MAY 31 2024

Cyber Risk Insurance challenges

Sapere aude – Osez savoir

Dare to know - Sapere aude

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Meet the speakers

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Background and *challenges*

1. Very challenging CYBER Insurance market since 2017
2. Insurers complain unprofitable Cyber business for many years driven by ever increasing claim payments
3. Large corporates around the world suffer from a supply & demand-mismatch and lack of competition
4. ………. is considered to be a “high risk” even compared to peer companies
5. Various initiatives underway to respond to lack of adequate support from commercial insurance market
6. Participation of Captives by way of re-insurance in high(er) excess layer-areas
7. Formation of “Monoline” Mutual Insurance Associations by large European industrial companies

PRINCIPLES

Basic principals of a *capitalised* Mutual

1. Members contribute to the capital of the company
2. Not for profit
3. Share the outcomes with other members
4. Alignment with insureds (owners)
5. Value-added services and solutions
6. Can't operate without mutual TRUST

WHY?

Why is it so hard to *understand* and *underwrite* cyber risk

Lack of Data

Not enough data for actuarial models to work

Technicity of Cyber risk

Traditional quantification models cannot be applied to such a technical risk.

Failure of the static approach

Static model applications, through consulting one shot service, cannot be applied to an ever-evolving risk.

Weak threat lanscape understanding

Cyber Threat Intelligence is key to understand and anticipe cyber attacks.

How to assess cyber security maturity

Market Data / benchmark

Market data can be used to determine a hypothetical average level of defense for a company. Depending on the size of the company and its verticals and locations.

Security External Scanning Solution / outside-in scan

External scanning solutions provide precise information on a company's specific defensive level and digital footprint.

cybervadis

Security Scorecard

Microsoft 365 Secure Score

Security Questionnaires

Security questionnaires (insurance questionnaires, supplier questionnaires, etc.) are a way of assess a company's defensive posture.

Audit Reports

Audit reports based on standard market frameworks have the advantage of giving a precise assessment of the company's defensive level.

IEC

NIST

CIS. Center for Internet Security

Information Security Management ISO 27001 Certified

Assessment accuracy

Low

High

HOW?

The *6 building blocks* of our vision

Strategic CTI

Who's targeting me and how? How frequently?

AI generated prevention

What is the best security investment to mitigate this risk scenario?

Defense maturity

Which defense solutions have I implemented?

Financial quantification

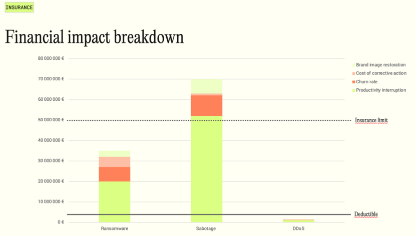
FAIR automation – dynamic risk analysis

Risk scenarios

Business risk scenarios, AI support, claim databases

Redteam simulation engine

What are the attackers' chances of success ?



Mutual Cyber Insurance Association

Objectives - Solution

Objectives

- Stable Cyber Insurance capacity/limit
- Stable & adequate pricing
- Independence from commercial (re)insurance market

Solution

- Formation of a Mutual Insurance Association
  - owned by its members (= policyholders)
  - providing Cyber Insurance
    - to its members only
    - at cost (non-profit)
  - retain surplus/"profits" (from contribution/"premium") in order to (1) strengthen solvency capital base, (2) provide even more capacity in the future and/or (3) further reduce future premium

References (exemplary)

- **EMANI - European Mutual Association for Nuclear Insurance (BE):** Property Insurance for companies in the nuclear industry (est. 1978)
- **NEIL – Nuclear Electric Insurance ltd-** Property Insurance for Nuclear operators in the USA (est.1976)
- **ELINI - European Liability Insurance for the Nuclear Industry (BE)** (est. 2002)
- **P&I Clubs:** Marine insurance for ship owners, operators, charterers (since the end of the 19th century)
- **O.I.L. Insurance Limited (BM):** Property Insurance for companies in the Oil & Gas industry (est. 1972)

MIRIS

Mutual Insurance and Reinsurance for Information Systems

Mutual Cyber Insurance Association

Set-Up (II) / Rationale

- **Additional Contributions/"Call"**
  - In case of a claims-related financially distressed situation of MIRIS, in a worst-case scenario all members are obliged to pay additional contributions
    - up to 6 times the regular annual contribution each
    - up to 2 times per year
  - NOTE: The Business Plan is robust enough, that MIRIS is able to withstand major claims even in the first years without the need of additional contributions
- **"Exit" of a Member**
  - In case of an "Exit" of a member, the particular member is obliged to remain insured with and pay the contributions to MIRIS for a period of 3 years (retention period). This protects the ability of MIRIS to serve remaining members – spirit of mutuality

- **Why sharing risks with other European corporates?**
  - Members from different industries (Diversification)
  - Members with a low-key claim history
  - Cyber Insurance is still a low frequency risk
- **Why not utilizing existing captives like ……. in this context?**
  - Participation of a captive in a Cyber Insurance Program is subject to various legal limitations under ….. Corporate Law
  - In light of the Cyber market restrictions, …… intends **to do the one without leaving the other**:
    - ………. to provide re-insurance capacity in higher excess layers and
    - MIRIS to provide direct-insurance capacity in lower excess layers

Mutual Cyber Insurance Association

Benefits / Obligations

Benefits

- The Mutual Insurance Association (“Mutual”) provides **stable Cyber capacity**, regardless of market volatility
- The Mutual provides **premium reduced by 20%** compared to the commercial market
- A minority-owned (unconsolidated) Mutual is not subject to the same legal restrictions related to Cyber Insurance compared to a wholly-owned Captive Insurance Co.
- Saved premium can be invested in additional capacity w/o increasing overall insurance costs
- Independence from re-insurance market
- Low operational costs
- No profit aspiration

Obligations

- Need for equity investment: € 5M per member
- Long-term commitment (5y+)
- Additional contributions / “calls” in a worst-case claim scenario
  - Maximum liability in case of “call liability”: Provided insured claims are made under the policies issued by MIRIS causing equity to fall below regulatory minimum level, members have to place additional contributions
- Exit: Retention period of 3y
- **Robust Risk management tool** : The CISO’s with a Peer to Peer review
- A decision making engine to reduce Cyber risks -

A new way to live *confidently* with cyber risk

THE END

Thanks for your attention

Questions ?