

The Morning Risk Report: Cyberinsurance Little Help against Cyberterrorism

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State-sponsored cyberattacks are a growing risk that companies may face alone, because typical cyberinsurance policies don't cover such attacks. "The damage is potentially so virulent and disruptive that these attacks amount to cyber warfare," observed Eric Cernak, vice president and cyber product manager with The Hartford Steam Boiler Inspection and Insurance Co., a subsidiary of Munich Re. "The insurance industry historically has seen war exposures as uninsurable because they create accumulation risks that are unlike anything else." Accumulation refers to a combination of risks from a single event. In fact, should a terrorist attack shut down the Internet completely, even the Terrorism Risk Insurance Act reauthorized in January to provide government backup for terrorism insurers might not be much help.

"No cyber policy has TRIA designation," explained Heather A. Steinmiller, senior vice president and general counsel of insurance brokerage Conner Strong & Buckelew, noting "TRIA provides backstop for reinsurance but requires insurance carriers to endorse certain policies." Generally, TRIA provides backup for property damage but not for business interruption absent such damage. Moreover, an event must have certification as a terrorist attack by the secretary of the treasury in conjunction with the secretary of state and the attorney general in order for TRIA to come into play, and that can be hard to get, even for such an event as the 2013 Boston Marathon bombings. Nearly two years later, the Department of Treasury has not yet made that certification decision.

Although the cyberinsurance market is booming, most policies specifically exclude state-sponsored or terrorist cyberattacks. "This omnibus wording should be a concern to all companies but in particular those involved in critical infrastructure or services such as financial services, chemical, communications, manufacturing, defense, energy or health care," said Brian B. Brown, a risk management consultant with Atlanta-based CyberSpecialist Group. Allaying that concern might require a new government commitment to cyberinsurance, noted Gerry Finley, senior vice-president, casualty underwriting, Munich Re America. "The government has an interest, and a role to play, in helping the private market be as robust as possible, from helping to appropriately facilitate information sharing, to helping to manage accumulation risk."



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