

Cyber Risk Management and Cyber Liability Insurance Go Hand-In-Hand

— Written By Karrie Hyatt

Last November, internet domain host, GoDaddy, was the victim of a cyberattack which exposed 1.2 million WordPress customers' information. While the domain host was able to contain the attack quickly, the exposure of customer information will have a ripple effect as the cybercriminals can now use the information to infiltrate WordPress customer accounts.

Cyberattacks such as this one can have a huge impact on a company's bottom line and reputation, as well as affecting their customers and third-party service providers. While it's important to be insured for cyber liability, it is just as important to have a fully implemented cyber security plan. Especially, as the insurance market for cyber liability tightens, exclusions become more prevalent, and premiums continue to skyrocket.





Kirsten Bay, cofounder and CEO of Cysurance, said, “In the beginning, companies really relied heavily on insurance versus security controls to manage the cyber risk. I think the most

significant gap is that we didn't put enough effort into security. Now, we are proving that with basic controls in place, which are constantly monitored, we can drive down insurance losses and business impact.”

Insurance companies are tightening their belts where cyber liability is concerned. AIG announce plans in late 2021 to constrict the terms of cyber insurance policies in an effort to reign in premium increases after they rose nearly 40% globally. According to a Reuter's report, Lloyd's of London has discouraged its syndicate members from taking on new cyber business in 2022.

In the third quarter 2021 Commercial Property/Casualty Market Report, released by the Council of Insurance Agents & Brokers, cyber liability premiums increased by 27.6% over the previous quarter. This quarter-over-quarter increase has been observed over the last two years. The report attributed the continued rise of premiums in the cyber sector to the increase in cyberattacks, as well as market adjustments as underwriters become more knowledgeable about cybercrime events.

Since the rise and increase of cybercrimes over the last two decades, insurance policies have often been the default mechanism for coping with a cyberattack. Insurance coverage was effective for early one-off Trojan viruses and phishing scams. However, with the advent of more sophisticated attacks, such as Ransomware infiltration events, cyber liability insurance cannot be a one stop solution.

While cyber insurance premiums rise and coverage decreases, insurers are also beginning to require proof of cyber risk management before issuing policies.

Ken A. Crerar, president and CEO of the Council of Insurance Agents & Brokers, said in a statement, "Brokers and clients that take proactive action on cybersecurity risk by implementing stricter loss controls, such as requiring multi-factor identification for access to company systems and employee training, will be at a distinct advantage when it comes to finding robust, affordable cyber coverage."

For Bay, "The term uninsurable risk is becoming such an interesting category in cyber insurance because we're seeing so many companies who are just not being renewed. They're homeless, they've got no place to go."

"Our company does cyber risk management and cyber assessment for mid-market companies because today people don't want to write checks or make investments unless there is a sound foundation dealing with cyber security," said Steven T. Francesco, chairman, CEO, and president of Cohere Cyber Secure, a company providing cyber security services to the financial sector. "We believe that soon all firms are going to have to prove their cyber security to deal with their insurance carriers."

In the 2021 Annual Cybersecurity Behaviors and Attitudes Report published by the National Cybersecurity Alliance, 59% of participants found that online security was easy, while 30% felt that information about online security was confusing. A large percentage (43%) of participants felt that online security protection was too expensive.



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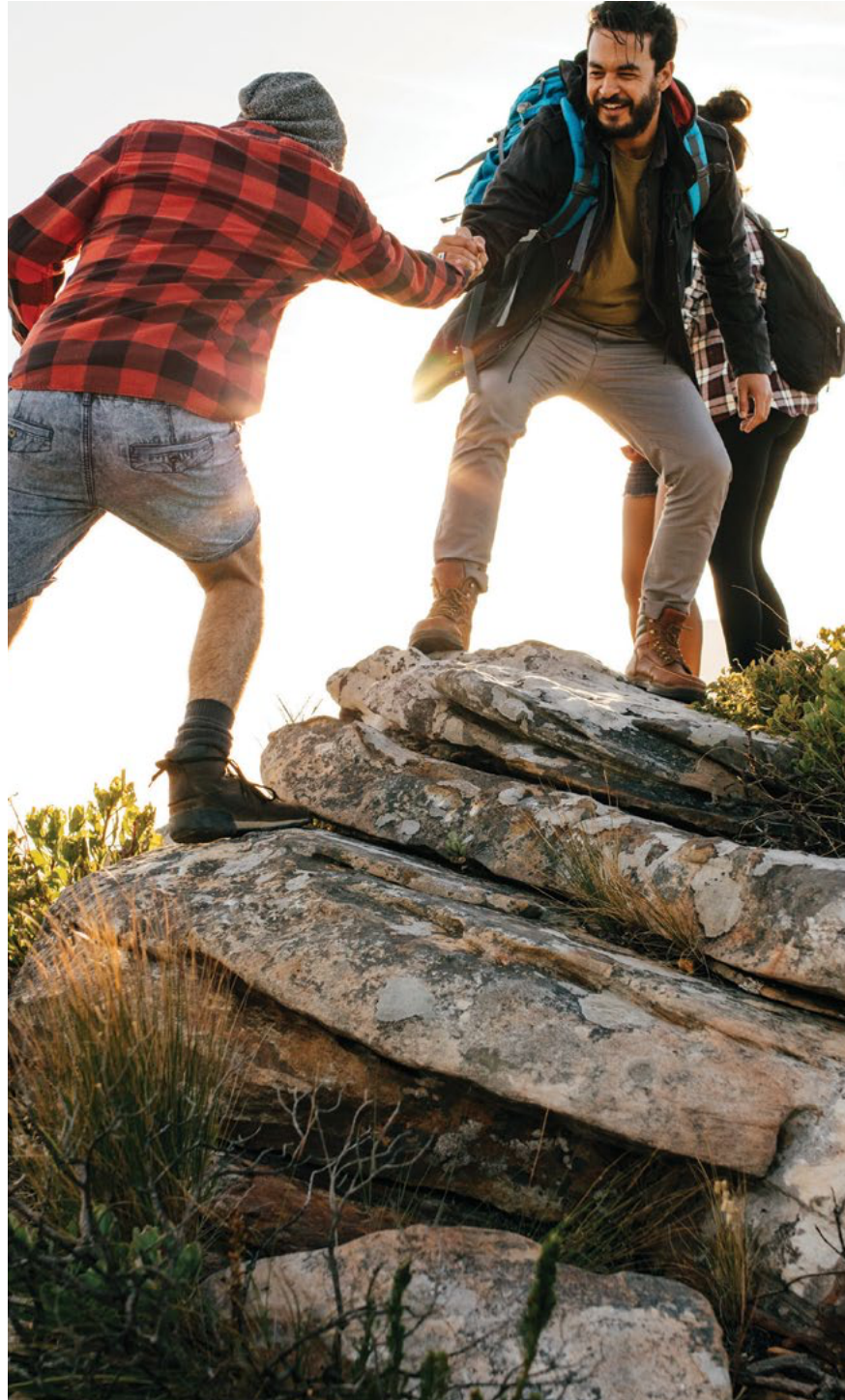
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In the face of devastating financial and reputational losses, so many companies still are not stepping up their cyber security even as they are becoming more vulnerable. For big companies, such as GoDaddy, a cyberattack can have a huge impact their market value, but for a medium or small company, a hit to their business could put them in a situation where they have to shut down for a period of time, or even permanently.

According to a report titled Ransomware: The True Cost to Business, a global study on Ransomware business impact released by cyber security company Cybereason, 31% of businesses in the U.S. that experienced a Ransomware event were forced to close their business for some period of time after infiltration. That vulnerability can be devastating for businesses.

“I think companies that don’t have the ability or the capability to have a strong security posture just feel there is just nothing they can do about cyber security,” said Bay. “What we’re really trying to do is to help people see that security is very manageable, but you have to be proactive.”

She continued, “I call it our cyber seatbelt. Back in the days when seatbelts were first instituted, they had a mass impact on reducing fatalities and injuries in car accidents. It was just that one simple thing. That’s what we need in cybersecurity, that one thing or element or host of them that can reduce cyber exposure. That’s what we’re really trying to help people get across in this conversation.”

Francesco finds that “a lot of folks don’t know how to manage cyber security, as well as the cost of it. Our company deals with people who have real concerns about business exposure and understand their credibility could be at risk if they get infiltrated.”

Captives, with their focus on risk management, can be a useful tool in meeting the challenge of cyber risk both before and after an incident. Insuring cyber risk is important, but without mitigating that risk through security management, businesses are leaving themselves to the mercy of cybercriminals.

“I think companies need to understand the risk versus the reward,” said Francesco. “If they run the firm sloppily and think that an insurance policy is going to save them, they’re fooling themselves. They really need to evaluate their business and then go to the insurance carriers to show all the work they have done. Then ask what kind of policy they can write with all the work done inside of the infrastructure to button it up.”

“For me, it’s really about reduction impact. We know that zero isn’t possible with anything. What we’re really trying to help the market see is that we can either mitigate the risk or reduce impact financially to get the loss ratios back to an alignment that is acceptable to everybody,” said Bay. “Really, what we do is portfolio analysis. We’re building a platform around this so that we have a continuous underwriting model to help correlate security controls to insurability.”

Bay’s company, Cysurance, works both sides of the problem, providing cyber security as well as captive insurance policies for their clients, who are the customers of managed service providers

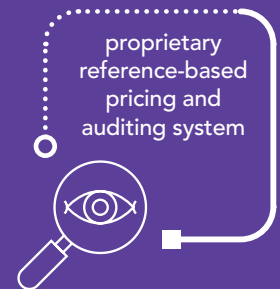
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and security product providers. Bay has found that when talking to potential customers that lack of knowledge about captive insurance can make it a hard sell. “The biggest pushback I get is a fundamental disbelief that it’s possible. They ask, ‘who is your backer, how are you solvent?’ For us, we buy layer upon layer of reinsurance from name brand reinsurers to give our clients comfort, but captive insurance still feels very opaque to a lot of people.”

Bay continued, “I hope we can make people feel more comfortable with captive insurance because it’s the future of risk management. I think this is one of the best ways to soften the market.”

Cyber risk management and solid cyber liability insurance are a two-pronged approach to keep businesses both safe and solvent in the event of a cybercrime. ■

Karrie Hyatt is a freelance writer who has been involved in the captive industry for more than ten years. More information about her work can be found at: www.karriehyatt.com.



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