STEEL CITY RE

MEMORANDUM

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To Professional Lines Insurance Broker

From Peter Gerken, CPCU

Re **Reputation risk coverage in captives with reinsurance**

Summary of risk, rationale, coverage, structure, costs, and market context. Open-market coverage offers strategic signaling but limited capacity; captives remain essential. Current as of September 2025.

Definition

Reputation risk: The exposure of both a firm and its leadership to long-tail financially material cash flow impairment, triggered by stakeholder behavior shifts—often emotionally charged—arising from unmet expectations.[1]

Business Rationale

Reputation value losses can be sudden, material, and fall outside D&O (Sides A, B, and C), a broad range of complex business risk covers, and intangible asset (IP) coverage.

- Corporate financial protection, analogous to D&O side C: **cash flow shortfall**. Context: Reputation risk undermines organizational resilience, manifesting as customer boycotts, employee attrition, investor divestment, higher borrowing costs, heightened regulatory scrutiny, and constraints on license to operate. **More**.
- Personal financial D&O protection, analogous to D&O side A (We call it **Side R™):** **personal loss of income**. Context: Asset managers, activists, and regulators may seek to damage a director's personal reputation and career prospects to advance agendas linked to equity underperformance, succession disputes, adverse litigation outcomes, identity-based criticisms (e.g., "male, pale & stale," "DEI"), or politics. **More**.
- Endorsements. Both the American Law Institute and the DCRO Risk Governance Institute recommend reputation insurance coverage for companies and directors.

[1] Abstracted from DCRO Institute Reputation Risk Governance Council. *Guiding Principles for Reputation Risk Governance. Essential Principles for Boards of Directors*. DCRO Institute, June 2025. P9.

Form Of Coverage

- Parametric with named perils broadly covering mission-critical business processes involving ethics, innovation, safety, security, sustainability, and quality.
- Solution payouts may be binary or proportional to as many as five tiers of value loss.
- Parameters comprise an index of reputation value engineered from expectations of cash flow. **See Video**. This same index informs **equity portfolios** and **ERM & crisis** management strategies. **More**.

Ideal Solution Structure

Captive with market risk transfer following form, but at different trigger points.

- Captive assumes a primary insurance layer for corporate losses close to the risk with larger limits. Companies may be private or public. Publicizing this coverage may help boost corporate value. **More.**
- Captive is either reinsured or co-insures with a market-based re/insurance for director personal losses that is more remote with much lower limits. Company must be public and covered by Steel City Re's data models.
- Initial coverage is best accompanied by a reputation risk management and governance assessment. Publicizing this assessment may help boost corporate value. **More.**

Costs

Enabled by parametric technology, bespoke solution engineered to client's risk and financial strategy.

- Risk transfer to captive: 2-22% ROL. Limits: None. In our experience, up to $300m.
- Risk transfer to market: 2.6-5% ROL. Limits of $2.5-5m+.
- Steel City Re's 10% IP royalty embedded in premium.
- Reputation risk governance and management assessment by Steel City Re. $50-$300k.

Market Environment

Figurative attacks on directors—what *The New York Times* calls "our awful era of intimidation and political violence" [2] —have fueled online focus on personal humiliation and rising interest in reputation insurance. **More**. **See Charts**.

[2] French, D. 2025. This is no way to run a country. *New York Times*, Aug 7.