Insurance Buyers' News

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Cyber Security March/April 2021 Volume 323 • Number 2

8 Major Cyber Security Concerns in the Age of COVID-19

More employees working from home means more possibilities for cyber security breaches.

The Covid-19 pandemic has been a game changer for businesses. For some businesses change may have even been beneficial, such as increased online sales or greater numbers of people working from home. But Covid-19 has also brought more digitization, and that has helped accelerate our cyber vulnerabilities, according to a new report by Allianz Insurance .

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This Just In …

The vast majority of Americans believe COVID-19 relief should come via public policy solutions — and not litigation — according to polling released by the American Tort Reform Association (ATRA).

Key takeaways from the poll include:

- Majorities across both parties maintain that elected officials should respond to the pandemic, rather than trial lawyers. 59% say those harmed by the pandemic should get assistance from policies passed by elected officials, versus just 7% who say they should get payouts from lawsuits: this is consistent from October when 63% favored assistance through policy versus 9% who favored payouts from lawsuits.
- Messaging on small business

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Despite the huge advances companies have made in cyber risk awareness in recent years, many businesses are still playing catch-up and often don't realize the importance of their digital assets are until something happens. Here are eight major cyber security concerns to consider for your business.

1 Covid-19 has heightened cyber risk vulnerability.

The largest work-from-home situation in history has given criminals new opportunities to exploit security vulnerabilities created by the pandemic. The rush to enable people to work from home has resulted in lowered or suspended IT security standards, putting cyber security under new levels of stress. According to research by cyber security firm Arceo, security practices when working remotely are unlikely to be as stringent as those at the office.

2 Business interruption is the main cost driver in cyber claims.

Business interruption following a cyber incident has become a major concern. Whether because of ransomware, human error or a technical fault, the loss of critical systems or data can bring an organization to its knees in today's digitalized economy, keeping it offline and unable to conduct business as usual.

3 Ransomware now the most prominent cyber-crime threat.

Ransomware attacks, already high in frequency, are becoming more damaging, increasingly targeting large companies with sophisticated assaults and hefty extortion demands. Five years ago, a typical ransomware demand would have been in the tens of thousands of dollars. Now they can be in the millions. The consequences of an attack can be crippling, especially for organizations that rely on data to provide products and services, but it can also create significant damage for others in the supply chain, such as critical infrastructure.

4 Business email attacks are surging.

More people working from home means new opportunities for criminal activities. Prior to the pandemic, business email compromise (BEC) — or spoofing — incidents had already resulted in worldwide losses of at least $26bn since 2016, according to the FBI. Between May 2018 and July 2019, the number of incidents discovered worldwide doubled, with the average economic loss around $270,000.

5 Data breaches are costing more money.

As IT systems and cyber events become more complex, and with the growth in cloud and third-party services, cyber loss costs are rising. Regulation is also a key factor driving cost, as is growing third-party liability and the prospect of class action litigation. So-called mega data breaches (involving more than one million records) are more frequent and expensive. In July 2019, Capital One was hit by one of the largest ever breaches in the banking sector with approximately 100 million customers in the US impacted — more than 30% of the population. As a result, it was fined $80mn by the US bank regulator. Yet this breach is by no means the largest in recent years.

6 Regulatory costs for data breaches are increasing.

This Just In

receives an even stronger response: 74% say small businesses affected by COVID-19 should be supported by government grants or loans versus 6% who say lawyers should help small businesses pursue legal claims.

- **48% of voters agree law firms using PPP funds for lawsuit advertising is inappropriate compared to 26% who say this is appropriate. This trend holds from October when 62% called lawsuit advertising inappropriate and 24% considered this appropriate; the discrepancy in those who call advertising inappropriate was driven by a greater proportion of "unsure" respondents.**
- **The proportion of voters who say trial lawyer advertisements are annoying and take advantage of people is virtually unchanged from October: 65% said advertisements are annoying and take advantage of people in December, and 66% said the same in October.**

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Data protection and privacy regulation is getting stricter, having long been an important driver of cyber losses and insurance purchasing anyway. The first such law was introduced in California in 2002, while Alabama became the 50th state to enact a breach notification law in 2018.

7 **Class action litigation is a developing threat.**

Many large data breaches today spark regulatory actions, but they can also trigger litigation from consumers, business partners and investors. Legal expenses can add substantially to the cost. Several large data breaches have triggered class actions by consumers or investors — in July 2019, Equifax reached a $700mn settlement for its 2017 mega breach. US courts have been battling the questions of "legal standing" — whether claimants have the right to sue — but the trend appears to be favoring plaintiffs. Statutory and regulatory changes could also facilitate compensation for data breaches. The California Consumer Privacy Act, for example, provides a mechanism for consumers to sue businesses and — in a first for the US — sets statutory damages for data breaches.

8 **Nation states are sponsoring attacks.**

The involvement of nation states in cyberattacks is an increasing risk for companies, which are being targeted for intellectual property or by groups intent on causing disruption or physical damage. Major events like elections and Covid-19 present significant opportunities. Google said it had to block over 11,000 government-sponsored potential cyber-attacks per quarter [2] in 2020, ranging from phishing campaigns to less common distributed denial of service attacks. Recent years have seen critical infrastructure such as ports and terminals and oil and gas installations hit by cyber-attacks and ransomware campaigns. Sophisticated attack techniques and malware may also be filtering down to cyber criminals while nation state involvement is providing increased funding to hackers. Even where companies are not directly targeted, state-backed cyber-attacks can cause collateral damage, as seen with the NotPetya malware attack.

In another recent report, S&P Global Ratings noted businesses are becoming increasingly wary of these problems and as a result, "investment in cyber risk management, including cyber insurance coverage, is rising."

What Impact Will the Biden Administration Have on the Insurance Industry?

Expect a great deal of legislative activity on a wide range of issues affecting the property/casualty industry.

On January 20, in a historic inauguration ceremony surrounded by U.S. soldiers guarding against domestic terrorism — before a field of 200,000 illuminated flags representing Americans who could not attend the ceremony because of the coronavirus pandemic — President Joe Biden and Vice President Kamala Harris were sworn into office.

After some remarks made that day by Sean Kevelighan, CEO, Insurance Information Institute (Triple-I), the Triple-I summarized the top priorities of the Biden administration affecting insurance.

In coming months, the property/casualty insurance industry is likely to encounter a frenetic pace of legislative activity on many issues affecting its operations. Here are some of the main ones:

Climate Change — Senator Dianne Feinstein's proposed Addressing **Climate Financial Risk Act**, intended to help federal regulators understand and mitigate risks from climate change within the

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financial system, would require a Federal Insurance Office (FIO) report on how to modernize and improve climate risk insurance regulation.

"The insurance industry is more directly affected by climate risk than other areas of the financial system," said Feinstein's press release. The report would be modeled on FIO's 2013 report on modernizing state insurance regulation.

Pandemic — Rep. Carolyn Maloney introduced the **Pandemic Risk Insurance Act**, which is modeled after the Terrorism Risk Insurance Act enacted after 9/11. However, the bill has yet to gain widespread support. The insurance industry has advanced several pandemic risk mitigation proposals of its own. Also, see our front page This Just In column.

Flood Insurance — Congress could deliberate reauthorizing the **National Flood Insurance Program**, which was last done with the Biggert-Waters Flood Insurance Reform Act of 2012. The current NFIP expires Sept. 30, 2021.

Marijuana — Full federal marijuana legalization remains daunting, with a slim Democratic majority, according to Politico, but piecemeal legislation with wider bipartisan support, such as banking access for cannabis businesses and medical marijuana research, may have a better chance to advance. Conflicting state and federal laws have discouraged insurers from participating in the cannabis-related business market.

Corporate — An expected **increase in the corporate tax rate** would mean higher tax liabilities for property/casualty insurers.

Pricing — Risk-based insurance pricing is an issue that's expected to heat up, and insurers will have to explain to a new set of legislators that the business of insurance hinges on predicting the level of risk a policyholder represents and charging a premium that corresponds with that level of risk.

Does Your Business Need Flood Insurance?

A standard commercial policy typically does not cover damage due to flooding, including hurricane storm surge flooding.

Natural disasters can be devastating to businesses. While damage caused by some types of natural events — such as lightning or wind — will usually be covered by commercial property insurance, you need a special policy if you want protection from flood damage. This Q&A from the Insurance Information Institute will help you understand this type of coverage and determine whether your business needs it.

Q. Does my commercial property insurance include flood coverage?

A. No. Damage from flooding, including flooding generated by hurricane-generated storm surge, typically is not covered under a standard commercial policy, including a Commercial Package Policy (CPP) or a Business Owners Policy

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(BOP). Flood insurance is available from the federal government's National Flood Insurance Program (NFIP).

Q. What does flood insurance cover?

A. Flood insurance covers damage to your building and contents caused by flood. This includes losses resulting from overflowing rivers or streams, heavy or prolonged rain, storm surge, snow melt, blocked storm drainage systems, broken dams or levees, or other similar causes. To be considered a flood, waters must cover at least two acres or affect two properties. Generally, if water comes from above — for instance from rain or melting snow overflowing gutters and leaking onto your inventory — you'll be covered by your standard commercial property insurance.

Q. What isn't covered by flood insurance?

A. Property outside your building generally will not be covered. For instance, landscaping and septic systems will not be covered. In addition, flood insurance will not cover damage to your business vehicles, but this can be included in the optional "comprehensive" portion of your business vehicle insurance. Financial losses caused by business interruption or loss of use of insured property are also not covered.

Q. Do I have to purchase flood insurance?

A. If your commercial property is in a high-risk flood area and you have a mortgage from a federally regulated or insured lender, you are required to purchase a flood insurance policy.

Q. How do I determine my risk for flood damage?

A. Location is the most important factor for weighing your risk for flood damage. Is your business located in or near a flood zone? (Flood map search tools can be found online.) In what part of the building is your businesses equipment and inventory located? Anything housed on a lower floor, for instance, will be at greater risk.

Q. How long does it take to get flood coverage?

A. Typically, there's a 30-day waiting period from date of purchase before your policy goes into effect.

Q. Does my flood policy cover mold?

A. Damage from mold and/or mildew resulting from the after-

effects of a flood is covered, but each case is evaluated on an individual basis. Mold/mildew conditions that existed prior to a flooding event are not covered, and after a flood, the policyholder is responsible for taking reasonable and appropriate mitigation actions to eliminate mold and mildew.

Q. How much flood coverage can I get?

A. Commercial flood insurance provides up to $500,000 of coverage for your building and up to $500,000 for its contents.

Q. What if I need more coverage?

A. You can purchase what's called excess insurance coverage to rebuild properties valued above National Flood Insurance Program (NFIP) limits. Excess coverage includes protection against business interruption. Call your broker for more information.

Q. Where can I purchase flood insurance?

A. Flood insurance is available from the NFIP and some private insurers. However, NFIP coverage can only be purchased through an insurance professional; you cannot buy it directly from the federal government. Please call us. We will be pleased to help you.

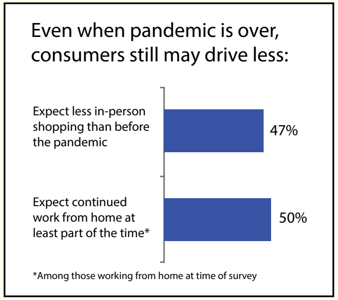
Some Consumer Responses to the Pandemic

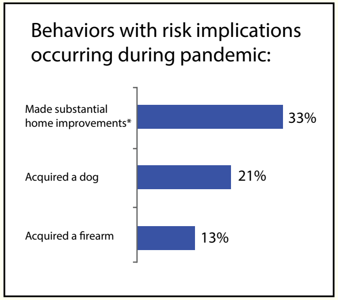
A new survey from the Insurance Research Council (IRC) found that two-thirds of respondents worked from home at least part of the time during the COVID-19 pandemic. The survey, conducted in October, also revealed that half expect to continue working from home entirely or alternate between working and not working from home in the future.

Many consumers also expect to continue shopping on-line, with nearly half saying they expect to do less in-person shopping in retail stores even after the pandemic retreats. Both findings point to a continuing reduction in vehicle travel.

The study also explored attitudes toward economic conditions and steps taken in response. Half the respondents said they were concerned about their financial future; the most commonly cited actions taken were to reduce spending on travel and entertainment.

"This survey suggests the effects of COVID-19, including those impacting the property-casualty insurance industry, may continue even after the virus is under control," said David Corum, CPCU, vice president of the IRC. "The results also reveal younger, urban, and lower income consumers have been more severely impacted by many economic aspects of the pandemic."





The report, Consumer Responses to the Pandemic and Implications for Insurance, presents findings from the October 2020 survey of 2,147 adults who acknowledged some role in household insurance purchasing decisions.

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