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Survey on Cyber Risk – Structured Dialogue with the Industry

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Objectives and background



- **Main objective:** To have a better understanding of the current developments, covering topics such as cyber underwriting strategy, cyber products, and potential build-up of risks, among others

- Fourteen qualitative questions divided in 2 sections:
 - Products and services

 - Cyber insurance underwriting and risk management

- Three-party telephone interviews (EIOPA, NSA and participating company) with 13 (re)insurers (CH, FR, IT, DE, UK)

➤ Pre-overview of the report structure and discussed topics:

1. Executive Summary

2. Products and services

- 2.1 Supply of products and services
- 2.2 Demand for products and services

- What are the main products being offered?
- What are the trends?
- Are demand and supply in equilibria? What is the impact on pricing?

3. Cyber Insurance Underwriting and Risk Management

- 3.1 Pricing Cyber Insurance
- 3.2 Non-affirmative risk
- 3.3 Accumulation risk
- 3.4 The use of stress test scenario

- How is non-affirmative risk assessed and how does the company mitigate such risks?
- How is accumulation of risk estimated?
- Is cyber scenario incorporated within the stress testing framework?

4. Market Developments and Regulation

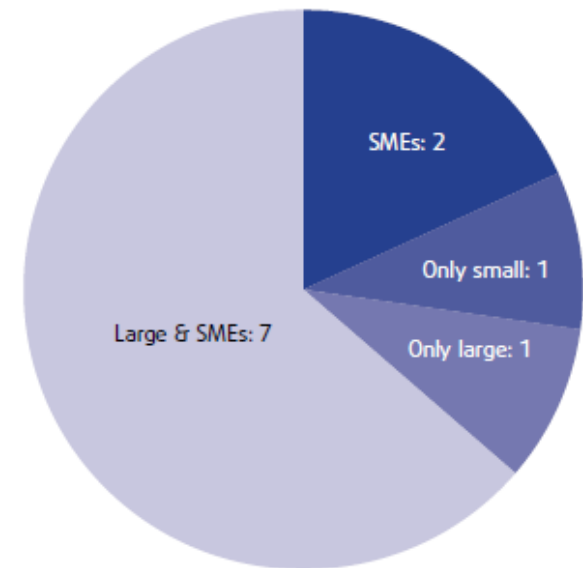
- 4.1 New market entrants
- 4.2 Regulatory practices

- Are new entrants with new technologies a threat or an opportunity for cooperation?
- Major challenges for the cyber insurance sector
- Potential obstacles in the current supervisory framework
- Should the government play a role on cyber insurance?

5. Conclusions

Overview of Supply and demand of products and services

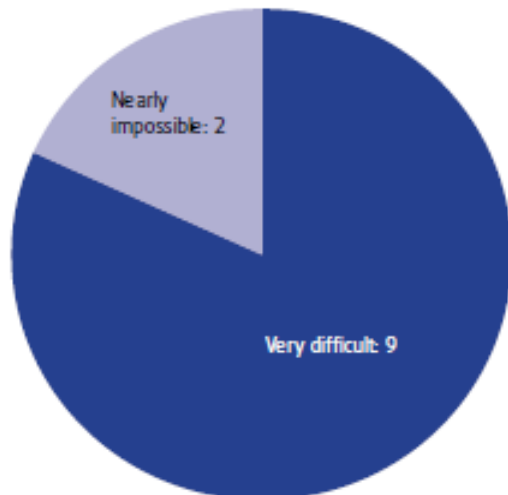
- Cyber coverage is mainly focused on commercial business. However, interest in providing cyber insurance for individuals is increasing.
- The cyber insurance industry expects a gradual increase in the demand for cyber insurance, mainly driven by new regulations, increased awareness of risks and by a higher frequency of cyber events.
- The vast majority of the (re)insurers surveyed adopt a focused approach to cyber insurance and tailor products according to the client companies' size and needs.



Cyber Underwriting and Risk Management

- Qualitative models are more frequently used than quantitative models to estimate pricing, risk exposures and risk accumulations.
- Lack of data is a relevant obstacle in the context of most models. Such limitations may not allow the proper estimation and pricing of risks.
- **Non-affirmative exposures** are identified as key concern regarding the proper estimation of accumulation of risks.

Is it possible to quantify non-affirmative risks?



Initiatives to address non-affirmative risks

Development of risks profiles

Revision of the wording in contracts

Evaluation of losses using surveys

Use of Realistic Disaster Scenarios

Development of Risk Assessment Guidelines

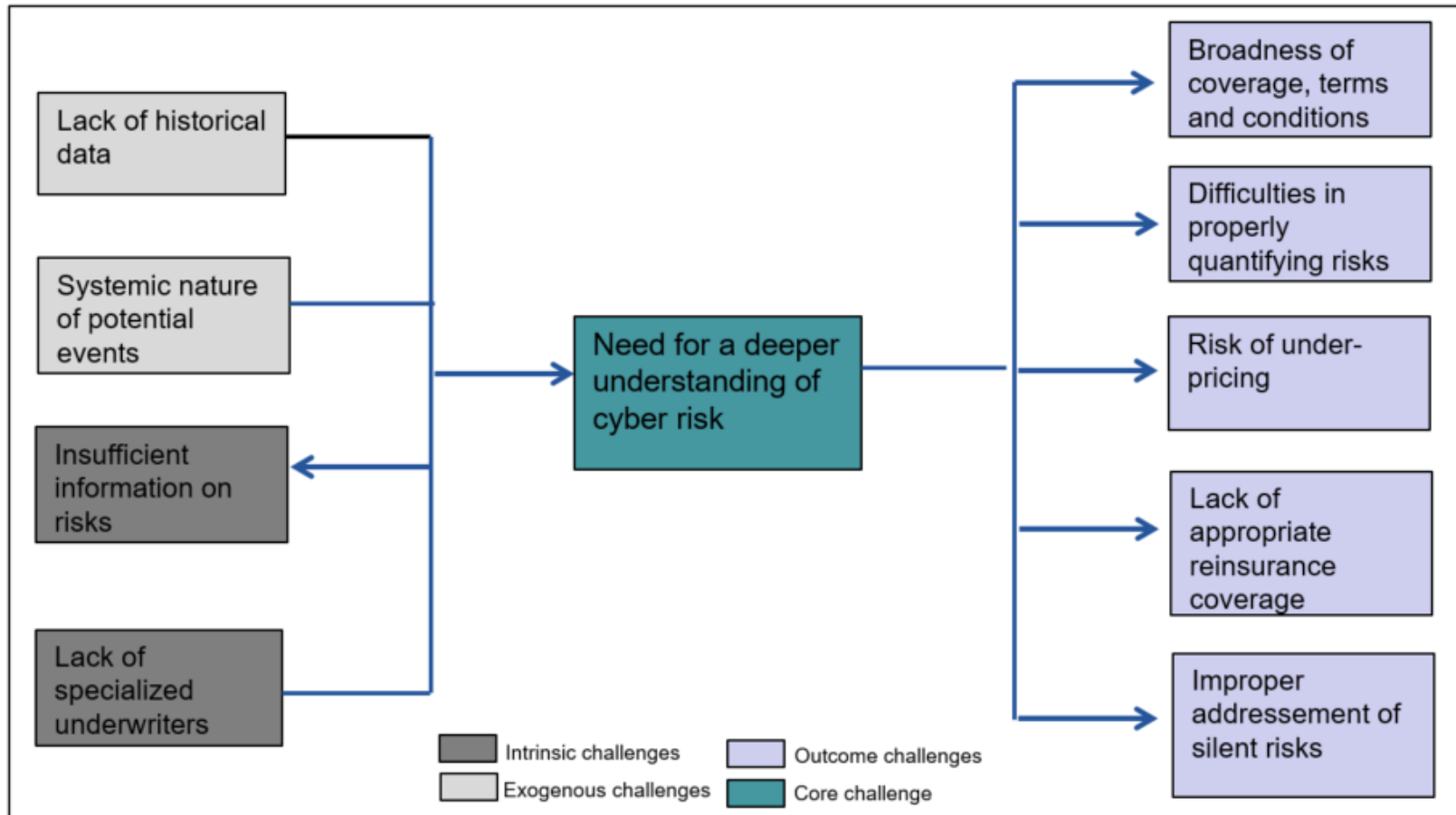
Regulation from the industry's perspective

- Regulation may be welcomed by the industry in a moderate fashion, as it could help to address some of the identified challenges notwithstanding the need for compliance with the Solvency II-Directive.

Potential contributions of regulation – by number of companies



Major challenges



- The need for a deeper understanding of cyber risks by underwriters, brokers and clients represents the core challenge towards the industry
- Cyber risk coverages are mostly available for commercial business but a rising trend also for individuals
- Due to a higher frequency of events, bigger awareness and new regulations, the demand for cyber insurance and coverage is on an upward movement
- The development and use of quantitative models for assessing prices, risk exposure and accumulation of cyber insurance is challenging due to a lack of data and specialized underwriters
- Non-affirmative exposures as key concerns regarding the proper estimation of risks' accumulation
- Moderate regulation may be welcomed by the industry for addressing some of the core concerns



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Thank you for your attention!

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