

Piracy and Kidnapping Aren't New Problems, Just Bigger

by Kathy Dorf

With the recent kidnapping of an American ship captain by pirates off the Somali Coast, viewers are wondering, how could this happen? The reality is that it occurs more often than you think.

Expatriates working overseas on behalf of a company or organization are frequent targets of kidnap, particularly as globalization takes business to new corners of the world. Thousands of kidnapping cases occur worldwide every year and as current events show, this number is growing.

"There is an intense focus right now on Africa and the region surrounding the Gulf of Aden due to the recent increase in piracy and kidnapping, but this is certainly not a new problem," said Yan Bui, a commercial insurance executive at Clements International, a Washington D.C.-based firm specializing in international insurance solutions.

The International Maritime Bureau reports that in 2008, Somali pirates seized 815 crew members, proving that the latest kidnapping was not an isolated case. The threat has long existed and incidences are increasing in many countries, including Afghanistan, Mexico, Pakistan, the Philippines and Venezuela.

An Italian expatriate was abducted on April 9 in the southeastern Nigerian state of Ebonyi. Armed gunmen seized the man on his way to a construction site where he was working under government contract. Although less publicized, hundreds of expatriates and Nigerian workers have been victims of kidnap in just the past three years. According to the 2008 Kidnap Risk Brief published by Clayton Consultants, Inc., at least 172 foreigners were kidnapped in Nigeria alone in 2007.

The risk level for kidnapping remains high in Latin America and Africa, but Central Asia is seeing dramatic growth, particularly in Afghanistan and Iraq. However, the majority of kidnapping incidents are still occurring in Latin America. In most cases, the



ransom is paid and the victim is safely released, but according to The Inkerman Kidnap and Ransom Monthly Review (February – March 2009), kidnap victims killed showed a 7 percent increase in January 2009, up to 19.3 percent.

Expatriates working abroad face a credible risk in high-risk areas away from home where their companies cannot protect them. Organizations and financial institutions with a significant global presence can be targeted for ransoms ranging from thousands to millions of dollars. While it may seem rare, kidnap is a thriving, corrupt business that is more common than companies would like to admit. Even statistics are difficult to gather because only about 10 percent of incidents are reported on average.

Although the United States government recently intervened in negotiations to rescue an American ship captain kidnapped by Somali pirates, governments are rarely involved in these cases. Without the leverage of a powerful government and military, insurance becomes increasingly important to an organization's

ability to independently and expeditiously resolve kidnap and ransom situations.

Companies often avoid discussing kidnap and ransom coverage (K&R) because they do not want to publicly highlight the risk and therefore, their viability as potential targets. Despite its minimal exposure, many organizations that operate in high-risk countries and send executives overseas carry kidnapping and ransom insurance. However, companies rarely discuss it unless asked and most employees would not know to inquire in the first place, unaware that this type of coverage is even available.

There are compelling economic and ethical reasons for companies to invest in kidnap, ransom and extortion insurance since ransom demands can be staggering, particularly in the struggling global economy, with more than 14 countries recording cases of \$25,000,000 or more in recent years. Cases are usually settled for between 10 and 20 percent of the demand, but in certain territories they refuse to negotiate and resort to excessive violence until it is met.

Most policies cover the ransom paid connected with a kidnap or threat, hijack, wrongful detention, death or dismemberment, legal liability, crisis management team expenses, and fees incurred while using an independent negotiator or public relations consultant. This coverage helps mitigate the financial and human costs associated with K&R by providing necessary services to ensure a safe, speedy and satisfactory resolution.

“Companies cannot afford to deny the threat that K&R poses to their operations and employees,” said Bui. “It is imperative that they put mechanisms in place to safeguard against these risks, particularly as we work to grow and stabilize the global economy.”

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