



Cyber Insurance

Changing Dynamics in a Maturing Market

A look back at our 2016 analysis and predictions

corix
partners



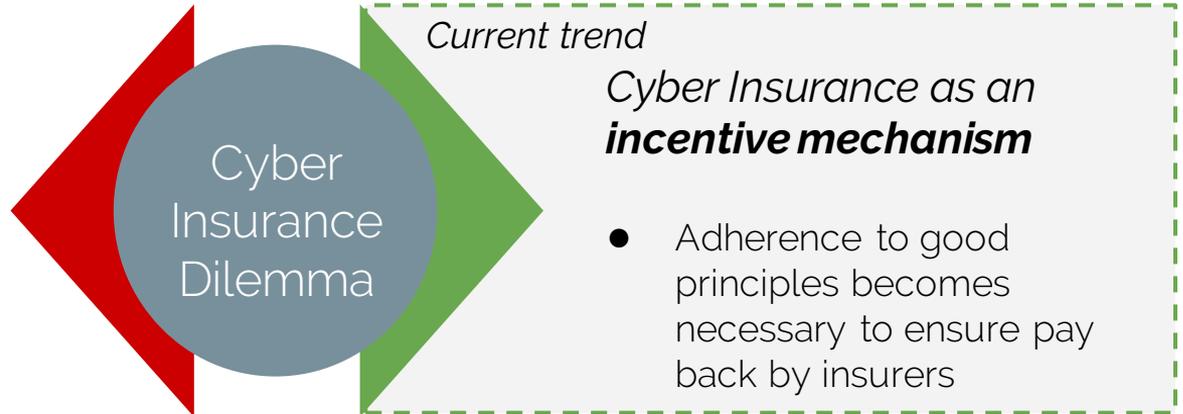
Buyers' behaviors are improving, driven by cyber insurance market evolution

3 forces fostering a market **shift towards better practices** :

- 1 Increased **risk awareness** (notably through GDPR and now the COVID crisis)...
- 2 Development of new cyber insurance **products**...
- 3 **Improved skill levels** among all market players...

Cyber Insurance as a **silver bullet**

- The perceived transfer of total risk and responsibility through insurance prevents behaviors from changing



Cyber Insurance : A consolidating niche



From pure hype to a structured product offering



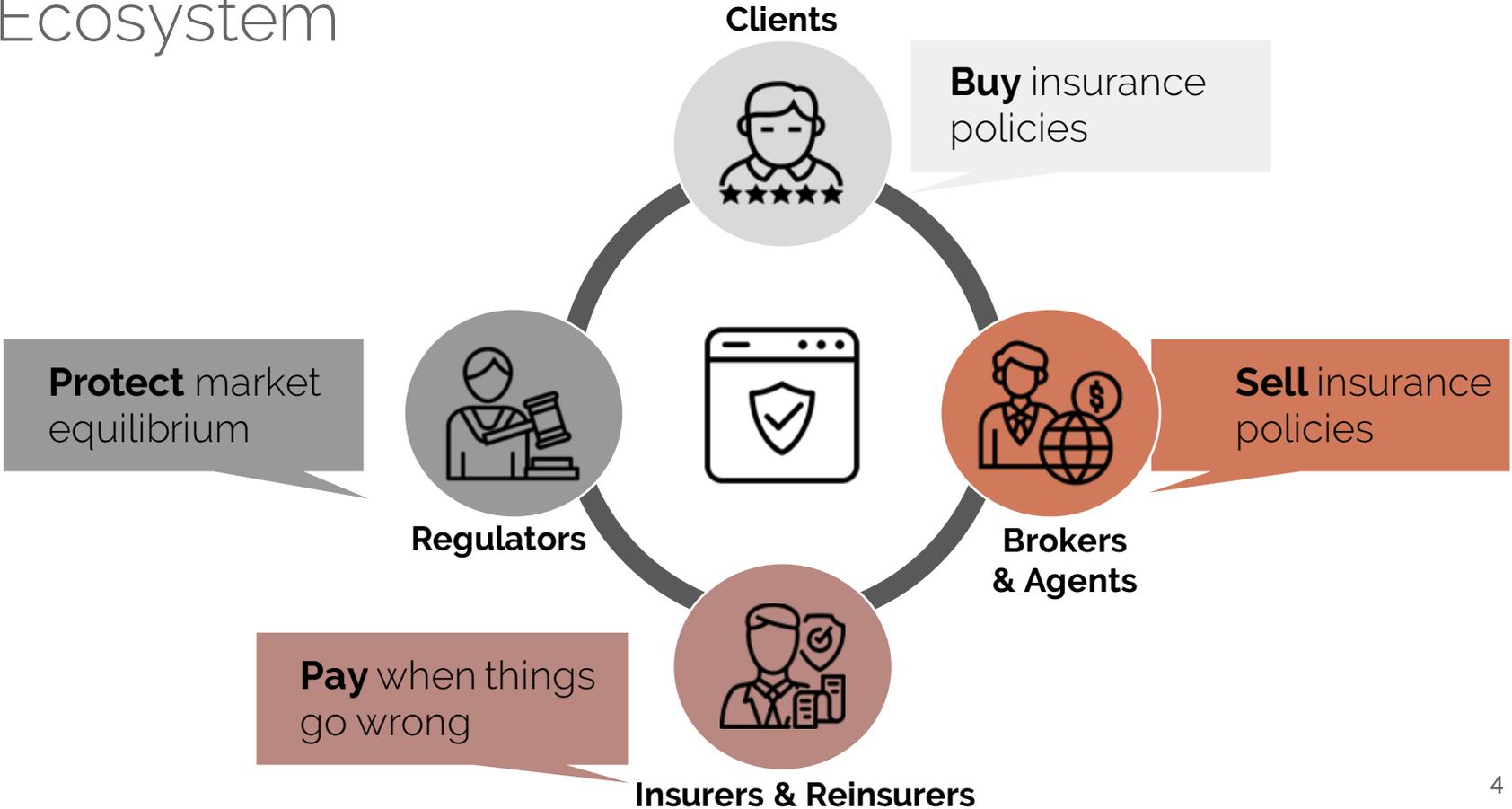
- Cyberattacks have become a matter of **when not if**: Companies – large and small – experience **non-stop data breaches**
- The COVID crisis accentuates the problem by **escalating all types of cyber attacks**, in particular ransomware attacks
- Increase in demand has triggered an improvement in the market offering: Specialist **cyber data teams** have now emerged in many insurance companies
- Risk awareness has increased while sales remained stable
- Yet, cyber insurance constitutes only **8% of policies** sold in the insurance market



But still a niche within the global insurance market



The Cyber Insurance Ecosystem



Cyber Insurance Blockers



Insurers
&
Reinsurers



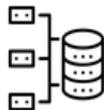
- **Non standalone cyber policies** are still common ground (property, liability...)



- Cyber coverage is now hidden in large number of policies and this **"silent cyber"** issue is one of the greatest problem for insurers, **aggravated by the COVID crisis** which has increased considerably frequency and impact of cyber attacks



- Regulations such as GDPR have forced the market to move by amplifying the **compliance demand from firms**



- Data is starting to **accumulate in meaningful and useful ways** but traditional actuarial models are still struggling to exploit them fully and only the larger firms have the resources to do it

Cyber Insurance Blockers



Brokers & Agents



- While most brokers didn't have data teams in-house when we first analysed the market in 2016, things have changed
 - Big brokers **have built** their own data teams
 - Smaller brokers **outsource** data expertise



- **Value added services** are still included in offerings to avoid the risk of mis-selling but remain separated from premiums



- Market consolidation and competition forces brokers & agents to put pressure on **insurers** to pay the clients but in return comes a stronger demand of adherence to good principles from **clients**

Cyber Insurance Blockers



Regulators



- Financial regulators must avoid the market risks of **mis-selling** and **mis-appreciation** for cyber products, in the **very challenging context** created by the COVID crisis for the Insurance industry at large
 - A fundamental conflict remains between mis-selling risk and systemic risk: Policies that have been mis-sold and cannot be used, cannot engender systemic risk



- The regulatory field is opening up to new players with an increasing involvement from **privacy regulators** (as a result of GDPR)



- Still a significant **awareness gap** exists between industry players (where data teams and structured practices are developing) and regulators (who are still catching up)

Cyber Insurance Blockers



Clients



- Smaller firms still tend to see cyber insurance **as some form of silver bullet**



- Insurers are paying back, yet, as the market consolidates, industry players can increasingly **challenge their client's adherence to cyber security good principles** without killing the market



- Clients will increasingly have to **prove their cyber robustness**, but the question remains how?
 - Independent rating agencies?
 - Regulatory audits?
 - By themselves?

The Cyber Insurance Dilemma

Cyber insurance awareness is developing for **Medium and Large Companies**
BUT
Small firms still have low levels of cybersecurity controls and tend to treat cyber insurance as a **silver bullet**

Clients



Insurers & Reinsurers



Regulators

Brokers
& Agents

Limited ability to act
DUE TO
Conflicting concerns and **lack**
of awareness

An appetite to tap into a **lucrative niche**
LEADING TO
the development of **more mature and**
technical practices and teams

Increasing amount of **meaningful data available**
BUT

Only the larger firms have resources to build and exploit **relevant actuarial models**

Mid Term View :



Maturation as a necessary reaction to cyber attacks



Legal cases continue to drive the market evolution



A Maturing Market which will continue to be driven by Court Cases

- **Non-stop flow** of cyberattacks is still the biggest market driver and the COVID crisis will amplify that
- **The skills shortages** across the industry are starting to be addressed
- **Reliable meaningful data** are building up
- **160k** personal data breaches reported to EU regulators under GDPR between May 2018 and January 2020
- Various high profile cases still unresolved

Conclusion and Recommendations

1

Cyber Insurance Sellers must continue to improve product quality to increase sales

- There is a proportional relationship developing between the **propensity to pay from the Insurer** and the **maturity and cyber robustness of the Customer**
- The market generally is becoming less favorable to **negligent buyers**

2

Cyber Insurers are paying back but buyers must continue to educate themselves and challenge industry players over the mid-term

- Engagement into **discussions** with brokers, **scrutinizing and auditing** offerings is essential to understand properly the insurance products on offer, which remain quite diverse
- All policies will have to become affirmative on the **inclusion/exclusion** of cyber coverage to combat the "silent cyber" risk and buyers should expect to be driven towards **standalone cyber policies**

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Many thanks

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