Marsh

Marsh Specialty

UK cyber insurance trends H1 2021

October 2021

Contents

03 UK cyber insurance: Pricing increases further and controls scrutinised in H1 2021

04 Organisations review controls to improve capacity

05 Claims notifications continue at the same pace as 2020

07 Cyber insurance pricing increases in 2020 and 2021

08 Previous quarter changes

09 About Marsh Specialty’s cyber team

UK cyber insurance: Pricing increases further and controls scrutinised in H1 2021

The number of UK organisations purchasing cyber insurance in H1 2021 continued to increase, driven by board level requests and the rise in the use of technology. At the same time, pricing increased sharply, while insureds' controls were reviewed in detail by insurers to shore up their risks within their portfolio books, off the back of projected 100% net loss ratios in 2019 and 2020.

INCREASED SCRUNTINY OF CONTROLS

By the end of the fourth quarter of 2020, the cyber market had felt the full effects of COVID-19, following a transitioning of work to include more utilisation of technology. Similar trends continued in H1 2021 with continued lockdown forcing many to continue to work from home with some hybrid working models in place. Controls used to allow employees to work from home became a target, not only for bad actors, but also for insurers to review how organisations protect themselves against cyber attacks.

At the same time, ransomware attacks continued to wreak havoc on organisations in Q1 2021. Bad actors were now targeting both Software-as-a-Service (SaaS) and insurance companies. While the SaaS attacks presented the possibility of systemic risk for insurers, the fact that they were being targeted themselves represented a shift in tactics on the part of bad actors.

All of these trends point to the need for resilience. Organisations must take it upon themselves to ensure controls are in place. In many ways, underwriters are currently forcing their hand, calling for new minimum requirements for control, before any cyber insurance capacity is offered. Often, organisations will have established many, but not all of the top cybersecurity controls. As a result, they are often subject to requests for higher premiums, higher retentions, and in some rare cases, declinations. Organisations must take a proactive approach with their brokers to understand the insurability of their risk, as it stands today.

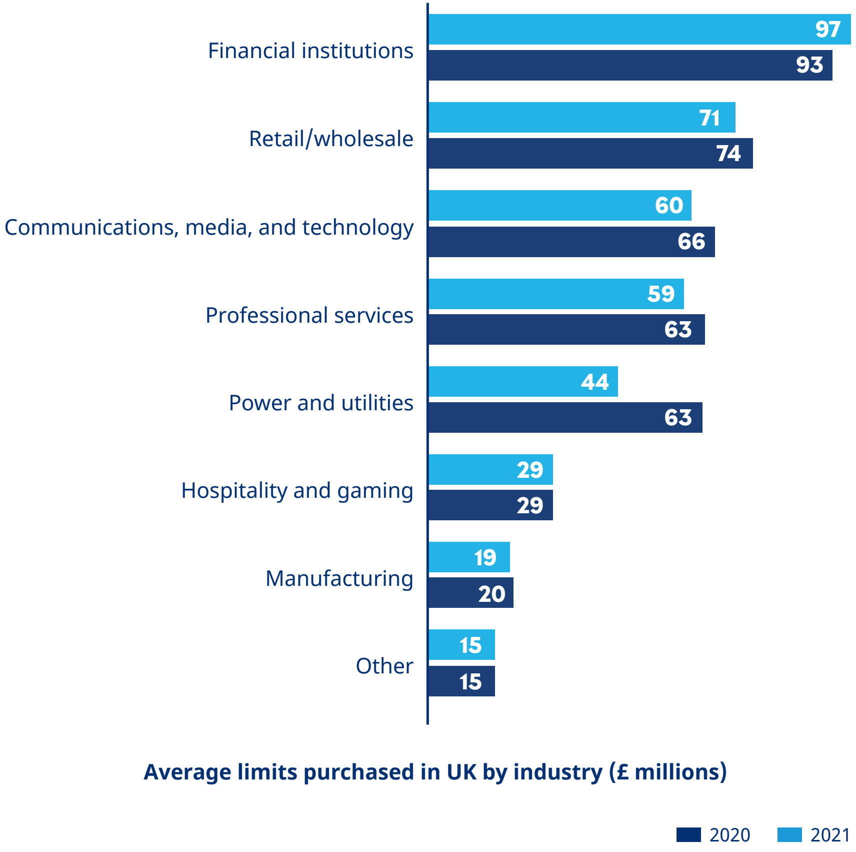
ORGANISATIONS REVIEW CONTROLS TO IMPROVE CAPACITY

Last year, many companies shifted from relying mainly on quantification methods to deep dives into their controls, with several organisations utilising cyber risk assessments in conjunction with their review. In H1 2021, there is a particular focus on reviewing controls in comparison to peers, along with an uptake in quantification, in order to take a more structured approach to determining appropriate limits.

In H1 2021, among all companies with placements in the UK with more than £500 million in annual revenue, we saw similar trends to 2020, with limits holding stable year on year (see Figure 1). The largest decrease was seen in power and utilities, mainly due to a large tower that reduced capacity by US$100 million due to lack of markets available. Generally, the decreases in retail/wholesale, professional services, and communications, media and technology occurred because insurers continued to reduce the capacity available to these sectors — not because companies chose to reduce limits to save money.

In addition to helping insureds make more informed decisions about insurance, cyber assessments, coupled with modelling of both controls and quantification, assisted organisations in understanding their insurability in a difficult cyber market.

01| **Capacity and control factors are leading organisations to change cyber limits.**

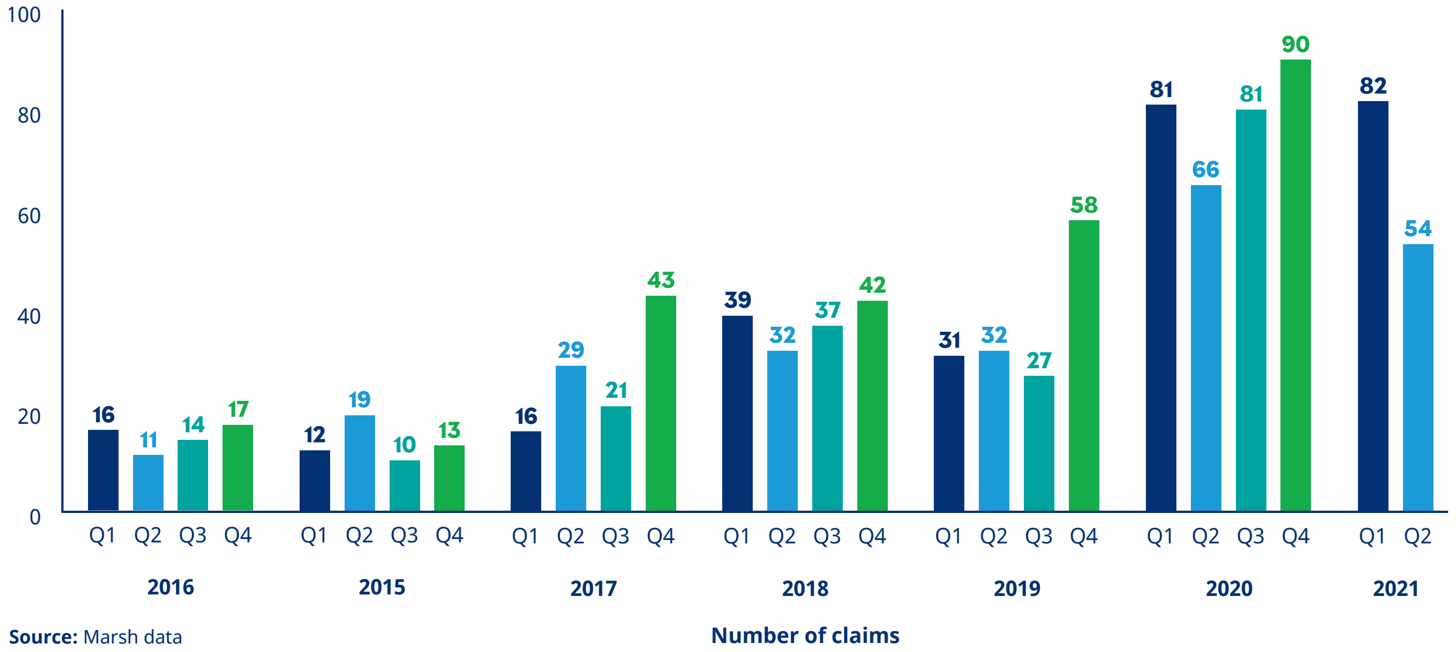


Average limits purchased in UK by industry (£ millions)

CLAIMS NOTIFICATIONS CONTINUE AT THE SAME PACE AS 2020

The frequency of claims notified in the UK continued on the same path in Q1 2021 compared to Q1 2020 (see Figure 2). Q2 2021 claims are expected to surpass Q2 2020 claims, as more data is received.

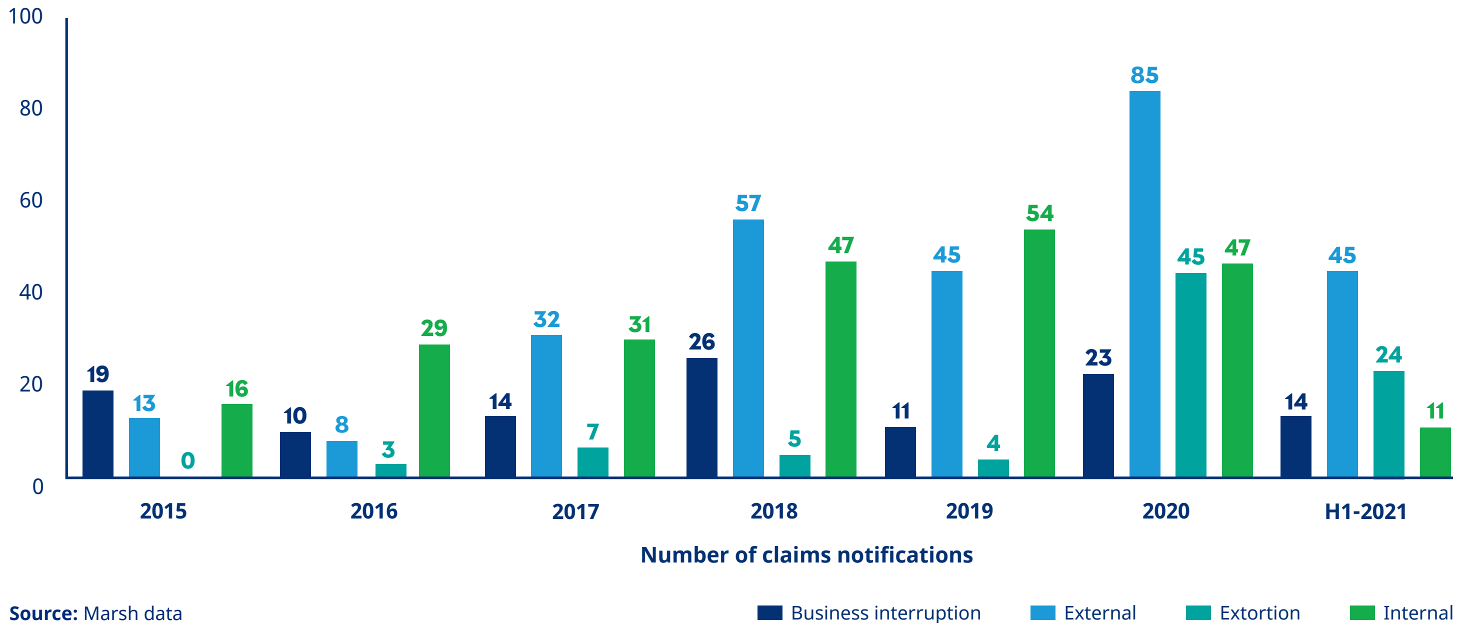
02| The number of cyber claims in the UK more than doubled between 2019 and 2020.*



Source: Marsh data

*Business interruption claims captured under extortion or external threat are not reported separately under "business interruption".

03| In 2020, extortion and external threats were the leading causes of claim notification in the UK.*



Source: Marsh data

*Business interruption claims captured under extortion or external threat are not reported separately under "business interruption".

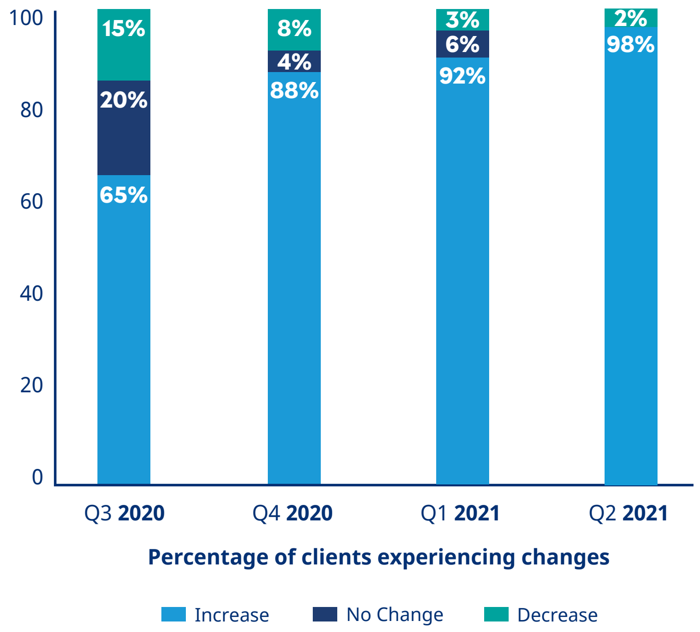
CYBER INSURANCE PRICING INCREASES IN 2020 AND 2021

Starting in the first quarter of 2021, nearly all of Marsh clients that bought insurance through the London Market experienced an increase in cyber insurance pricing. An early look at Q3 2021 data shows that every renewal is seeing an increase in premium.

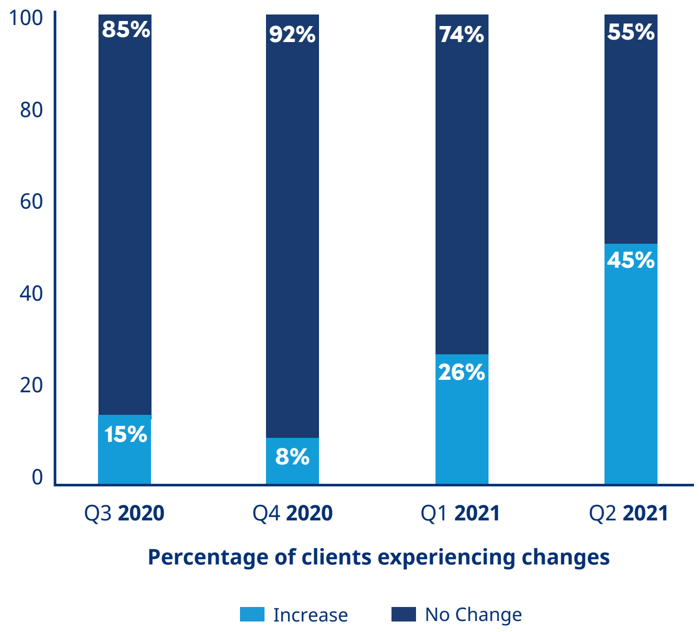
Capacity deployment saw a sharp dip, as many insurers halved the amount of capacity they were deploying on programmes. Starting in Q2 2021, there was a significant decrease in competition, and major reductions in capacity, making more expensive excess layers competitive again. While excess pricing drove the 2020 pricing increases, the entire group saw increases, from primary to the top layers, in large programmes.

Retentions also started to see a sharp increase beginning in Q1 2021, with continuing momentum into Q2 2021. Early data suggests the likelihood of further increases in Q3 2021. Several changes to a higher retention are being considered to offset some increased pricing, but many insurers are quoting with higher retentions based on controls and to offset attachment points within their portfolio. In some cases, an increase of retention of more than 400% has been applied by insurers, where substantially lower controls are in place, in comparison to their peers. On some occasions, a co-insurance of 20-50% has been put in place, until these controls have been remediated by the organisation.

04| Pricing change

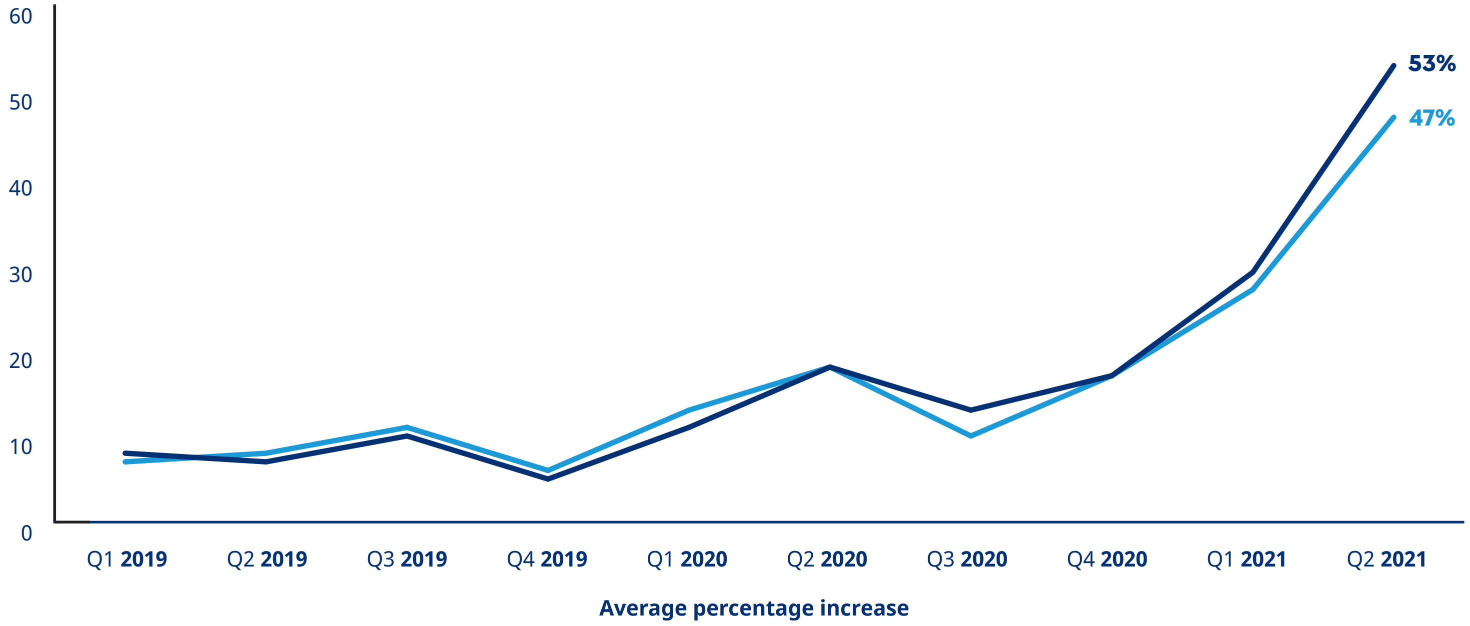


05| Retention change



Source: Marsh data

06| **Cyber insurance price change** (percentage).



Source: Marsh data

PREVIOUS QUARTER CHANGES

In Q1 2021, cyber insurance pricing increased approximately 29%, on average, with continued increases in premium in Q2 2021 of 53% (see Figure 6). Some insureds experienced increases of as much as 100% or more. Cyber insurance pricing increases in 2021 were followed by increase in scrutiny of controls, as a major determining factor, coupled with loss ratios above 100% reported by several insurers. While ransomware was cited as a main reason for these increased losses in 2020, H1 2021 saw data breach events and business interruptions increase losses in insurer portfolios.

Similar to retentions, pricing increases have been primarily due to controls in place, but also result from loss ratios within a specific industry. Transportation and the public sector, in particular, both saw significant increases in retention and premium due to the high volume of claims in the last three years, as well as the inability to remove historic controls that often sit at the core of these organisations. As technology evolves within each industry, the need for improvement on controls becomes all the more important to mitigate the risks at hand.

ABOUT MARSH SPECIALTY’S CYBER TEAM

More than **US$350 million** of premium placed into the London Market.

Advisen **‘Cyber Broker of the Year**” three-time winner.

17 global claims and product professionals.

Place over **23%** of total London market cyber premium.

13 cyber risks with limits over **US$300 million** placed by the London team.

Place cyber insurance for **24%** of the FTSE 100.

Place cyber insurance for **15%** of the FTSE 350.

More than **9,000** cyber, and errors and omissions clients globally.

London bespoke primary product in *CyberShield* and **US$90 million** excess lineslip in *ECHO*.

Over 50 cyber risks with limits over **US$100 million** placed through London.

Over **US$1.5 billion** in global premium placed annually into the cyber insurance market.

Cyber coverage for **5 of the top 7** independent Lloyd’s syndicates.

For more information on Marsh Specialty's cyber insurance solutions, please contact your local Marsh office or visit marsh.com.

Sarah Stephens
Managing Director, International Head of Cyber and FINPRO UK Cyber Practice Leader

+44 (0)7508 051 080
sarah.stephens@marsh.com

Brian Warszona
Senior Vice President, UK Cyber Deputy Practice Leader

+44 (0)7392 123 570
brian.warszona@marsh.com

About Marsh

Marsh is the world's leading insurance broker and risk advisor. With around 40,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data-driven risk solutions and advisory services. Marsh is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. With annual revenue over $18 billion, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: Marsh, Guy Carpenter, Mercer and Oliver Wyman. For more information, visit mmc.com, follow us on LinkedIn and Twitter or subscribe to BRINK.