

# Is That a Worm or a Bot? Cyber Liability Insurance



**PRESENTED TO  
CASUALTY ACTUARIAL SOCIETY  
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**BY**

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# What is Cyber Risk?



- Many answers...too many actually



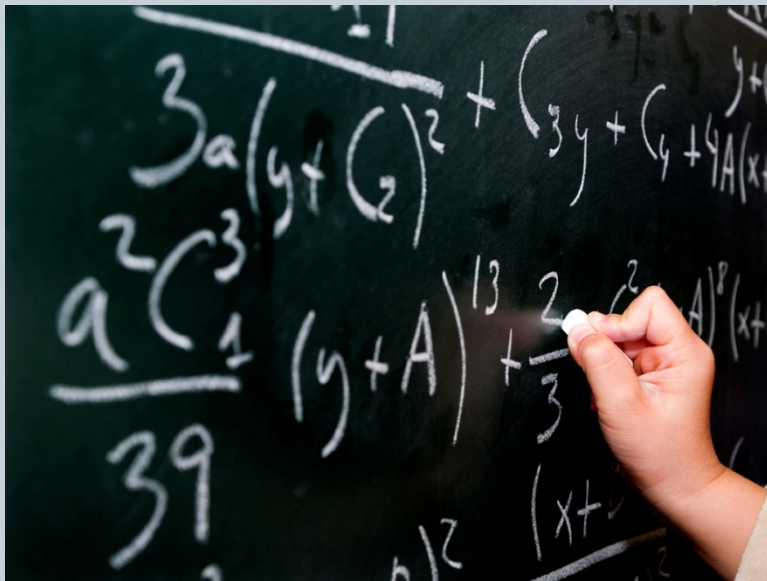
- The inherent risk of reliance on technology

# Cyber Risk



- **Knight Capital**
- **2010 Flash Crash**
- **United Airlines/Continental merger**
- **Facebook IPO**

# How do we Underwrite?



or



# Underwriting



- **Key Factors**
  - Nature of Data
  - Number of Records
  - Industry – Regulatory exposure
  - Use of Vendors with access to Network
  - Contractual Provisions for Data Security
  - IT Security Controls
  - Policies and Procedures
  - Enterprise Data Risk Management position

# Information Gathering



- **Key Sources of Underwriting Info Include:**
  - New Business Application
  - Public filings (new SEC guidance took effect 1/1/12)
  - Sample contracts
  - Loss Runs
  - Google searches
  - Third party security assessments
    - ✦ NetDiligence
    - ✦ Verizon
    - ✦ Symantec

# Where do Losses Come From?



- **Direct Costs:**
  - Notification, Forensics, Call Center, Credit Monitoring, Defense
  - Average cost per record approx. \$1.50 - \$5.00
    - ✦ NetDiligence 2010 Claims Report – actual insured losses
- **Indirect Costs:**
  - Customer Churn, In house investigations, lower customer acquisition rates, supply chain interruption
    - ✦ All business risk loss, so non-insurable

# Melting Pot of Coverage Offerings



- **First Party**
- **Third Party Liability**
- **Occurrence**
- **Regulatory**
- **Loss Control**



# First Party Coverages



- **First Party Coverages**
  - **Network Business Interruption**
    - ✦ Loss of revenues due to an outage caused by a network security breach
  - **Dependent Business Interruption**
    - ✦ “Cloud” provider coverage
  - **Cyber Extortion**
    - ✦ K&R type coverage for data
  - **Data Asset Loss/Restoration**
    - ✦ Costs to replace, restore or reconstruct 1<sup>st</sup> party data affected by a breach

# Liability Coverage Offerings



- **Privacy**
  - Damages from Loss/Compromise of Sensitive 3<sup>rd</sup> Party Data
  - Statutory and Punitive
  - Can cover multiple privacy torts
- **Network Security**
  - Damages to Third Party due to breach of security
    - ✦ Virus transmission, DDoS attack
- **e-Media**
  - Damages to Third Party due to libel, slander, defamation, misuse or misappropriation of trademark, service mark or other IP
  - Can cover software code infringement in some cases

# Expense Coverages



- **Expenses related to a loss of data**
  - 46 states have breach notification laws
  - Companies may elect to provide some form of ID protection
    - ✦ Credit Monitoring
    - ✦ ID Theft Monitoring
    - ✦ ID Restoration
  - Network forensics should be performed
- **Will not provide \$\$ for network security upgrades, improvements or 1<sup>st</sup> party remediation costs**

# Regulatory Coverage



- **Regulatory Defense**
  - Federal and state regulatory agencies and AG's may launch an investigation if breach is large and/or sensitive enough
- **Regulatory Fines, Fees and Penalties**
  - FCRA, FACTA, HIPPA, HITECH, etc... - violations can lead to fines

# Industry Group Coverages



- **Payment Card Industry – Data Security Standard: “PCI-DSS”**
  - Visa, MasterCard, Discover and other card issuers have established this group to self-regulate data security
  - If a merchant transacts debit/credit cards, they **MUST** adhere to this standard
  - PCI can assess fines and penalties for **ANY** breach
  - Highest fine assessed was \$60MM – Heartland Payment Systems, 2010

# The “Cloud”



- **Dependent or Contingent Business Interruption**



# Computer Crime



- **Estimated to exceed International Narcotics**

# Hacktivism



**JUSTICE  
IS  
COMING**

OCCUPY WALL STREET 9/17/11

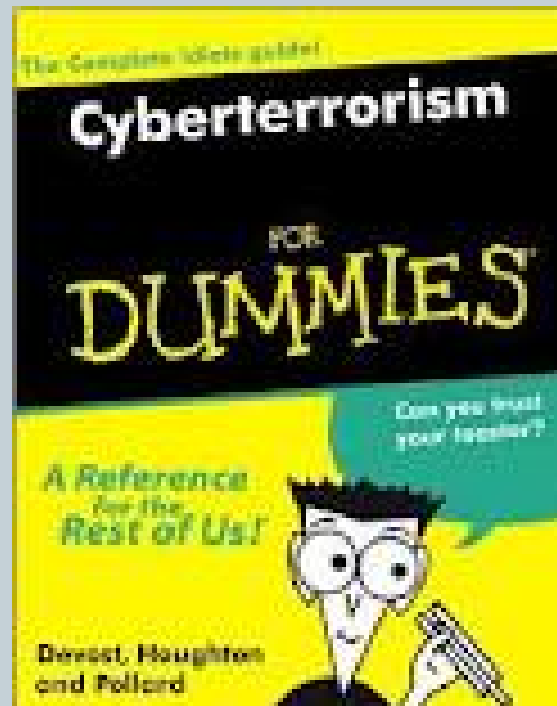




# Cyber Terrorism



- Rise of the 9-5 government hacker



# Conclusion



- **The risk is real**
- **The risk is underwriteable**
- **Losses are being incurred**
- **Coverage terms are becoming more standardized**
- **ALL companies have exposure**

# Questions



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