

**FITCH WIRE**

# Sharply Rising Cyber Insurance Claims Signal Further Risk Challenges

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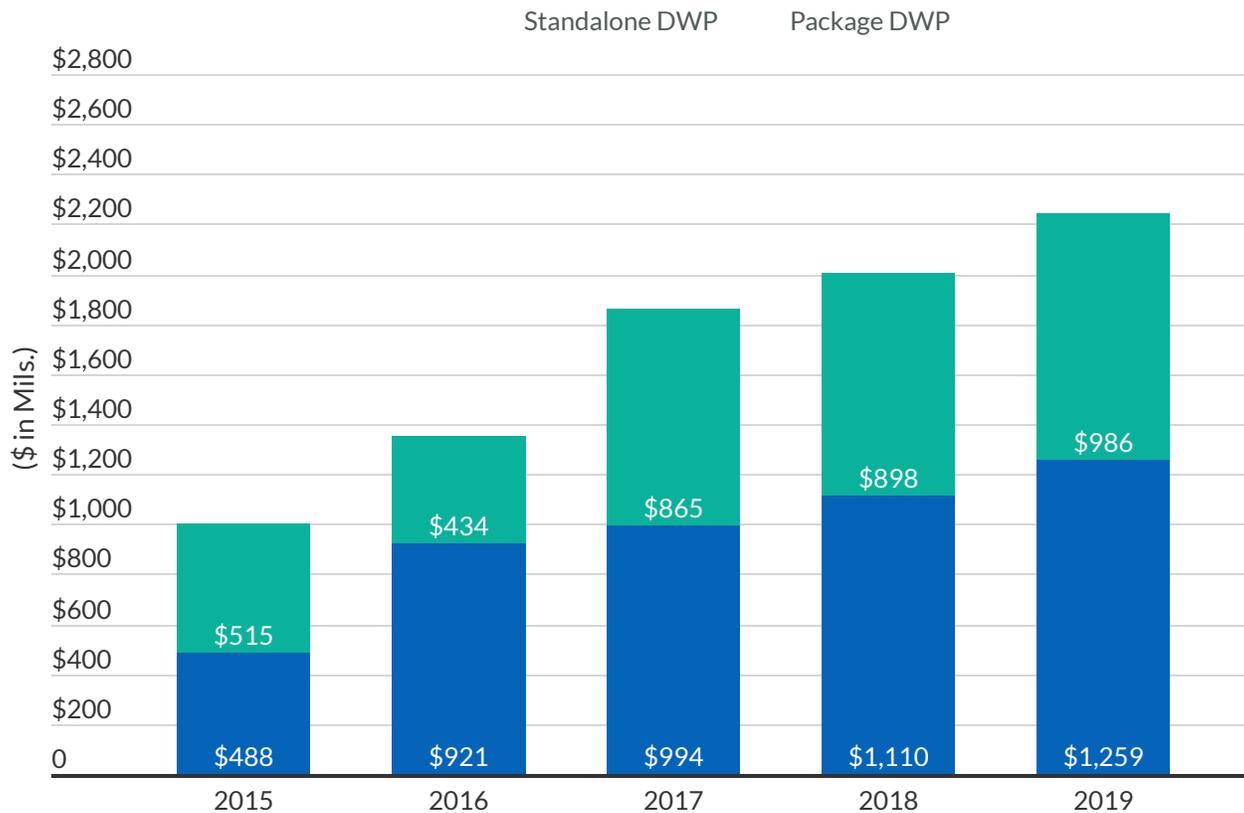
Fitch Ratings-Chicago/New York-15 April 2021: Property/Casualty (P/C) insurers that write cyber coverage face increasing profit pressure, as underwriters reported substantially higher segment claims losses in 2020 than in prior years. Significant premium rate increases and tighter coverage terms are anticipated to foster a recovery in underwriting performance over the medium term. However, a higher propensity of cyber incidents, particularly ransomware attacks, are likely to hinder a near-term reversal of claims cost trends, Fitch Ratings says.

Cyber insurance direct written premium (DWP) growth accelerated in 2020 with momentum continuing into 2021. Fitch estimates industry DWP for cyber coverage in standalone and package policies increased by over 22% in 2020 to approximately \$2.7 billion, according to data compiled from cyber insurance supplemental filings in statutory financial statements.

Written premiums for standalone cyber coverage increased by 29% for the year, reflecting growing demand for specific cyber protection and insurers interest in reducing ambiguity in coverage relative to cyber risks included in package policies. Demand is driven by the need for risk management expertise and insurance protection by firms of all sizes due to incidence of network intrusions, data theft and ransomware incidents that have increased substantially in the last two years.

## P/C Industry Cyber Insurance Direct Written Premiums

DWP Growth Accelerated to 22% in 2020 vs. 12% in 2019



Source: Fitch Ratings, S&P Global Market Intelligence.

### FitchRatings

Cyber insurance continues to represent a modest portion of overall underwriting exposure to the P/C industry and individual insurers. However, a large unforeseen cyber event, such as a massive cloud intrusion or attack on infrastructure, could result in substantial individual incurred losses that could pressure capital levels and individual ratings.

Limited historical claims and underwriting data also create significant challenges, especially for new underwriters entering the segment. The direct loss ratio for standalone cyber rose sharply in 2020 to 73%, the highest level recorded in the six years that separate cyber data were included in financial reporting.

Feedback

# P/C Industry Aggregate Standalone Cyber Risk

2020E Direct Loss & DCC Ratios Rose to 73% vs. 47% in 2019

DCC - Defense and cost containment incurred.  
Source: Fitch Ratings, S&P Global Market Intelligence.

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**Fitch**Ratings

Risk exposures were meaningfully altered by the response of the coronavirus pandemic. The broad shift to a remote workforce, along with increased intrusions from phishing emails and other means, added stress to network security systems. Premium rates for cyber coverage moved sharply upward in 2020 in response to poorer experience with average cyber renewal premium rates, up 11% YoY in 4Q20, according to the Council of Insurance Agents & Brokers' Commercial Property/Casualty Market Survey, a trend that is expected to continue.

Feedback

# Cyber Insurance Change in Renewal Premium Rates

Quarterly Year-Over-Year Change

Source: Fitch Ratings, Council of Insurance Agents & Brokers.

**Fitch**Ratings

Aside from price increases, additional changes in risk selection and policy terms, including coverage exclusions and sub-limits, are likely necessary for a significant turnaround in underwriting performance. Any reduction in cyber incidents and losses will ultimately be tied to organizations implementing more effective risk prevention and event remediation measures.

The nature of cyber threats also hinders insurer efforts to diversify cyber underwriting portfolios and manage risk aggregations. Geographic diversification often does not offset cyber risk, as cyber incidents have proliferated globally. Regulatory data for Canadian P/C insurers shows the cyber net claims ratio jumping to 105% in 2020 from 39% a year earlier.

Further commentary on segment results and company market share is forthcoming in Fitch's update report on the U.S. Cyber Insurance Market that will be released in the next month.

Feedback

**Related Research:**

April, 13, 2021: [Fitch Ratings Partners with SecurityScorecard to Assess Cyber Risk](#)

See cyber-risk landing page: <https://www.fitchratings.com/topics/cyber-risk>

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