

# HELD TO RANSOM

Dr Anja Shortland reports on how kidnap insurance underpins the global economy

**K**idnap for ransom poses some very interesting questions. For example, how do foreign companies and NGOs safeguard their employees from kidnapping in countries where abductions are common and expatriate workers are attractive targets? How do they fulfil their duty of care to kidnapped employees without encouraging every criminal or rebel outfit in the region to target them over and over again?

In my book *Kidnap: Inside The Ransom Business* I analyse the market for hostages by looking at the economic incentives of the market participants: the kidnapers, the victims' families and employers, a wide variety of fixers and middlemen and – interestingly – special risk insurers at Lloyds of London. Many firms and NGOs obtain private kidnap insurance for their staff. But providing kidnap for ransom insurance is only profitable if kidnaps are rare and stable – and commercial resolutions swift, cheap, and non-violent. The insurers' Plan A, therefore, is to help their customers to avoid being kidnapped in the first place.

Many firms and NGOs operate in “complex and hostile territories” – that is areas where state law enforcement is non-existent, weak or corrupt. How do you provide security for mining companies and oil wells, infrastructure projects such as pipelines, for adventurous tourists, reporters and aid workers when state forces have limited power to protect? The answer is that usually there are local power holders who could provide protection. Examples are traditional chieftains, councils of elders, Islamist militias, warlords, rebel movements or Mafias. Anyone wishing to travel or operate in their territory will find it counterproductive (or prohibitively expensive) to challenge their power.

## PAYING FOR PROTECTION

If one knows who wields power locally, kidnapping becomes avoidable. If you know who poses the kidnap risk, you are better off paying them not to kidnap your staff or family in the first place. Similarly, for the local strongmen it is better to attract business into their territory and thereby maximise their tax base – rather than putting off all risk-averse people and squeezing a ransom out of the occasional adventurer. We know that locals unquestioningly pay the pizzo, a tithe, la vacuna (the vaccine), lala salama (sleep peacefully) or whatever the local form of Danegeld is called. However, that still leaves the thorny question of how a well-resourced foreign firm can arrange a protection contract with an unaccountable, informal protector who may take

your money and then engage in kidnapping anyway. Moreover, that protector could well have a reputation that makes your shareholders recoil in horror – and the host government probably forbids that you fund the rebel movement.

So, who will design you a self-enforcing protection contract that will keep your staff safe but does not look like you are paying ‘bad people’? How do you create a long-enough time horizon so that the protector rationally chooses to protect rather than abduct your staff – even if your business trip or project is a one-off? Help is at hand: kidnap insurers will put you in touch with a security consultancy to discuss your security management plan. They are experts who know the local security landscape inside out. They constantly monitor informal protectors and create long time horizons through channelling repeat business towards reliable suppliers. Importantly, they have a credible threat of redirecting or pulling out multiple companies should a protector turn rogue.

Unless you are looking for an implicit protection contract, most of the security advice looks innocuous. Stay at this hotel. Use this taxi company. Don't stray into this area, unless you go with this reputable tour

## FIRMS AND FAMILIES WHO SETTLE GENEROUSLY OFTEN FIND THEMSELVES TARGETED REPEATEDLY

operator. Here is a safe house with vetted staff. This company provides excellent guard services. Do (or don't) use this toll road. You will need a corporate social responsibility programme to get the community to support your project. Consider a joint venture with the president's family. If these arrangements are well designed and closely monitored, they create strong incentives for the local suppliers of protection to stick to their side of the bargain. Without formal contract enforcement that is exactly what you need: a self-enforcing protection contract.

Looking at global maps of kidnap risks we find that kidnapping is not necessarily practiced in weak states. Instead it is associated with territorial conflict and designated terrorist groups. In the former case, people simply don't know whether to pay protection money (will the police protect?), who to pay (there may be multiple extortion demands or the ‘tax’ collector may



Police stand outside Cologne main railway station where there is a hostage scenario at a pharmacy located inside the station building

be an impostor), or how much. In this case, kidnapping helps to resolve the information problems: you pay a mutually agreeable ransom to whoever holds your hostage. With terrorist groups, UN sanctions make protection contracts almost impossible. In this case, kidnapping may be the only way for the group to extract a benefit from a foreign presence.

## PLAN B

In the rare case that kidnaps occur, Plan B kicks into action. Kidnap insurers have built effective institutions to order the trade in transnational hostages. Kidnap insurance is only an attractive product if kidnapped employees return home safely. However, if the insurer is to make a profit from selling kidnap insurance, hostage safety cannot come at the cost of exorbitant or lightning-quick ransoms, as this would tempt many more criminals into the kidnapping business.

Insurers therefore retain crisis response companies that specialise in helping the insured to negotiate the safe return of hostages. Professionally conducted negotiations turn an emotional nightmare into a business transaction. The key is to manage the kidnapers' expectations of how much money

(or even just a non-financial incentive) could be extracted, while also making it clear that it will take a considerable time to do so. This quickly leads opportunists to drive the hostage to the next cashpoint for an immediate pay-out, rather than risk being caught by either the police or (more likely) the incandescent local protector in whose territory the victim was poached.

Professional criminals can perhaps hold out longer. The process of negotiating a ransom is often described as “wringing the towel dry”: the criminals apply ever harder ‘squeezes’ until the money that can be wrung out slows to a drip and no longer covers the cost of holding on to the hostage. Crisis responders steer this process in three ways. First, unless kidnapers know their hostage's financial situation, it is desirable to let a relatively poor party (preferably the family or a struggling subsidiary of the target company) ‘front’ the negotiation. For this reason, kidnap insurance is not disclosed to employees: the profitability of crime is minimised when hostages keep their firm out of the firing line.

Second, it is crucial that the family or firm never reacts positively to ‘squeezes’. If extra money is

promised every time violence is threatened, the trick will be repeated – and the violence escalated – until it finally no longer works. The hostage will be much safer if the negotiation is diverted when threats are made – but this requires a calm and charismatic advisor to persuade people to act against their gut instincts when loved ones beg for their lives.

Third, the final ransom should not leave the kidnapers with an economic profit. If kidnapers just break even, the ransom does not attract further criminals into kidnapping and put a bull's eye target on co-workers, family members or co-nationals. Firms and local families who settle generously often find themselves targeted repeatedly. But even if the risk of being targeted again is low (eg for a tourist or one-off business traveller) paying a minimal ransom is a reasonable response to the thorny moral question of whether one should pay ransoms at all.

### STABILISING EXPECTATIONS

The aim of professional negotiators is to stabilise kidnapper expectations at a low level and facilitate the fast convergence of ransom negotiations. For example, pirates in the Niger Delta region reliably and safely returned hostages within a week for around US\$10,000 for many years. Upsetting this equilibrium with a higher ransom offer in the (unreasonable) hope of a faster settlement is unethical: news of outsize ransoms travels fast in criminal and disadvantaged communities. It puts more people at risk of kidnap and makes ransoms less affordable for the uninsured. Poor victims are more likely to suffer at the hands of their frustrated captors. Moreover, any profits made by criminal and

rebel groups are likely to be invested into crime and insurgency, immiserating the local population.

By taking control of ransom negotiations kidnap insurers have created norms of non-violence to maintain affordable focal points for ransom negotiations in many areas of the world. Public and private interests are therefore well aligned. Crisis responders also ensure that the rest of the transaction succeeds: ransoms must reach the correct destination without putting further lives at risk and hostages may

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have to be retrieved from 'tiger country'. Finally, there is often considerable aftercare to help the hostages to reintegrate back into their old lives.

Kidnap insurance facilitates surprisingly safe foreign direct investment, trade, reporting, research and aid delivery in the most unpromising security contexts – but only as long as the opposition is deemed to be 'criminal'. When the kidnapers are designated 'terrorists', insurers are required by law from helping to make a ransom payment. This means government officials are left dealing with terrorist ransom demands. The unfortunate outcomes of terrorist kidnaps and the many no-go areas that have arisen as a result of the multi-million dollar ransoms negotiated by nervous bureaucrats demonstrate the power and effectiveness of the private sector response to criminal kidnapping ●

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**Portraits of some of the 200 Chibok school girls abducted by Boko Haram Jihadists five years ago in Lagos**



Picture credit: Getty