

# Reputational Risks

## Protect Yourself against Slumps in Profit

Reputational risks are some of the greatest challenges in risk management. Companies are increasingly affected by damage to their image, triggered by such things as product recalls, cyber attacks or inappropriate management behavior – which the press generally makes the most of. While the costs can threaten the existence of some companies, there are special models they can use to quantify and insure themselves against the risks.

### INTANGIBLE ASSETS ARE THE MOST IMPORTANT ASSETS

Once company assets equated to around 75 per cent of the net asset value; today the figure is around 25 per cent. The rest is made up of patents, procedures, know-how and not least the brand and the company's good reputation. When they suffer loss, this has a significant impact upon the company. The causes may be product recalls, loss of customer data or corporate governance errors. No specific incidents need to be involved; rumors or unfounded accusations can be enough to threaten a company's existence.

### STEREOTYPICAL CLAIMS EXPERIENCES

This relates to all sectors, in particular food, fashion, luxury goods, toys, cosmetics, tourism and air travel, as well as political parties, sports associations and cultural institutions. Due to increasing networking, bad news

spreads much more quickly today, and the consequences are wider reaching. Bad news travels very quickly via the press and social media, and can even go viral, reaching a wide audience. This is where a stereotypical pattern is revealed:

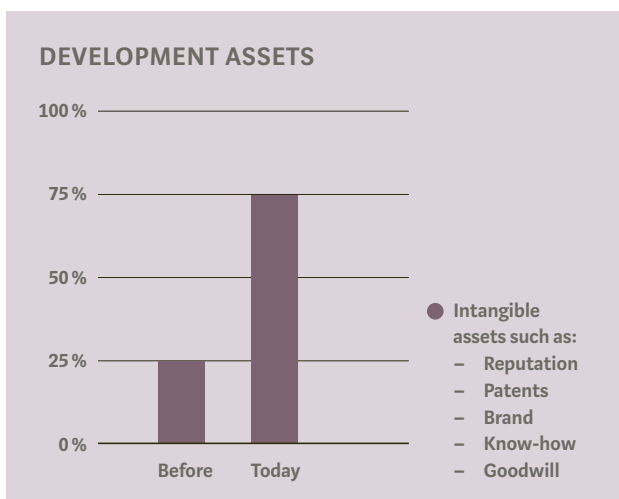
1. A critical incident occurs.
2. Some media companies pick up the «story» and others quickly follow suit «because everyone's talking about it».
3. The affected company's customers, partners and investors lose confidence, resulting in a decline in revenue and a slump in profit.

### INDIVIDUAL COVER OPTION

Reputational damage is not covered by traditional insurance contracts. A few insurers have recognized this risk and developed separate policies for it, which cover lost profits during a certain period, for example. The insured company can define the specific cover itself to a certain extent. Other possibilities include limiting cover to specific areas that are hugely critical for the company or assuming the costs for crisis management and rebuilding reputation. Depending on the insurer, it may be possible to negotiate a specific period during which a claim can be made. A prerequisite for compensation is simply the occurrence of a potentially reputation-damaging event that leads to a significant slump in profit due to media exploitation.

### IDENTIFY AND QUANTIFY RISKS

The main challenge is identifying and quantifying virulent risks. There are different calculation models, however the results often vary depending on the provider. The company's self-assessment is also therefore important, along with an independent second opinion. Many companies only raise their awareness of risk scenarios by performing these analyses and they can achieve process improvements in production and organization by implementing rather simple measures. The benefits of these are to be found not only in the premiums they pay.



## EXAMPLE OF INSURANCE AGAINST QUARTERLY LOSS

Annual revenue	CHF 800 m
Profit margin	10 %
Annual profit	CHF 80 m
Quarterly profit	CHF 20 m
Insured sum	CHF 20 m
Excess	5 % = CHF 1 m
Annual premium	Rate approx. 1–2 % = CHF 200'000–400'000
Payback period	47.5–95 years

## INTERESTED? CONTACT US.

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