Understanding the Opportunities for Personal Lines Cyber Insurance

A Verisk survey finds two-thirds of respondents are concerned about the possibility of a cyberattack

Verisk

64 percent

of consumers who responded to our survey are concerned that a cyberattack could happen to them, and nearly one in three has already experienced a threat or attack.

Executive summary

Consumers know they're vulnerable to cyberattacks but many lack a full understanding of scenarios and possible consequences that could happen if they were the target of such an attack. As a result, most use some type of software or third-party service that helps "block" cyber threats or attacks, but few look to insurance to protect against possible losses in case an attack were to occur. And most insurers aren't offering personal cyber risk coverage.

Verisk recently conducted a study consisting of two personal cyber insurance surveys: one of 700 U.S. consumers and one of 64 U.S. insurers. The consumer survey revealed just 20 percent of respondents own cyber insurance, while 70 percent—nearly three-quarters—have antivirus software. On the insurer side, 72 percent of respondents said their company doesn't offer personal cyber risk coverage, but 50 percent of those insurers surveyed indicated they offer identity theft monitoring.

The study showed the vast majority of respondents put sensitive information at risk through their use of the Internet. The top two everyday tasks that surveyed individuals perform online are banking and shopping. Both involve digitally storing or sending financial information, a likely cyberattack target.

However, the majority of survey respondents—64 percent—also admitted being concerned about cyber threats or attacks, and nearly one in three people who responded reported having been the victim of such attacks or threats already.

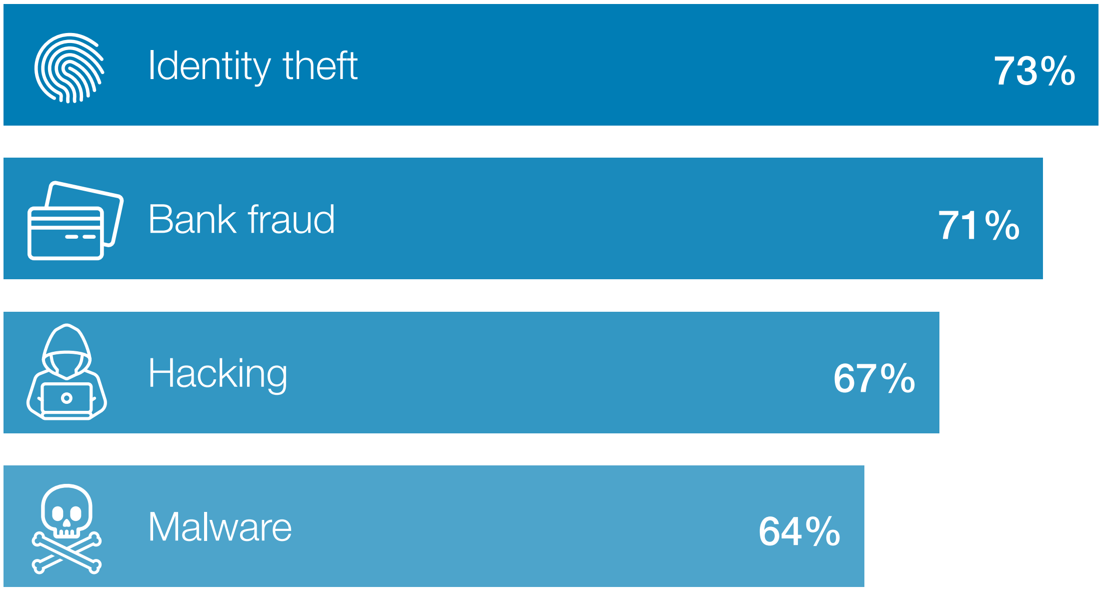
If consumers are exposing sensitive information and are concerned about cyberattacks, why aren't more insurers offering personal cyber coverage? And why is there still a low take-up rate among insurers that do offer personal cyber insurance? This white paper delves into insights from Verisk's two personal cyber insurance surveys. It explores possible reasons for low take-up rates and how more people could be motivated to seek coverage.

Cyber gets personal

Headlines of data breaches reinforce the perception that cyber criminals favor large companies and targets with "deep pockets." But these criminals are launching attacks in increasing volume against a wider spectrum of victims, including individuals on their personal devices. Tactics such as ransomware demands for cryptocurrency are joining the more familiar ploys of identity theft, hacking, and phishing. As cyber criminals grow more sophisticated, the nature and definition of cyber risk continually evolves.

Consumers face the threat of attack and the fear of not knowing

The cyber threats surveyed consumers are most concerned about are:



Of these threats, 43 percent of respondents said identity theft had them “extremely concerned,” and 42 percent said bank fraud had them “extremely concerned.” On this point surveyed consumers were aligned with the insurers surveyed, which ranked the same two cyber events as the most damaging.

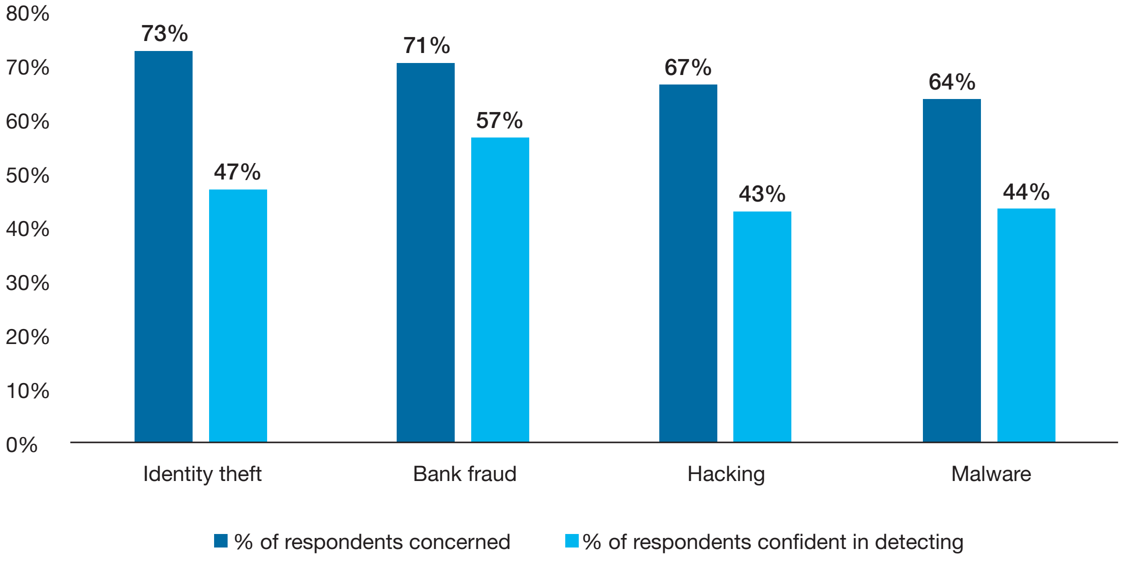
Identify theft

Ninety-one percent of consumers surveyed indicated they perform at least one type of online task that could expose them to identity theft, and 73 percent said they are concerned that their identity could be stolen. But significantly fewer—62 percent—said they believed identity theft was a cyber threat or attack, and only 47 percent said they’re confident in their ability to detect identity theft. This suggests confusion as to the nature of the peril, how identity thieves work, and what to do about the threat, even as consumer concern is high.

Bank fraud

Banking is the top task performed online, with 77 percent of respondents saying they do tasks such as checking account balances and paying bills online. Though 71 percent were concerned about bank fraud, just 58 percent could correctly categorize it as a cyber threat, and 57 percent said they’re confident in their ability to detect it. When banking occurs online, the associated risks follow and take on new forms. The shift from the physical world to the virtual world in everyday banking exposes assets—and possibly one’s identity—to higher risk.

Consumers recognize the risk but aren't sure they can detect cyberattacks*



In addition to the gap between levels of concern and confidence in detecting identity theft and bank fraud, only about half of respondents, on average, said they're confident they could detect any given cyberattack. Insurers surveyed ranked weak consumer awareness of the exposure and lack of consumer interest among the top four challenges to offering personal cyber solutions.

However, nearly one-third of consumers surveyed said training or education about what constitutes each cyber threat or attack would boost their confidence in detecting that such an event has occurred.

On average, only

about half

of respondents are confident in their ability to detect *any* given cyberattack.

*Consumers were asked to rate their level of concern and confidence in detecting each of the following: bank fraud, clickbait, cyberbullying, hacking, identity theft, malware, phishing e-mail scam, phishing phone call scam, and ransomware.

Consumers are experiencing cyberattacks but still aren’t buying insurance

The top cyberattacks that consumers reported experiencing are:

- Hacking
- Bank fraud
- Malware
- Phishing e-mail scam

Nearly one in three people surveyed has been the victim of a cyberattack, yet just 20 percent of respondents said they have cyber insurance. Possible reasons for this disconnect—between past experience and future-focused precautions—could be due to any number of reasons related to various aspects of the insurance ecosystem.

For example, as revealed by the surveys, many consumers still don’t fully understand their risk exposure; some may not even give it much thought. Meanwhile, many insurers surveyed don’t offer personal cyber coverage. Nearly three-quarters—72 percent—of insurer respondents said their company doesn’t currently offer such a product.

Insurers that do offer personal cyber coverage may not be marketing it in a way that resonates with the public. This gap in marketing firepower may include a lack of sales tools for the coverage, which can leave many agents with little incentive or means to sell what products exist. Meanwhile, services such as credit card monitoring, while helpful, may cloud consumers’ understanding of what protections they do or don’t already have, especially if these protections come from their insurers. Half the respondents in Verisk’s insurer survey said their company offers identity theft monitoring.

The FBI received

20,000+

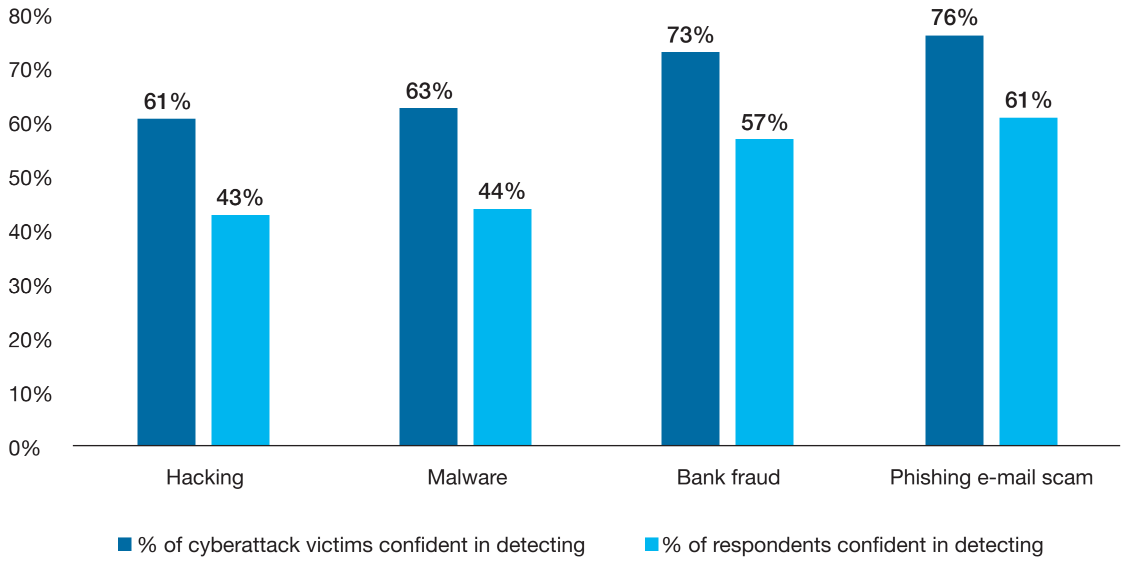
e-mail scam complaints in 2018.[1]

[1] *Through the Internet Crime Complaint Center (IC3)*

Cyberattack victims are aware and may be ready to act

Those surveyed who have experienced a cyberattack are **not more likely** to have cyber insurance already, but they **are more confident** in detecting cyberattacks and more likely to say they're willing to pay for cyber coverage as part of their existing policies. Sixty-six percent of these respondents are willing to pay for this type of coverage if it were available, compared with just 44 percent of the total survey population. Greater confidence and openness to purchasing cyber coverage indicates cyberattack victims have become more educated about cyber risks and aware of the possible consequences of an attack. The disparity—between saying they would buy cyber coverage and actually doing so—suggests an opportunity for insurers.

Cyberattack victims feel more confident than most consumers in detecting threats



Cyberattack victims may be ready for conversations about the importance of protecting against possible losses that could result from future attacks, rather than only trying to "block" them. Having these conversations may help increase take-up rates for cyber loss protection.

Education may cultivate motivated buyers

Verisk’s study showed that while consumers are mitigating risk with techniques such as antivirus software and credit-monitoring services, there’s still a knowledge gap when it comes to cyber events and their financial implications.

When asked what would make them more confident in detecting a cyberattack, respondents said:

> “If someone taught me what all of those things are.”

> “Making myself more knowledgeable about what each cyberattack entails, who’s at risk, and how to protect myself from it.”

> “To be better educated on what each of them are and what to look for as well as what to do when it happens.”

We’ve seen that the majority of consumers surveyed are concerned about possible cyberattacks, but 80 percent do not have cyber insurance coverage. Having learned from experience, those who’ve experienced an attack are more receptive to purchasing cyber insurance, but the challenge is to spread that knowledge to consumers who’ve been spared so far—before they become the next victims.

Insurers, agents, and brokers can cultivate and leverage their trusted-advisor status by educating policyholders as to what constitutes a cyberattack and the possible financial consequences should risk mitigation efforts fail. Increasing the number of consumers who are educated about cyber dangers could increase cyber insurance take-up rates.

The market: Where it is and where it might go

Cyber insurance buyers

Just 20% of survey respondents said they already have cyber insurance. Respondents who are cyber policyholders overall are more likely to be:

- Female
- Single
- Bachelor's or postgraduate degree holders
- Employed full-time
- Living in a suburban setting
- Working in retail/ wholesale trade

Primed to buy?

Two-thirds of past cyberattack victims surveyed say they're receptive to paying for cyber coverage if it's offered. Respondents who say they've been victims are typically:

- Male
- Married
- Bachelor's or postgraduate degree holders
- In their 30s
- Living in an urban setting
- Living with children under 18

Though just 20 percent of the total survey population survey said they have cyber insurance, 37 percent of respondents who work in retail/wholesale trade reported looking to insurance for cyber protection. Increased exposure to online transactions may have heightened cyber risk awareness for this group.

Compared to 45 percent of the total sample, 58 percent of respondents who reported experiencing a cyberattack live with children under 18.

Closing the gap: The need for "standardized" personal cyber policy form language

Low take-up rates for personal cyber coverage may reflect more than a lack of consumer understanding or the scarcity of product offerings. Insurance products often fare best in the market when they're easy to understand and compare across competing insurers. Half the respondents to Verisk's insurer survey said it's important for the insurance industry to provide standardized personal cyber policy language for customers. ISO is accustomed to meeting such challenges with expertise, data resources, and creativity spanning diverse, complex, and overlapping risks.

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ISO's capabilities produce standardized insurance programs, policy language, forms, loss cost projections, rating plans, and industry data. These solutions enable speed to market, promote ease of doing business with agents and consumers, help facilitate efficient claim settlement, and can improve accuracy in underwriting and pricing. And ISO helps many insurers over the hurdles of filing forms and rating plans with regulatory bodies.

Well-grounded programs could help fill numerous gaps that may be keeping personal cyber from coalescing into a more robust segment of the personal lines market.

Study methodology

Verisk conducted two surveys for this study.

The first surveyed a panel of 700 U.S. consumers who constituted a representative sample of Americans at least 18 years old. Conducted in late 2018 via online questionnaire, the survey asked 20 questions about respondents' online habits, their knowledge and concern about cyber threats or attacks, their experience with such events, and their desire to purchase cyber loss coverage. Quoted responses are drawn verbatim from open-ended questions.

The second surveyed 64 individuals who work for U.S. insurers. Respondents' roles included work in personal lines coverage. The survey was conducted in mid-2019 and asked questions related to current personal cyber coverage offerings, personal cyber market observations, and possible future cyber insurance products.

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