



***Cyber Liability – what is holding a
£5bn market back?***

Syndicated Research Opportunity

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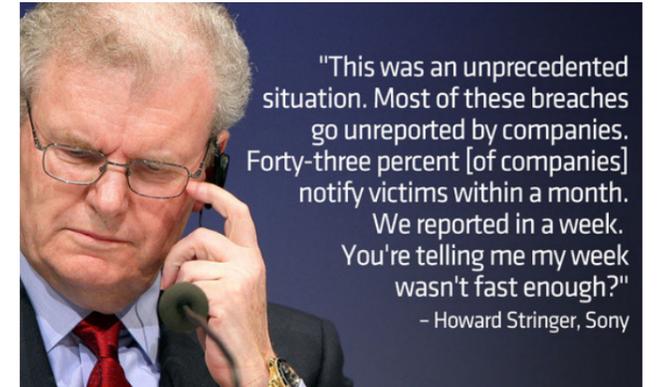
1. Introduction

There is something not quite right, an imbalance, a mismatch between the undeniable need of end users for cyber liability cover and the actual take up of cyber insurance – the appetite is there but the products providers have delivered to date have had a muted reception.

This is evidenced by surveys showing just 6% of SMEs have purchased cyber liability insurance rising to circa 20% of large corporates. Insurance Times as recently as 24 January reports in research conducted by Zurich, *“less than one in five organisation’s (19%) have insurance specifically designed to cover against cyber attacks, despite the fact that over three-quarters (76%) have become more concerned about by information security and privacy over the past three years”*.

Rarely a week passes without reporting of a successful cyber attack from China, loss of data, a retailer’s site being blocked and the company losing money as a result or data breaches by disgruntled staff wanting to have the final say. From the high profile cases such as the Sony PlayStation customer data breach to the inadvertent data loss by Government departments the trends are plain to see. It is not rocket science to see how the risk exposures have accelerated to all those who run and own businesses. Research by Symantec Corporation in May 2010 in a survey of more than 2,100 companies worldwide, found that 73% of small and midsized companies (10-499 employees) experienced a cyber attack in the past year, and that 30% of the attacks were “somewhat/extremely effective”.

Historically, the lack of availability of cyber liability to commercial buyers was a significant factor but in fairness, the market for Cyber Liability insurance has



“This was an unprecedented situation. Most of these breaches go unreported by companies. Forty-three percent [of companies] notify victims within a month. We reported in a week. You're telling me my week wasn't fast enough?”
– Howard Stringer, Sony

evolved appreciably in the last few years as both niche and mainstream insurers clamour to steal a march on the competition in gaining early share of this market.

However, it is also apparent that with so many different ways of writing cyber insurance (some have it as an extension to material damage, others to Liability policies and increasingly others exclude it from standard contracts and have a dedicated stand alone offering covering both first and third party risks), there is probably a great deal of confusion among both brokers and end users about what is covered and how best to cover it and how to overcome the (mis) perception they are already covered. If brokers are unclear then what hope for the end customer?

Is it this confusion and uncertainty that is holding the cyber insurance market back, is it a knowledge gap with brokers or end users, is it something about the product delivery or is it all in the marketing? What is certain is that the cyber insurance market has not taken off despite many of the prerequisite factors from the supply and demand side being in place. Post Magazine (10 January 2013) puts the current market at £500m but expects it to grow to circa £5bn, how can the industry expedite this?

2. Research based insights – information to create change

FWD is planning a syndicated research project that will attempt to ascertain the reasons why there is this mismatch and present a blueprint for growth in the policies sold. It is not designed to be specific to any one single insurer, but to grow the cyber insurance market as a whole by enabling those insurers who subscribe to the study access to insights that have the potential to get the market moving. A 3-stage approach is envisaged to build a holistic picture.



3. Approach

3.1 Stage 1 – Desk research/PBAs

Product benefit analysis giving side-by-side comparison of leading players' policies in the market covering basis of cover, limits and exclusions, deductibles, extensions, quality of documentation, target market, etc.) for the following players:

- Ace
- AIG
- Beazley
- CFC Underwriting
- CNA
- Chubb
- Hiscox
- QBE
- Travelers
- Zurich

This will put subscribers in a strong position to compare their own offering and approach with other market leading propositions, understand the trends in cover design and see where there is an opportunity to gain a competitive edge, all in one digestible format. The syndicate will review and determine the final group of policies to be included in the comparison set.

3.2 Stage 2 – 32 Qualitative depth interviews with brokers and end users

The key objectives are to ascertain:

1. awareness of exposures, risks faced by clients/businesses;
2. needs of both CMT/ non-CMT clients from cyber risks;
3. information and knowledge needs of brokers in selling cyber products;
4. why it has not been taken up/ sold to the deeper extent anticipated;
5. extent to which current options meet requirements, reasons why/why not;
6. what it would take to persuade clients to buy the cover and kick-start the market.

This will cover both brokers active in placing cyber risks and end users in both the (1) technology/CMT sector (2) non-technology clients with an exposure. Sixteen interviews will be conducted face-to-face with placing brokers and 16 with FDs/Insurance or Risk Managers in end users split eight CMT and eight non-technology.



3.3 Stage 3 – Quantitative telephone interviews

The objective here is to put some robust numbers behind the consensus opinions to have emerged from the qualitative stage. So what does distribution look like, what is penetration by type of broker and by insurer, what types of product will be the winning ones going forward, how likely are brokers to recommend certain providers to clients (NPS methodology), and among clients, what is the constraining factor on buying cyber insurance?

This will be achieved by putting a suite of questions on (1) Broking Now! FWD's own panel of 250 commercial insurance brokers covering Nationals, super-regional and provincial brokers, and (2) a compact set of key questions on an SME omnibus study of 500 end users spanning SMEs to mid and large corporates weighted to a nationally representative profile.

4. Costs

Anticipated cost circa £12.5k+VAT per subscriber, subject to minimum four subscribers. Costs will increase pro rata (if fewer than four) or decrease pro rata (if more than four) subscribers confirmed by end of March.

5. Projected Timing

- Confirmations of interest need to be received by end of March 2013.
- Desk research – April
- Qualitative research – April/May
- Quantitative research – May
- Reporting – June

6. About FWD

FWD Research, part of the FWD Group, is a City based research consultancy specialising in Financial Services. Our senior team of director level researchers has over fifty years aggregated experience in the General Insurance sector. We have been fortunate to work with a wide range of dynamic clients including insurers, brokers, banks, IFAs, regulators and industry bodies. Many of our clients work with us on an on-going basis as we provide them with bespoke research solutions. FWD's expertise encompasses ad hoc qualitative and quantitative research, syndicated and desk research in both the domestic and international spheres.

One of our USPs is how the directors conduct all qualitative interviewing personally thereby assuring clients of the highest level of input into debriefs. Combining a wealth of sector insight with carefully honed research skills, FWD supports its clients as they seek to grow and develop their businesses armed with the best market intelligence available.

7. Next steps

If you are interested in subscribing to the project, require more information or a meeting to discuss the potential then please do get in touch asap. Initial soundings suggest demand for subscription to the syndicate is expected to be high. Please contact Ian Winters.



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