WHEN GOOD CELEBRITY ENDORSEMENTS GO BAD

By: *Frank Zuccarello* | April 1, 2014
Exceptional Risk Advisors

"How the mighty have fallen."

Whether an actor, athlete or other type of celebrity, anyone of lofty status can fall on hard times after suddenly taking a major PR hit. Think Tiger Woods, Lance Armstrong, Alex Rodriguez or Paula Deen: one day they are riding the crest of fame and the next day they come crashing back to earth.

The important question here isn't so much who or why, but what is the collateral damage when a celebrity suddenly implodes? For hundreds of companies across the world, that damage comes in the form of unwanted baggage now adorning their footwear, starring in their ads and smiling from their cereal boxes in every supermarket.

Companies use celebrity endorsements and multimillion-dollar advertising campaigns to raise their profiles and increase sales, but there is risk involved. When cycling legend Lance Armstrong found himself at the center of a steroids scandal, his sponsors and corporate backers—including Nike, Anheuser-Busch, RadioShack and bicycle manufacturer Trek—were forced to cut ties with him or face public backlash. Even after the damage is done, companies still have to do more to protect the bottom line. The decision to sever ties with a spokesperson can be expensive, and by the time a scandal hits, many companies have already sunk millions of dollars into commercials and print advertisements that may not even air. How can companies protect themselves?

Some companies elect to go the traditional route and sue the celebrity, but that only further magnifies an already ugly situation. Instead, disgrace insurance has become increasingly popular over the past few years for the financial flexibility it gives companies to protect their most valuable assets: name and reputation.

Disgrace coverage includes protection from unlawful acts and offensive statements by a contracted spokesperson whose image has been licensed on consumer items, and insurance for a commercial campaign that fails due to a disgraceful act. In short, it protects against the exposure of a celebrity spokesperson who might behave in a disgraceful manner.

This insurance entitles companies to reimbursement for money paid to secure the disgraced celebrity's endorsement, hire a substitute spokesperson, reshoot or reproduce the advertising material, and remove the spokesperson's image from product packaging.

When considering a disgrace insurance policy, there are a few important items to keep in mind. First, if your spokesperson has a history of "issues," it does not necessarily mean you will pay more. A disgrace policy usually does not include coverage for an insured person acting within their public persona, so personalities who are known to live on the edge are usually acceptable risks. It is the clean and wholesome images that actually pose more risk. For example, if Justin Bieber is caught doing or saying something crazy, no one is surprised. When "clean, wholesome family man" Tiger Woods' social life was revealed, however, that was a sudden shock to the community at large.

The policy's definition of "disgrace" should also cover a wide swath—in practice it falls into a shadowy world where things aren't always clear. What are considered disgraceful antics by Alec Baldwin may not be the same as disgraceful antics by, say, Dennis Rodman. Policyholders should make sure they clearly define terms broadly enough to indicate any misconduct that would adversely affect the company's reputation. A policy should have flexibility to match the morals clause in the advertising campaign contract.

Policyholders also need to be conscious of time limitations. Disgrace policies only cover the period of time related to an actual contract between the policyholder and the insured person. Celebrity images on products can have a very long shelf-life, so if a company invests in a person, they should be comfortable with that figure's persona. This is especially true as television ads featuring now-disgraced celebrities live on forever, thanks to YouTube. Hertz executives no doubt wish they had a time machine to take out some disgrace insurance on O.J. Simpson.

It is also important to note that not every "disgraceful" act is a blank check for a company to try and recoup losses. If a celebrity spokesperson does something outrageous but within his "public persona," the company may have to live with it. For example, if you pay flamboyant ex-NBA star Dennis Rodman a bundle to hawk your product, you can't turn around and try to repair your image when he walks down 34th Street in Manhattan wearing a prom gown and juggling several live kittens. That is just "Dennis being Dennis." It may be deemed distasteful, but not necessarily disgraceful—at least, in the insurers' eyes. But there are limits, even for Rodman. If he lights the kittens on fire and throws them at a passing cab, causing it to crash, then it is probably time to dig out that policy.

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Sometimes the person portrayed in ads is more important than the individual who plays them. Everyone knows Flo from Progressive Insurance, but very few know the name of the actress who portrays her (for the record, it's Stephanie Courtney). If Ms. Courtney were to be involved in a criminal activity, would it taint the character she depicts in the ad spots? Is disgrace insurance coverage needed for this relatively unknown spokesperson? The answer is yes. Progressive has put a lot of time, energy and resources into its campaign, and the character of "Flo" would be hard to replace. The same holds true for spokespeople like Allstate's Mayhem Man (Dean Winters) or Jan from Toyota (Laurel Coppock).

Disgrace insurance can be purchased either as stand-alone coverage or as part of a broader policy covering other advertising-related risks, such as the risk that the insured spokesperson will die or become disabled during the advertising campaign. Purchasing disgrace coverage generally costs about 1% of the policy's limits, so companies typically pay around $10,000 for every million dollars of insurance purchased. For a person known to live on the edge, an insurer may require extra premium, or that the insured person sign a warranty relating to his or her lifestyle, consumption of alcohol, or drug use.

It seems like every day a celebrity gets caught up in a scandal. And odds are that some corporation has invested millions of dollars to put his or her face on a billboard, television spot or set of cookware. That investment needs protection. Without it, our only "celebrity" endorsements will have to come from ducks, geckos and giant peanuts wearing monocles and top hats. And what kind of fun would that be?

About the Author

Frank Zuccarello *is the Executive Vice President here at Exceptional Risk Advisors. His responsibilities include managing the field underwriting, sales, and operations for the Accident and Health division of Exceptional Risk Advisors. Frank also develops and maintains relationships with new and existing clients of Exceptional Risk Advisors.*

Frank has over 15 years of experience in the insurance industry. Prior to joining Exceptional Risk Advisors, Frank worked at Hanleigh, a BISYS company. He is one of the very few people in the United States who has Binding Authority from Lloyds of London exceeding $70 million in Accident & Health.

Before joining Hanleigh, Frank started his career with UNUM, the world's largest disability carrier. Frank graduated from William Paterson University with a degree in Communications. Frank resides in Rockland County, New York with his wife Irene, and two children. In his spare time, Frank is a professional singer and guitarist. He also enjoys watching his Yankees, Giants, Knicks, and Rangers. Frank also actively coaches his children's baseball and softball teams.

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