Preparing For Today's Cyber Market

PRESENTED BY:

ALLIANT INSURANCE SERVICES

Alliant

Agenda

- **Risk Management**
  - **Items to Think Through Regarding Risk Retention**

- **Coverage Documents**
  - **Items to Think Through Regarding Cyber Coverages**

General Methods to Manage Risk

- **Avoidance** - is a method for mitigating risk by not participating in activities that may incur some type of loss, such as financial, property damage, or injury
- **Loss Prevention and Reduction** – is the method of risk management attempts to minimize the loss, rather than completely eliminate it
- **Retention** - is the practice of setting up a self-insurance reserve fund to pay for losses as they occur, rather than shifting the risk to a third party
- **Risk Sharing** — means that the premiums and losses of each member of a group of policyholders are allocated within the group based on a predetermined formula
- **Risk Transfer** – is a risk management technique in which risk is transferred to a third party. In other words, it involves one party assuming risk

Retaining Cyber Risk

- **Who** – you and your members
- **What** – retaining the financial costs of operations and losses
  - Costs of personnel – underwriting, claims, actuarial, legal, administrative
  - Costs of loss
- **Why** - cost analysis shows that it is cost effective to handle the risk internally as opposed to the cost of fully or partially insuring against it
- **How** — operate as the third party who retained a portion of the risk, i.e., become the insurance company

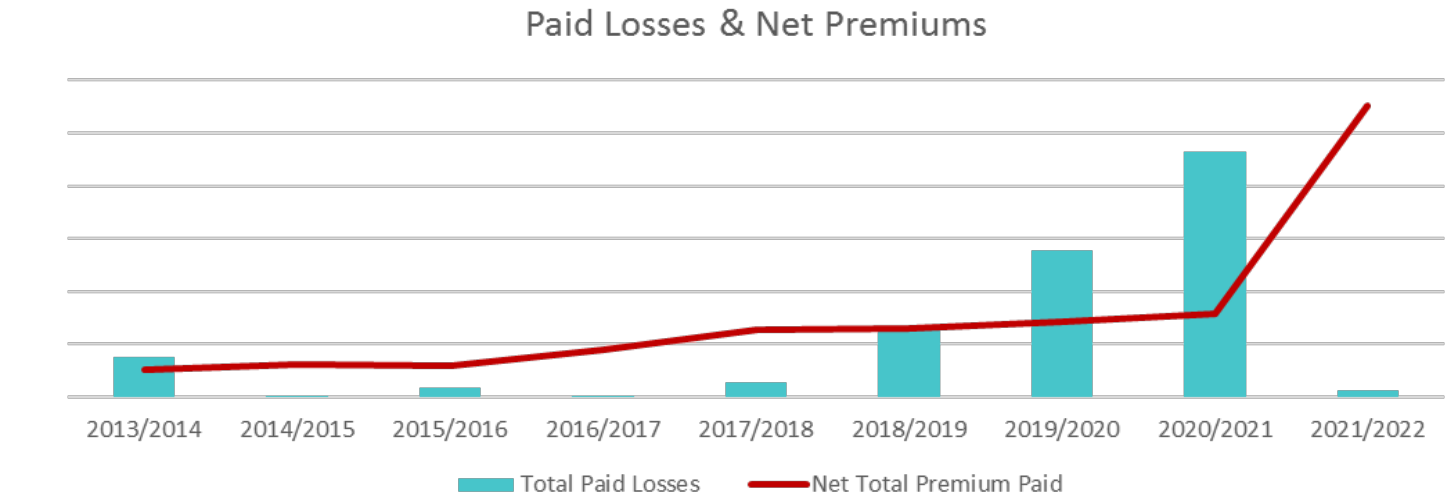
General Insurance Company Experience

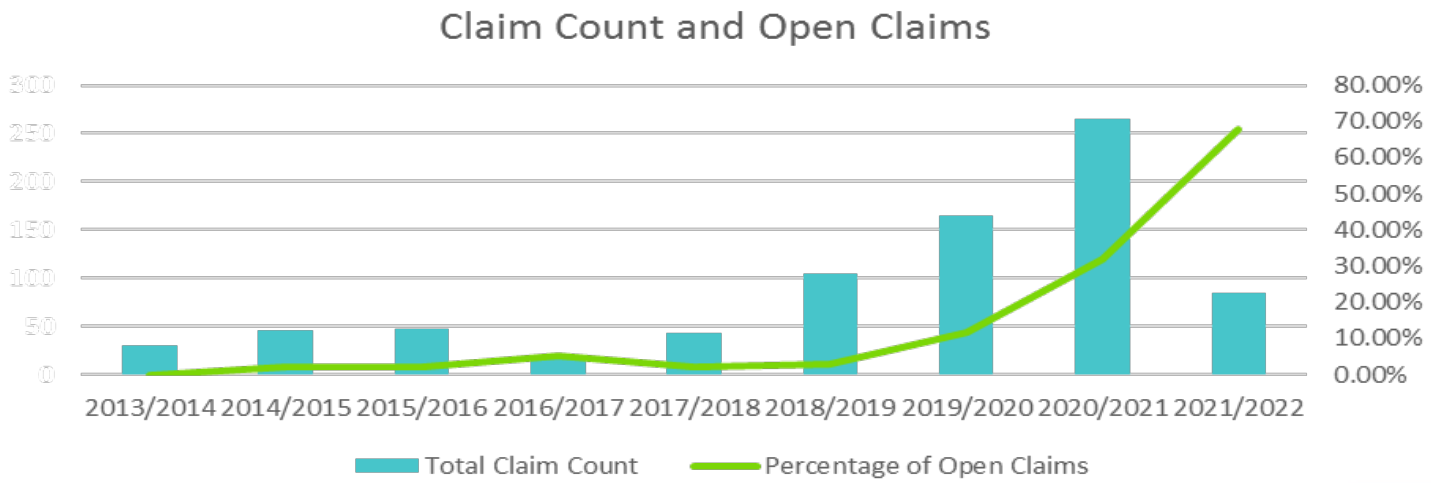
2020 RANK	2019 RANK	GROUP NAME	DIRECT WRITTEN PREMIUM	LOSS RATIO W/DCC	MARKET SHARE
1	1	CHUBB LTD GRP	$404,144,104	61%	14.7%
2	2	AXA INS GRP	293,025,192	98.2%	10.6%
3	3	AMERICAN INTRNL GRP	228,424,711	100.6%	8.3%

- The top 20 groups in the cyber insurance market reported direct loss ratios in the range of 24.6% to 114.1%. The loss ratio for 2020 for the top 20 groups averaged 66.9%, up from 44.6% in 2019
- The NAIC is reporting that insurers are seeing expenditures surpass 70%
- Combined ratio for the sample group above is 130% – 170%

Source: NAIC

Public Entity Sector Cyber Loss Statistics





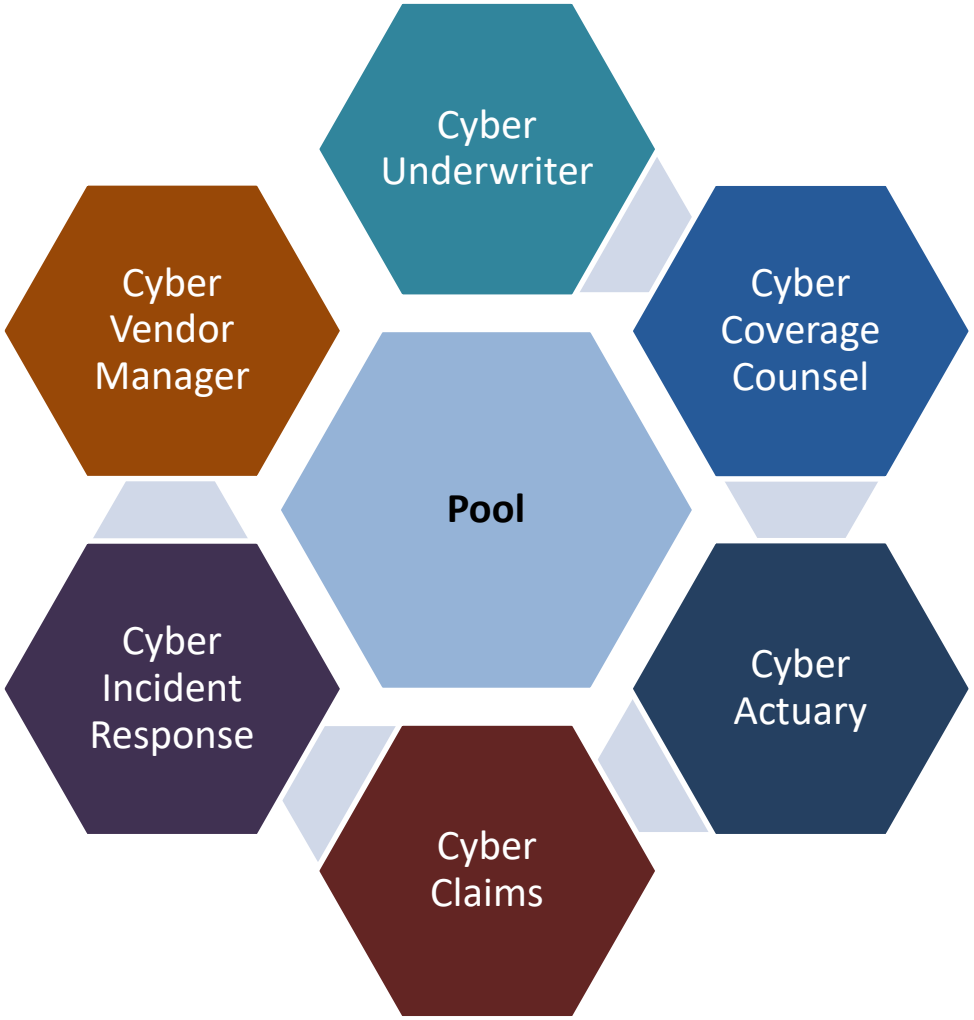
Source: Alliant Insurance Services, Inc.

Pooling History

- **Large Increases in Liability Insurance Premiums –** $9.1 billion Americans paid last year in liability-insurance premiums was almost 60% higher than the figure as recently as 1983 and roughly equal to the combined 1985 budgets of the National Aeronautics and Space Administration and the Central Intelligence Agency
- **Hard Market** – insurers started leaving the space, large losses – many driven by litigation (civil lawsuits grew 4x from 1977 – 1982, product liability suits grew 680% form 1974 - 1984) and punitive damages, strict liability and joint & several liability
- **Tort Reform & Governmental Insurance** – limit losses especially for punitive damages and provide additional insurance capacity at smaller limits

Source: www.time.com

How? Specialized Expertise



Cyber Insurance Compared to Liability Insurance

- **Loss Costs Drivers**
  - Liability Insurance – litigation
  - Cyber Insurance – hacking or inadvertent incidents resulting in first party costs (breach response, business interruption, forensics, data recovery, extortion payments)
    - Data Breach, Ransomware, Cyber Warfare / Infrastructure, Litigation
- **"Age"?**
  - Liability Insurance – 100+ years – more experienced workforce to choose from
  - Cyber Insurance – 20+ years – hyper competition for the existing workforce that is still "new"
- **Potential Solutions**
  - Liability Insurance – stop litigation (not possible), limit awards
  - Cyber Insurance – stop hackers (not possible), limit ability for hackers to monetize (better security controls)

Security Standards Guidelines

- **Multi-factor authentication – 100% implemented for:**
  - Remote access (Faulty, Staff, and Students – not uncommon with Universities, not yet required for K-12 students)
  - Privileged access
- **Well managed end point detection**
- **Well managed RDP connections – VPN, MFA, etc.**
- **Back Ups**
  - 1 working copy, 1 offsite, disconnected not working, 1 onsite disconnected not working
  - Tested at least twice a year
  - Ability to bring up within 24-72 hours – less time for critical operations (4 hours)
  - Protected with antivirus or monitored on a continuous basis
  - Encryption
- **Planning and Training**
  - Incident response plan
  - Business continuity plan
  - Social engineering training
  - Phishing training
  - Training of accounting/finance staff on fraudulent transactions
  - General cyber security training
- **Reasonable patching schedule/plan**
- **Plan or adequate measures in place to protect end of life software**

Cyber Insurance Coverages: Areas to Consider

- **It's an Insurance Policy**
- **Understanding the Existing Wording**
  - How does it work, and what has worked and what has not
    - Dependent Business Interruption
    - Betterment
    - Third Party Vendors
  - How it dovetails with other lines of insurance
  - Limited guidance, ISO is starting
- **Constant Change**
  - Systemic, War, Betterment, Crime, Ransomware, New Regulations
- **Main Line of Business**
  - Coupling with other major lines should be reconsidered
  - Other lines of business have legacy wording that does not fit
  - This is not a 1st party or 3rd party lines of coverage – both

THANK YOU!