

Reputational harm

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Reputational risk is perennially mentioned as a top concern in corporate boardrooms

Yet while this intangible asset takes years to build, it can be damaged quickly following events such as network security breaches, product failures, employee disgrace and other circumstances that lead to adverse media.

We work with our clients to view the risk differently by focusing on the consequential drop in business income following a reputational event. The end solution is a customized intangible business interruption policy triggered by a reputational event and subsequent drop in income.

THE MARKET: Approximately \$100 million–\$200 million is available in insurance capacity for reputational harm coverage. The market is led by Munich Re, Tokio Marine Kiln, Allianz and a few other syndicates at Lloyd's. Due to the specialized nature of the underwriting, the teams are in high demand, so submitting a well-qualified submission is important.

THE COST TO YOU: Underwriters charge a 1-3 percent rate on line, or \$1 million–\$3 million for \$100 million in coverage. Pricing is not easily quoted without a full underwriting review; below is an outline of the information required to start the conversation with the underwriters.

- Named insured/website.
- Revenues by geography (country) and brand — This provides the underwriters with the ability to analyze the potential loss of business interruption. Geography or brand may be more important depending on the industry.

Valuing your reputation is nearly impossible, but valuing your income stream is not, and that is what reputational harm insurance protects.

Reputations can be everything to an organization and present a risk that must be carefully managed.

Triggering scenarios

Identifying the reputational events concerning your organization is critical to perfecting coverage. These specified events are then incorporated to become customized triggers for the policy. For example:

- An actual or alleged product failure related to your brand or product.
- An actual or alleged contamination event arising out of your product or business.
- An actual or alleged network security failure or data breach event.
- An actual or alleged “internet of things” vulnerability of your product.

For retentions, underwriters typically seek more than \$2.5 million and occasionally apply coinsurance in order to spread the risk covered within budget constraints.

Overall, reputational harm insurance is a product worth exploring for companies concerned by the risk recorded. If you are interested in further exploring reputational risk, please contact your Lockton account team. We will work with you to identify the risk, its triggering scenarios, the related financial components and loss controls. From there, Lockton will be your trusted advisor into this emerging market.

