger strategy, any actual or threatened acquisition of or by an Insured, or any merger of an Insured by or with any other entity
- Strike or labor action, war, invasion, act of foreign enemy, civil war, mutiny, etc.



Benefits of Coverage

“Reputation is to companies what health is to individuals; we may claim that it is our most important possession, but we pay little attention to it until a crisis hits”

Daniel Diermeier, Ph.D.
Author of *Reputation Rules*

- Pre-crisis consulting session to help with plan development and preparedness
- Guaranteed access to world class crisis consulting experts
- Financial certainty on crisis management costs: Consulting costs as well as advertising costs, public relations, etc.



Cost of Crisis and Reputation Events

- Reputation Events can have a significant negative effect on brand value¹
 - Apple iPhone4 antenna: -\$5,965m (-2.4%)
 - Goldman Sachs SEC fraud allegations: -\$12,637m (-12.6%)
 - Hewlett-Packard CEO resignation: -\$20,009m (-18.5%)
 - BP explosion and oil spill: -\$53,500m (-29.0%)
- Significant damage is possible even if a company isn't a direct actor or participant in the negative event
 - Researchers estimate that Tiger Woods' sponsors (i.e. Nike, Pepsi, Electronic Arts) lost between 2% - 4% of market value²
- Crisis management costs can be staggering
 - Penn State spent \$360,000 in November 2011 alone
 - \$2.47M total through 2/16/2012

¹ Oxford Metrics Reputation Review, 2011

² Krittel, Christopher and Victor Stango, *Celebrity Endorsements, Firm Value and Reputational Risk: Evidence from the Tiger Woods Scandal*, University of California at Davis, August 25, 2010