









# THE BIG QUESTION

## Should cyber insurance be made compulsory?

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**NEIL HARE-BROWN:** Mondelez's \$100m (£77.1m) claim against Zurich will be the first major test case for cyber insurers and one that throws into focus the desperate need for clarity around cyber insurance policy wordings.

Demand for cyber insurance is rising. For many businesses, systems and data now hold more value than their premises. Soon cyber insurance will be a higher priority than buildings insurance for most. Managing cyber risk will never be an easy task because of the constantly evolving nature of the threat, yet it has become a key concern for most boardrooms because an attack could have disastrous consequences. Cyber insurance is fast becoming a compulsory purchase for businesses

that take a proactive approach to managing cyber risk, particularly as any sophisticated investor will demand assurances that core cyber assets are insured properly.

**What we are likely to see is cyber insurance becoming a catalyst in setting minimum standards of risk management**

Erica Constance, QBE

**NICHOLAS HARTLEY:**

Compulsory insurances such as Employers' Liability and the Road Traffic Act required an act of parliament to make purchase a legal requirement. These were introduced to meet the cost of compensation for employees' injuries or cover a road user's legal liability for injury to others and damage to their property rather than compensating a business. Statistically speaking, organisations in the UK have a greater chance of being impacted by some form of cyber attack than a physical break-in

and it is probable that the UK will face a significant attack sometime in the near future. But I believe it is unlikely that the government will make it mandatory for businesses to purchase cyber insurance. As companies develop a greater understanding of both the regulatory and financial implications of not having cyber insurance, the sector will have to adapt. I predict that we will see the development of enhanced cover, greater inclusion within existing product lines for small businesses and improved preventative solutions that help customers understand their cyber risk and meet the ever-changing threat landscape.

**TIM SMITH:** There is no doubt that for many businesses buying cyber insurance would be a very good idea. To this extent I think it will become a compulsory purchase in the same way that property or Directors' and Officers' insurance is. However, I do not expect it to become compulsory in the sense that the government will make it obligatory. This has tended only to happen where physical injury can be caused, for instance in Employers' Liability/Public Liability or where professional bodies have required it. Nevertheless it seems inevitable that more businesses and individuals will buy cyber cover, either because it is a good idea or because business partners insist on them doing so.

**ERICA CONSTANCE:** Cyber insurance is unlikely to become a compulsory insurance for all businesses in the near future. However, as technology becomes increasingly integrated in critical infrastructure, it would not be out of the question for companies to be required to protect their cyber risk. There are few compulsory covers for all businesses, which mainly cover physical damage/bodily injury. What we are likely to see is cyber insurance becoming a catalyst in setting minimum standards of risk management in much the same way other types of cover have set safer standards. For example, the requirement to obtain property insurance for sprinklers.

**ERICA MORDUE:** The fact that cyber insurance is not compulsory is worrying because around 60% of UK small businesses have experienced some kind of online data breach which costs £75,000 on average per breach to remedy. With cyber policies costing anything from £100 upwards, surely it makes sense to protect companies against data loss or breaches, just as you would against fire, theft

and property damage. While cyber is not compulsory in the UK, most companies in the US buy cyber as a matter of course, mainly because US companies are more tech-savvy. Also, 46 out of the 50 US states have called for cyber to be a compulsory class of insurance.

**MARK HAWKSWORTH:** Maybe one day, but not in the foreseeable future (over the next five years at least). The problem is that people tend to purchase cyber cover for their breach exposure, when the truth is that they have other significant exposures such as fraud and loss of turnover. People are still reticent to buy cyber cover. The market probably needs to be exposed to more cyber incidents with larger financial and more widespread losses which may stimulate a mandate for compulsory cover. Financial penalties will drive the purchase of cyber insurance because directors with an exposure need to protect themselves and their businesses. If cyber events escalate significantly to the level where incidents become pervasive, I could ultimately see the possibility of such cover being made compulsory.

**JAMES GORDON:** Compulsory insurance usually exists to protect an otherwise innocent party from the negligence of others. As a product, cyber is still in its relative infancy: while awareness is rising, penetration remains relatively low. However, cyber incidents increasingly threaten not only financial loss to third parties, but also both physical and property damage. If it were to become compulsory, it would likely be specific to highly regulated industries, such as certain areas of financial services or the healthcare industry (where highly sensitive patient data and use of network-connected critical life support equipment can be compromised). Becoming an obligatory purchase is still a long way off.

**JAMES BURNS:** There is definite potential, but it is difficult to tell. I think it has become mainstream. There are lots of mainstream lines of insurance which aren't necessarily government mandated. I would compare it to a property type insurance as opposed to, for instance, car insurance. Where car insurance tends to be lots of big third-party liability, in cyber claims we see 95% as first party. So, it is definitely a possibility, but it is one of those ones that depends on the appetite of government to do something about that. ■

🔗 [insurancetimes.co.uk/news](https://www.insurancetimes.co.uk/news) End cyber insurance confusion, says Cyber[Decider] [07/01/19]

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