The Next Big Thing in Insurance Coverage



Scott Kannry Aon Financial Services Group



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
 - SA Tiral rag efficient a fee Troots IIIT Reputational Risk 69% > Regulatory Compliance Risk 61% > CEO Succession Planning 55% > T Risk 51% > Product Risk 34% > Privary & Data Security 33% > Prixary & Data Security 33% > Risk due for raud 21% > Outsourcing Risk & Tax Strategies 14% each Out of the security of the
- 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



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 			
Coinsurance	 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

Coverage timeline and triggers vary by policy form							
Assess Your Risk 4 complete the application form Determine existing repeatational preparational preparational preparational preparational preparational insurads 4 Audience: C-Level executives: MaintengePR; Risk Maintengenet	Policy Boand P reservations properations properations provides to the policyholder. These services include a dedicated modification of all orisis communication provides terms training Determine preferrad orisis management from to utilize Determine preferrad orisis management Services can be provided anyway	 A crisis is Coming The network force of the particle of the particle	Crista Has • Crista Has • Cover the defits occurs, the policy is triggered and the insured will immediately begin using crists who will be of the second content advertising the crist content advertising the of the second the second continue for up to 60 days	The Crisis Event Hits News Modi Publicky probably will happen immediately, flexibility for "publication" is provided provided crisis management fees and crisis content advertising online advertising content advertising nequired	Financial Loss - Certain policies have financial loss trigger for estended coverage - Coverage/Crisis response can be structured to last for up to a year blast for orisis event occurs		



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
- Product Recall and Malicious Product Tamper Terrorism

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• Mass Tort Personal Endorser

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Industrial Espionage

Loss of Key Executive Major Litigation

Product or Service Boycott

- 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 value ²
- Crisis management costs can be staggering
 - Penn State spent \$360,000 in November 2011 alone
 - \$2.47M total through 2/16/2012

¹Oxford Metrica Reputation Review, 2011 *Knitel, Christopher and Victor Stango, Celebrity Endorsements, Firm Value and Reputational Risk: Evider Woods Scandik; University of California at Davis; August 25, 2010

