

When It Comes to Data Breaches, Why Are Corporations Largely Uninsured?

Under Attack and Unprepared: Argo Group Cyber Insurance Survey 2017

Surprisingly, only 40 percent of small and medium-sized enterprises (SMEs) believe their organization is a potential cyber target. Meanwhile, another 20 percent of SMEs confess that they don't know if their organization might be a target.

These and other confounding insights are among the results of a 2017 study of organizations in the U.S. and U.K. that focused on their preparedness for cyberattacks, the frequency and nature of their cyber incidents, and their cyber insurance policies. The Argo survey also interviewed brokers about their experiences with clients, including customers' cybersecurity preparedness, the nature of their cyber incidents and their attitudes toward cyber insurance.

In summary, the study shows that many SMEs, especially small ones, have not kept pace with the times and taken advantage of the protection provided by cyber insurance.

Companies Are Ill-Prepared for the Inevitable

Overall, the report's results reveal that many SMEs are poorly prepared to cope with the cyberthreats that they face on an ongoing basis. Not only are they overconfident about their ability to handle cyber incidents, but their lack of insurance also exposes them to unnecessary business risks.

Here are five top findings from the report.

- Nearly six in 10 SMEs have no cyber insurance.
- Slightly more than half of SMEs set cybersecurity standards for their suppliers.
- Only about six in 10 SMEs have an internal cybersecurity incident response team.
- Almost two-thirds of SMEs have been the victim of a cyberattack during the last 12 months.
- More than four in 10 SMEs have experienced multiple cyber incidents during the last 12 months, ranging from more than once a year to once a day.

Data breaches, lost or stolen laptops, phishing emails, and other cyber incidents are an unwelcome fact of life for organizations of all sizes. These security events cause business interruptions, result in lost customers and adversely affect a company's business reputation. Many organizations could better prepare themselves for the repercussions of a cyber incident by purchasing insurance. Yet only about one in four of the survey respondents who lack cyber insurance say they are likely or very likely to purchase a policy.

64%

Brokers who report their clients have suffered an increase in security breaches during the last year



Insurance Coverage Varies Depending on Company Size

Insurance coverage varies widely depending on company size, with small SMEs being much less likely to have a policy. For instance, the survey found that:

- 27 percent of SMEs with annual revenues below \$25 million have insurance.
- 48 percent of SMEs with annual revenues between \$25 million and \$100 million have insurance.
- 55 percent of SMEs with annual revenues between \$100 million and \$250 million have insurance.

Main Reasons SMEs Don't Purchase Cyber Insurance

The three main reasons SMEs do not purchase cyber insurance are that they believe their in-house security is adequate, they think insurance is too expensive, and there is a lack of interest by senior management or the board of directors.

However, the saying “You don’t know what you don’t know” applies well to these uninsured companies. And overall, SMEs with cyber insurance are very satisfied with their policies.

According to the survey:

- 87 percent of SMEs say their cyber insurance performs as expected.
- 87 percent say their policy has covered the costs of their security breaches.
- 74 percent of SMEs are satisfied with their coverage.

81%

Brokers who say many of their clients still don't understand the significance of cyberthreats and need to allocate more resources toward defending against them



Cyber Insurance Demand Expected to Grow Despite Hesitation

Brokers expect the demand for cyber insurance to keep growing. They cite the main factors driving growth as the accumulation of cyber incidents and increased regulation.

Currently, more than 60 carriers provide standalone cyber insurance policies, according to the Insurance Information Institute, and about \$3.25 billion in gross premiums were underwritten in 2016. According to “Cyber Risk: Threat and Opportunity,” an Insurance Information Institute white paper published in 2015, some industry leaders expect U.S. cyber insurance sales will at least double during the next several years.

93%

Brokers who say senior management and board of directors need to be more involved with cybersecurity issues

Argo Offers Customizable Policies for Variety of Needs

The decision by the majority of SMEs to not protect themselves – and their customers – with cyber insurance is confounding, especially because the overwhelming majority of survey respondents who have insurance are satisfied with their policy.

Argo has years of experience with cyber insurance, addressing the needs of companies that do not have a policy or want to expand their policy's coverage. Today, Argo has written more than 300 cyber insurance policies with a limit between \$5 million and \$10 million.

Argo Pro Offers Leading Cyber Tech PROtectSM Offering

For the most part, Argo customers' cyber coverage is provided through Argo Pro's Cyber Tech PROtect, which is a privacy, security, miscellaneous professional, technology and media insurance policy. It offers a wide selection of coverage solutions for professional and technology services, and can be customized to meet the insurance needs of companies of all sizes.

Cyber Tech PROtect can provide a maximum capacity of \$15 million in limit.

Cyber Tech PROtect covers SMEs in the most common cyber incidents, including data breaches, ransomware attacks and business interruptions, lost or stolen laptops, and email phishing scams.

Cyber Tech PROtect's first-party coverage includes:

- Business interruption.
- Dependent business interruption.
- PCI assessment, fines and penalties.
- Forensics.
- Notification and call centers.
- Credit monitoring and ID restoration and monitoring.
- Public relations.

Cyber Tech PROtect also provides third-party liability. For instance, it offers liability in the event that the insured is sued by customers for failing to keep data or finances secure and private, or if the insured is sued by financial institutions for expenses incurred as a result of a data breach.



Learn more: www.argolimited.com/argo-pro/product/cyber-tech-protect

Methodology: For the purposes of this study, 150 brokers in both the U.K. and U.S. were surveyed to obtain a detailed understanding of the cyber insurance landscape and gain insight into their selling strategies. In addition, 200 SMEs were surveyed in these two countries to gain an understanding of what they desire from cyber insurance and how their current policies are performing. All interviews were conducted during the course of September 2017.