Cyber Insurance

Changing Dynamics in a Maturing Market

A look back at our 2016 analysis and predictions
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 Dilemma**

**Cyber Insurance as an incentive mechanism**

- Adherence to good principles becomes necessary to ensure payback by insurers
Cyber Insurance: A consolidating niche

From pure hype to a structured product offering

But still a niche within the global insurance market

- 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
The Cyber Insurance Ecosystem

Clients

Buy insurance policies

Produce market equilibrium

Regulators

Pay when things go wrong

Insurers & Reinsurers

Sell insurance policies

Brokers & Agents
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.
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.
Regulators

Cyber Insurance Blockers

- 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)
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

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

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

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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