



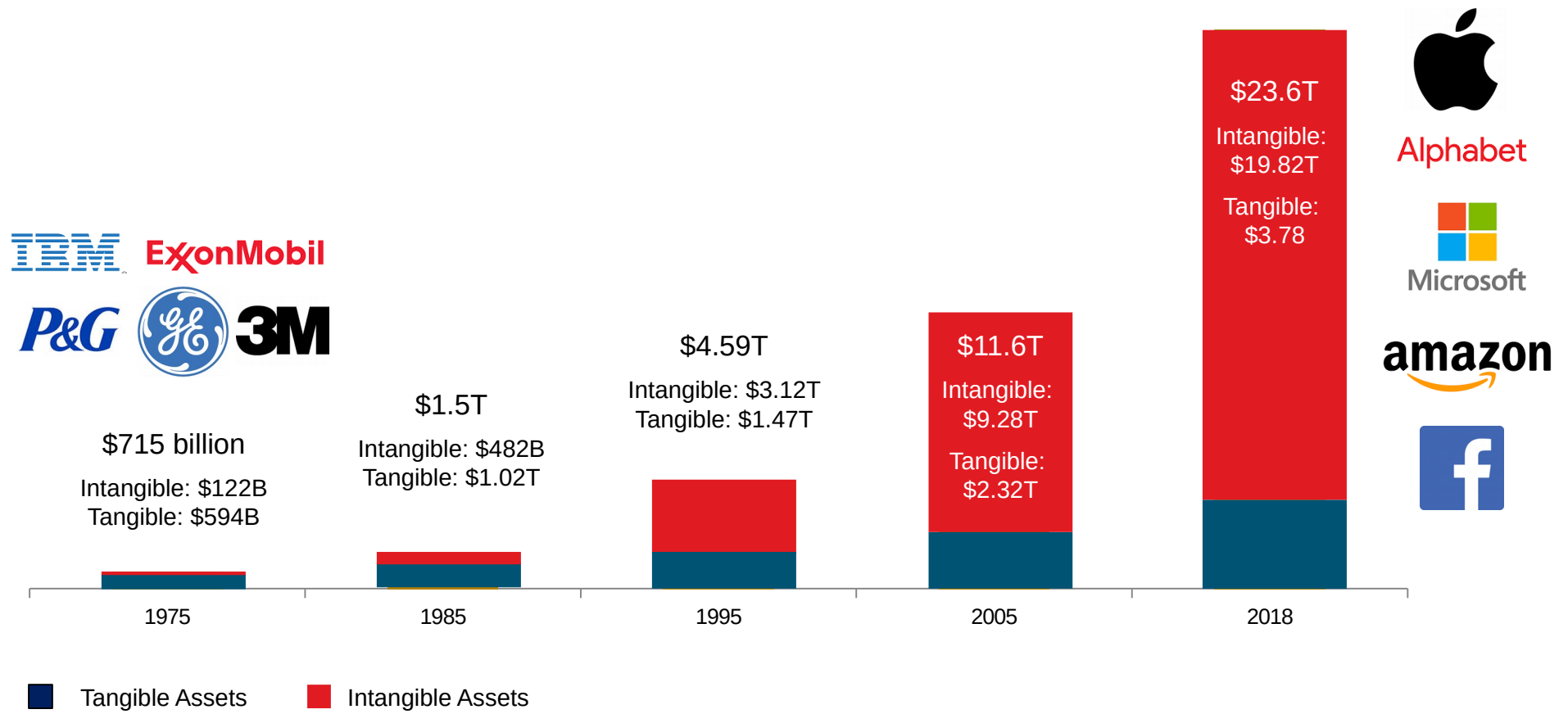
Cyber Insurance and Reinsurance

Maria Horalikova, Aon's Reinsurance Solutions

Srpski Dani Osiguranja
Arandjelovac, 29. novembra 2018

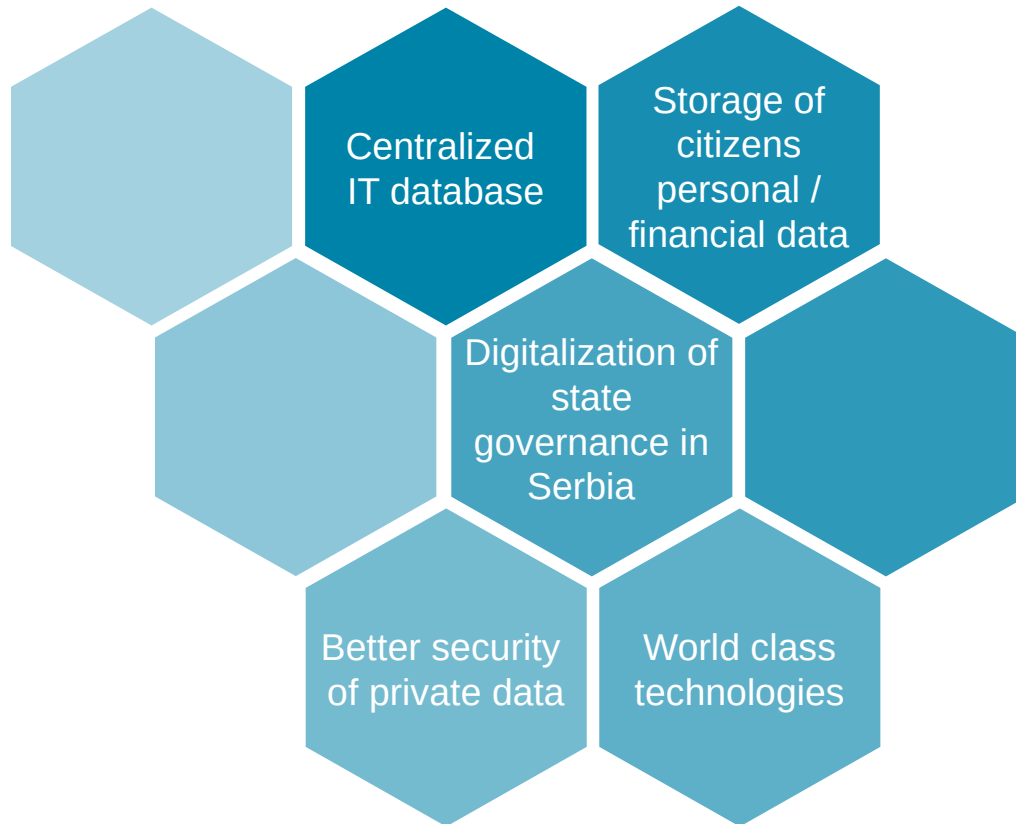
Why Cyber?

Tangible Assets vs. Intangible Assets for S&P 500 Companies, 1975 – 2018



Why Cyber in Serbia?

Serbia is the **second country in Europe** to set up State Oracle Cloud system



> Very advanced IT solution now makes data security even more important for Serbia

Source: www.danas.rs Danas Online 25.09.2018

What is the Cyber threat?

Every business relying on IT and/or confidential data is at risk



Small / medium-sized businesses are targets
They are often used as the 'launchpads' to large corporates

NotPetya – Timeline of an Attack



March 2017
Microsoft released a patch (MS17-010) to mitigate this weakness but patching not always on time



April 2017
Exploit developed by the NSA entitled “ETERNALBLUE” leaked online by the Shadow Brokers Group



June 2017
Entities across the globe suffer ransomware attack identified by Kaspersky as “NotPetya” a variant of Petya



July 2017
Medoc identified as a vector for the spread of NotPetya by Ukrainian Police



EU General Data Protection Regulation (GDPR) – 25 May 2018

Notification requirement for personal data breaches



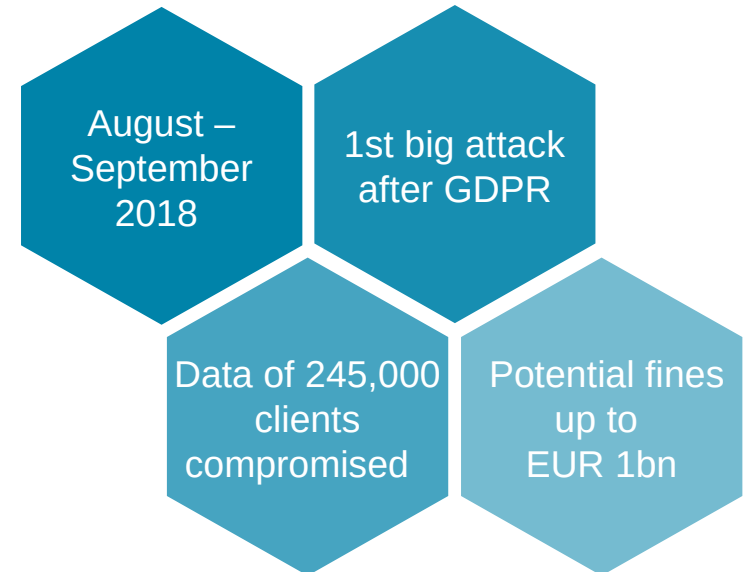
Fines up to €20 million or, if higher, 4% of annual global turnover



New duties for data processors + new rights for data subject



**Not only relevant for EU companies
but also for companies working with EU data**



Hidden Threat of “Silent Cyber”

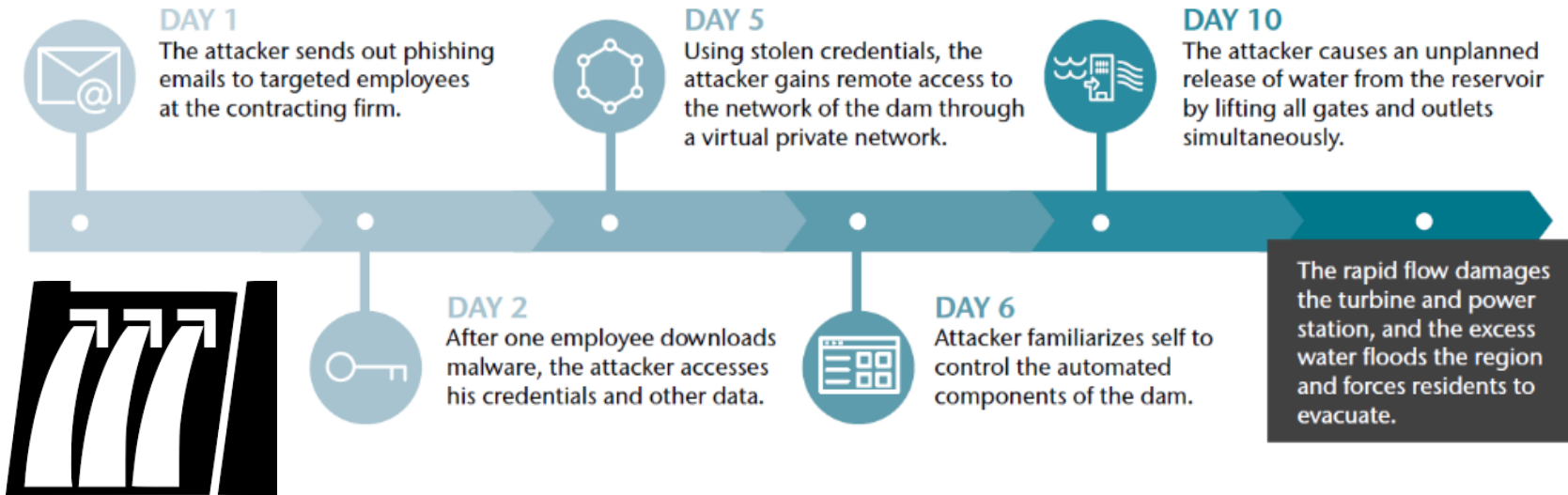
“Silent Cyber” is a Cyber risk not meant to be covered by an insurance policy



- Example: **flood policies**
- Not explicitly excluded or affirmed
- Policy not priced for a flood resulting from cyber attacks

Highest economic loss
USD 56bn

Dam Attack Scenario in the US by Guidewire/Aon: “Silent Cyber” simulation

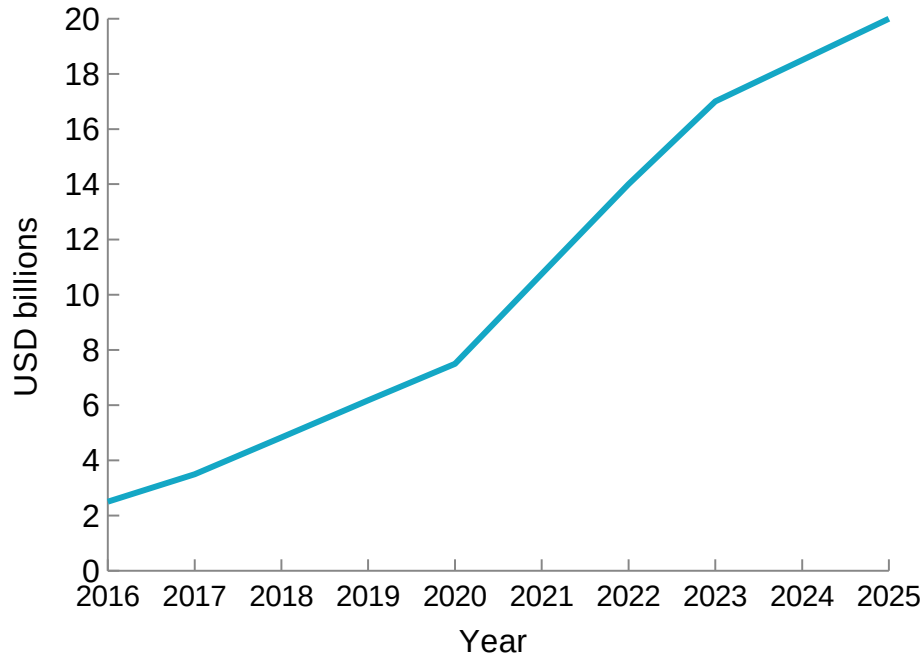


Silent cyber exposures up to
USD 9.7bn

Only 12% of exposure would be insured

The Cyber Insurance Market: Growing up to 30% Per Annum

Est. cyber insurance GWP growth



Sources:

Recent estimates (USD)

2017 \$3.5 billion (Lloyd's, 2016)

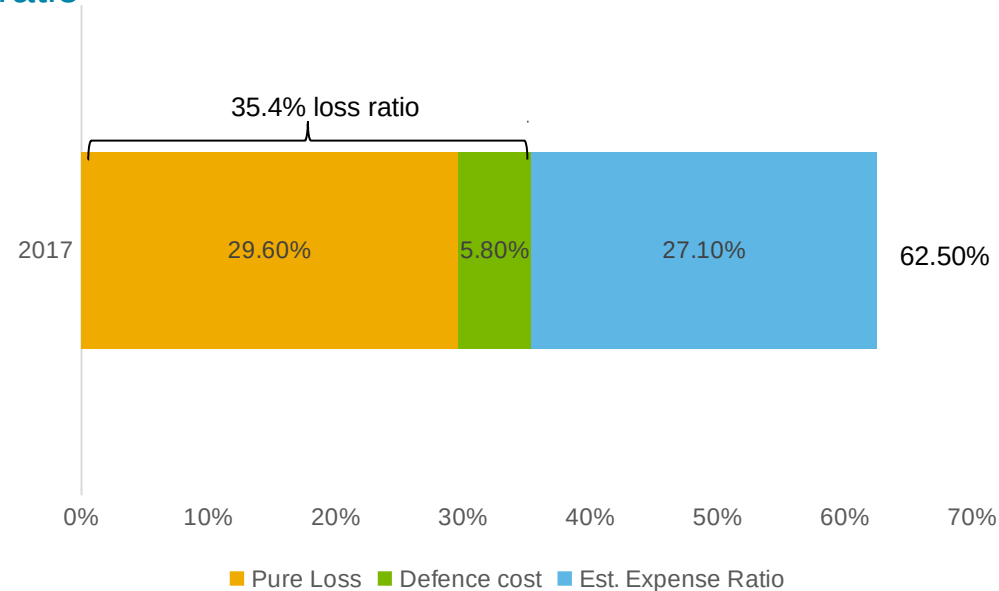
2020 \$7.5 billion (PwC, 2015)

2022 \$14 billion (Allied Market Research, 2016)

2023 \$17 billion (P&S Market Research, 2017)

2025 \$20 billion (AGCS, 2015)

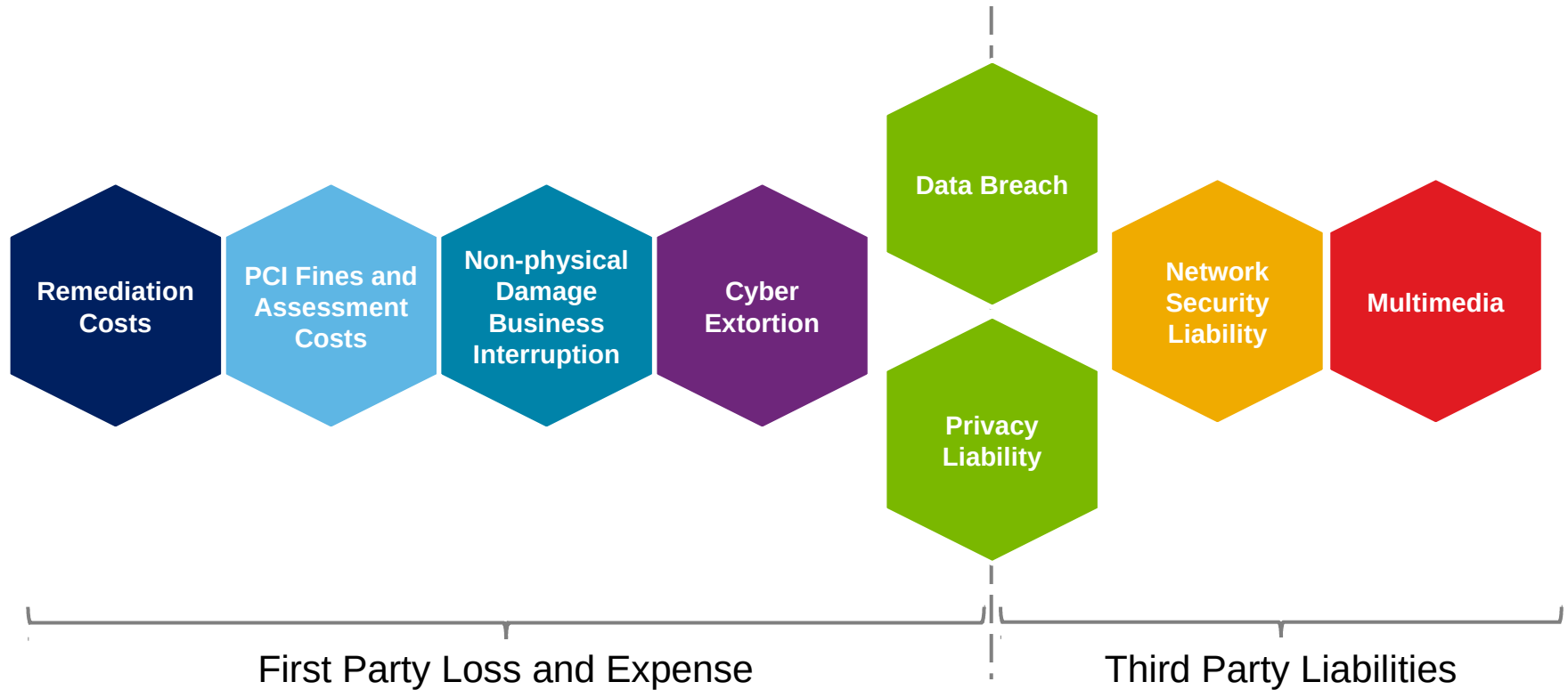
Estimated US 2017 Cyber insurance combined ratio



“ Cyber insurance could soon become [an insured] expectation and insurers that are unwilling to embrace it risk losing out on other business opportunities if cyber products don't form part of their offering. ”

Insurance 2020 and beyond
(published by PwC in 2015)

What do Insurance Products Cover?



The other side of the Cyber insurance proposition: Services



Reinsurance solutions for Cyber

Quota share

Considerations

- Simple, available and sustainable
- Structure can protect volatility of frequency and severity, and systemic issues
- Ceding commissions help offset investment
- Net retained account remains vulnerable to shock loss / run of attrition – consider interaction with net retained XoL / Stop Loss

Aggregate stop loss

Considerations

- Protection for severity and frequency
- No claims bonuses
- Can be bought on the insurer's net retention in conjunction with QS or XoL programme
- Subject to maximum contribution from any one loss & any one original policy
- If bought alone book is still vulnerable to vertical losses

Risk excess of loss

Considerations

- Vertical protection whilst retaining greater share of premium
- Event cap limits
- Reinstatements
- If purchased with a Stop Loss:
 - Price break on the gross stop loss protection
 - Helps to deal with vertical and sideways losses and protects against peak losses
 - Applicable GNPI includes a deduction for overlying reinsurance spend

Evolution of cover

- Cat XL – definition of event
- ILW
- Alternative Capital
- Non-affirmative Cyber exposures

Conclusion

This is a new risk to the market unlike any other

1

The risk is not going away

2

It is in the clients' and regulators' interests that we respond to it wisely

3

It is in the industry's interest to respond to it well

4

Share expertise

5

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