

WAR

ZONE

**INSURANCE
+ RISK
MANAGEMENT**



5 Steps in the Risk Management Process

- ***1 – Risk Identification***
- 2 – Risk Analysis
- 3 – Risk Control
- 4 – Risk Financing
- 5 – Risk Administration

(Enterprise Risk Management, ISO 31000:2009)



Violence and Assassination



Kidnapping





Terrorism





Cargo Loss



Expropriation of Private Assets



Hotel Bombing



Piracy

**IDENTIFIABLE RISKS ARE NOT
ALWAYS PREDICTABLE**

SITUATIONS CHANGE RAPIDLY

Libya 2011

“Canadians left in Libya as insurer grounds plane”

- A private insurance company nixed a charter flight secured by Canada to ferry its citizens out of Libya Thursday, stranding 105 Canadians at the Tripoli airport, the foreign ministry said.
- The move left Ottawa scrambling to find a “plan B” and by afternoon a military jumbo jet was put on standby to go in its place.
- Due to the **deteriorating security situation in Libya, a charter flight obtained to evacuate Canadians (from Tripoli) couldn’t obtain insurance**, so we’re now looking to work with our partners on other options,” Lynn Meahan, spokeswoman for Foreign Affairs Minister Lawrence Cannon, told AFP.
- *(Middle East, Short News, internet)*

Libya 2011

“Hundreds of American Evacuees Still Stuck on Ferry in Libyan Port”

- Bad weather for a second straight day kept a ferry with several hundred Americans from being evacuated from Libya, though hopes are high that the captain will be able set sail for Malta on Friday.
- News reports from the region painted a picture of panic and desperation at the international airport in Tripoli, with up to 10,000 people reportedly trying to board planes to flee the country.
- U.S. government requests to land aircraft to pick up the citizens have been denied, State Department spokesman Philip J. Crowley told reporters in Washington.
- (AOL News, internet)

Bahrain 2010 vs. 2011

“Amid Unrest, Bahrain Tourism Plunges: Grand Prix Canceled, Hotels Empty”



Recent Events – Middle East & Africa

- Iraq
- Afghanistan
- Pakistan
- Bahrain
- Egypt
- Libya
- Sudan
- Algeria
- Somalia
- Yemen
- Gulf of Aden

Northern Africa and the Middle East



Types of War Zone or Hostile Territory Risk

- *Property & Casualty Risk*
 - Expropriation
 - Breach of Contract
 - Forced Divestiture
 - Currency Inconvertibility
 - Political Violence
- *Human Resources Risk*
 - Life
 - Medical
 - Kidnap & Ransom
 - Emergency Repatriation
 - Pandemic
- **War Zone Perils & Hostile Territories (*Coverage is Excluded*)**
 - Political Risks
 - War
 - Terrorism
 - Piracy

**Avoid, Retain,
Transfer or
Finance?**

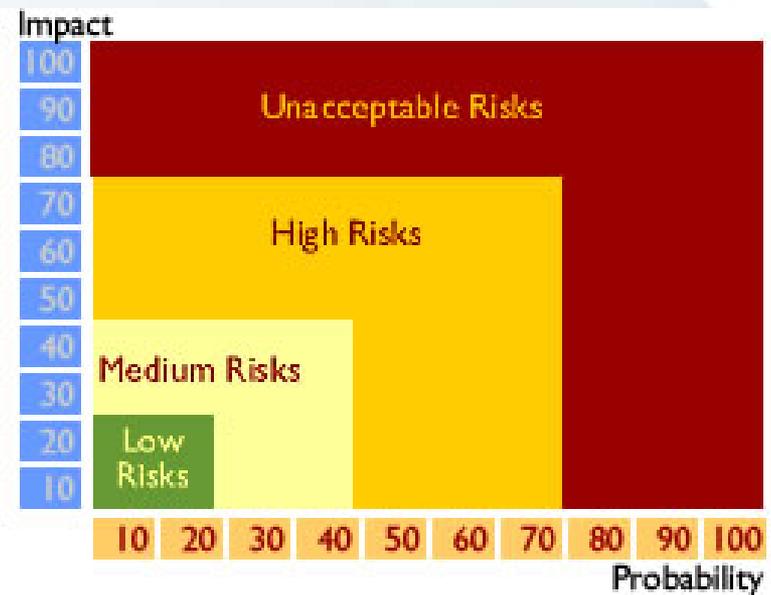
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Risk Analysis

- **Risk Appetite** – What risk is Unacceptable Risk?
- **Risk Proposition** – Maximum Possible Gain vs. Maximum Possible Loss (MPG vs. MPL)
- **Probability** - What is the Maximum *Probable* Gain or Loss? (Speculative)
- **Risk Assessment** – How is it performed and updated?



Risk Analysis = 4W + 2H + 1C

- **Who** – Americans, Europeans, TCNs, Locals
- **What** – People, Assets, Money, Credit, Time, Capacity, Reputation, Brand, Image, Existence
- **Where** – Middle East, Africa, Asia, Mexico
- **Why** – Value Proposition must make sense
- **How Much** – Aggregation of people/assets
- **How Long** – Resource sustainability
- **Criticality** – Essential operations or voluntary

Risk Analysis – Where Bad Things Tend to Happen

- Areas of Aggregation

- People
- Assets
- Resources
- **Dependent Processes**

- Choke Points

- Route/Critical Path
- **Critical Elements**
- Limited Resource (water)
- Availability of Key People

Mitigation Strategies

R

➤ Redundancy

L

➤ Logistics Support Plan

I

➤ Intelligence Gathering

S

➤ Security

S

➤ Spread of Risk



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Risk Control

- War Zone and Hostile Territory Risk is ***extremely hard to control***
- Entities with ***good leadership, solid processes, redundant systems and good partners*** perform best
- ***Good training creates predictable reactions*** in periods of crisis when thinking can be clouded
- Your ability to control risk is ***your ability to quickly react to changing risk***

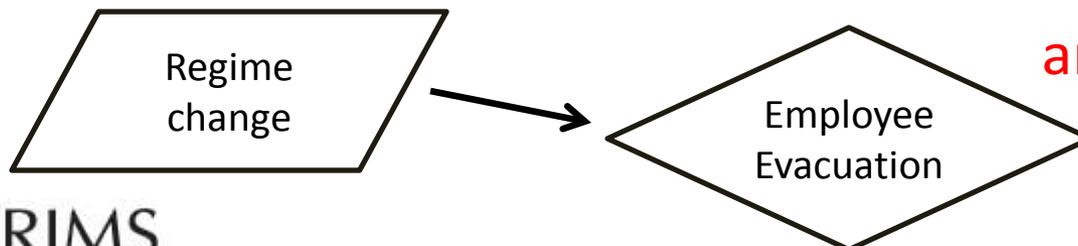
Risk Control

- Property & Casualty

- Contracting Process Risk Assessment, Compliance and Avoidance/Mitigation (Active vs. Passive)
- Spread of Assets at Risk and Protection of Assets
- Critical Risk Information triggering predetermined Decision Points & Action

- Human Resources

- Employment/Deployment Pre-Screening
 - Medical
 - Psychological
- Pre Deployment Training
- Personal Protective Gear
- Secure Living and Traveling Conditions
- Rotation before Burnout and Bad Decision Making



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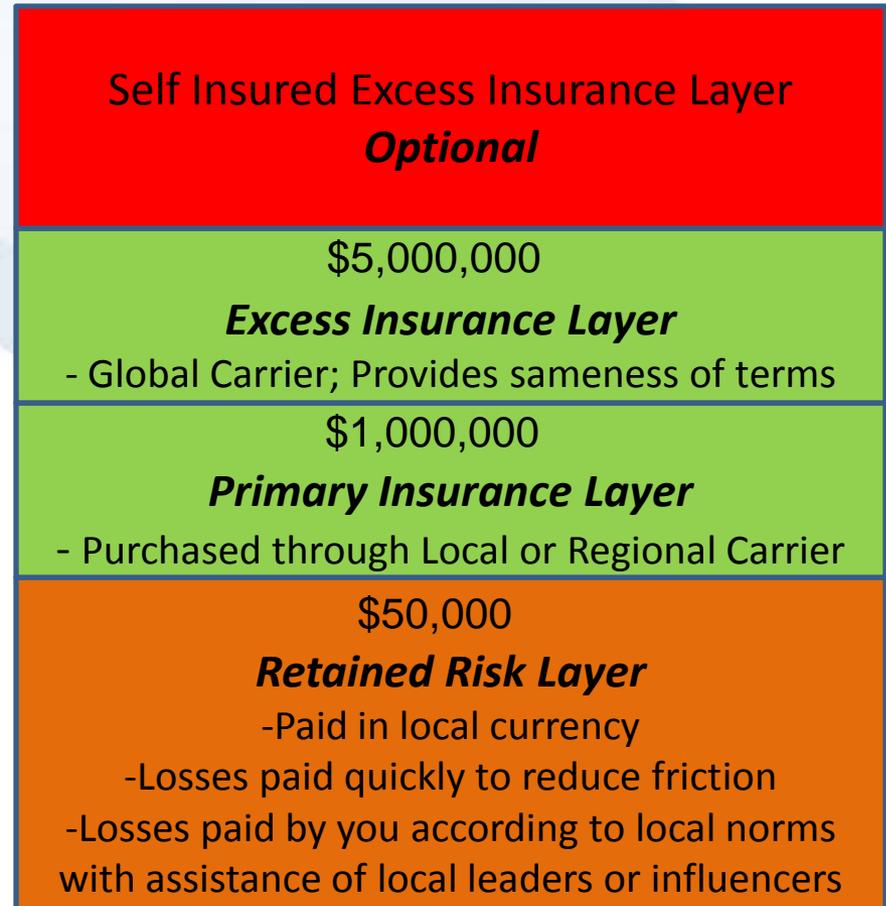
(Enterprise Risk Management, ISO 3100:2009)

Risk Financing

- Most insurance companies exclude War Zone risks and War Zones or Hostile territories
- Available insurance products are often London Market based facultative reinsurance fronted by local or regional insurance carriers domiciled outside North America
- A combination of retention and risk financing via insurance is normally the most cost effective solution

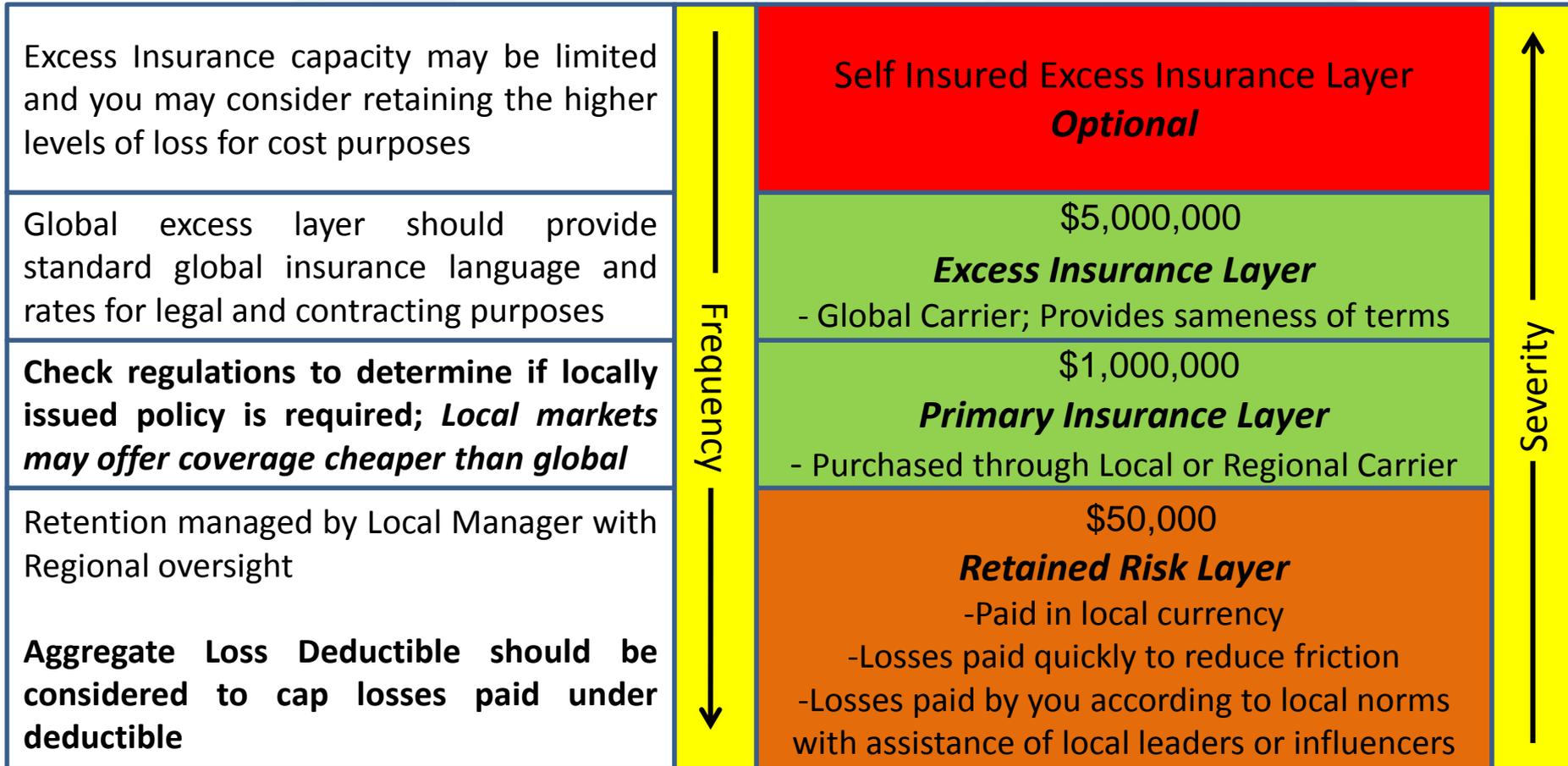
Risk Financing - Technique

- **Retained Risk Level**
 - Predicable Losses
 - *Insurance company involvement not preferred*
- **Insurance (Primary/Excess)**
 - Cost and availability drives procurement of these layers
 - *Need for globally recognized coverage, A rated carrier, loss adjustment services and sameness of rates & terms*
- **Self Insured Excess**



Risk Financing – Structure

Property and Casualty



Risk Financing – Structure

Human Risk

Risk Manager Responsibility

Human Resources Manager Responsibility

Workers
Compensation
& Employers
Liability

(Foreign
Voluntary)

Defense
Base Act
(DBA)

(USL&H)

Kidnap
&
Ransom

Accidental
Death &
Dismemberment

Trip Travel Cover

Short & Long
Term Disability

Group
Medical

Group
Life

Services Providers – **Service Networks** – Global or Regional Coverage – **Employee Classification**

Are costs covered automatically or are costs reimbursed to Employee? Is Pre Approval Required?

Are benefits “Country of Origin” or “Country of Hire” or “Per Employment Contract”?

Risk Financing – Claims Payment

- The purpose of Risk Financing through insurance is to transfer losses and pay claims
- The claims adjustment and payment process provide this risk transfer
- Carefully research insurance companies to ensure that they are able to adjust claims and promptly pay claims – few carriers have this capability in War Zones

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(Enterprise Risk Management, ISO 31000:2009)

Risk Administration

- You will need a plan to implement and monitor the risk management strategy and insurance program in the war zone
- It is challenging to implement and monitor a plan on a 8 – 14 hour time difference
- A good risk administration plan will involve a qualified risk management contact in the Middle East that can work in conjunction with a USA or global corporate Risk Manager

Risk Administration - Systems

- It can be helpful to utilize an RMIS system to maintain claims visibility however insurance companies may not have the ability to upload and download claims information to the system electronically
- Risk administrators with local language capabilities are important as many claim documents will not be in English

Risk Administration – Loss Adjusting

- Third Party Loss Adjusters are the norm – insurance companies rarely have in house assets adjusting the losses in war zones
- Loss Adjusters can either work for you or the insurance company – it pays to develop a relationship early and control the adjuster
- Good Adjusters are in high demand and your claim may take a back seat to a larger client's claims – capacity is limited

Risk Administration - Structure

- War Zone Risk:
 - Project based
 - Non Homogeneous
 - Low frequency
 - High severity
 - Special risk services required
 - Special marketing
 - Limit loss impact



Summary

- War Zone and Hostile Territory Risk is unique and requires a unique approach to risk management
- Careful consideration should be given to risk structuring, retention levels, claims adjusting and risk administration
- The risk is non-standard and should be segregated to avoid impacting and polluting the overall loss picture (tail wagging the dog)

Conclusion

- Thanks for your time and attention
- I am here all week in booth 134 if you have additional questions
- You can email questions to me at goldsmith@riskoverwatch.com
- As part of RIMS green initiatives, there are no printed handouts. Visit www.RIMS.org/2011Handouts to download available handouts. Printing on Demand stations are available in Level 1 Lobby of the Vancouver convention Centre, as well as in RIMS Cyber stations located in booths #227 and #1931 in the Exhibit Hall.