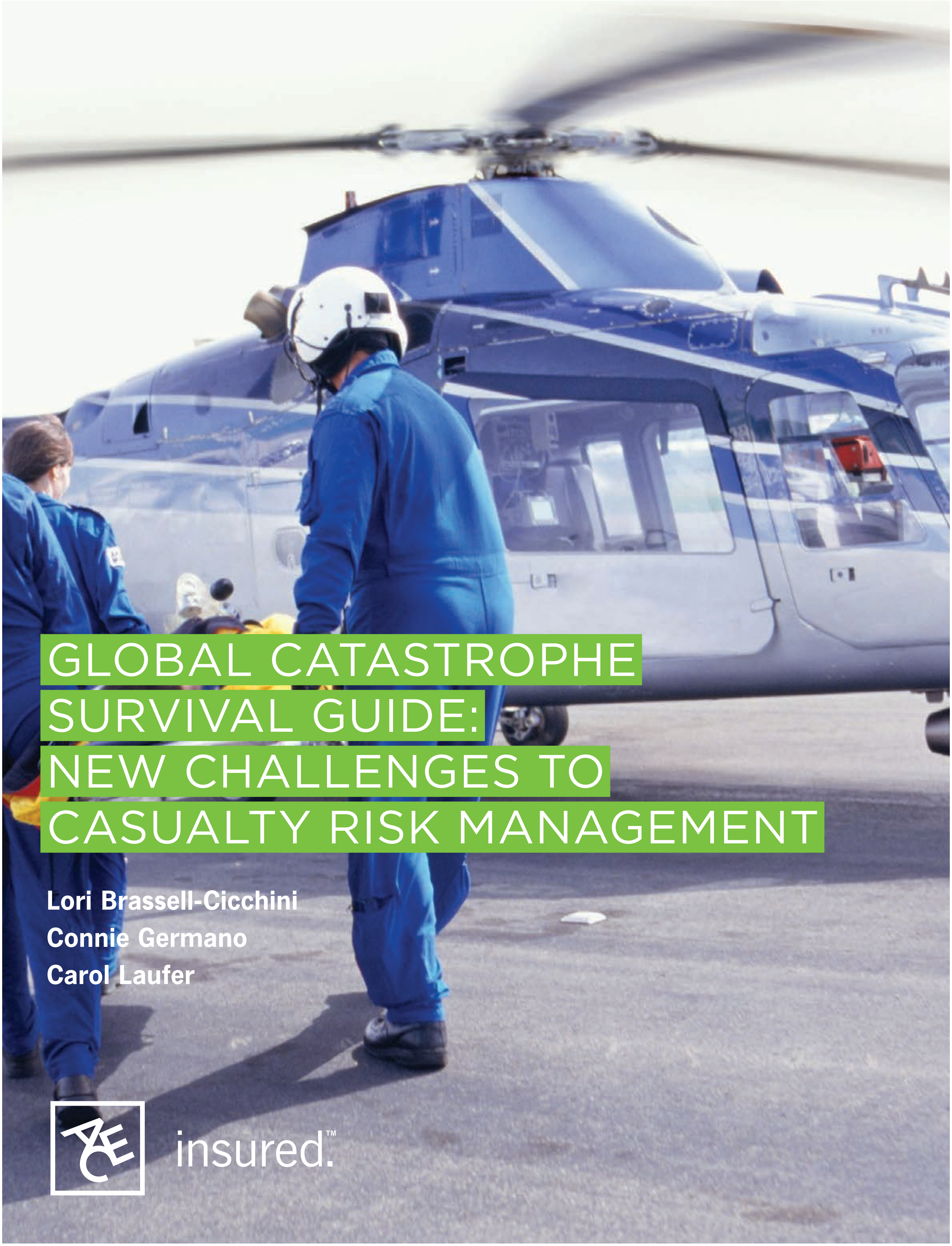

GLOBAL CATASTROPHE SURVIVAL GUIDE: NEW CHALLENGES TO CASUALTY RISK MANAGEMENT

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Introduction

The growth in U.S. overseas investment has been staggering: from $270.5 billion in 1986 to $3.9 trillion in 2010.[1] Risk managers must come to terms with the changing nature of the catastrophe risks they face as their businesses expand around the globe. At the same time, the threats to their assets have become more complex and more difficult to contain in an age of social media. Recognizing that an organization's reputation is among its most valuable assets, sophisticated multinational corporations go to great lengths and expense to cultivate a positive image in the countries where they operate. Yet many corporations unwittingly put valuable assets at risk. How? By failing to develop effective catastrophe management plans and by implementing one-size-fits-all insurance programs that lack strong global capabilities.

A catastrophe can easily spiral out of control, damaging a company's public image, reputation and profitability. We've all heard the stories: A food manufacturer's contaminated product causes widespread illness. A chemical company experiences an accidental explosion. An office building is targeted in a terrorist attack. A stadium collapses. A train is involved in a catastrophic crash. Whatever the specific circumstances of the tragedy, if poorly handled, a disaster is likely to invite a chain reaction of investigations, penalties and heavy-handed regulation with the potential for a steep drop in shareholder value.

Even the most prudent risk management will not prevent every disaster. But U.S. companies with overseas exposures can protect their assets from the worst possible consequences with a thoughtful approach to catastrophe management as well as compliant insurance coverage from an insurance company experienced in managing risks around the world. A catastrophe that is managed properly can even enhance a company's reputation as a responsible member of the business community.

The Changing Nature of Catastrophes

In many ways, the catastrophe risk businesses face today is different than in the past. Catastrophes are more prevalent and more complex, and often they seem to defy our conception of what is possible. Even after the World Trade Center bombing in 1993, few imagined that terrorists would fly planes into the iconic towers and send them crashing to the ground. Who would have imagined that 33 coal miners would be trapped underground for 69 days as the world watched through 24/7 news and received updates through social media?

More than 40 percent of a group of risk managers surveyed in October 2010 ranked international terrorism as one of the emerging risks that will have the greatest impact in the next few years,[2] but mass violence may also have domestic roots, as it did on the campus of Virginia Tech and in the bombing and shooting rampage that took place last summer in Norway.

Global companies must also be prepared for catastrophes triggered by indirect causes. Through no fault of their own, Spain's cucumber farmers suffered severe economic losses when German officials inaccurately blamed their product for an outbreak of food-borne illness in several European countries. The repercussions spread even further when the Russian health service banned all vegetable imports from the entire European Union and several other countries halted imports.

Multinational companies today also must look beyond traditional costs associated with bodily injury and property damage. In today's world, businesses also must consider the costs of trying to preserve or enhance their reputation — or suffer the harsh financial consequences of a badly damaged one.

Imagine This Catastrophe

For the purposes of considering different approaches to managing a catastrophe, we present a hypothetical example of a multinational outbreak of a food- borne illness. It is especially relevant given recent international recalls of contaminated foods, drugs, toothpaste and pet food and the strong regulatory reaction. In response to widespread food and product safety issues, lawmakers in various countries are enacting tougher safety and import laws. A law signed in January 2011 gives the U.S. Food and Drug Administration greater authority to regulate the food supply and the power to issue mandatory recalls of contaminated products.

In June 2011, European Union negotiators agreed on new food labelling laws, including country of origin labelling for types of meat not covered by a law adopted in 2000 in response to the outbreak of mad-cow disease.[3] India is drafting rules to ensure the safety of imported food,[4] and China has pledged to improve food regulations and impose harsher penalties, including the death penalty, for those convicted of food safety violations.[5]

In our example, a U.S.-based food manufacturer distributed packaged goods to restaurants and supermarkets in developed countries and emerging markets around the globe. Its products were also sold to distributors that supplied food to nursing homes, hospitals and schools.

Public health authorities in several countries on different continents received reports of severe abdominal illnesses that seemed like food poisoning. Most victims recovered after several days of nausea, vomiting and diarrhea, but several patients with weak immune systems—especially hospital patients, nursing home residents and young children—died. The circumstances pointed to a common food- borne illness, but because of the far-reaching nature of the outbreak it took time for public health authorities to realize these cases were related.

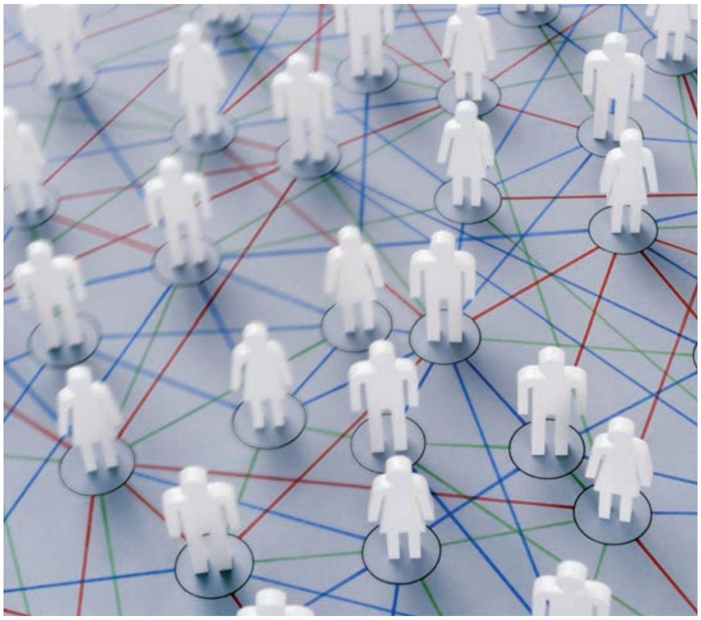
At the same time, calls from sick consumers as well as institutional customers came into the customer service hotlines that the food manufacturer set up in each country where it sold products.

For many companies, regardless of the industry, reports to the customer service hotline in one country might never be connected with reports to the hotline in another country—and the queries from institutional customers might be handled in entirely separate divisions. So our hypothetical company continued business as usual, and viewed the incidents in each country as a small number of isolated cases that have no proven link to its products.

The media reported on the illnesses and deaths and people panicked. Eventually, public health authorities connected the dots. An international consensus arose, and identified salmonella as the cause of the food poisoning. Eventually, the salmonella was linked to the company's products.

Fearful that admitting fault would alienate customers, the company's public relations department issued a statement saying it would have no comment until it concluded its own internal investigation. At this point, regulatory authorities sent inspectors into its various facilities. Politicians demanded hearings and called for stricter and more costly regulations. The company faced bad press day after day, while bloggers and social media users blasted the company and spread false rumors that the company's other products made people sick. The company's stock took a nosedive as shareholders sold in droves.

The company finally identified the source of the problem—several of its egg suppliers were getting eggs from a provider with salmonella-infected hens. The company announced the findings along with plans to compensate victims and retool its safety



assurance program. By that point, however, nobody was really listening. The company's reputation was severely damaged. The company, whose PR team once dreamed of becoming a trending topic on Twitter, could not have been pleased when it finally did. The hash tag for tweets about this company: #toolittletoolate.

It didn't have to be this way.

Let's say our hypothetical company followed a proactive catastrophe management model, instead of one that was clearly reactive. The proactive company was constantly on the lookout for emerging risks, and food safety was clearly on the top of its watch list. Recognizing that its products were distributed worldwide, this company instituted a robust reporting system that analyzed consumer complaints regardless of the country or division from which they originated. It elevated suspected cases of illness through a monitoring system staffed by high-profile safety executives with a clear line of authority to report problems to senior management.

This hypothetical company warned public health authorities that one of its products might be causing food-borne illnesses in numerous countries before the health officials themselves realized the pattern. It kept the authorities informed of its voluntary recall plans and progress on its investigation.

The company had an intranet site with common instructions for all U.S. and foreign subsidiaries to follow. As a result, the subsidiaries were able to provide all clients with instructions for disposing of recalled products in a consistent way.

This company already had a strong culture of regulatory compliance, quality assurance and safety. Because it was familiar with its vendors and their suppliers, it didn't take long to identify the source of contaminated eggs and every facility and product where they had been used. It had also ensured that its various suppliers were not getting eggs from the same sources, which reduced the risk of any one supply-chain problem having widespread impact.

Members of the crisis communications team had imagined this as a worst-case scenario. The team worked with senior management to launch a pre- planned communications strategy to address media questions as well as the concerns of regulators and investors. The team reached out to customers— both retail and institutional as well as the people who ultimately ate its food products. A designated person reached out to customers on social media networks, while monitoring them to correct misinformation.

Importantly, this company had insurance policies that were fully compliant with the local regulations in every country where it did business, ensuring that it had the resources to compensate those who were injured by its product. The policies also provided financial resources to pay for important related services, such as assistance for families of victims, funeral expenses and public relations expertise to manage the impact of this event on the company's reputation.

Spotting Emerging Risks and Practicing Global Compliance

As we have seen from the example, a global company that is proactive about catastrophe management can go a long way toward reducing the consequences of a disaster. The process begins with working to identify emerging risks. In a survey of risk managers and "C" suite executives, 58 percent said that identifying risks is their top priority, but only 34 percent believe they do it well.[6]

A proactive company also:

- self-regulates before an outside agency imposes further regulation in response to a crisis;
- maintains a strong, compliant insurance program to provide financial protection; and
- mitigates reputational damage by executing a solid catastrophe management plan.

Large companies already engage in many of the risk management practices that would help them spot emerging risks. They have accident reporting procedures and compliance hotlines, and they review their accident statistics and loss runs on a regular basis. But they often miss the warning signs of the next catastrophe, not because of a lack of data but because of a failure of imagination: the inability to see the risk that could emerge outside their comfort zone.

Proactive companies invest enormous amounts of time and money on self-regulation. While many companies closely adhere to financial, safety and environmental regulatory requirements in the United States and other countries where they operate, the most successful companies take extra steps beyond regulatory requirements to ensure that their products and services meet the highest quality standards and to reduce the risk of a catastrophe. Their investment in self-regulation can have other positive effects.

A company that demonstrates a strong culture of compliance may be able to improve its defensive position in a lawsuit and reduce the likelihood of onerous reactive regulation.

As part of a thorough risk management program, pharmaceutical and medical device companies should seek to partner with an insurer that has significant experience in human clinical trials and compassionate use situations as well as an understanding of the applicable regulations.

Insurers that specialize in underwriting this kind of coverage have reviewed many consent forms and clinical trial agreements to better understand the risks involved. They also can help to identify emerging risks from clinical trials in general.

Because every risk cannot be totally mitigated, companies should look for an insurer with financial strength and an excellent reputation that also offers a broad range of products. Companies conducting trials overseas, should look for an insurer that offers worldwide coverage, as well as locally admitted policies and also understands and is in compliance with the different insurance and clinical trials laws in each country in which the trials will take place.

The most successful companies take extra steps beyond regulatory requirements to ensure that their products and services meet the highest quality standards and to reduce the risk of a catastrophe.

Most sophisticated corporations would never knowingly compromise their compliance with laws like the Sarbanes-Oxley Act of 2002 or regulations issued by the Food and Drug Administration or the Environmental Protection Agency. Yet some seem to have a different attitude when it comes to compliance with the insurance regulations in the countries where they do business.

Risk managers might think their U.S. insurer can easily pay claims for the liability of foreign subsidiaries, but that approach does not address the tangle of country-specific insurance requirements. Many jurisdictions require that local, admitted insurance policies be purchased in their country. Those that allow foreign, unlicensed insurance often impose detailed rules for accessing non-admitted coverage and also may impose extra taxes or other costs for doing so.

Perhaps companies are unaware of the complex, disparate and conflicting laws, rules and regulations governing insurance placement in foreign jurisdictions. This lack of awareness can be dangerous because non-compliance with global insurance regulations could be a disaster in and of itself.

Many global insurers, reinsurers, brokers and risk managers rely on services that provide up-to-date information concerning insurance regulatory information. The ability to comply with the evolving insurance requirements in local jurisdictions is just one of many important criteria that risk managers must consider in developing the type of insurance program that can be fundamental to global survival.

Securing Financial Protection

While many catastrophes tend to happen abruptly, claims can stay open for decades. The most important feature of an insurance purchase designed to cover catastrophes is the financial strength of the insurer. A multinational company needs access to coverage from an insurer with the financial strength to issue large limits in many countries and the long-term viability and infrastructure to pay claims globally for many years after a catastrophe.

A global multinational company should also consider coverage that will pay for crisis-related expenses that may typically go uncovered. For example, catastrophe management coverage might pay for public relations expertise designed to preserve and enhance the company's reputation during a crisis.

How the company handles claims will ultimately have a tremendous impact on its reputation. Not many insurers have claims departments with the broad reach and deep level of expertise required to address catastrophe claims anywhere in the world. Among the qualities required are:

- A global, rapid-response network of claims specialists that can mobilize resources immediately to respond to a catastrophe.
- Experience adjusting, investigating and trying cases involving catastrophe claims in multiple jurisdictions around the world. An insurer with extensive experience managing high-profile cases will have well-tested strategies for executing an immediate response and will understand how litigation may play out depending on the circumstances and the jurisdiction.
- Established relationships with the best medical experts, reconstruction experts and local law firms and the ability to draw on these relationships to produce the best possible outcomes.
- A deep understanding of judicial systems and claims-handling requirements throughout the world as well as sensitivity to the customs and practices in each local jurisdiction.

Catastrophe Management Planning

A catastrophe requires an immediate response and strategy to mitigate harm to the victims and damage to the company's reputation and bottom line. The more rapidly a company and its insurer can respond with a full gamut of resources, the better the outcome will be.

More than 80 percent of risk managers surveyed in 2006 recognized that good catastrophe risk management can be a strong source of competitive advantage. Still, 50 percent of respondents said they lacked the time or resources to give their full attention to preparing for high-impact, low-probability events.[7] An insurer that offers coverage for specialized catastrophe management can solve that problem by helping a proactive company develop a full-service catastrophe plan.

A major function of catastrophe management planning is to protect a company from reputational damage. A single catastrophic event can significantly damage or even destroy an organization's reputation for responsibility, excellence and profitability. Conversely, a company's reputation may be enhanced if a catastrophe is handled with professionalism, integrity and accountability.

The explosion in both 24/7 media coverage and social media has raised the stakes for reputation management. The rescue of the Chilean miners demonstrates the benefits of a strong crisis response, and the government's use of media was a key element. The Chilean president quickly took over rescue operations, mobilizing an international rescue effort but maintaining central control. The president offered consistent updates to the media, expressing determination to do everything possible to rescue the miners but never overpromising. Broadcasts and social media sites documented every dramatic step until the last of the miners emerged after 69 days. The end result was a hugely gratifying global humanitarian outreach effort that restored the national pride of Chileans and touched the reported billion people worldwide who followed the drama through traditional and social media.

The media plays an enormous role in the ability of a company to manage its reputation in a crisis—for better and for worse. Over the years, there have been numerous examples of corporate citizens effectively using the media to deal with a catastrophe, while others seemed unprepared and misguided. However, even the experienced media relations team may feel it has a tiger by the tail when it comes to social media.

A multinational company needs access to coverage from an insurer with the financial strength to issue large limits in many countries and the long-term viability and infrastructure to pay claims globally for many years after a catastrophe.

The rise of social media has created an entirely new set of circumstances. Social media subjects a corporation's reputation to the whims of unverified comments that spread instantaneously and virally. However, if closely monitored and proactively managed during a crisis, social media can reap tremendous value. It allows the company to take the pulse of public opinion and provides a direct, two-way channel to create a dialogue with various constituents affected by the catastrophe.

Companies that develop and test a catastrophe management plan can focus on executing the plan instead of inventing it when the unexpected happens. A crucial part of that planning must address crisis communications, which can make or break a company's reputation in a world of sound bites and social media networks.

In thinking about a global catastrophe management plan, keep in mind the following ten preparation and communication tips. Rather than offering a comprehensive to-do list, they cut to the heart of dangerously common oversights:

Prepare

- **Monitor crisis trends.** Is your plan routinely updated to address the latest trends in global crises? Based upon these trends, have you secured global technical experts, in advance, who can evaluate the company's involvement in the loss and capture data for reporting to regulatory authorities?
- **Post consistent intranet response plans.** Do you have electronic crisis response instructions posted on your intranet for global consistency?
- **Build a response team.** For disasters at foreign operations, will you rely on U.S. crisis managers and procedures in concert with your in-country crisis team? Do you have a strategy to utilize employee language skills to assist in communicating with foreign officials? Are there backup teams and have they practiced transition plans for losses that span several months?
- **Hire vendors.** Are all contracts with worldwide or in-country crisis-management vendors up to date? Do vendors know who is on your current crisis response team? Have you established your expectations for their performance during a crisis? Do you have a plan to monitor vendor billing during a crisis? Is someone assigned to tracking/retaining invoices and financial records for recoverable expenses during the catastrophe?
- **Designate facilities.** Have you identified a command site and the necessary equipment? Have you designated comfortable local facilities to house families of victims and meeting rooms for internal and external use?
- **Practice drills.** How often are global preparedness drills or lockdowns performed? Recognizing that you may be more vulnerable during a crisis, are there frequent drills to stress test the plan for security concerns? Who is managing that? How will people onsite be protected if a disaster prevents them from leaving the facility?

Communicate

- **Develop public relations plans.** Do you have a crisis communication plan? Was it developed with public relations professionals who specialize in crisis communications? Has your legal team reviewed potential communications? Have you prepared press kits in multiple languages that would be consistent in relaying company information and key messages?
- **Emphasize best communication practices.** Have you conducted media training, including mock press conferences, for those assigned to speak to the public? Has your media training extended beyond the "C" suite? Are worldwide site managers prepared to handle the rush of cameras? Do you emphasize effective communication practices, such as delivering a consistent message; cooperating with the media; providing regular up dates; offering facts, not speculation; and avoiding "no comment"?
- **Prepare social media messages and monitor social media.** Is your global public website prepared to communicate the company's message in real time as events unfold? Are there prepared messages to minimize the negative and enhance your reputation? Is someone monitoring social media to gauge public opinion and react accordingly?
- **Discuss a root-cause analysis.** Did you perform a root-cause analysis to determine the cause of the failure and how the catastrophe can be avoided in the future?

The ACE Solution

A global insurer can play a central role in helping multinational corporations protect their assets and their reputations from the devastating consequences of a disaster by providing an array of insurance products and services.

ACE Excess Casualty products can provide worldwide lead umbrella and excess liability insurance for U.S.-based multinational companies. ACE products are backed by substantial, financially secure capacity and are designed to address global catastrophic exposures including corporate reputational, security and compliance risks.

For companies that need admitted coverage for local operations in foreign countries, ACE is licensed to issue policies in 70 countries and has the ability, through its partnership networks, to issue policies in 140 countries. ACE provides expertise in global compliance as well as the necessary foreign indemnification for gaps in coverage and limits of U.S.- owned foreign entities.

For added security, clients have access to catastrophe management coverage that provides up to $250,000 for eligible expenses during a crisis. These include public relations costs to manage the reputational impact of an event, the cost for counseling families of victims, advance funds to pay for funeral expenses, repatriation of belongings and people as well as expenses to secure the scene and provide engineering support.

Multinational clients also have access to the global claims management network of ESIS, Inc., ACE's risk management services company. ACE provides clients with access to the expertise of adjusters, investigators, technical experts and local counsel in 150 countries.

Conclusion

There is nothing quite like a catastrophe to expose the true foundation and culture of a company to the harsh light of global public scrutiny. However, catastrophes can also be an opportunity. They can be predicted, prevented and managed by corporations that embrace key lessons from this survival guide by:

- recognizing emerging risks;
- developing and practicing a catastrophe management plan that has a strong emphasis on reputation management; and
- partnering with a global insurer that offers compliant coverage, catastrophe management coverage and services and expert claims handling.

A catastrophic event, unwanted as it may be, can be a learning experience for a company, and it has the powerful ability to underscore the strength of a company.

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Endnotes:

1 Figures from the U.S. Department of Commerce Bureau of Economic Analysis refer to U.S. direct investment position on a historical-cost basis.

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