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Risk Advisors

Protecting Key Executives in Global Hot Spots

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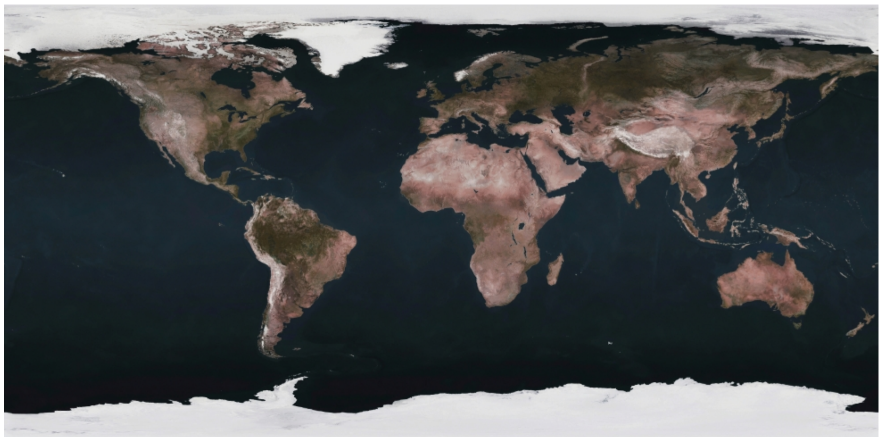
"It's important that we don't allow acts of terrorism to knock the wheels off our economy. Business travel is a key element in making us what we are, so it's imperative that we mitigate that risk whenever possible."

Edward Tafaro, CEO

Coverholder at LLOYD'S

Recent Terrorist Attacks Expose a Growing Need in the Insurance Industry



Protecting Key Executives in Global Hot Spots

The acts of terrorism that ripped through Paris stunned and outraged the world; 150 dead, over 300 wounded. But the collateral damage went far beyond buildings being torn apart and one of the major cities in the world virtually shutting down. It also gave pause to many companies that may have been considering sending their executives to Europe.

Business Travel Coalition, a U.S.- based lobby group, recently released a survey of 84 corporate, university and government travel and risk managers from 17 countries on attitudes of trips to France following the bombings. Twenty-one percent of the respondents said they were very or somewhat likely to cancel travel to France for "some period of time," and 20% were somewhat likely to cancel travel to and within Europe.

A large majority said they'd probably allow employees to decide whether they were prepared to head to France. These are not surprising statistics. But it doesn't have to be that way, especially when you consider that canceling a business trip can cost a company millions of dollars. It's the "butterfly effect" to the most extreme; a bomb explodes in Paris and 2,600 miles away in Manhattan a Fortune 500 company is seriously considering canceling a business trip to Europe.

Protecting your client's key employees is challenging enough, but when you add international exposure to locations once considered safe, then add those locations to the State Department's "bad list," an entirely different skill set is required for designing a program that will protect your client.

First off, there's no substitute for great planning. Coverage is easier to obtain and more cost effective if you work with a company that's contemplating overseas travel and can establish, well in advance, that there is a need for key person insurance being developed and uncovered. When this need arises, the underwriting process migrates from the traditional life and disability insurance market to the playing field of high limit or specialized risk underwriters.

Here is a notable example. A large U.S company recently made a significant investment in a defense

contractor. Shortly after the investment closed, the company named a new CEO and sought to acquire $50 millions of key person life and disability insurance.

As of the day of request, the insurance advisor had eight business days to secure the insurance before the CEO departed for the Middle East, with stops in Iraq and Afghanistan. Because of the abbreviated time frame, traditional life and disability insurance was not an option. The advisor needed to turn to a specialty underwriter that deals with exceptionally large and complex human capital risks.

Armed with the CEO's itinerary and details of the executive's compensation and equity incentive agreement, the advisor had enough information to present the submission to the underwriters. Within 72 hours, a policy was issued that covered the private equity firm's loss of the CEO directly due to an accidental death or disability, as well as a result of acts of war or terrorism.

The premium for $50 million in insurance was $62,500, covering a two-week period. Sickness coverage was included for certain elements of the insurance policy.

Few domestic life and disability insurance carriers have the ability to underwrite large risks when there's high-risk exposure to the world's hot zones. To get the job done, producers must work with large international insurers that are willing to deploy meaningful capacity. The easiest way for advisors to access these markets is through an experienced U.S.- based correspondent who is skilled at designing and underwriting coverage in these volatile locations.

Local correspondents or managing general underwriters guide producers through the regulatory complexities that go along with underwriting risks through surplus lines carriers - something most life and health producers have little experience with.

The best producers are masters at uncovering details from their clients, documenting them, and communicating them effectively to underwriters. A well-written cover memo will often be the basis for offering coverage and can be the primary source for pricing consideration. A complete itinerary coupled with security detail information are the underwriters key points of interest, so make sure the information is gathered and communicated as early as possible.

Frequently, specific plans will be classified when working with international defense contractors; yet,

one way or the other, the basic information must be made available. When underwriting coverage in highly hostile areas, rates can vary based on multiple factors, such as security arrangements, travel vendors and length of stay. In highly hostile areas, rates even vary down to specific latitude and longitude coordinates, often within a single city or locale. No detail is too small for spelling out the need for the insurance and financial justification, including the purpose of the trip and the client's specific duties and objectives. This is the information that sets apart a submission and makes it more likely for an underwriter to go out on the limb with preferential pricing and terms.

Keep in mind, when underwriting risks in highly volatile areas--with propensity for rapid deterioration--it may not be possible to negotiate coverage or a rate guarantee for the entire duration of the client's journey. It's essential to keep in mind that the best underwriting offers go to advisors who deliver the best information.

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Edward (Ted) Tafaro is president and CEO of Mahwah, NJ-based Exceptional Risk Advisors, LLC. He is an expert on high-limit specialty life, accident and disability products for clients with extraordinary insurance needs, including celebrities, athletes, entertainers, highly compensated executives and professionals. By partnering with Lloyd's of London syndicates, his firm has the largest binding authority available in the U.S. for its products. For more information contact him at 201-512-0110 or ted.tafaro@exceptionalriskadvisors.com