Rates Are Surprisingly Soft

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Highlights of this Issue

- Expanded Customer Coverage for Deceptive Funds Transfer (Social Engineering)—Coverage for Third Parties
- Three New Insurers Added: HDI Specialty, Sovereign General, and Tokio Marine HCC
- Insurers Removed from Survey: AXIS and RSUI
- Chubb and ACE Combined under Chubb Name
- Is Cyber a $4 Billion Market Already?

Next Issue

August

Private Company Management Liability Insurance Market Survey
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Editor’s Note: In this issue of The Betterley Report, we present our annual review and evaluation of insurance products designed to protect against the unique risks of data security for organizations. Risks could include the breach of security by a hacker intent on stealing valuable data or a simple release of data through the carelessness of an employee or vendor.

We noted several broad trends in the cyber-insurance market and decided to dive deeper into them in this summary and the accompanying tables.

In response to new challenges for theft losses resulting from deceptive funds transfer instructions to customers and clients (an increasingly common form of social engineering theft, becoming widely available), we modified our “Theft (first-party) Coverage—Deceptive Funds Transfer or Social Engineering” table. This table now includes information about coverage that insurers may offer for losses suffered by customers. These losses typically occur when an emailed invoice is altered to change payment instructions.

Recall that this report does not focus on coverage for technology providers that support e-commerce, such as Internet service providers, technology consultants, and software developers. That market is reviewed in our February issue, “Technology Errors & Omissions Market Survey.”

One thing we would like to point out is the difficulty in separating technology products from cyber-risk products; for many insurers, the same base product is used, then adapted to fit the technology service provider insured or the cyber-risk insured. Where the insurer has a separate product, we reviewed their cyber-risk product; if it is a common base product, we included information about both.

In looking at our information, if you see that a certain insurer’s policy does not include, for example, errors and omissions (E&O) coverage, keep in mind that this coverage is most important to a service provider and that the same insurer might have a separate product for those insureds. You will probably find that product reviewed in our February issue.
The types of coverage offered by cyber-risk insurers vary dramatically. Some offer coverage for a wide range of exposures, while others are more limited. For the insured (or its advisers) looking for proper coverage, choosing the right product can be a challenge.

Most insurers offer multiple cyber-risk products, so crafting the coverage for each insured requires the best in risk identification and knowledge of the individual covers. More than most other insurance policies, cyber-risk requires experienced risk professionals to craft the proper coverage. The insurance industry continues to help brokers understand the exposures, coverage, and services of cyber-risk so that they can better serve their clients. The products are complicated, making these educational efforts a worthwhile and necessary investment.

We have tried to present a variety of coverages to illustrate what is available in the market. Thirty-one sources of insurance are included in this survey. These insurers (and, in a few instances, managing general underwriters) represent the core of the cyber-risk insurance market.

As with last year’s survey, we include 31 insurers; Axis and RSUI have been removed, and Ace and Chubb are now combined under the Chubb banner. HDI Specialty, Sovereign General (a Canadian company), and Tokio Marine HCC (Houston Casualty) have been added.

Please remember that, while each insurer was contacted to obtain this information, we have tested their responses against our own experience and knowledge. Where they conflict, we have reviewed the inconsistencies with the insurers. However, the evaluation and conclusions are our own.

Rather than reproduce the insurers’ exact policy wording (which of course can be voluminous), we in some cases have paraphrased their wording in the interest of space and simplicity. Of course, the insurance policies govern the coverage provided, and the insurers are not responsible for our summary of their policies or survey responses.

In the use of this information, the reader should understand that the information applies to the standard products of the insurers and that special arrangements of coverage, cost, and other variables may be available on a negotiated basis.

For updated information on this and other Betterley Report coverage of specialty insurance products, please see our blog, The Betterley Report on Specialty Insurance Products, which can be found at www.betterley.com/blog.
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Introduction

As with all of our market surveys, cyber-risk coverage represents a new, recently developed or rapidly evolving form of coverage designed to address the needs of new risks confronting organizations. Cyber-risk coverage epitomizes new insurance products, presenting insurance product managers with challenges as they learn what their insured’s need and what the insurers can prudently cover.

It could be argued that cyber-insurance is rapidly maturing, and there is some truth to that. Cyber is not so new, at least in terms of its availability (we started writing about cyber in 2000). But it is “new” in terms of its recognition as a key component of most commercial insurance portfolios and in terms of its evolution of coverage wordings, which continue.

But most importantly, cyber is “new” in terms of the exposures being underwritten. These are evolving so rapidly that insurers are forced to continually look at their underwriting and claims management approaches. To protect themselves (and their insureds) against this rapid evolution, insurers must invest more time and attention—and especially creative attention—than they might for a typical product.

Most insurers were convinced that their best opportunities are to sell cyber-risk coverage to mainstream companies that have significant cyber-risk exposures. Many of those prospective insureds are already the insurer’s customers, looking for coverage not present in traditional policies. The experience of a distressingly large number of organizations—both large and small—in the past few years is perhaps only the tip of the iceberg representing the threat of data and intellectual property theft facing businesses worldwide. Insurance protection to backstop information technology (IT) security safeguards must be carefully considered for businesses and institutions, such as hospitals, educational institutions, and public entities.

As the small and midsized insureds become a more important market opportunity, insurers are learning how to offer products at a lower price point. Not all insureds can afford the highest levels of protection, and perhaps don’t need it (although this last point can be debated). But, they do need proper protection.

Sometimes “proper protection” includes protection that meets the requirements of the customers and clients (and sometimes their suppliers and lenders). More and more, we hear of small and midsized insureds buying coverage because they are required to if they want to do business with other parties. These coverage requirements unfortunately range from the reasonable (which most insureds ought to have and are available on a commercially reasonable basis) to unreasonable, where the limits are much higher than can be reasonably afforded.

Worse, we are seeing business agreements that make the small and midsized insureds responsible for unlimited losses. These agreements ask the insureds to bet their company every time they sign one of them. With no hope of securing coverage limits equal to the risk assumed, it is questionable whether the agreement should be signed.

As vendor agreements more often include requirements for cyber-insurance, we hope that they will be written with commercially reasonable terms. These agreements are a major driver in the decision to purchase cyber; written properly, they
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will make the market more efficient and healthy while still providing appropriate levels of protection.

Cyber-insurers have developed very different products to address what they think cyber-risk companies need; we have provided a “Product Description” table that lets the insurer describe in its own words the coverage it is offering. This table is vital to the reader’s understanding of the various—and varied—products offered.

Specialized cyber-risk insurance comes in a variety of forms, but we find it most helpful to divide coverage into property, theft, or liability for surveying purposes. Some insurers offer liability-only products, while others offer a combination of property, theft, and liability coverages.

Interestingly, it seems that more of the products previously limited to liability and breach response coverages are expanding to include property (and less so, theft) product options. This indicates to us that customer demand is increasing for these product options.

We are also seeing insureds becoming concerned about losses that may result from hacked invoices; when the customer pays the invoice to the wrong party (usually because the payment instructions were altered), they blame it on the vendor (i.e., the cyber-insured) and don’t want to attempt recovery from their own crime insurance (and often the victim is a smaller organization that may not have proper crime coverage).

If there is a resulting lawsuit, it is true that liability coverage may apply, but who wants to require their customers to sue? Instead, a few insurers are now offering coverage for first-party losses experienced by the customers of their insureds. Others flatly refuse, and the rest are taking a watchful waiting approach.

Insurers are offering cyber-risk enhancements to existing policies, such as business owners, management liability, and other policies. These products take the form of a services-only product (no risk transfer), services plus breach response coverage, and services plus breach response plus liability. Limits are typically low, and options are few, but the low additional premium can make them quite appealing to insureds. Whether they should buy these products or should consider stand-alone cyber-policies requires careful analysis and consideration of exposure, risk tolerance, and client/customer requirements.

We provided a much deeper discussion in “Cyber Endorsements for Traditional Insurance Policies” in our May 2013 report for The Risk Report, also published by IRMI. These are still current and worth reading.

State of the Market

The market continues to broaden, especially in health care and the small to midsized insured segments. Healthcare systems and their vendors, in particular, are buying cyber-risk insurance (and, in the case of vendors, often buying it as a part of a technology E&O policy; these premiums are not included in our growth or premium estimates below) at a rapid clip. Insurers are offering specialized products to these insureds.

In addition to health care, insurers report much of their growth coming from small to midsized companies newly aware of the possibilities of liability, and especially a breach
and resulting response costs arising out of the possession of private data. This is leading to a large increase in policy count, but far less in new premium written.

Annual premium volume information about the US cyber-risk market is hard to come by, but in reviewing the market, we have concluded that the annual gross written premium may be as much as $4 billion (up from $3.25 billion in last year’s report). Despite lower rates … amazing.

The industry is divided by size (gross written premium) as follows.

- A limited number of very large writers, with premiums in excess of $100 million
- Several insurers in the $50–$100 million range
- Several more in the $25–$50 million range
- Numerous insurers and managing general underwriters writing $10–$25 million
- Several writing in the $5–$10 million and $1–$5 million ranges

This year we had fairly good reporting by insurers, with 14 providing sufficient detail to allow us to provide reliable insight into market trends.

The insureds are clearly divided into those organizations troubled by lots of breaches (larger organizations as well as retail, health care, and educational institutions) and the rest, who so far have not experienced frequent breaches. We expect the public sector to join the “troubled” group shortly if it has not already. As has been the case for years, financial institutions constitute a separate group that is underwritten separately.

The following are some of the comments from the reporting insurers, primarily commenting on the market in general (few comment on their own plans).

- A very large established insurer writing a wide range of risks sees decreasing rates for some insureds with flat deductibles.
- A new entrant reports rates dropping 10 percent or so, declining deductibles.
- A midsized insurer in the middle market sees decreasing rates with flat deductibles.
- Another midsized source indicates decreasing rates with flat deductibles.
- A large insurer expects slight rate decreases of 5–10 percent with flat deductibles.
- Another large insurer forecasts rates down 15 percent, deductibles possibly decreasing.
- A midsized insurer focused on smaller insureds sees very slight decreases and flat deductibles.
- Another midsized insurer writing smaller insureds sees slight decreases, but no change in deductibles.
- A very large insurer expects large insureds to obtain lower rates in the excess layers, higher rates in primary layers, and the middle market flat with deductibles decreasing a bit.
- A smaller underwriter with a large book of cyber sees rates down 20 percent and decreasing deductibles.
- A very large insurer writing large accounts sees flat rates and deductibles.
- A small underwriter with a good-sized book expects rates to decline 15 percent with declining deductibles as well.
A midsized insurer writing smaller accounts sees rates down depending on the size of the insured, especially on excess business. Deductibles are down as well.

A very large insurer writing across all sizes suggests flat deductibles and did not comment on rates.

Large rates of growth seemed to be found in all sizes of insurers (by size, we are referring to the amount of cyber-premium that insurer is writing). This is really impressive, considering that many insurers report a surprisingly vigorous rate competition.

The above information is from confidential sources and is intentionally generalized.

We think that this market has nowhere to go but up—as long as insurers can still write at a profit. The proliferation of data breaches and the increasing sensitivity of the public to protection of their private data surely means increasing levels of claims.

Perhaps offsetting this increase in claims will be the opportunity to respond to breaches more cost effectively as insurers negotiate lower response costs and law firms get more competitive in their pricing. Higher retentions will definitely help, and, in some cases, will reduced breach response limits, as we see both increasingly being forced on retail and healthcare insureds.

Insurers are responding to the staggering large number of breaches by using more precise underwriting tools, offering improved risk management services and, in a few cases, apparently laying off more risk to the reinsurance market. Several of our responding insurers have indicated more interest by reinsurers in supporting cyber-insurance products, a welcoming trend.

An exception to the ready availability of the various cyber-coverages is the portion of the policy that covers Payment Card Industry (PCI) fines and penalties. For insureds that are not compliant with PCI standards, coverage is becoming increasingly hard to find. Even when insureds have a project underway to become compliant, insurers are reluctant to offer coverage pending completion.

In the past, insurers would allow an insured a window of time during which they could implement their compliance effort. Now, it is much more likely that the insurer will refuse to provide coverage until that effort is complete and tested.

Privacy coverage is clearly driving the market; cyber-risk seminars and conferences are packed with prospective customers, insurers, brokers, and attorneys interested in privacy risk, coverage, and services. Interest is translating into purchases, which we (and many others) have been predicting. Management may still be thinking “it can’t happen here,” but as more events occur that would be covered, more cyber-risk insurance is being bought.

Data breaches continue at a disturbingly frequent rate. We are unsure if this is a result of increased reporting (breaches happened before but were not disclosed) or increased activity by, and effectiveness of, hackers, but it is having an impact on the insurance market.

What might those effects be? Possibly higher interest in coverage as more potential insureds see the frequency of breaches, but also higher premium rates and/or retentions, as the increasing frequency of claims are paid for (and as insurance company leadership sees breaches occurring even at “good” risks).
We also think that insurers will take an increasing interest in helping insureds select and implement improved risk avoidance and mitigation techniques. This approach is similar to the property insurance approach of aiding highly protected risks through rate incentives, education, broader coverage offerings, and the development and installation of protective devices.

We think that a strong influence on the purchase of cyber-risk insurance is the increasing awareness of the value of postbreach response coverage. We have spoken with many chief financial officers, treasurers, and risk managers who are not so sure that the case for liability protection has been made but that can easily see how postbreach costs would be a burden.

But even this seems to be changing. The pervasiveness of breaches has made for an angry affected population and an eager plaintiffs bar. Insureds seem to be more and more concerned that this is translating into more litigation and more likelihood of a major judgment.

Prebreach services in the past were less likely to be a compelling reason for insureds to buy cyber-policies, although excellent information and tools have been available. An exciting new trend to expand prebreach services may provide additional reasons to buy the coverage. We think these services could alter the competitive landscape for cyber-insurers as well as improve their claims experience. As cyber further penetrates the smaller and medium-sized account markets, such services will be increasingly appealing to insureds and valuable to insurers.

Finally, as noted, there are a number of insurers that are offering cyber-risk coverages as an option to another policy, such as a package policy, management liability policy, or some other mainstream product. We did not include these products in this report but have included specific cyber-related questions in our “Private Company Management Liability Market Survey” (August).

An Overview of Data Privacy Coverage

In the data security business, there is a saying: there are organizations that have breaches and know it, and there are organizations that have breaches and do not know it—yet.

We find that most prospective insureds (and their agents and brokers) are most interested in coverage for data breaches. This coverage is found (or is available) in almost all cyber-policies.

Based on our research into privacy exposures and coverage, we have identified the following six key areas that should be considered.

- Types of coverage and limits available
- Coverage provided
- Coverage triggers
- Types of data covered
- Remediation costs covered
- Remediation coverage services

The Types of Coverage and Limits Available

There are three fundamental coverage types: liability for loss or breach of the data, remediation costs to respond to the breach, and coverage for fines and/or penalties imposed by law or regulation.

Liability coverage is pretty self-explanatory—protection for the insured should it be sued for negligence leading to a security breach. Often, the coverage does not explicitly list data breach as covered. Instead, coverage is provided as a part of a more general coverage grant for, as an example,
failing to prevent unauthorized access to its computer system.

Some insurers offer more explicit coverage, such as an act, error, or omission that results in a theft of data from a computer system. Both methods can work, but it is very comforting to see a term such as theft of data included in the coverage grant.

**Coverage Provided**

Coverages fall into the following four categories.

- **Liability**—defense and settlement costs for the liability of the insured arising out of its failure to properly care for private data
- **Remediation**—response costs following a data breach, including investigation, public relations, customer notification, and credit monitoring
- **Regulatory Fines and/or Penalties**—the costs to investigate, defend, and settle fines and penalties that may be assessed by a regulator; most insurers do not provide this coverage, although there can be coverage for defense costs
- **PCI (Credit Card) Fines and Penalties**—includes forensic services and card reissuance costs

**Coverage Triggers**

Coverage can be triggered by the following.

- Failure to secure data
- Loss caused by an employee
- Acts by persons other than insureds
- Loss resulting from the theft or disappearance of private property (such as data that resides on a stolen laptop or missing data storage media)

**Types of Data Covered**

Some insurers specify the types of data covered, others do not. Specific types covered can include the following.

- An individual’s personally identifiable information
- Nonpublic data, such as corporate information
- Nonelectronic data, such as paper records and printouts

**Remediation Costs Covered**

Remediation is an area that is no longer new for cyber-risk insurance (in fact, we believe that it is the primary reason why many insureds buy cyber-risk insurance). This coverage is for the costs of responding to a data breach. Organizations that suffer a data loss may be required to notify their customers with notice of the data loss, which can be expensive. Typically, they may also want to mitigate the negative impact on their reputation by providing credit monitoring services for those same customers. This cost can also be significant.

Remediation cost coverage is now offered by most insurers. It can include the following.

- Crisis management services
- Notification of potentially affected customers
- Credit monitoring
Costs to resecure (that is, make secure again) data

Remediation Coverage Services

There can be great benefit to the insured if the remediation services are prenegotiated and prepackaged—much like kidnap and ransom coverage. Knowing how to respond to a loss can be daunting.

Insurers often offer prepackaged and prenegotiated services provided by third-party vendors. In some cases, the insured is required to use designated vendors. In addition, some policies require the written consent of the insurer to use the services. Finally, a few of these services have a time limit for use, especially credit monitoring.

Security Assessment Requirements

Insurer-required assessments of the prospective insured’s security policies are rare now; the details are shown in the accompanying table. Typically, but not always, any required assessment is free to the applicant.

Such an assessment can be very useful to the applicant, even if they do not buy the coverage. But, if they do, a favorable assessment may help lower the insured’s premium.

Requirements often differ depending on whether it is first-party or third-party coverage, and can also vary depending on the type of business the insured is in. Some assessments are as simple (and easy on the applicant) as a review of its website, while others require an onsite review by third-party firms. Of course, the scale and intensity of the assessment are dependent not only on the insurer’s underwriting philosophy but also the nature and role of the applicant’s business being considered.

Coverage

Property and Theft

The cyber-insurance industry offers property and theft (first-party) coverage and liability (third-party) coverage; some insurers offer liability only, while others offer all. We expect that more insurers will be offering combined property and liability programs as the demand for business interruption and extra expense coverage grows.

First-party coverage protection against denial of Web services (hacker attacks) is still a hot topic due to continuing attacks on leading Internet sites. Most property products cover this risk, although they are subject to negotiation and individual underwriting.

Theft exposures are sometimes not well understood in cyber-risk risk assessments. The potential for traditional theft of money or goods via the Internet is often recognized, but theft or destruction of data, extortion, and theft of computing resources sometimes are not.

We find that insureds are still concerned about the theft of the economic value of intellectual property. This comes from reports, we believe, of increasing levels of industrial espionage by competitors and by governments acting in support of their economic and defense interests.

We have continued our new column to the “Theft (first-party) Coverage” table as well as to the “Exclusions” table to capture the insurer’s coverage position regarding theft of intellectual property (IP). In asking the insurers about this coverage, we emphasized that it references the economic value of IP. Unfortunately, we don’t think that the responses are always accurate and will continue to refine them in our reports. Theft of the economic value of IP is a major breach
exposure, and insureds need coverage. For those interested, further investigation is recommended.

“Theft (first-party) Deceptive Funds Transfer or Social Engineering” coverage offerings of each insurer for losses suffered by the insured because they were deceived into executing a funds transfer are provided in this year’s Report. These are often initiated by an email that purports to be from an authorized executive telling the recipient to transfer funds to a fraudulent account (for example, a “vendor” that turns out to be controlled by the thief).

These coverages are sometimes called social engineering coverage, but we prefer the term “deceptive funds transfer,” as not all coverages are limited to social engineering.

The table includes the following information.

- The maximum limit available
- The nature of the electronic missive covered (i.e., email, text, instant message, phone, etc.)
- Whether electronic funds transfer fraud of the insured’s funds is covered
- Whether coverage is offered for a customer’s loss of funds if they were deceived via a fraudulent communication purporting to be from the insured
- Whether coverage is offered for a customer’s loss of funds having bought from a website purporting to be yours

**Liability**

Traditionally, bodily injury and property damage losses were not covered by cyber-policies, but insurers should be changing their attitudes toward this.

AIG’s CyberEdge PC product introduced coverage that provides bodily injury and property damage protection that may result from a cyber-attack. The coverage is provided on an excess and difference-in-conditions basis (meaning the insured’s other liability policies will pay first, with CyberEdge stepping in where those policies do not cover, subject, of course, to its own coverage terms).

Why might this be important?

- Core commercial policies are more and more often excluding cyber-related claims.
- It adds clarity in coverage for both the insured and the insured’s advisers.

We think this coverage can be important and appealing to insureds and, in 2015, added a table in this report asking the insurers to indicate their position for both direct and contingent bodily injury and property damage coverage available in the cyber-policies. See the “Third-Party Coverage: Bodily Injury and Property Damage” table.

The definition of “insured” differs on many policies, but special requirements can usually be met. Many insurers do not automatically include subcontractors as insureds, although many can provide coverage by endorsement.

The definition of a claim also varies significantly, with some insurers going to great lengths to define a claim and others using wording such as “a demand seeking damages.”

Coverage for liability arising out of alleged media offenses has become a popular addition to cyber-policies. As many insureds and their brokers take cyber-activities to mean “Internet” activities, accompanied by buzz about social networking, questions about coverage for libel, slander, and
intellectual property are increasing. “Where is the coverage?” asks many an insured.

Some coverage may already exist in the personal injury portion of an existing general liability policy, but more specific—and broader—coverage may be obtainable in a cyber-policy.

This report includes a table that summarizes the (optional) media liability coverage that they might offer a cyber-risk insured. It includes the following information.

- Coverage that applies to all types of media or is restricted to social media only
- Intellectual property rights that may be covered

**Claims Reporting, ERP Options, and Counsel**

Each liability policy reviewed is a claims-made form, so extended reporting period (ERP) options are important; look for bilateral extended reporting period wording.

Selection of counsel continues to be a delicate issue with insureds, but, as we frequently see in other new lines of coverage, insurers typically reserve the right to select, or at least approve, counsel. However, some insurers offer an option for the insured to preselect counsel, while others allow selection from an existing panel.

As with all questions of counsel choice, we recommend that insureds discuss and agree with their insurer beforehand on the counsel they want to use.

Generally, insurers can impose the infamous “hammer clause” on lawsuits that an insured may not want to settle. The use of “soft” hammer clauses continues to be prevalent in this product line.

**Specific Coverages Included in Policy**

We have identified 10 specific coverages that may be, but are not always, included in a cyber-risk policy. They are the following.

- Virus
- Unauthorized access
- Security breach
- Personal injury
- Advertising injury
- Loss of use
- Resulting business interruption
- Copyright infringement
- Trademark or servicemark infringement
- Patent infringement

Generally, insureds should be careful to review their exposures to these types of losses and make sure they use insurers that are willing to offer the needed protections. Coverage for patent infringement, for example, is rarely (if ever) offered in basic cyber-risk forms but can be purchased from a limited number of insurers as a separate intellectual property policy (as discussed in the Intellectual Property and Media Liability Insurance Market Survey, April 2016).

**Exclusions**

Exclusions are many and varied, as would be expected; please read those tables carefully. The tables have been simplified by removing exclusions primarily related to technology E&O.

Rather than try to recite them here, the information for each insurer is found in the “Exclusions” table.
Note that we include a question in “Exclusions 1” table, which asks whether the policy form includes an exclusion for failure to maintain security standards. This is an extremely troubling exclusion as it adds an uncertainty to the coverage.

We have spoken with several underwriters about this; our concern is that, while an insured is best served by adopting security procedures, and the insurer should consider those standards (or the failure to adopt them) in the underwriting process, it is hardly fair to the insured to make the payment of a claim contingent upon maintaining those standards.

At first, the requirement makes sense—it is good for the insured, it is reasonable for the underwriter. The problem is, what happens when the standards change, or there is a mistake, and the insured is out of compliance?

For us, the exclusion is hard to accept and dangerous for the insured. An insurer may say that it would never apply the exclusion, but we would not be confident that it will never be applied in the future.

We understand that warranties in the application should be enforceable. But this exclusion goes too far.

**Risk Management Services**

Cyber-related risk management services are an important product differentiator—a very positive development for the insureds, their intermediaries, and for the insurers themselves. Insureds and their advisers recognize the value that these services can bring. And insurers are becoming more convinced of their value in controlling losses. But, these services have a long way to go before they reach their full potential.

We have often commented on the parallels in services between the cyber-insurance line and other lines, especially employment practices and property (highly protected risk particularly). Cyber-related risk management services, while helpful, have been relatively weak when compared with these other lines. This is certainly understandable for a still relatively new line of insurance, especially considering the wide array of potential services (and potentially high cost).

To capture more information about the services that are available to insureds via their insurance purchase (and frankly, to encourage further development of the product), we have an expanded approach in the “Risk Management Services” table.

This table asks for information on the following types of services:

- **Active Avoidance**—This indicates whether the insurer includes products and/or services that help the insured actively protect data from breach or other covered loss (the property analogy would be sprinklers). It is intended to indicate capabilities that act independently to protect against activities that lead to breaches.

- **Prebreach Planning**—These are services and/or tools that help the insured to prepare a contingency plan for use in the event of a breach (think of disaster recovery).

- **Help Line**—This is a staffed resource that fields questions via telephone or email (think of an employment practices liability insurance helpline).

- **Information Portal**—This is a source for information and possibly tools to help in the
management and response to data protection and breach.

- The column “Other” allows the insurer to describe additional types of services provided.

Summary

Cyber/privacy insurance is evolving rapidly in response to high demand, a high level of claims, and an increasing level of threats. Until now, there was little litigation over cyber-policies, but that is beginning to change. Recent court decisions will guide risk managers and their advisers in the selection and negotiation of those policies.

Insurers—especially those with lots of cyber-experience—are refining their underwriting tools, making increasingly valuable risk management services available to their insureds, and helping intermediaries better understand the coverages that are needed.

The market is clearly maturing, with insurers more often insisting on higher retentions for larger insureds and for insureds in retail and healthcare segments. Coverages that were formerly easy to get now require stronger security standards (PCI is a good example).

We see this as generally a good thing, as insurers help encourage their insureds to be better protected against loss. Better-protected insureds, through the positive influence of cyber-insurers, will make for better claims experience, a more stable market, and a safer world.

But there is still far to go; the products too often focus on breach of private data. Coverages need to be broadened to include loss of intellectual property, resulting bodily injury and property damage, and damage to reputation.

Some of these coverages will become more widely available, we think, as insureds better understand the actual risk and as they get better advice from their advisers.

And more complete value-added risk management services need to be made available to insureds, scaled to their size and ability to use the services, and, of course, to the size of the premium being charged.

Insurers will struggle with filtering out the sometimes-optimistic claims of some cyber-security providers, who rightfully see the cyber-insurance business as a huge opportunity to grow their businesses. But insurers have limited budgets to provide these services, so getting it right will be vital to both the insurers and to their insureds.

We started researching cyber-insurance in 2000; little did we know that the product would be so important, so widely needed, and so fascinating. And there is more to come.
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Richard S. Betterley, LIA, is the president of Betterley Risk Consultants (BRC), an independent insurance and alternative risk management consulting firm. BRC, founded in 1932, provides independent advice and counsel on insurable risk, coverage, alternatives to traditional insurance, and related services to corporations, educational institutions, and other organizations throughout the United States. It does not sell insurance or related services.

Mr. Betterley is a frequent speaker, author, and expert witness on specialty insurance products and related services. He is a member of the Professional Liability Underwriting Society. He joined the firm in 1975.

Mr. Betterley created *The Betterley Report* in 1994 to be the objective source of information about specialty insurance products. Now published six times annually, *The Betterley Report* is known for its in-depth coverage of management liability, cyber-risk, technology, intellectual property, and media insurance products.

More recently, Mr. Betterley created *The Betterley Report Blog on Specialty Insurance Products*, which offers readers updates on and insight into insurance products such as those covered in *The Betterley Report*. It provides him with a platform to more frequently and informally comment on product updates and newly announced products as well as trends in the specialty insurance industry.
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