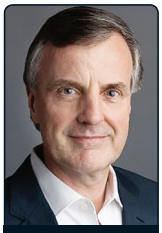
Reputation risk – The risk of risks

Listed corporations face an 85% likelihood of experiencing a significant corporate crisis in any five-year interval, according to a research by Oxford Metrica. And in today's highly connected world, a crisis can quickly impair the reputation of an organisation, as revealed in a recent seminar tackling the issues around reputation risk.

"Me.rep"


Mr Vivian Lines

Speaking at the Reputational Risk seminar jointly hosted by Allianz Global Corporate & Specialty SE (AGCS) and the Pan-Asian Risk & Insurance Management Association (PARIMA), Mr Vivian Lines, Global Vice Chairman and Asia-Pacific Chairman of Hill+Knowlton Strategies said, "Reputation is complex as it is about the judgement and perception of others. We are in what I call a phase of 'me.rep' – a new phase of personalised corporate reputation that is based on the experiences of individuals, with the removal of a traditional media filter."

He spoke about the complex media landscape today, where much credibility is accorded to the individual, who can report, amplify and broadcast news via his social networks and control how news flows, even more than traditional media.

According to a recent PwC study, only 22% of companies have a formal strategy to manage brand and reputation risk. In times of a crisis, however, the management must know exactly what to do as their actions in the immediate aftermath matter most – actions which need to be rapid, decisive and effective, said Mr Lines. Companies which recover have adequate "preparation, leadership, action, communication and sensitivity". Mr Lines said that while reputation was built on how an organisation performed on a daily basis, preparation had to include planning for black swan events.

"When a crisis occurs, get the CEO involved fast enough. Everything now is immediate – CEOs no longer have that so-called 'golden hour'," he said.

Reputation risk policy based on communications


Mr Nigel Pearson

According to Mr Nigel Pearson, Global Head of Fidelity, AGCS, reputation risk insurance policies are still nascent. They fall into two broad categories – indemnity-based, which indemnify financial losses and have a high premium; and mitigation products, which respond to crises by offering PR and communications solutions, with lower premiums.

In September 2012, AGCS launched its "Allianz Reputation Protect" policy in Europe. The product has been available in Asia since February 2014 and offers a unique solution with communications consultancy partners.

Sharing on how the policy works, Mr Pearson said that quite a few of the policies were sold in Europe to food producers. He noted that sector as an example where corporate reputation could be easily affected by other companies experiencing a crisis. He said that mitigation-based products are able to help limit the damage and restore reputation, while indemnity type products tended to only indemnify after damage was done.

Allianz Reputation Protect, which belongs more to the mitigation-based category, uses a flexible dual approach for claims, which are triggered by any insured event under any agreed underlying insurance policy during the policy period (which need not be an AGCS policy) or by a specific named event as triggers which were previously agreed with the client, such as specific stock price drops or supply chain problems.


Mr Steve Tunstall

Mr Pearson said: "This sort of insurance is still quite new. I don't know yet whether it ultimately will be the way we insure, and whether one category will predominate over the other or whether it will evolve into a hybrid of indemnity and crisis mitigation."

Mr Steve Tunstall, Director of Tunstall Associates and General Secretary of PARIMA summed it up best when he said, "There is nothing more important then reputation."