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KPMG Perspectives

Rethinking insurers' strategies and structures in the digital age

TECHNOLOGY brings a new range of threats to both tangible (e.g. property) and intangible (e.g. reputation) assets, many of which are not covered by established insurance policies, leaving organizations of all types dangerously exposed to the impact of cyber perils.

Cyber insurance, as it has historically been defined, has focused primarily on digital assets, such as customer data. However, with the scale, frequency and impact of cyber-incidents increasing, many traditional insurance lines, like home, property, energy and aviation, are transitioning by proxy to cyber insurance.

Our discussions with industry experts support this trend and predict that the cyber-insurance sector is undergoing several waves of development to expand from digital assets to encompass physical assets, as well as other asset classes, such as reputaåtion, intellectual property and business interruption.

The faster the insurers can unravel the complexity of modeling and pricing these risks, the quicker they can seize a share of this exciting, expanding market, which could be worth more than $10 billion of global premiums by 2020.

This represents a significant opportunity, but also a big challenge for insurers, who need to move their cover from products to managing risks, preventing incidents and responding to incidents. Insurance companies are creating teams that focus on cyber-insurance risks, but we recommend that they should adapt their organizational structures to ensure that cyber is integrated into everything they do, possibly creating stand-alone cyber-insurance centers of excellence that bring together cyber-risk modeling, crisis management and digital platforms. Ultimately, as customers start seeing value in integrated solutions to protect against cyber incidents across all asset types, insurance companies might consider shifting their department structures away from a focus on assets (e.g. property, motor, aviation) to a focus on perils (e.g. cyber terrorism), thereby challenging the status quo of traditional insurance.

In today's digital world, almost all insurance lines are impacted by cyber

TECHNOLOGY has become an integral part of our lives, with emerging innovations like artificial intelligence, the Internet of things, robotics and augmented and virtual reality impacting homes, workplaces, transportation and leisure. This is creating new levels of e-mobility, automation, smart buildings and even smart cities.

But these developments bring new threats, and the insurance industry is playing catch-up to keep pace with the rapid rise of cyber risks. According to research from Allianz, annual worldwide losses attributable to cybercrime are close to $500 billion—a figure set to quadruple to more than $2.1 trillion by 2019. Yet, yearly global cyber premiums are estimated at just $2.5 billion—a mere 1 percent of total commercial premiums, (and this modest figure only represents cover for a narrow range of risks—mainly digital assets). Furthermore, it is estimated that 60 percent of Fortune 500 companies currently lack any insurance against cyber incidents, primarily due to a lack of cover currently available for many types of cyber risk.

While cover is low, cyber risk is undeniably a major concern for business.

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In KPMG's 2016 Global CEO Outlook, chief executives cite cyber security as the number one risk facing their companies. However, they also recognize that there is more work to be done in this area, with 72 percent of CEOs not feeling fully prepared for a cyber event.

The types of cyber attacks against businesses vary from sector to sector and are constantly evolving. For example, the financial-services sector finds itself a focus for organized cybercrime, and retail is increasingly being targeted. Ransomware and distributed denial—ofservice attacks are increasingly used against businesses with health care, and the media and entertainment particularly targeted. Meanwhile, the public sector and telecommunications sectors are highly susceptible to espionage-focused cyber attacks.

Traditional insurance players are increasingly realizing that cyber risk is much more than a data breach. As the following diagram shows, digital technology has introduced a wide range of additional threats that impact existing insurance cover, where hackers and/or system failures can cause physical damage, accidents and theft. Such a trend offers cyber insurers the chance to take market share from established players.

The article "Rethinking insurers' strategies and structures in the digital age" by Paul Merrey, KPMG, in UK was taken from KPMG's publication, entitled "Seizing the cyber insurance opportunity".

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