RISK STRATEGIES

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CYBER RISK OVERVIEW

April 10th, 2018

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PANELISTS

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- Gareth Tungatt, Ascent Underwriting

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AGENDA

- Threat Landscape
- Regulatory Compliance & Legal Issues
- OAAA Member Exposure
- Insurance Marketplace Overview

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CURRENT LANDSCAPE

- Business shift: "Bricks and Mortar" to "Clicks and Orders"
- Supply of cyber-attack tools and stolen personal, credit card, and account information is way up; cost is down
- High profile breaches up (Equifax, Uber, Under Armour, Sony, Target, Neiman Marcus, Home Depot, etc.)
- Rising tensions between U.S. and other nations such as Russia and Iran increasing risk of retaliatory cyber attacks towards U.S. interests

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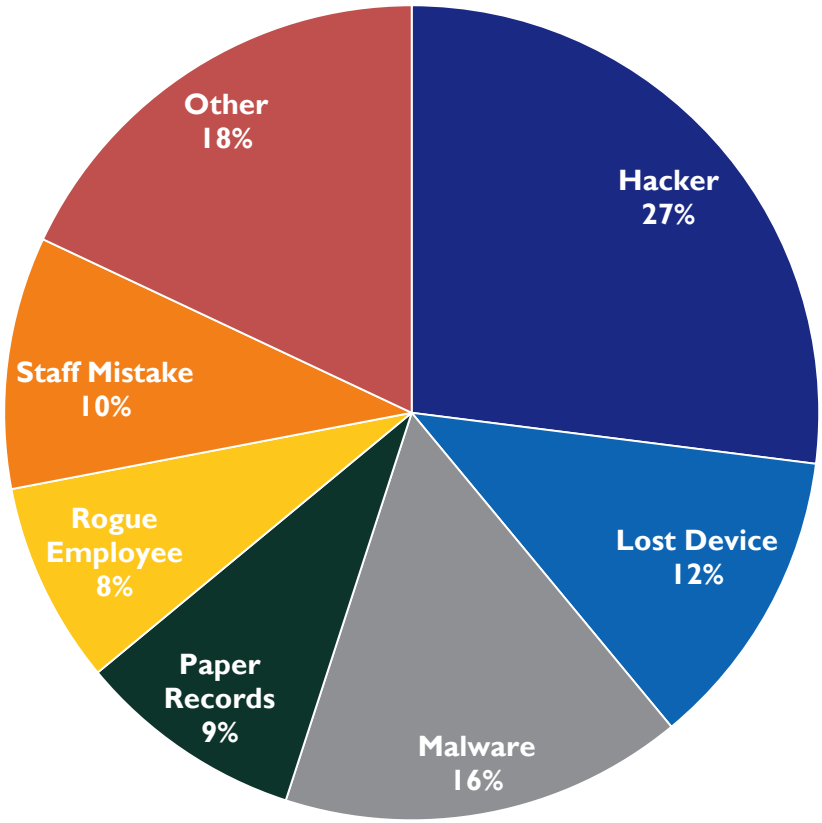
ATTACK METHODS

2017 DATA BREACH TRENDS



Source: NetDiligence 2017 Claims Study

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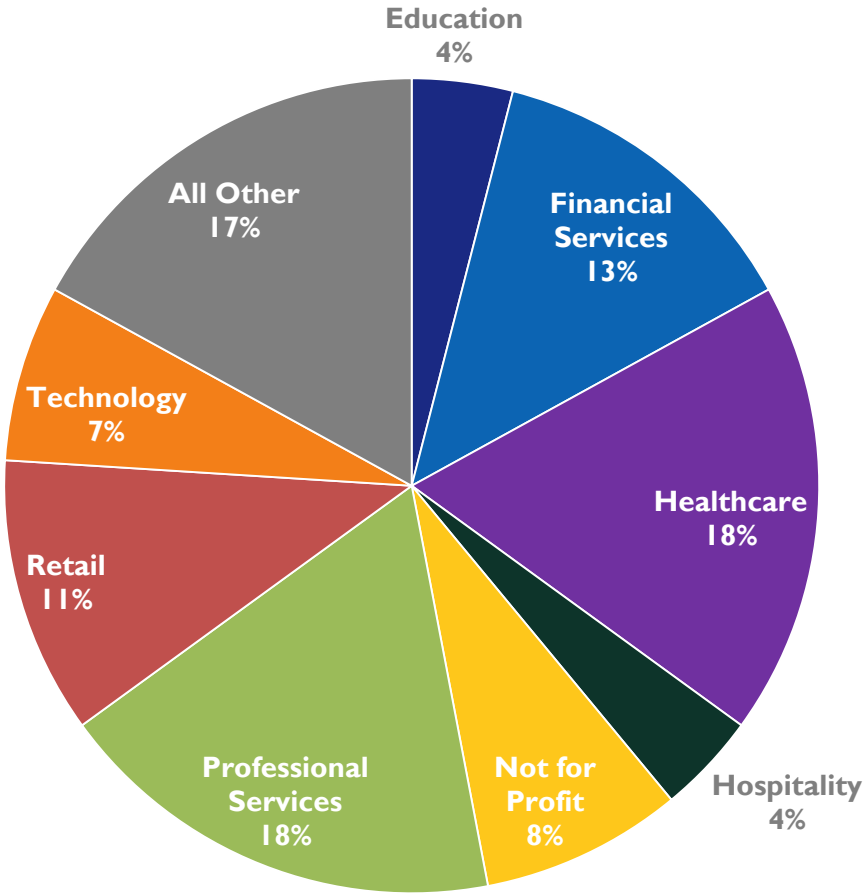

INDUSTRY SECTOR TRENDS

2017 DATA BREACH TRENDS

Source: NetDiligence 2017 Claims Study

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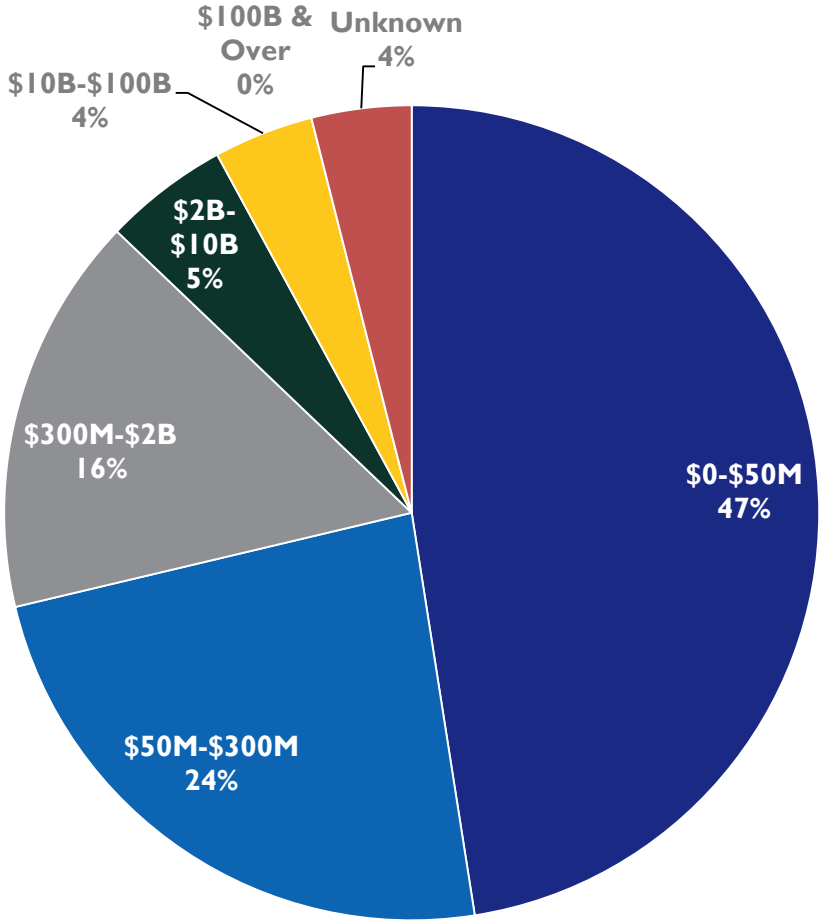
BUSINESS SIZE

2017 DATA BREACH TRENDS



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LEGAL LANDSCAPE

- **Duties Imposed By…**
- State laws (statute and common law)
- Federal laws/regulations
    - HIPAA, SOX, GLB/Red Flags, etc.
- Payment Card Industry (PCI)
- International

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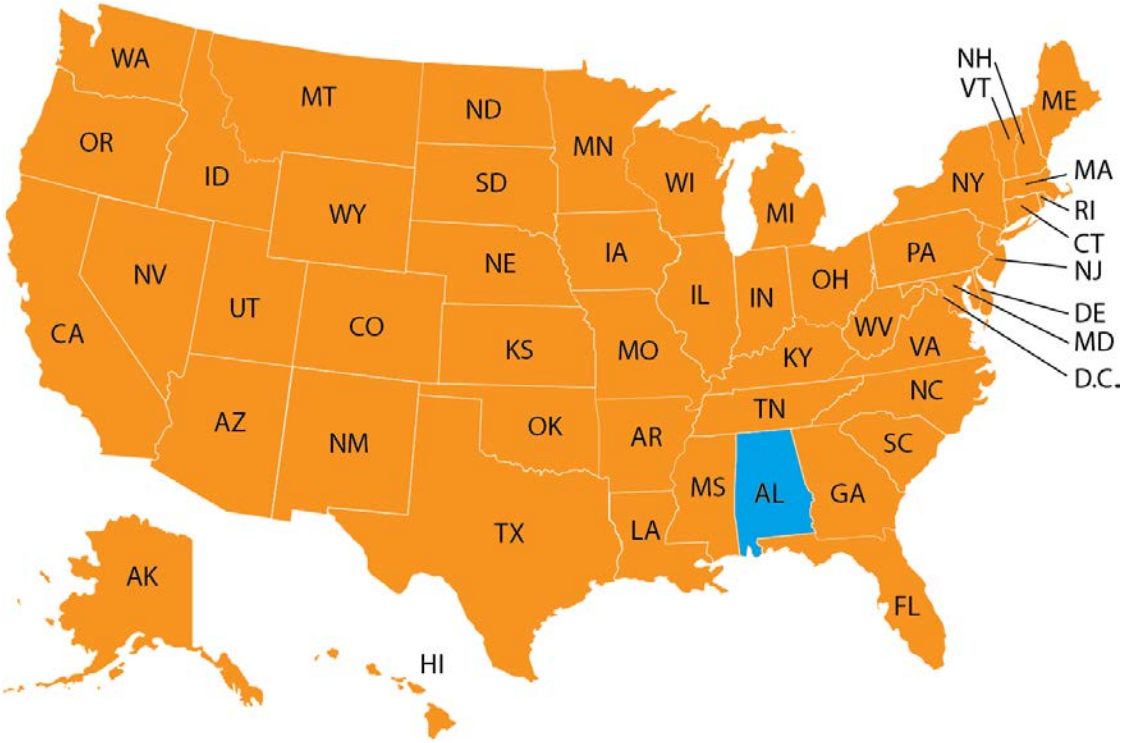
STATE REGULATORY EXPOSURE

- State level breach notice: 49 states (plus Puerto Rico, Wash. D.C., Virgin Islands) require notice to customers after unauthorized access to PII/PHI.
- Require firms that conduct business in state to notify resident consumers of security breaches of unencrypted computerized personal information
- Many require notification of state attorney general, state consumer protection agencies, and credit monitoring agencies
- Notice due "without unreasonable delay"
- Some states allow private right of action for violations



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FEDERAL REGULATORY EXPOSURE

- July 7, 2015 - 47 State AGs write to Congress, urging U.S. to preserve state authority over data breaches
- HIPAA/ HITECH
- OCR unofficially mandates automatic investigation if over 500 affected
- Covered Entities and their Business Associates subject to rules
- GLBA (Financial Institutions) - Privacy Rule suggests notification; Safeguards Rule suggests written security plan
- FERPA (Students) - Federal funding can be, but never has been cut off following violation
- SOX (Publicly Traded Companies) - Requires security controls, and auditors require disclosure if such controls are inadequate
- FACTA (Reuse of credit information) Red Flags Rule requires procedures to detect and prevent identity theft
- SEC (More aggressive cyber role expected)
- FTC
- Approx. 50 privacy investigations since 2002, and dozens of fines ($22.5 million — Google 2012)
- Actively enforcing health care vendor rules (breach reporting for non-HIPAA entities)
- FCC (Regulates communications networks)
- First ever data breach fine (October 2014) ($10 million-TerraCom and YourTel America)

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PAYMENT CARD INDUSTRY

- Payment Card Industry Security Standards Council (Visa, MasterCard, AmEx, Discover, JCB International)
- Requires merchants and service providers to abide by certain protocols to protect customers' credit card information
- EMV Liability Shift
- Payment brands may fine acquiring bank $5,000 to $100,000/month for non-compliance. Banks often pass this fine on to merchant

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OAAA CONSIDERATIONS

- Behavioral advertising
- Wrongful collection
- E-vandalism
- General Data Protection Regulation (GDPR)

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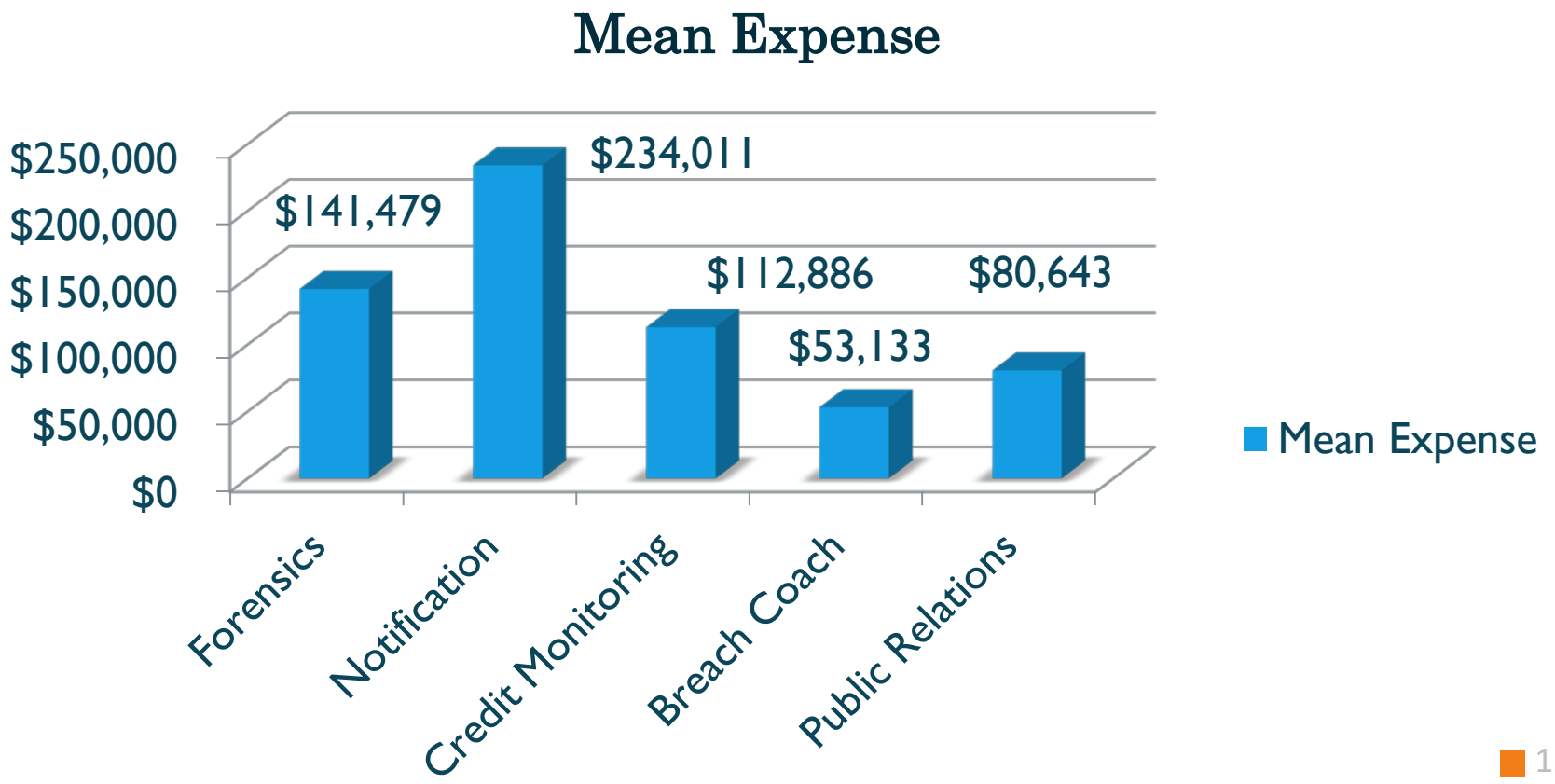
AVERAGE DATA BREACH COSTS



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INSURANCE MARKETPLACE

AIG	Allied World	Aspen	Axis	Beazley
Berkley Cyber Risk	CNA	Chubb	Hartford	Liberty
Lloyd's of London	Philadelphia	Travelers	Starr	XL

Approximately 30 other insurers who offer some level of coverage on either a primary or excess basis

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WHAT IS COVERED?

THIRD PARTY COVERAGES
(NEGLIGENCE)

Security & Privacy Liability

Often includes a Regulatory Action Sublimit

Media Content Liability

FIRST PARTY COVERAGES
(DIRECT EXPENSES)

Network Interruption

Cyber Extortion

&/or

Cyber Terrorism

Data Restoration

Event Management Expenses

Retention Each Claim – from $5,000 to $1M

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UNDERWRITING GUIDELINES

- Policies primarily rated on Gross Revenues & Record Count (The Estimated amount of information collected and maintained by your organization)
- Other application questions look at three major factors-
  - People
    - Culture of security
    - Employee training
  - Processes
    - Information governance
    - How is information stored
    - Who has access to personal identifiable information
    - How does your organization dispose of information
  - Technology
    - Infrastructure
    - Firewall
    - Encryption
    - No intrusive audit of IT systems required

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NOT ALL POLICIES ARE CREATED EQUAL

- Coverage purporting to be Cyber Liability
  - Sublimits offered on other policies such as Property, General Liability, Package Policies, and Errors & Omissions policies
- Not all stand alone Cyber Liability policies are created equal
  - Who is the insurer?
  - Limits being offered for first party expenses
- Breach of Contract Exclusion
- Hammer Clause
- PCI Fines & Penalties Coverage
- Unencrypted Mobile Device Exclusions
- Claims Handling
- Prior Acts Coverage

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TO BUY OR NOT TO BUY?

- Risk Transfer/Balance Sheet Protection
- Useful Risk Management Insight from Application Process
- Access to Expert Vendors on Retainer-
  - Legal Counsel (Data Breach Coach)
  - Forensics
  - Notification/Credit Monitoring
  - Public Relations
- Leverage complimentary and discounted resources from Insurers to enhance Cyber Infrastructure & Hygiene
- Proprietary coverage enhancements and pricing considerations for OAAA members

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THANK YOU

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