Advertisement

Governance / Volume 30, Issue 2 / pp. 283-299

Article

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

Anja Shortland

First published: 17 November 2016

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

PDF

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

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

Bernstein, L. (1992). Opting out of the legal system: Extralegal contractual relations in the diamond industry. *Journal of Legal Studies*, **21**, 115–157.

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.

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

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.

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. (2006). Cooperation and conflict: Evidence on self-enforcing arrangements and heterogeneous groups. *American Journal of Economics and Sociology*, **65**(4), 891–907.

Web of Science® | Google Scholar

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.

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

Munger, M. (2010). Endless forms most beautiful and most wonderful. Elinor Ostrom and the diversity of institutions. *Public Choice*, **143**(3), 263–268.

Web of Science® | Google Scholar

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. Schargrodsky (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

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

Stringham, E. (2015). *Private governance: Creating order in economic and social life*. New York, NY: Oxford University Press.

Google Scholar

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

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

Agenda Week May 29, 2012: “How do you manage kidnapping risk? Delicately” Business Insurance May 1, 2008: “Kidnap and ransom insurance covers a wide range of risks”

Google Scholar

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

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

Lloyd's 2015: “Navigating the room: Where to find who you need,” accessed May 2015

Google Scholar

Lloyd's 2016: “What is Lloyd's?”

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”

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

The Economist June 27, 2013: “Kidnap and ransom insurance: I'm a client … Get me out of here”

Google Scholar

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

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

Accessibility
Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us
Training and Support
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