Growing a sustainable cyber insurance market in Asia

The inaugural Asia Cyber Risk Summit with the theme "*Can Insurers Offer Cyber Resilience?*" addressed the challenges of the still nascent domain of cyber insurance, and also looked beyond at a holistic view of the need for enterprises to manage risks themselves so as to boost resilience and support the growth of a sustainable cyber insurance market.

By Chia Wan Fen

Addressing the conference theme, Professor Shaun Wang, Director of the Insurance Risk and Finance Research Centre (IRFRC) at Nanyang Technological University, said that the insurance industry is at a crossroads, facing two paths to take to meet the demand for cyber risk products. The traditional Plan A would be to offer just insurance coverage for cyber losses while Plan B looks at products which integrate services to improve cyber resilience.

On Plan A, he noted that there is still a huge gap between buyers and sellers that hinders the growth of cyber insurance – a gap of data, knowledge and business models. To potential buyers, current policies are often ambiguous in what they cover, while wordings from different insurers continue to be complex and unstandardised. Buyers are also uncomfortable with disclosing large amounts of information related to their IT systems to insurers.

This results in two common questions: "Why do I pay so much for my premium when I could use that money to beef up my IT security?" and "Would we actually lower our guard once we buy insurance?" Prof Wang suggested that the two plans need to merge.

Insurers should not just focus on cyber insurance but should propose integrated solutions, which means partnering experts to help organisations improve cyber security, and address sector-specific IT risks. He said that underwriting needs to improve and differentiate more between organisations with different size of cyber exposures, which helps in customer segmentation.

The challenge is in the insurance industry's transition to one which has harnessed different skill sets to have IT expertise and knows the business models of its clients, he said. This then enables identification of which assets must be protected, how to report incidents and how to deal with cyber attack and losses. He added that cyber resilience would be enhanced more by obtaining accountability data-such as tracking down culprits of cyber incidents- than loss data.

The demand and supply challenges of cyber insurance

Mr Bernard Wee, Executive Director of the Monetary Authority of Singapore (MAS), noted that cyber insurance adoption by SMEs remains low generally and sectors like manufactur-

(L-R): Professor Shaun Wang, Professor Ravi Kumar and Mr Bernard Wee.

ing have a low take-up rate compared to financial services, technology and telecommunications companies.

Though the global cyber insurance market is growing, prompted by a wave of high profile attacks and new data protection rules, worldwide distribution is expected to be uneven, with Asia accounting for a negligible section of the market as compared to the US' 90% share. Given how technology has proliferated in Asia, cyber insurance has not kept pace in comparison – therein lies the opportunity for insurers.

However, he said that insurability remains an issue to be surmounted as cyber insurance policies are not standardised, and terms and exclusions can vary dramatically from one insurer to the next. In addition, the scarcity of data is a key problem causing a lack of understanding of cyber risk and hindering underwriting.

So "insurers and reinsurers which do provide cyber coverage seek to cushion the uncertainty by setting high deductibles, low coverage limits and significant exclusions, but this further impacts demand for such products," he said.

Need to grow a sustainable cyber insurance market


Mr Oliver Vale

Mr Oliver Vale, Head of Professional Indemnity, Asia, Zurich Asia Pacific, spoke of how clients could undertake better cyber risk management, in an environment where insurers are still pricing risk based on its quality, with actuarial data still nascent.

He felt that businesses are not taking threats seriously enough, and that makes cyber risks very difficult to underwrite. Most insurers in Asia only have a small book of business and so, they are extremely wary of being caught with unsustainable losses.

"It is our duty as an insurer to grow a sustainable market…We need to work with people who understand the risks, and not take them on fortuitously. When we ask for a lot of information (from buyers), it's about the controls they have in place and how businesses will respond when, and not if, cyber attacks happen. We have to be here long term…We see cyber insurance as an opportunity. It's great to be in a class of business that's growing, and not commoditised."

Managing cyber risk at the enterprise

Several speakers looked at how enterprises undertake cyber risk management.


Mr Geoff Leeming

"How do we choose what to fix?" is a prevalent question in the face of limited resources and data in the field, said Mr Geoff Leeming, Security & Risk Consultant at Leeming Consulting.

He noted that organisations usually prioritise their investments based on three criteria – "FUD – Fear, Uncertainty and Doubt", the most prominent attacks of the moment even if they were not necessary the more severe, and compliance.


Mr Johannes Gschossmann

For Mr Johannes Gschossmann, Head of Financial Lines, AGCS Singapore, organisations should integrate cyber risks into their enterprise-wide ERM framework, so that the balance between investment in cyber security and what risks to accept is clear to all.

He emphasised that Boards need to be involved in cyber risk management, in a regular feedback loop that is supported by senior management. Essentially, Boards must ensure executive ownership of cyber risk, as some decisions such as actions to take in the case of data leaks and frauds can only be made at their level. He added that organisations should consult forensic experts and law enforcement agencies, and test cyber responsiveness to scenarios.

Modelling emerging risks and scenarios


Mr Trevor Maynard

Mr Trevor Maynard, Head of Exposure Management and Reinsurance at Lloyd's of London, noted that cyber was the top risk on the market's mind in Lloyd's emerging risks survey in 2016.

He highlighted the value of modelling scenarios in anticipating the potential effects of emerging risks, but noted that cyber posed unique difficulties compared to Nat CATs, such as being systemic, affecting global connected networks, and being intangible as victims may be unaware.

"You do not have the laws of physics to help you, you've got human beings with odd behaviours that we're capable of, and you have people continually attacking and getting around any form of defence. With Mother Nature, she does not do that once you build a flood defence," he said.

He said based on Lloyd's City Risk index, which looks not just at the size of events and insurability, but also how resilient a location is, he said that for Southeast Asia, the potential impact on economic output (GDP@Risk) of a cyber attack would be US$6.94 billion.

Gaps in cyber insurance

Speakers during a panel discussion looked at some current gaps of cyber insurance.


Mr Ronak Shah

Mr Ronak Shah, Regional Director, Professional & Executive Risks, Asia, JLT Specialty said that there should be a lot more cyber policies which would include cyber crime. This is currently now only covered by a basic insurance which does not help much in a stolen data case, with quantifiable financial losses.


Ms Angela Kelly

Ms Angela Kelly, Head Casualty, Asia Pacific, Swiss Re responded that cyber crime is an evolving area where staying ahead of criminals is difficult, and so is tailoring coverage.

Mr Shah also noted that data protection (DP) laws are very fragmented throughout Asia. He suggested further collaboration and consistency among countries for a structured DP regime although he acknowledged that is difficult as some regulators are still trying to understand cyber risks and their threats.

The Asia Cyber Risk Summit, held from 16-17 May in Singapore, attracted some 120 participants from 10 countries. It was organised by *Asia Insurance Review* and sponsored by Zurich and Singapore Re.