

Beware of That Blinking Red Light

“What happened? Are you telling me that the contractor hired someone else to do some of the work on this project? Who caused the problem to occur? Well, I have a certificate of insurance from them somewhere around here. This piece of paper is supposed to give us coverage. What do you mean ‘what if it doesn’t’? We might not have coverage? No, I don’t know what the liquidated damages clause means in this situation. What if the subcontractor is only on the hook for the cost of the contract? Then we’d be liable for the balance of the damages and for fixing this mess. Let me call the insurance agent and get back to you.”

The facts that might give rise to the conversation are:

- Storage of prohibited data in logs and other system files
- Malware impacting unprotected systems
- Employee/Contractor privileged access misuse
- Vendor default settings and passwords
- Phishing, spear phishing, whale phishing
- Physical security breach
- Poorly coded web-facing applications resulting in SQL injection

“Wait a second; I have a crime insurance policy that will surely cover this type of incident. This problem has to be covered by computer fraud, funds transfer or even forgery and alteration. What do you mean ‘it depends’? ‘It depends’ isn’t the answer I am looking for right now.”

Unfortunately, the crime policy may be limited in scope and may not respond to the situation. A crime policy is not a “one size fits all” solution. This insurance must be tailored to meet your specific needs. Crime insurance may need to be supplemented by other insurance to provide the broader coverage needed in a given situation.

A cyber liability policy is designed to provide a specific type of insurance. Each carrier that offers this coverage does things a little differently. Translation: read the policy and understand what you are getting for your money.

Cyber liability, unfortunately, is not an easy form of insurance to understand. A detailed analysis of the pros and cons or cost and benefits should be performed. You should note that this product was originally designed as an errors and omissions policy for manufactures in the high tech industry. A few things, including cyber liability, have changed since the “dot com” era. Consider:

- More than 11 million adult consumers became victims of identity fraud in 2009, up from nearly 10 million in 2008.
- Roughly 5.8% of American adults have been victims of medical identity theft with an average cost per victim of \$20,160.

- 285 million records of personal information were breached in 2008, which is more than the previous four years combined.
- \$204 per record is the average cost of a data breach, with an average total per incident cost of \$6.75 million in 2009.

So, if you are confused, just imagine how your agent - who probably is not an IT expert - feels when it comes to all of the variables. The multi-page application that you will be required to fill out and sign should be a clue as to complexity of the issue. This is not something that should be determined on a spreadsheet basis. Know what your exposures to loss may be. Know what the policy you paid for covers, or you might end up with a self insured claim. Roughly translated this could mean a considerable out of pocket expense:

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| • Legal assistance with notification letters | \$ 24,190 |
| • Print/mail letters | \$ 63,551 |
| • Call center services | \$118,642 |
| • Identity monitoring services | \$683,996 |

In this particular situation, the total cost amounted to \$885,379 because of a breach of close to 50,000 records.

Coverage is complex and evolving. You need to know the risks and the cost of possible solutions. As advisors, we assist you in reviewing your exposures and interpret your insurance policies. We manage the bidding process when appropriate. We don't sell insurance. Our role over the last 110-plus years has been to provide our clients with independent, objective, impartial expertise in risk management and insurance matters.

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