



## Data security – it's the reputational damage, stupid

Cyber risk is a very real and growing threat, yet most organisations remain inadequately aware of or protected against it. In many cases it is still viewed as an IT problem, with little understanding of the scale of the reputational damage it can cause



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When considering the risk and impact of a data security breach organisations would do well to borrow and adapt a phrase from Bill Clinton: it's the reputational damage, stupid.

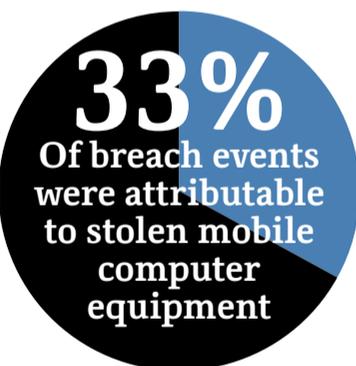
In today's world of information and information systems, cyber risks are a fact of life. Any organisation dealing with electronic data, whether it's on mobile devices, computers, servers or online, faces such risks. Barely a week goes by without a story in the media around privacy breaches or data leaks. Despite this, many organisations are failing to recognise the scale of the threat, the importance of taking proactive security measures and the need to have adequate protection in place should the worst happen.

When it does, a single breach can cause a domino effect – loss of data leads to loss of reputation, which leads to loss of income that can be considerable.

### The cost – and the causes

Just how considerable was demonstrated last year, when the Sony Corporation was forced to shut down its PlayStation network for 23 days following a breach of cyber-security. This resulted in a financial loss in excess of \$171m, not including the cost of any ensuing lawsuits, and the Sony share price dropped 55% in just four months as a result of the breach and resulting negative publicity.

However, threats are not only external and risk managers and finance directors need to develop a greater understanding of how to predict and prevent data breaches. According to a study by NetDiligence in June 2011, the reasons for data loss break down into three main areas:



- Hackers and criminals were responsible for 32% of breach events;
- Rogue employees were the cause of 19% of data breaches – and the poor economic climate is expected to exacerbate this problem going forward; and
- Theft of mobile computer equipment, such as laptops and memory sticks carrying unencrypted data, was responsible for 33% of breaches.

The public may have a degree of sympathy for the victims of hacking but they expect reasonable standards of protection – such as basic data encryption and employee vetting – and many organisations are still failing to address the fundamentals.

### Be prepared

So what should organisations be doing so they are ready to respond when the worst happens?

They should begin with a risk assessment to document all digital data assets, their value and why people might want them. As well as having a clear understanding of its systems, network, and physical vulnerabilities, an organisation should also examine its vendor relationships including cloud functions, use of data centres and data processors.

Internal practices should also be reviewed, such as standards for data storage and sharing, as well as its disposal. Processes should be in place for checking employees' background and monitoring their duties and responsibilities.

Buy-in and understanding at all levels of the organisation is critical. Employees need to be well trained and know how to react in the event of a data breach; most importantly who they should escalate an event to. Notification needs to reach the board as quickly as possible so it can assess the potential impact and what steps need to be taken.

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## 'It takes 20 years minutes to ruin

Reputational risk has been overlooked one of the most potentially devastating



Alasdair Ritchie, managing director, BMS, London and Dan Trueman, underwriter, ANV

Reputation is arguably the single most valuable asset an organisation possesses. It is built up over time and created through trust, performance and the resulting confidence clients have in an organisation. When events destroy trust, damage performance and undermine confidence this revenue can disappear. The unforgiving media and general public for errors and misfortunes of business means the effects of a reputational

that had a severe problem with bed bugs. We have also seen a popular theme park suffer because of ride malfunctions and customer injury. The reputational harm policy they had in place meant the damage to these businesses was greatly minimised. It could have been so much worse.

As mentioned earlier, the internet is not an ideal place for a company when things go wrong. Sites such as Trip Advisor and booking.com make it very easy for issues like bed bugs or food poisoning to be publicised by consumers for the world to read. Overnight, a five-star hotel could be left with a disastrous online ranking because of an isolated incident of a tainted meal. Once the story has reached the press the potential for massive reputational repercussions is much greater and that can be only partly countered by PR advisers, should a company employ them. The policy should be able to realise the importance of PR partners and actually cover the PR costs should an event arise.

In this age of social media and 24-hour news, even a small incident can be transmitted around the world in moments and turn loyal clients against you. This is why the need for insurance coverage for such incidents is vital. Reputational harm Insurance ensures the effects of a reputational crisis are mitigated and that your business can continue operating during crisis.

According to a recent industry study a staggering 95% of major corporations have suffered at least one major reputation crisis in the past 20 years. This is reminiscent of the Warren Buffet quote: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

Recent notable examples include the BP *Deepwater Horizon* oil spill, Sony's data breach, the Perrier US Benzene polluted water recall, and the Toyota recall of seven million cars.

### Bed bugs

All types of businesses can be affected. At BMS, we recently came across a case of a hotel chain

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### Restoring trust

The key to reputational harm insurance is the faster adverse reputational issues can be dealt with, the more effectively organisations can rescue, or even enhance, the trust and confidence of clients and return to positive growth and a secure bottom line.

BMS's reputational risk insurance policy, for example, provides indemnification for these costs. It can also help mitigate the extent of damage a negative media report can have on a company by providing cover for the cost of the promotional effort nec-

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Percentage of major corporations thought to have suffered a reputation crisis in past 20 years

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essary to restore brand value and customer faith. It also reinstates the loss of revenue resulting from unfavourable media reports.

Surprisingly, these risks are not covered by traditional insurance at present. Small sub-limits for PR costs can be found under cyber and directors' and officers' insurance policies but this is by no means comprehensive. In addition, some business interruption policies and product liability/recall policies provide coverage but do not typically provide first-party revenue protection following a reputational harm loss event.

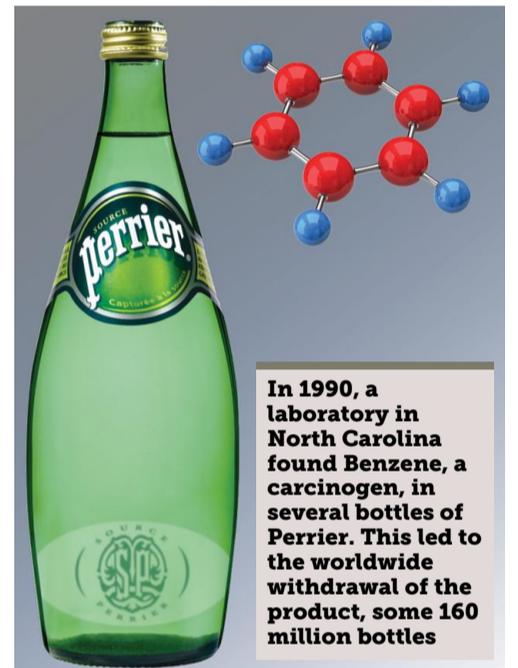
One reason traditional insurance does not cover reputational harm is that reputation damage can be one of the most difficult concepts to financially measure. As an intangible asset, damage to corporate reputation, goodwill and brand can be difficult to financially estimate to assess true value.

## Lloyd's

It is the Lloyd's market, once again, that is at the forefront of creating new products for the industry. Lloyd's have developed numerous specialised products, responding to the needs of clients and markets.

Reputational risk insurance policies work in that they each contain policy triggers modified to cover those exposures relevant to the policyholder, for example, product recall, food-borne illness, employee acts and breach of confidential information. This gives buyers of the policy great flexibility by allowing them to name their particular perils.

Reputational risk has often been overlooked and underestimated in the past, but companies are waking up to the fact it may be one of the most potentially devastating threats to their business results. To this end, businesses are giving much more thought to mitigating reputational damage. This involves ensuring crisis management and crisis communications plans are in place, PR firms are engaged before an issue occurs, executives and spokespeople



In 1990, a laboratory in North Carolina found Benzene, a carcinogen, in several bottles of Perrier. This led to the worldwide withdrawal of the product, some 160 million bottles



receive media training, and a business continuity plan is in place. Preparation ahead of time vastly mitigates the potential damage reputational events can inflict on business and the resulting effects it can have to potential revenue loss.

We are all customers of someone and as we all know it can take many good deeds to assuage a bad one

committed by a business. A sound reputational risk management programme is therefore essential for ensuring long-term business continuity and growth. Companies such as BMS are pleased to work with underwriters at Lloyd's to ensure clients have the best reputational harm policies in place and policies tailored to their needs. ■

(Clockwise, from top left): Sony, which has suffered a series of data breaches; Perrier, which had to recall its product owing to possible Benzene contamination; Deepwater Horizon; and Toyota, which had to recall seven million cars last week because of a malfunctioning power window switch