

ChannelCheck^{*}

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CYBER INSURANCE

IS THE SENSE OF

**“IT WILL
NOT HAPPEN
TO ME”**

FADING AWAY?

Cyber insurance is currently considered a relatively small market. However, we see it as a growing market and area of opportunity, *especially for commercial clients.*

MARSHBERRY CYBER INSURANCE CHANNEL CHECK

In early 2017, you probably heard about the malware “WannaCry” which infected approximately 300,000¹ computers around the world. Although it was large and one of the most publicized cyber-crimes to date, it was not the largest malware infection of all time in terms of damage. The *Economist Magazine* writes, “Other worms — Conficker, MyDoom, ILOVEYOU — caused billions of dollars of damage in the 2000s.”²

Cyber insurance is currently considered a relatively small market. However we see it as a growing market and area of opportunity, especially for commercial clients. As such, MarshBerry commenced its first cyber insurance channel check designed to gather insights about growth and trends in the United States.

QUESTIONS WE ARE ADDRESSING INCLUDE:

- 1 *how are agencies/brokers selling cyber, and*
- 2 *how can one convince clients of cyber-related risks and why they need coverage?*

We are pleased to present the results of primary research held with distributors and users of cyber insurance in the United States.

¹ *The Telegraph (UK), May 20, 2017*

² *The Economist Magazine, May 20, 2017 Page. 70*

KEY TAKEAWAYS

DEMAND

- ✓ Respondents reported they automatically include cyber insurance in their proposals, however, just over half (57%) accept the additional cyber insurance on average. Reported demand for cyber insurance is also more diversified across a variety of industries including health care, retail, manufacturing, hospitality and others, as well as by size of firm.
- ✓ Demand was reported to be higher versus recent prior years and is expected to increase next year. This is primarily due to more extensive publicity about cyber extortion and higher claim activity.
- ✓ Additionally, in MarshBerry's experience, contracts between firms increasingly require evidence of cyber insurance coverage.

PRICING AND UNDERWRITING CAPACITY

- ✓ The market is reported as “soft” with downward pressure on pricing, driven by increased competition amongst carriers. The premium outlook is mixed with a third of our respondents seeing premium increases, flat (no changes) and lower premiums, respectively.
- ✓ Carrier capacity to underwrite cyber insurance was described as “abundant” by all respondents.
- ✓ Due to the often highly-technical nature of cyber insurance risk (and the evolving nature of technology and subsequent potential cyber-related exposure), several agencies reported using wholesalers in the distribution channel.

ADEQUACY AND CLARITY OF COVERAGE

- ✓ The clear majority (83%) of respondents reported the robustness of coverage as “improved” in the recent one to two years.
- ✓ Fewer respondents (67%) felt that the clarity of documentation had improved over this same period.

Demand

According to several study respondents, the need for cyber insurance is higher after the past one to two years of tepid demand. Interestingly, the outlook for 2017/2018 demand is “increased” amongst all respondents.

Many agencies talking about cyber insurance said that they do not sell first party coverage without third party coverage as well. As a source of cyber-attacks, third party is considered by many to be a high risk area, however, first party claims were also reported by some as on the rise.

In June 2017, demand for cyber insurance was solid. All respondents to our study reported that they automatically include cyber insurance in their proposals to clients and just over half (57%) of clients accept the additional cyber insurance.

Demand for embedded cyber policies versus standalone policies depended up on the adequacy of the coverage. For many of our respondents —embedded policies are typically considered less comprehensive than standalone, but the decision of which to accept still rests with the client's appreciation of their cyber risk exposure balanced with the cost. According to our study participants, and in MarshBerry's opinion, increased publicity and education about criminal cyber activity across a range of industry types (by North American Industry Classification System, or NAICS, size, distribution channel, etc.) will serve to increase awareness and interest in cyber insurance. In addition, more frequently contracts between firms *require evidence of cyber insurance to do business*.

Diversity of commercial clients has increased. In the past, traditional industries dominating the cyber insurance space have been health care and retail — this is changing. The diversity of industries taking up cyber insurance has increased with manufacturers, restaurants and small-to-medium size firms across the board looking for cyber insurance coverage.

In MarshBerry's experience, and in this study, education is key. Once commercial and personal clients have a greater understanding of the possible threats and loss in recovery (including but not limited to cyber extortion and ransomware, risk of shutting down the company, identity theft, expense of post-breach services, legal and extreme reputational risk) from cyber crime, they are more willing to engage. For example, risks such as social engineering and counterfeit email addresses that mimic real addresses and ask for “transfers”

are creating more interest in cyber insurance among many potential clients per our study participants.

- A Broker from the Northeast reports: “Most clients think ‘it will not happen to me,’ especially smaller retail and coffee shops, however, manufacturers cannot get enough of it (cyber insurance).”
- A Senior Executive from a Western-based agency stated: “Health care and retail are still core industries but the difference in the past couple of years is that all industries are interested in cyber insurance.”
- A Producer from the East coast commented that: “Claims transcend every industry, manufacturing is growing and moving beyond early adopters such as health care and legal.”

Pricing and Underwriting Capacity

Overall average premiums were slightly lower (-2%) on a year-over-year basis in our respondents experience in June 2017.

This downward pressure on pricing is driven by increased competition with many more competitors entering the cyber insurance space market. The market is described as “soft” by all respondents. Limits were reported as unchanged on a year-over-year basis. Looking forward into the next one to three years, the premium outlook is mixed with a third of our respondents seeing premium increases, flat (no changes) and lower premiums, respectively. Those expecting higher premiums in the future attribute this increase to criminal activity and subsequent claim activity.

Carrier capacity to underwrite cyber insurance was described as “abundant” by all respondents. Not only was the market reported as soft but that minimal data was typically required to obtain coverage. Due to the often highly-technical nature of cyber insurance risk (and the evolving nature of technology and subsequent potential cyber-related exposure), several agencies reported using wholesalers.

- An Executive in a Westcoast-based agency/broker reported: “It is a very soft market as (there are) so many competitors in the space. They lower rates to get clients. There are over 200 (carriers) and new entrants coming in all the time.”
- An Agency owner in the Midwest commented that: “Cyber insurance is very inexpensive for commercial and personal

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coverage. Industry-wide insurance companies are making money so they are looking to write business.”

- An East coast-based agency stated that: “Most agencies use a wholesaler for cyber because of changes to cyber and terminology.”

Adequacy and Clarity of Coverage

Generally, stand-alone cyber insurance policies are considered more robust in terms of coverage than embedded policies by our respondents. However, due to the often highly-technical and constantly evolving nature of cyber insurance risk — the adequacy and documentation of coverage needs to change accordingly.

In our June study, the clear majority (83%) of respondents reported that coverage-robustness has improved in the recent one to two years. In addition, fewer respondents (67%) felt that the clarity of documentation is improved over this same period. Reported concerns remain about understanding related to what is or is not covered in many policies. As an example, a respondent described that although many cyber policies cover “identity theft,” if social security numbers and personal information are stolen, this may or may not be included, and there remains ambiguity in some policies.

- A Midwest-based Agency owner stated: “In the past there was a lot of confusion related to first party and third party, but now policies are much more clear.”
- A Western-region entrepreneur commented that: “A major problem is that every form has a different name for the same coverage so we need to translate for clients.”
- A Northern-based Senior Executive said that “Cyber is an evolving industry but coverage is becoming more and more client friendly. Forms are getting better. In the past, there were sub-limits on different coverage and now evolving with more publicity about cyber extortion.”

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NEED HELP IDENTIFYING WHERE YOUR AGENCY SHOULD FOCUS?

Call MarshBerry for a strategy consultation at **800.426.2774** or visit us online at **www.MarshBerry.com**. ■

*WHAT'S A CHANNEL CHECK?

A Channel Check is a “light survey” using primary research, conducted by MarshBerry, to gather opinions on a topic within pertinent nodes of the industry value chain.

Look for future editions, and updates to popular nodes, at www.MarshBerry.com and on our social media channels.

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