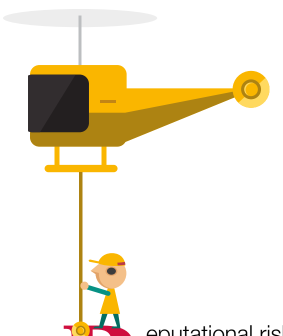

BRAND
reputation
building defence

Brand reputation has never been more valuable – or vulnerable. Understanding the risk's severity, your capacity to respond to it, and long-term monitoring of internal and external changes is key.



Words by PAUL GOLDEN

Reputational risk can be defined as any threat to a brand's reputation in the eyes of customers, employees and other stakeholders (investors, regulators, partners).

Company directors have always been concerned about the reputation of their companies and products. But now, with the growth of social media and 24-hour news, they have much less time to respond to events.

"Problems can quickly escalate and rumour and misreporting can reach huge sections of the population quickly," says Simon Lusher, Head of Food & Agri Practice at JLT Specialty.

"The public are more attuned to issues such as the environment, fair working conditions and unscrupulous marketing practices, and can use social media to organise campaigns and boycotts. There is also more consumer choice, so companies with reputational issues quickly feel the impact on their sales."

Decision time

The insurance market has the appetite to insure the risk, but only a relatively limited number of insurers have the flexibility to do it well, says Edel Ryan, Head of Media & Entertainment at JLT Specialty.

"There are few players capable of offering capacity in the market, so it is necessary for many insurers to team up in order to offer the capacity that companies need to cover reputation risks," says Ryan.

Success is not measured in writing the perfect policy wording, but in building and designing a package to fit the company's identified risk, Ryan adds.

"The responsibility for a brand's reputation rests in the boardroom – it is the C-Suite who have a duty to the shareholders and stakeholders to protect the brand.

"Our role is to engage with those responsible for protecting the brand and hear first-hand the risks they consider a threat," says Ryan.

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>
> *Simon Lusher, Head of Food & Agri Practice at JLT Specialty*

In the food and agriculture sector, a well-managed product recall, with good PR, can prevent longer lasting damage, says Lusher. A brand's reputation might even be enhanced after a prompt reaction to a contamination issue, Lusher adds. However, Lusher also acknowledges that reputational issues around marketing and manufacturing strategies are harder to rectify.

"Examples include a well-known multinational that was marketing baby formula in Africa in a manner that the media perceived to be unethical.

"Salt and sugar are also getting a lot of media attention and companies that are seen, or are deemed, to be adding too much may find themselves subject to unwelcome scrutiny. At the primary production level, concerns about the environmental impact of farming, pesticides, animal welfare and animal feed – after the BSE controversy – prevail," says Lusher.

Within the communications, technology and media sector, there are a range of events that could damage corporate reputation, from data theft or loss from network interruptions (loss of service) through to controversy over ethics, tax and corporate structures or breach of contract or regulations.

Building resilience

Airmic's Roads to Resilience study highlights five principles of resilience, one of which is the ability to anticipate problems and see things in a different way to help develop an early warning system – what the study refers to as 'risk radar'.

Kasper Ulf Nielsen, Executive Partner of Reputation Institute, says reputation risk management should consider three core areas:

1. The severity of the risk
2. The capacity of the organisation to respond to it
3. A process to track and respond to specific issues over the long term.

"A reputation risk framework starts with an assessment of the magnitude the risk will have on perception, and likelihood of the specific risks, which leads to prioritisation and action," Nielsen says. "Reputation risk identification starts with reputation measurement to identify the risk areas, then workshops with key internal stakeholders to assess the capabilities to address the issue should it become a reality."

Once the magnitude of each risk and the likelihood of it becoming reality has been assessed, the company can set a specific action plan for each risk, considering activities and making decisions on resources and investment.

"Assessing readiness includes identifying who is responsible for responding to reputation risks, comparing the company's processes to industry best practice and communicating any changes across the organisation," adds Nielsen.

The final element of the reputation risk management programme is monitoring its performance to ensure that risks are being mitigated.

Find the trigger

Insurance is an important tool in an overall reputation risk management strategy. Many firms view reputation or brand as an operational or strategic risk and hence not one for transferring to a third party. But, as the risk is multifaceted, aspects of it can be transferred across different products including cyber, property damage and business interruption, technology errors and omissions, crime, special contingency, directors' and officers' liability, general liability and product recall. Product contamination insurance is proving particularly effective in supporting companies to manage a recall event, Lusher says. "Not only does it provide financial indemnity to meet the costs of the recall and rehabilitation expenses after the event – the policy also provides access to experienced crisis consultants who can guide a business through the whole process, including managing the media and general public."

However, the triggers for product contamination insurance are restrictive. The policy responds to a contamination that is likely to cause bodily injury or property damage – yet reputational issues, such as the presence of horsemeat in a burger, would not cause harm to the consumer and therefore would not trigger the policy.

"We are achieving some success in broadening these triggers, but generally it is fair to say that recall, even with adverse publicity and rehabilitation cover, cannot be relied upon to support a business suffering reputational damage," says Lusher.

Insurers are increasingly partnering with crisis management specialists to help companies to manage crises and limit reputation damage.

"We are working with customers and insurers to broaden cover to include situations where recall would be done for reputational reasons," says Kiran Nayee, Partner at JLT Specialty.

"This involves asking clients about their reputational concerns and trying to find bespoke wordings that address those concerns."

However, this has to be carefully defined, Nayee adds. "A company should not be able to claim just because customers don't like a new product colour – that is commercial risk."

The key to adoption and development is integration into existing risk management arrangements. For a stand-alone solution, value may be added where the product can transfer risk elements that simply aren't possible on other types.

Loss of revenue

Loss of revenue has been identified as the most suitable metric for measuring the impact of a scandal, says Ulrike Raible, Underwriter at Munich Re, Special Enterprise Risks, because it directly reflects how many customers turn away from the brand and buy elsewhere.

"We do not build our solution on changes in share price because many other factors can influence that. A fall in revenue is less volatile, but we still need to establish direct links to the event." This can be achieved by employing forensic accountants to consider factors such as the economic environment or new competition. Customers can also be surveyed to determine whether they have changed their purchasing decisions.

These actions are taken within weeks rather than months, concludes Raible. "Liquidity suffers when a crisis occurs. Quick money is needed. Forensic accountants tell us that, as soon as they receive the reporting data from the client, they can complete their assessment very quickly." ■

Learning from the aviation sector

Malaysia Airlines is perhaps the best example of a company that has suffered considerable reputational damage as a result of the incidents beyond its control.

In March 2014, Flight 370 from Kuala Lumpur to Beijing disappeared an hour after take-off and in July of that year Flight 17 from Amsterdam to Kuala Lumpur was shot down over Ukraine.

While the airline industry doesn't buy revenue protection coverage (instead insuring the value of the aircraft and taking significant levels of liability cover), William Smith, JLT Specialty's UK Aerospace CEO, says other industries can learn from the rapidity and thoroughness of airlines' responses to such incidents.

"Every airline has a disaster management programme, which includes sending specialist teams to the site of the incident and airport from which the flight departed to assist families," he explains.

"These programmes are regularly tested and include media management to reduce the negative impact on the brand."

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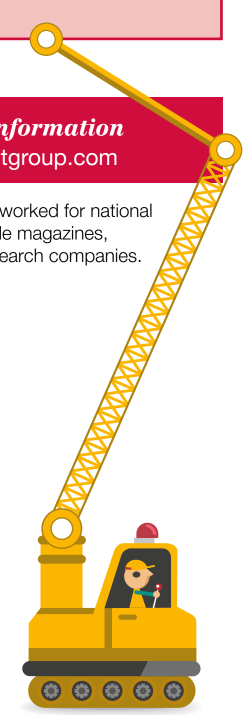

▼ *Source: Deloitte, 2014 global survey on reputation risk*

Top three reputation risk drivers of concern