

Crisis Management for Multinationals: Growing Threats, Proven Solutions

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Three years ago, the ELN, Colombia's second largest guerrilla force, kidnapped an entire church full of parishioners, including several French expatriates as they sat at worship. In 1998 alone, there were 120 reported cases of extortion demands made against German corporations. What do all these cases have in common? As globalization becomes a reality, business executives eager to capitalize on new markets often find themselves in the world's most dangerous and lawless regions, and are increasingly vulnerable to kidnapping, extortion, and other forms of violence.

- ***Kidnapping: What are the risks and how are they changing?***

Kidnapping is hardly a new phenomenon, but is nearing epidemic proportions, while evolving and becoming more violent in many parts of the world. Throughout the world, kidnapping is an increasing problem worldwide, according to Dr. Thomas Clayton, Founder and President of Clayton Consulting, a California-based crisis management firm. "Obviously kidnappings are on the rise in Latin America, but they're also growing by leaps and bounds in sub-Saharan Africa, and rising very quickly in Eastern Europe, the Central Asian Republics and the Balkans." According to Clayton, countries which up until now were largely unaffected by the problem are also seeing an upswing in abductions, including Vietnam and China.

In places like Colombia and Brazil, kidnapping is generally motivated purely by financial gain. Kidnappers have become sophisticated in their methods and the payment of a ransom usually results in the safe release of the hostage. In these areas, kidnapping has truly evolved into an industry, and a mature, developed one at that.

However, with the rise of millennialist terrorism and political violence worldwide, kidnapping often means death in areas such as South Asia and the Middle East. While the global kidnapping landscape is highly fluid, the connection between political upheaval, extreme poverty, low levels of law enforcement and annual numbers of kidnappings is clear. Actual numbers are difficult to ascertain, as many incidents go unreported due to fear of corruption, and the fact that kidnapping levels are one statistic that governments are anxious not to advertise.

Despite imperfect information, it is clear that Colombia holds the dubious honor of the world's leader in kidnappings. Here, the kidnappers, who are traditionally highly-trained, well-organized pseudo-Marxist rebel groups, make no attempt to hide the fact that their sole concern is profit. Recently, when a distraught family involved in a protracted hostage negotiation tried to determine the condition of the victim, they were promptly told "We are kidnappers, not murderers!" While the incidence of

kidnapping is frighteningly high in Colombia, with the help of a savvy negotiator, most victims are able to make it home alive.

Unfortunately, the same cannot be said in Mexico, where kidnappings often follow a different and more brutal pattern. The kidnappings are shorter and cheaper. But kidnappings here are often more violent. Kidnappers will sometimes send the family a finger or an ear to prove they mean business. The same is true in the Philippines, where ransoms demanded may be low in comparison to Latin America, but a victim's chances of murder or injury are far higher. As in Pakistan, Muslim radicals such as the Abu Sayyaf are often more concerned with taking human life and spreading fear than they are with actually receiving a ransom payment. According to Clayton, the level of safety in the Philippines is deteriorating faster than almost any country in the world.

Ransom payments can vary dramatically depending on circumstances as well. In Mexico in 1994, a local billionaire was reportedly released for a ransom in the neighborhood of Euro 30M. Conversely, a recent kidnapping in Nigeria saw the victim released in exchange for a computer and a fax machine, and kidnappers in Yemen routinely release hostages in exchange for construction of a new road or well for a rural village.

But it is not only the region where you are kidnapped that will determine the level of ransom demanded, but also who you are and for whom you work. Experienced consultants like Clayton know what the "market rate" is for certain categories of abductees, and plan negotiations accordingly. Certainly a company executive of a multinational corporation will bring the best rewards, be it an expatriate or a business traveller. An unfortunate tourist wouldn't bring as much, and an aid worker or humanitarian would generate a still smaller ransom.

- ***Mitigating the Risks of Kidnapping***

Clearly, having access to the services of an experienced negotiator is crucial in the event of a kidnapping. Kidnap negotiation experts have the ability to react swiftly to a kidnap situation. However, an ounce of prevention is worth a pound of cure. Pre-incident planning is also key, and is best provided by these same crisis management professionals. "In those few countries where kidnapping is on the decline," said Clayton, "it is largely due to the risk mitigation provided by these briefings [which AIG Europe S.A. often mandates for their clients]." During these sessions, consultants not only advise clients on how to avoid being the target of a kidnapping, but assist in creating a crisis management team. The structure varies, but typically the team will consist of representatives of the victim's family.

Training is also vital to any company operating in a hazardous region. Understanding your vulnerability and possessing awareness of your environment is critical. Consultants are seasoned professionals, and in the event of a crisis their calming influence and voice of experience can be as important as their negotiation skills.

While every case is unique, consultants have developed certain bedrock methodologies from which they do not deviate. It's because of this consistency that professionals like the consulting team at Clayton Consulting have never lost a client.

One cornerstone principle is not to pay too quickly. While this may seem counter-intuitive and can be difficult for a victim's family to accept, experience has shown that it is the best policy. A quick payment often leads the kidnappers to make an additional demand saying that they regarded the first simply as a down payment, and that they want still more money for the victim's safe return. It is of paramount importance that kidnappers believe that a ransom payment is the most they could possibly extract from the victim's family.

- ***The Threat of Extortion***

While a frightening peril, kidnapping is hardly the only potentially lethal risk faced by expatriates and travelling executives. Extortion, whether it is in the form of threats to contaminate products, damage property, or cause personal injury, is also a growing concern for corporations. "The threat of extortion is on the rise on a worldwide basis," according to Clayton. In China and Africa (especially Nigeria) the problem has reached staggering proportions and shows no signs of abating. "Even Singapore," an island nation with a famously strict system of law and order, one that has virtually been synonymous with stability and zero crime, "has reported an alarming jump in extortion attempts," says Clayton.

Not surprisingly, extortionists generally do not have a criminal background, but are instead simply disgruntled employees or laid-off workers. This crime lends itself to this type of individual because it does not involve confrontation, and the threat can be made from afar and without any real basis to back them up. Statistics show that two thirds of extortion attempts ended without incident after a single threat had been made, and that the police had a near 100% success rate in capturing the extortionist usually when it came to the collection of the money. However, as with kidnapping, adequate preparation, timely response, and the help of professionals who deal exclusively with similar situations on an everyday basis can be the difference between life and death.

- ***Hijacking and Piracy***

Hijacking and piracy are also on the rise, and are serious problems especially for shipping companies operating in Southeast Asia. In Indonesia, Thailand, and throughout the Malucca Straights, incidents of piracy have ended in murder and the theft of cargo, sometimes even the disappearance of the entire ship.

- ***How can these risks be managed?***

AIG's focus for over 25 years has been protecting clients from the risks associated with kidnapping, extortion and hijacking. The response to the problem is an insurance product that provides cover for 4 basic hazards:

1. The ransom payment;
2. Extortion: bodily injury, property damage or product contamination;
3. Wrongful detention: where an individual is detained for a political motive;
4. Hijacking.

At AIG Crisis Management, we believe that a best-in-class security consultant is as important a component of our insurance as the monetary indemnification. AIG insureds have the peace of mind knowing that our retained consultants are on call 24 hours to provide emergency response anywhere in the world.

AIG works with Clayton Consulting, which possesses some of the world's best hostage release negotiators. These individuals are professionals with an unrivalled knowledge of local law enforcement and legal issues in countries across the globe. They not only understand the dynamics of a kidnap scenario, but also provide advice and counselling to the victim's family.

While these consultants are retained exclusively by AIG, they operate independently and their sole aim is to ensure the safe release of the victim. In short, they work for the client, not AIG.

In today's increasingly fluid and highly volatile global risk environment, AIG's Kidnap and Ransom policy provides two keys that any company with international operations should possess: the financial guarantee of AIG and our AAA+ credit rating, and the unparalleled level of practical help that Clayton Consulting brings to the table.