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Annual Meeting and Public Policy Forum 2016

NOVEMBER 3-4, 2016 ★ CAPITAL HILTON WASHINGTON, D.C.

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The Many Faces of Cyber Risk

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Speakers

- Rade Musulin (moderator)
  - Member of the Academy's Cyber Risk Task Force
- Kevin McDonald
  - Chief Executive Officer at Greystaff Group
- Darin McMullen
  - Cyber Practice Leader at Aon
- Michael Newman
  - Senior Policy Analyst at Federal Insurance Office

The Many Faces of Cyber Risk

Kevin McDonald
Chief Executive Officer at Greystaff Group

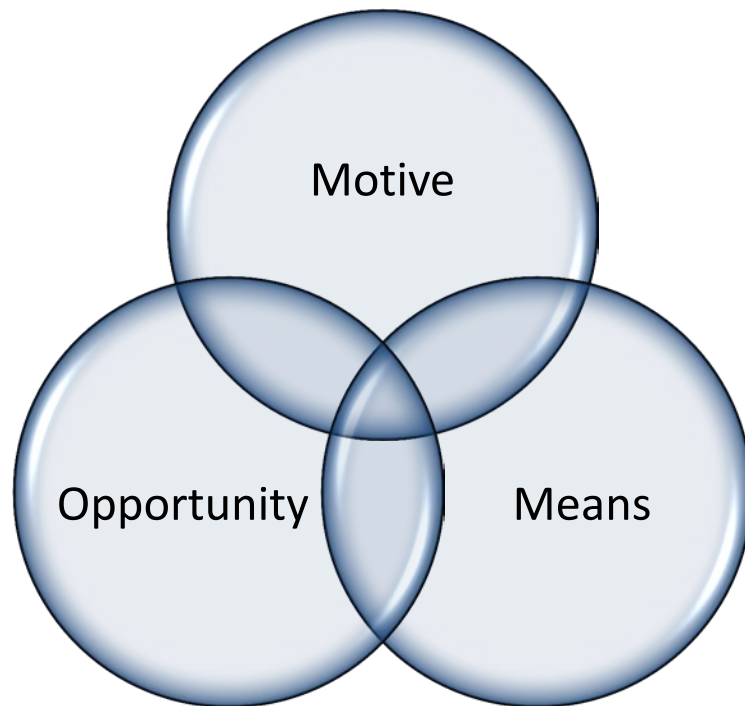Annual Meeting and Public Policy Forum 2016

Cyber Risk Is a Growing Threat

- Data breaches have exposed personal and financial records of millions of people.

- Companies have lost intellectual property through data theft.

- Ransomware has been used to extort health care providers and small businesses.

- Hackers could shut down a public utility and cause massive business interruption.

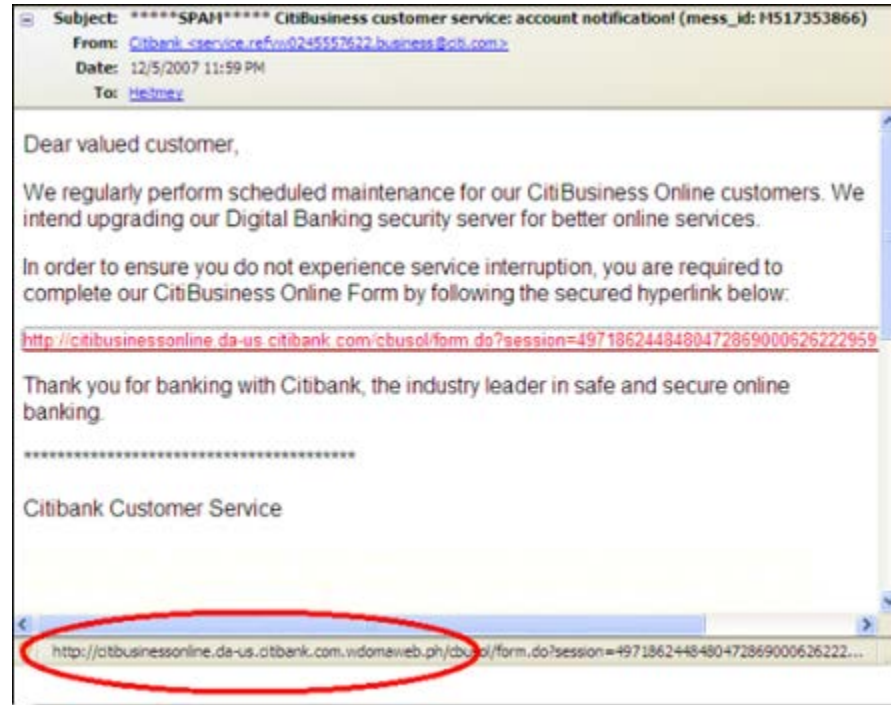Annual Meeting and Public Policy Forum 2016

Enterprise Risk

- Insurers face their own enterprise risk, provide (or exclude) specific coverage for cyber risks, and must deal with substantial latent risk that is inherent in other coverages.

- How does an actuary take all of this into account?

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Cybersecurity: Emerging Threats

Common Attacks – Phishing, Social Engineering, Drive By Infected Web, Infected USBs

Results

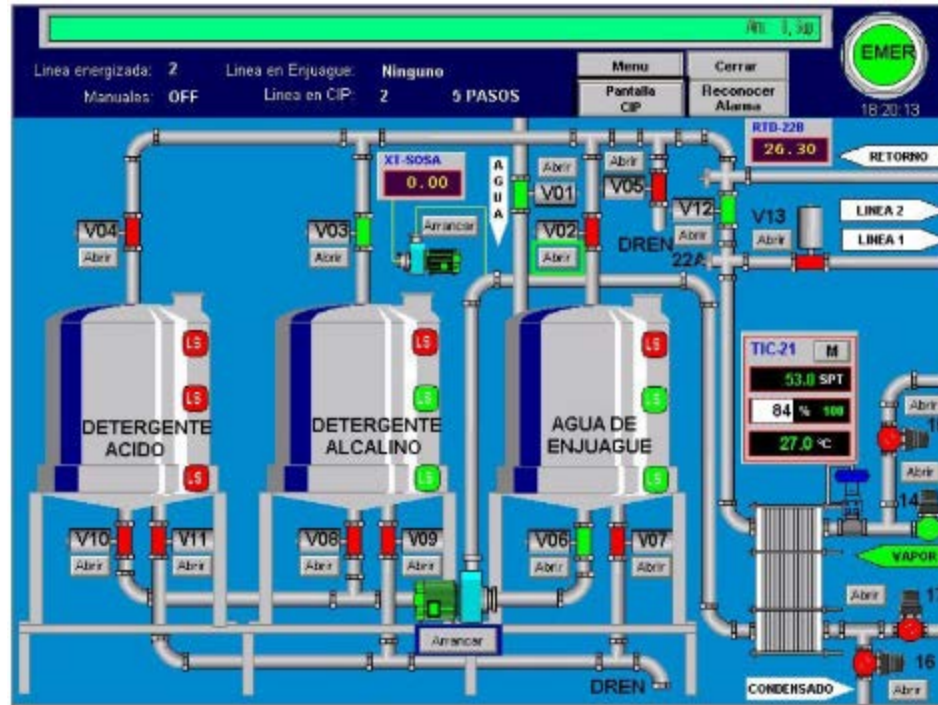Annual Meeting and Public Policy Forum 2016

Or This….

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Or This….

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Collateral Damage from a Large Scale Cyber Attack

Energy/Utilities

Water

Traffic Control

Business
Closures

Cascading Effects
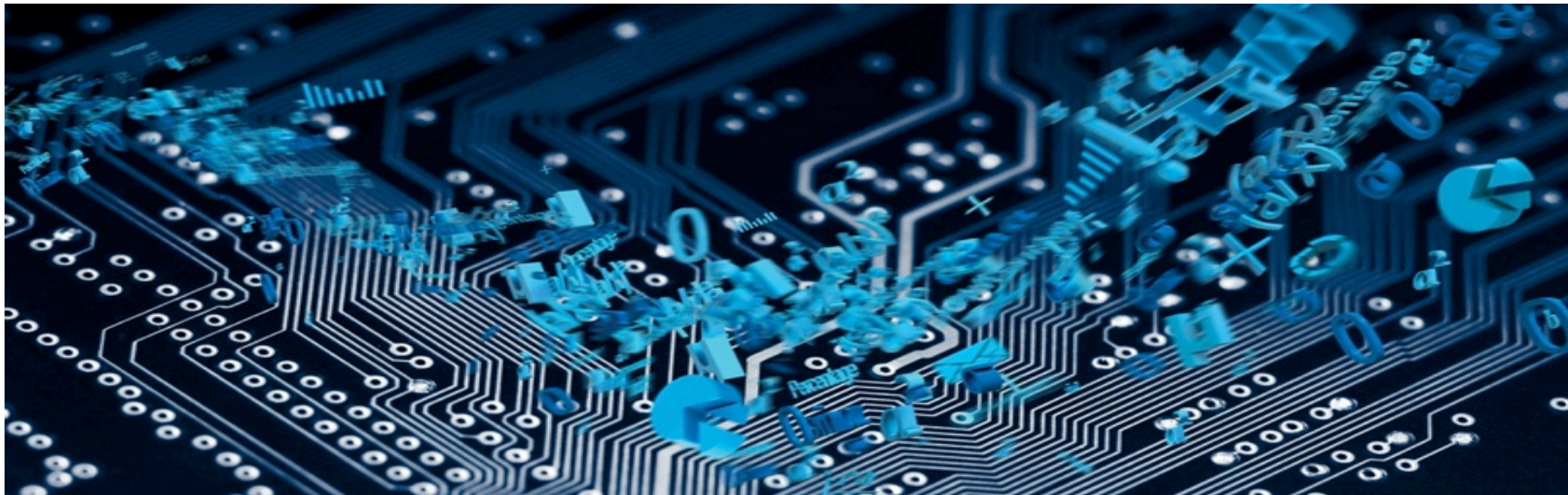
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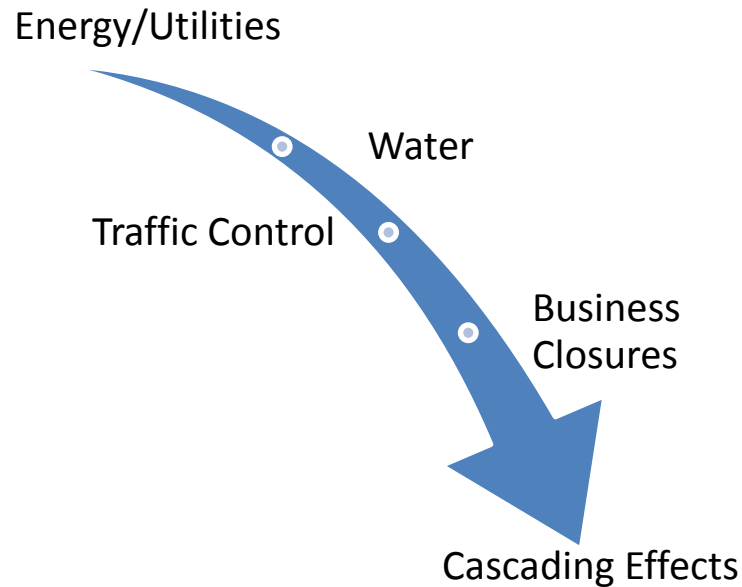
Why are Attackers Successful

- Won't Happen to Us
- Lack of Incentives or Perverse Incentives
- A Great Day When Nothing Happens

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Possible Solutions – Carrots and a Few Sticks

- Grow Cyber Workforce

- Improve Risk Management

- Increase Regulation and Compliance Enforcement

- Leverage 3rd Party Assessments & Insurance Ratings

- Enhance Board Level Incentives

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The Many Faces of Cyber Risk

Darin J. McMullen, Esq.
Aon E&O/Cyber Product Leader

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2016 Cyber Exposure Trends

IoT - The Internet of Things
Smart workplaces
Reliance on technology & increasing automation

Cloud Computing / Big Data Analytics
Increased use of outsourced service providers
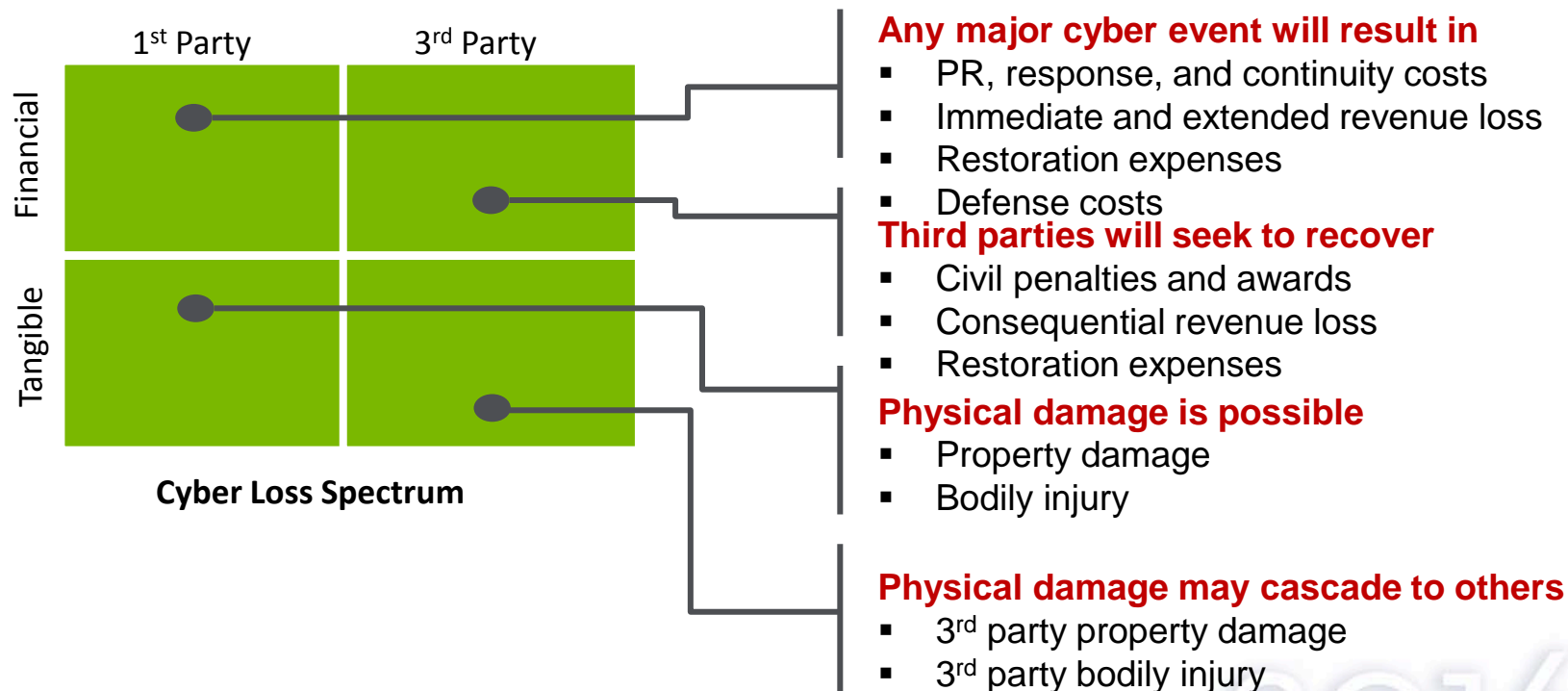Cloud provider risk oversight/security

Social Media
Social Engineering
Phishing / Spear Phishing

Ransomware / Malware / Cyber Heist

U.S. and International Regulatory Environment

Cyber Risk Impacts All Loss Quadrants

Cyber Loss Spectrum

1st Party | 3rd Party

Financial | Tangible

Any major cyber event will result in
- PR, response, and continuity costs
- Immediate and extended revenue loss
- Restoration expenses
- Defense costs

Third parties will seek to recover
- Civil penalties and awards
- Consequential revenue loss
- Restoration expenses

Physical damage is possible
- Property damage
- Bodily injury

Physical damage may cascade to others
- 3rd party property damage
- 3rd party bodily injury

Scope of Cyber Insurance Coverage

Defense Costs + Damages + Regulator Fines

- Failure of Network Security

- Failure to Protect / Wrongful Disclosure of Information, including employee information

- Privacy or Security related regulator investigation

- All of the above when committed by an outsourcer

- Wrongful Collection of Information (some policies)

- Media content infringement / defamatory content

Liability Sections

Insured's Loss

- Network-related Business Interruption

- Extra Expense

- System Failure Business Interruption (some policies)

- Dependent Business Interruption (some policies)

- Intangible Asset damage

First Party Sections

Expenses Paid to Vendors

- Crisis Management

- Breach-related Legal Advice

- Call Center

- Credit Monitoring, Identity Monitoring, ID Theft Insurance

- Cyber Extortion Payments

Expense / Service Sections

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Q & A