airmic

The Harsh Market
With a focus on cyber

October 2021

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THE HARSH MARKET

Airmic regularly conducts a series of Pulse Surveys among its members, which is focused on insurance market conditions.

The latest survey conducted in September 2021 focused on cyber, and found an insurance market lagging behind some requirements of members. Premium rates, and the scope of cover and capacity, have disappointed. Although there are approved wordings for silent cyber, this remains a work in progress, and the removal of silent cyber provisions, for example, has left property and professional liability programmes exposed. There has been a perception that the cyber insurance market has inconsistent approaches to capturing and analysing data, with widely varying risk appetites for cyber cover. And whilst progress is being made in cyber risk profiling, the cyber insurance market remains set for further disruption and, in a constantly changing context, collaboration between insurers, brokers and Airmic members is more important than ever.

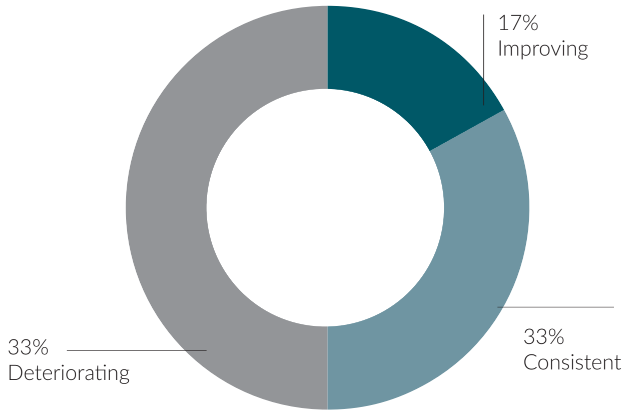
This report is set in the context of a surge in the use of digital technologies by member organisations, and a rise in actors looking for online fraud, intrusion and security breach opportunities. Organisations adjusted at short notice to remote working during the pandemic, accelerating the longer-term trend towards digital transformation, but the pandemic has also created more touchpoints for fraudsters to exploit. The proliferation of ransomware attacks, which are increasing in sophistication and frequency, has transformed the risk of a data breach, through fraudsters accessing sensitive information, which is then held to ransom.

The September 2021 Pulse Survey canvassed members of the Airmic Leadership Group of risk professionals. The survey ran between 9 and 24 September and asked 38 questions. Each Pulse Survey comprises a combination of questions designed to track market conditions, supplemented by a focus on specific subjects. In the latest survey, the specific questions focused on the cyber-related experience of Airmic members.

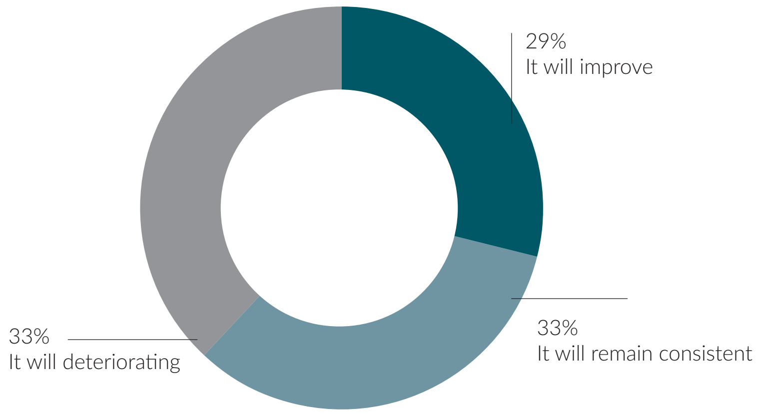
Headline findings include:

- Of those members who buy cyber insurance and have had a claim, all claims related to a ransomware attack and all claims have been paid
- Employee education and email defences are materially the most likely cyber risk controls
- Data breach advisors and security advisors are by a significant margin the most likely first points of contact following a cyber incident
- Premium rates for cyber are rising and increases of 400% have been seen for the first time in these surveys
- Cyber risks are the most likely new risks to be financed by captives
- The market, generally, is still perceived as "hard", but there are green shoots emerging in market conditions, as a number of members report an easing back of premium rate increases and cover limitations, albeit there remain challenges for programme capacity

The insurance market now compared to 2020



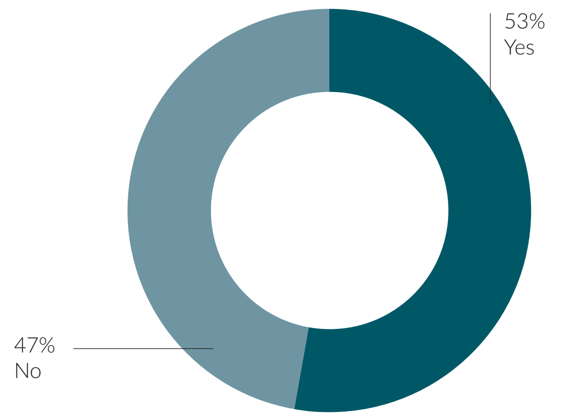
The insurance market as expected in 2022



Cyber

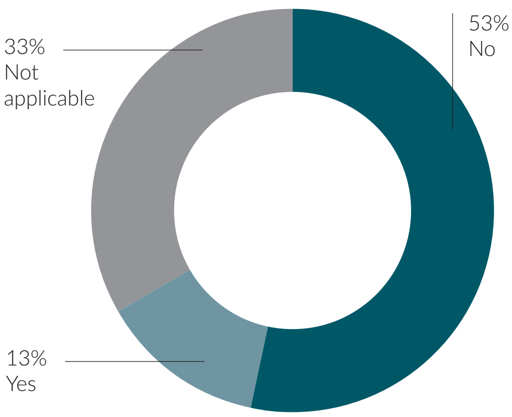
More than half the respondents purchase cyber insurance:

Solutions under the banner of cyber are many and varied, from those designed purely to provide incident response support, to those of sophistication using alternative risk financing models, including captive-backed solutions.



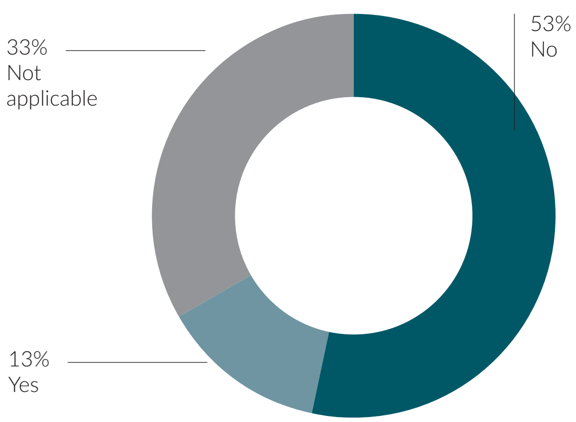
Claims frequency remains low but claims are being paid:

Whilst the sample size is small, the comments are reinforced by wider market comments.



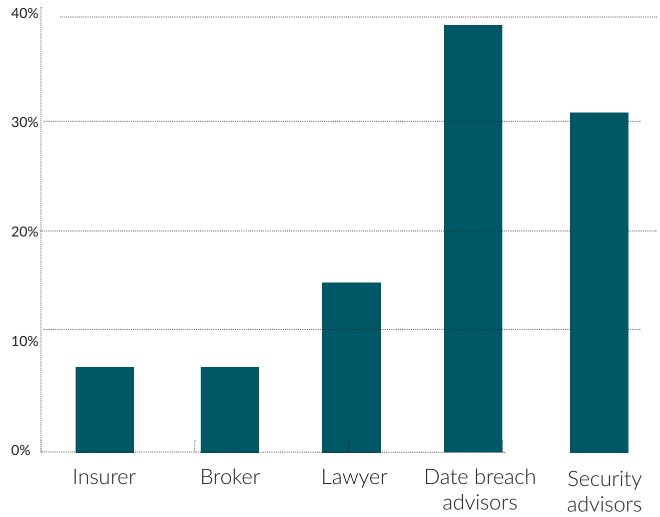
There is room for improvement in cyber response and continuity planning:

Rehearsal of claims events is established practice, and should be embraced in relation to cyber events with a frequency that reflects the changing risk and, as a consequence, claims environment.



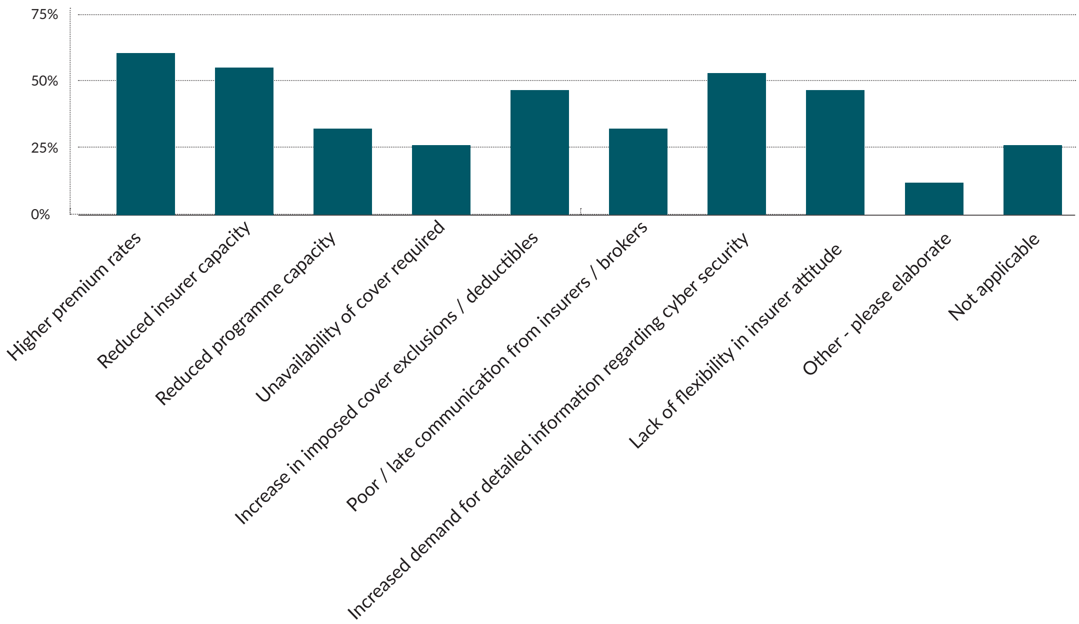
Who you will call first when an event occurs:

Data breach and security advisors are considered to be the 'blue light' emergency services following an event. Providers would typically be pre-agreed with insurers.



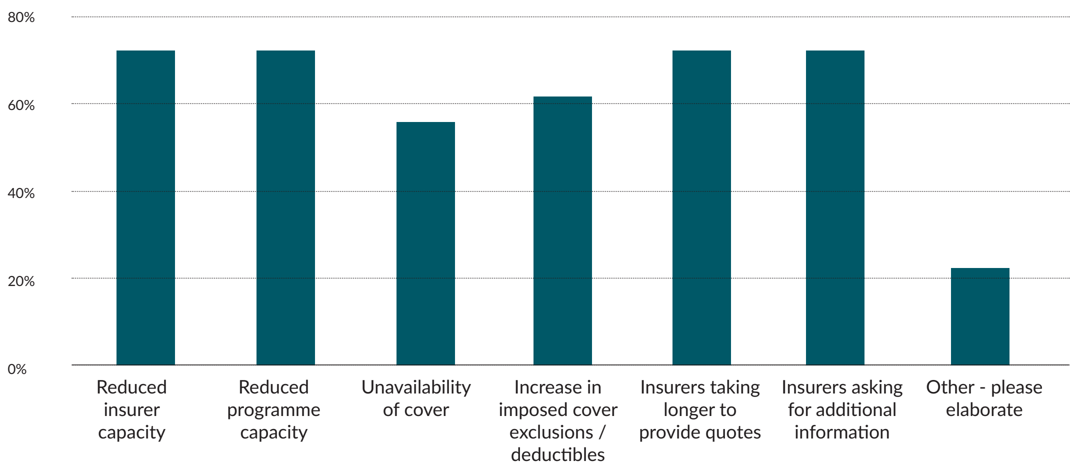
The cyber insurance market – current trends in renewals:

Higher premium rates (60%) coupled with an increase in information required by underwriters (52%) featured as the top renewal trends. Airmic members reported an industry that is overzealous in its quest for information, which some challenged might then have little influence on the cover and pricing of their risk. Insurer reduced capacity, cover exclusions and deductibles, and insurer inflexibility were close behind, indicating that this is a class of cover under pressure.

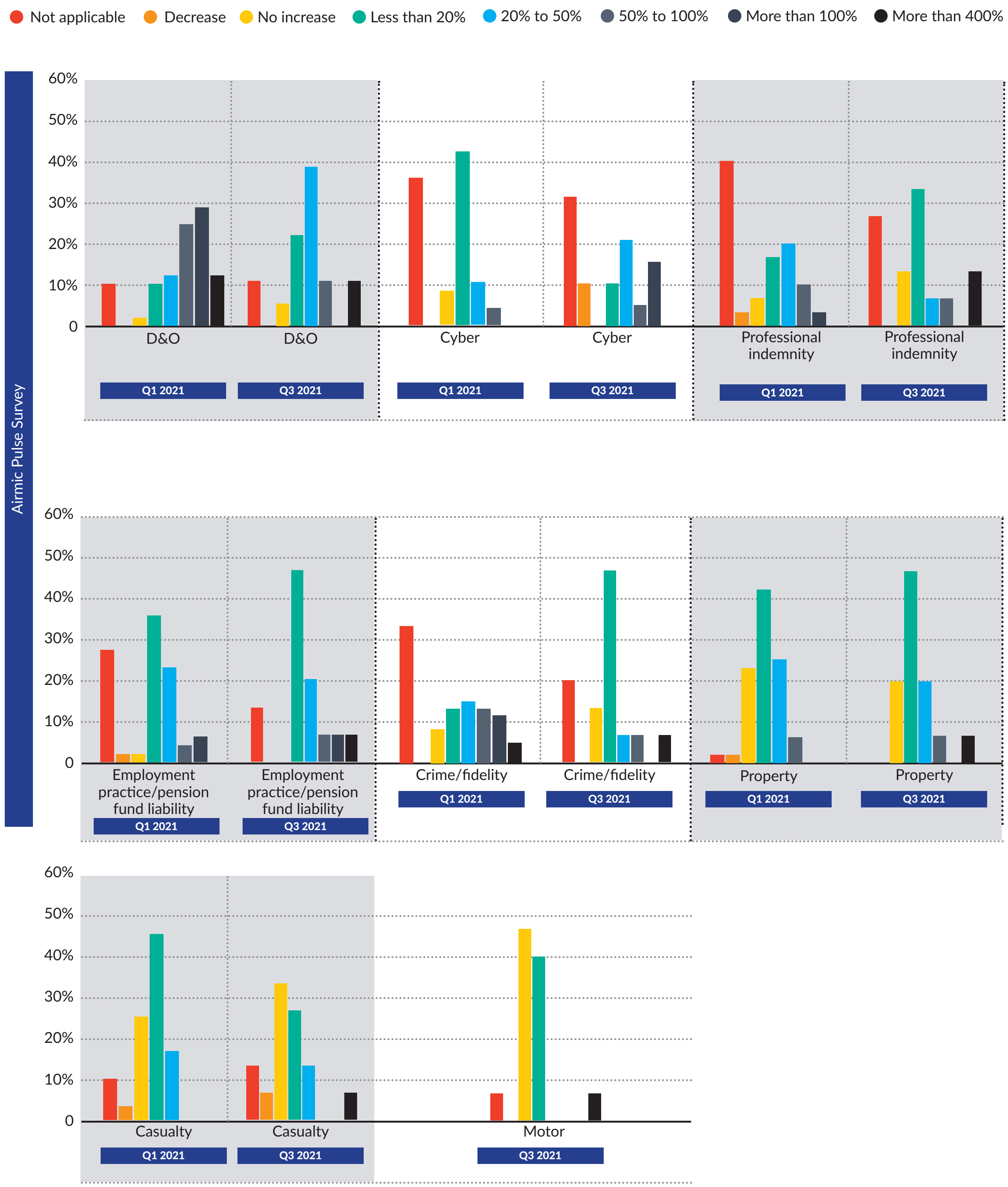


Renewal characteristics seen in 2021

Fewer respondents than in our previous two surveys are seeing reduced insurer and programme capacity, but the unavailability of cover at an affordable premium is still a problem for more than half of them.



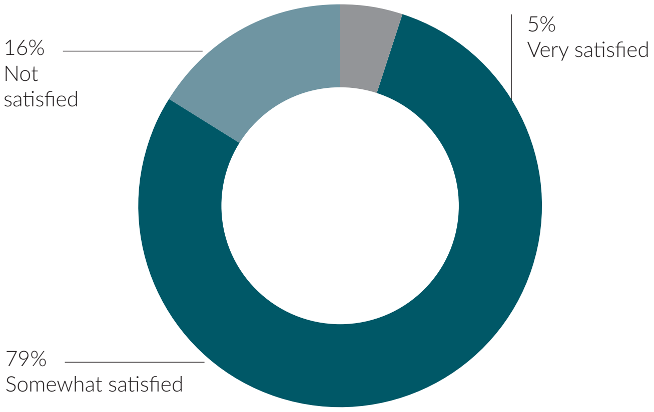
In the following lines, where purchased, what rate changes did you experience if any?



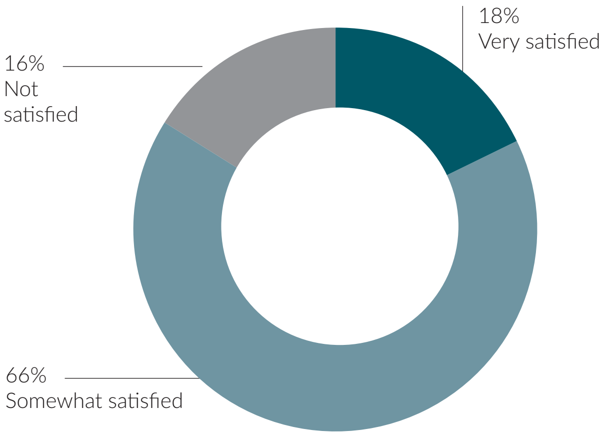
Broker satisfaction pips insurer satisfaction to the post, although it represents a dip from last year's levels. Dissatisfaction levels for insurers and brokers are on a par (16%).

Insurer satisfaction level

Q3 2021:

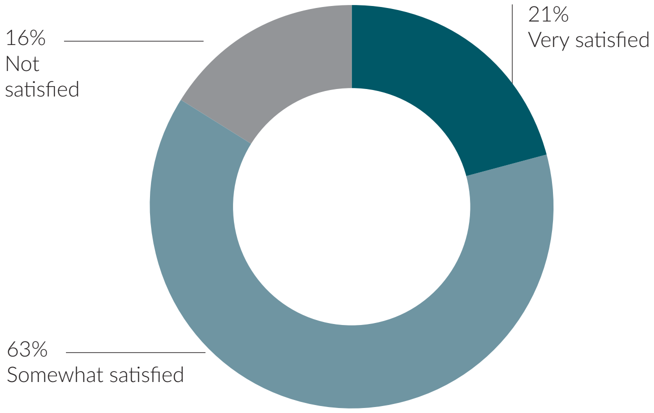


Q1 2021:

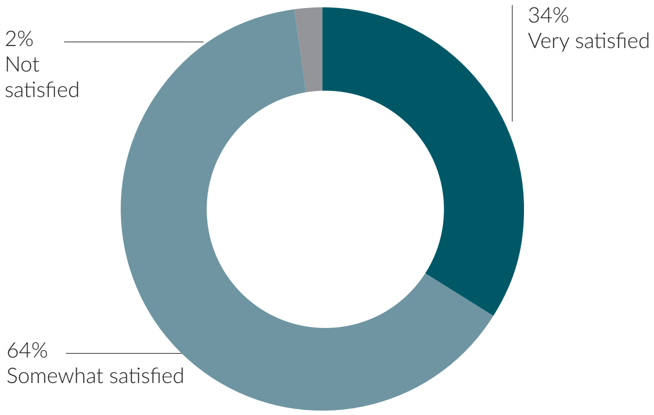


Broker satisfaction level

Q3 2021:



Q1 2021:



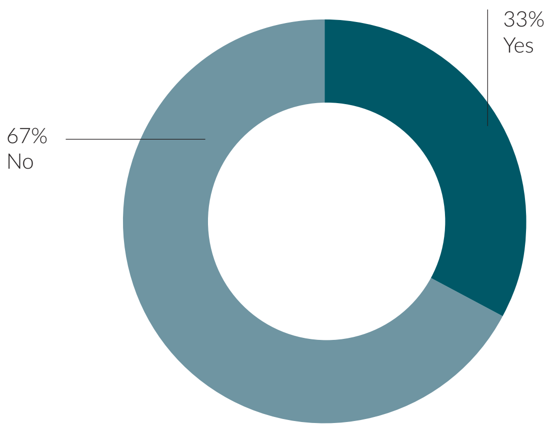
Conclusion

Cyber insurance isn't new. Today, the solutions under the banner of cyber are many and varied, from those designed purely to provide incident response to those of sophistication using alternative risk-financing models, including captive-backed solutions. Airmic members reported an industry that is over-zealous in its quest for information that might have little influence on the cover and pricing of their risk. This cover appears to have a bumpy ride ahead – the connectivity and velocity of the world will doubtless present challenges for the appetite of reinsurers and insurers to take the risk.

While insurers and brokers are under stress themselves, there is evidence that insurers and brokers are developing their relationships with Airmic members as sustainable partnerships. There are still reports however, that communication could be improved, although there are fewer examples of 'just-in-time' renewals.

Looking forward, members highlight future accessibility to cover based on Environment, Social and Governance (ESG) insurer criteria. The writing is on the wall for some carbon-intensive business lines for example, and insurers are flagging that issues may emerge concerning insurability of these in time. There is a call for work to be done on developing principles and a codification of sustainable insurance – the insurer and the insured have a stake in this process.

Is the market showing signs of softening?



The unavailability of insurance for the scope and limit of cover that organisations are prepared to pay for is now entering the risk register of Airmic members as a principal risk – rather than it's more traditional position as a financial risk control.

However, the green shoots of a softening market appear to be sprouting. Will these mature? Time and our evolving world will tell.

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