

Governing kidnap for ransom: Lloyd's as a “private regime”

Anja Shortland 

First published: 17 November 2016

<https://doi.org/10.1111/gove.12255>



Abstract

Kidnap for ransom raises significant governance challenges. In the absence of formal regulation and enforcement, insurers have created an effective private governance regime to facilitate smooth commercial resolutions. Controlling ransoms is paramount: “supernormal” profits for kidnappers create kidnapping booms and undermine the market for insurance. Ransom control requires cooperation, but there are high transactions costs in enforcing a collusive agreement. The Coasean prediction is that a single firm will form to internalize the externalities arising from lax insurance and mismanaged ransom negotiations—or a government must order the market. There is indeed a single source of kidnap insurance: Lloyd's of London. Yet, within the Lloyd's market several insurers compete for business. Lloyd's is a club providing private governance: Its members issue standard contracts, follow the same regime for kidnap resolution, and exchange information to stabilize ransoms. Lloyd's, therefore, combines aspects of Coase's “single firm” and “government” solution to the externalities problem.

References

Allen, D. (2002). *Economic principles: Seven ideas for thinking about ... absolutely anything*. Burnaby, Canada: McInnes Creek Publishing.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) | [Google Scholar](#)

Clutterbuck, R. (1987). *Kidnap, hijack and extortion: The response*. New York: St. Martin's Press.

[Google Scholar](#)

Coase, R. (1937). The nature of the firm. *Economica*, 4(16), 386–405.

[Web of Science®](#) | [Google Scholar](#)

Coase, R. (1960). The problem of social cost. *Journal of Law and Economics*, 3, 1–44. 1

[Web of Science®](#) | [Google Scholar](#)

Coase, R. (2012). *The firm, the market and the law*. Chicago, IL: University of Chicago Press.

[Google Scholar](#)

Cutler, C., Haufler, V., & Porter, T. (Eds.) (1999a). *Private authority in international affairs*. Albany: State University of New York Press.

[Google Scholar](#)

Cutler, C., Haufler V., & Porter, T. (1999b). Private authority and international affairs. In C. Claire, V. Haufler, & T. Porter (Eds.), *Private authority in international affairs*. Albany: State University of New York Press.

[Google Scholar](#)

De Groot, O. G., Rablen, M., & Shortland, A. (2012). *Barrgh-gaining with Somali pirates*. Economics of Security Working Paper No. 74.

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Gambetta, D. (1993). *The Sicilian mafia*. Cambridge, MA: Harvard University Press.

[Google Scholar](#) 

Greif, A. (1989). Reputation and coalitions in medieval trade: Evidence on the Maghribi traders. *Journal of Economic History*, 49(4), 857–882.

[Web of Science®](#)  | [Google Scholar](#) 

Hagedorn Auerbach, A. (1998). *Ransom: The untold story of international kidnapping*. New York, NY: Holt.

[Google Scholar](#) 

Haufler, V. (1997). *Dangerous commerce: State and market in the international risks insurance regime*. Ithaca, IL: Cornell University Press.

[Google Scholar](#) 

Haufler, V. (1999). Self-regulation and business norms: Political risk and political activism. In C. Cutler, V. Haufler, & T. Porter (Eds.), *Private authority in international affairs* (pp. 241–262). Albany: State University of New York Press.

[Google Scholar](#) 

Haufler, V. (2009). Insurance in a changing climate. In S. Deveer, & H. Selin (Eds.), *Changing climates in north American politics*. Cambridge, MA: MIT Press.

[Google Scholar](#) 

Holcombe, R., & Sobel, R. (2001). Public policy toward pecuniary externalities. *Public Finance Review*, 29(4), 304–325.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Leeson, P. (2011). *The invisible hook*. Princeton, NJ: Princeton University Press.

[Google Scholar](#) 

Leeson, P., & Nowrasteh, A. (2011). Was privateering plunder efficient? *Journal of Economic Behavior and Organization*, 79(3), 303–317.

[Web of Science®](#)  | [Google Scholar](#) 

Leeson, P., & Rogers, D. (2009). Organizing crime. *Supreme Court Economic Review*, 20(1), 89–123.

[Google Scholar](#) 

Lobo-Guerrero, L. (2007). Biopolitics of specialised risk: An analysis of kidnap and ransom insurance. *Security Dialogue*, 38(3), 315–334.

[Web of Science®](#)  | [Google Scholar](#) 

Lopez, B. (2011). *The negotiator: My life at the heart of the hostage trade*. London, UI: Little Brown.

[Google Scholar](#) 


March, J. (1988). *The negotiator*. London, UK: Weidenfeld and Nicholson.

[Google Scholar](#) 

Mayers, D., & Smith, C. (1982). On the corporate demand for insurance. *Journal of Business*, 55(2), 281–296.

[Web of Science®](#)  | [Google Scholar](#) 

Merkling, S., & Davis, E. (2001). Kidnap & ransom insurance: A rapidly growing benefit. *Compensation & Benefits Review*, 33, 40–45.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

Ochoa, R. (2012). Not just the rich: New tendencies in kidnappings in Mexico City. *Global Crime*, 13(1), 1–21.

[Google Scholar](#) 

Pshisva, R., & Suarez, G. (2010). Capital crimes: Kidnappings and corporate investment in Colombia. In R. Di Tella, S. Edwards, & E. Schargrotsky (Eds.), *The economics of crime: Lessons for and from Latin America* (pp. 63–97). Chicago, IL: University of Chicago Press.

[Google Scholar](#) 

Rodriguez, C., & Villa, E. (2012). Kidnap risks and migration: Evidence from Colombia. *Journal of Population Economics*, 25(3), 1139–1164.

[Web of Science®](#)  | [Google Scholar](#) 

Shortland, A. (2015). Can we stop talking about Somali piracy now? *Peace Economics, Peace Science and Public Policy*, 21, 4.

[Google Scholar](#) 

Shortland, A., & Varese, F. (2016). State-building, informal governance and organized crime: The case of Somali piracy. *Political Studies*. Advance online publication. doi:10.1111/1467-9248.12227

[Google Scholar](#) 

Skarbek, D. (2011). Governance and prison gangs. *American Political Science Review*, 105(4), 702–716.

[Web of Science®](#)  | [Google Scholar](#) 

Skarbek, D. (2014). *The social order of the underworld: How prison gangs govern the American penal system*. Oxford, UK: Oxford University Press.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Varese, F. (2001). *The Russian mafia. Private protection in a new market economy*. Oxford, UK: Oxford University Press.

[Google Scholar](#) 

Varese, F. (2014). Protection and extortion. In L. Paoli (Ed.), *Handbook of organized crime* (pp. 343–358). Oxford, UK: Oxford University Press.

[Google Scholar](#) 

Williamson, O. (1989). Transaction cost economics. In R. Schmalensee & R. Willig (Eds.), *Handbook of industrial organization* (Vol. 1, pp. 135–182). Amsterdam, Netherlands: Elsevier.

[Google Scholar](#) 

Williamson, O. (1996). *The mechanisms of governance*. Oxford, UK: Oxford University Press.

[Google Scholar](#) 

Williamson, O. (2002). The theory of the firm as governance structure: From choice to contract. *The Journal of Economic Perspectives*, 16(3), 171–195.


[Web of Science®](#)  | [Google Scholar](#) 

World Bank. (2013). *The pirates of Somalia: Ending the threat, rebuilding a nation*. IBRD/World Bank, Washington, DC.

[Google Scholar](#) 

Wright, R. P. (2009). *Kidnap for ransom: Resolving the Unthinkable*. Abingdon, UK: Auerbach.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

Manage Preferences

Accept All

Reject Non-Essential

Catlins 2012: "Kidnap and ransom today"

[Google Scholar](#) 

Control Risks 2016: "Kidnapping trends worldwide" and "Infographic: Kidnapping trends worldwide"

[Google Scholar](#) 

Financial Times June 1, 2011: "Dealing with kidnappers—all in a day's work"

[Google Scholar](#) 

Hiscox 2014: "Crisis management corporate guidelines"

[Google Scholar](#) 

HMRC 2016: "Introduction to Lloyd's"

[Google Scholar](#) 

Independent October 17, 2010: "The £1bn Hostage trade"

[Google Scholar](#) 

Insurance Business Online October 11, 2012: "Brokers get kidnap and ransom offering"

[Google Scholar](#) 

London Market Group 2014: "London matters: The competitive position of the London insurance market"

[Google Scholar](#) 

Lloyd's 2011: "Annual report"

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential



[Google Scholar](#) 

Lloyd's List November 26, 2008: "The long way around"

[Google Scholar](#) 

Marsh Marine Practice 2011: "Piracy—the insurance implications"

[Google Scholar](#) 

New York Times August 19, 1998: "Mexico says it has kidnapper who cut wealthy victims' ears"

[Google Scholar](#) 

New York Times. November 5, 2011. "Taken by pirates"

[Google Scholar](#) 

New York Times July 29, 2014: "Paying ransoms, Europe bankrolls Qaeda terror"

[Google Scholar](#) 

Oceans Beyond Piracy 2012: "The human costs of maritime piracy 2012"

[Google Scholar](#) 

Oceans Beyond Piracy 2013: "The state of maritime piracy 2013"

[Google Scholar](#) 

Safer Yemen 2014: "Changing tactics and motives: Kidnapping of foreigners in Yemen 2010-2014"

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

The Guardian March 22, 2012: "Judith Tebbutt heads home after Somalia kidnap ordeal"

[Google Scholar](#) 

The Guardian August 25, 2014: "The murky world of hostage negotiations: Is the price ever right?"

[Google Scholar](#) 

The Telegraph March 26, 2015: "Why a retired British army colonel has become the last hope for Somalia's forgotten hostages"

[Google Scholar](#) 

United Nations 2013: "Human rights and issues related to terrorist hostage-taking." Report of the Human Rights Council Advisory Committee A/HRC/24/47

[Google Scholar](#) 

UNODC 2016: "Transnational organized crime: The globalized illegal economy"


[Google Scholar](#) 

Citing Literature 

[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

DMCA & Reporting Piracy

Sitemap

OPPORTUNITIES

Subscription Agents

Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network

Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential