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PE Data Breach

Could your insurance agency weather a data security breach?

A full 80 percent of businesses that experience one don't.[1] The right insurance can keep your agency from becoming part of this startling statistic. If that is not enough reason to consider purchasing data breach protection for your business, here are six more:

1 **Data breaches are common among smaller businesses like yours.** Some 55 percent of small businesses responding to a recent survey have experienced a data breach and 53 percent have reported multiple incidents.[2] If you collect sensitive information from policyholders, you are at high risk.

Data held by small businesses is low hanging fruit... hackers know these enterprises lack the security resources of their larger counterparts. Only 38 percent of breaches in the latest Verizon study impacted larger organizations.[3]

2 **Responding to a breach is not only costly – running an estimated $200,000 – it's complex.** Experts from multiple disciplines -- from forensic investigators, to public relations firms, to privacy counsel -- may be needed to mount a coordinated response to even a small incident. Botch the response and your reputation can be irreparably damaged. There is also the specter of regulatory fines and penalties and legal liability.

A single laptop left on a commuter train or stolen at an airport can cost an agent nearly $50,000 – most of that being expenses to respond to data breached – or potentially breached.[4]

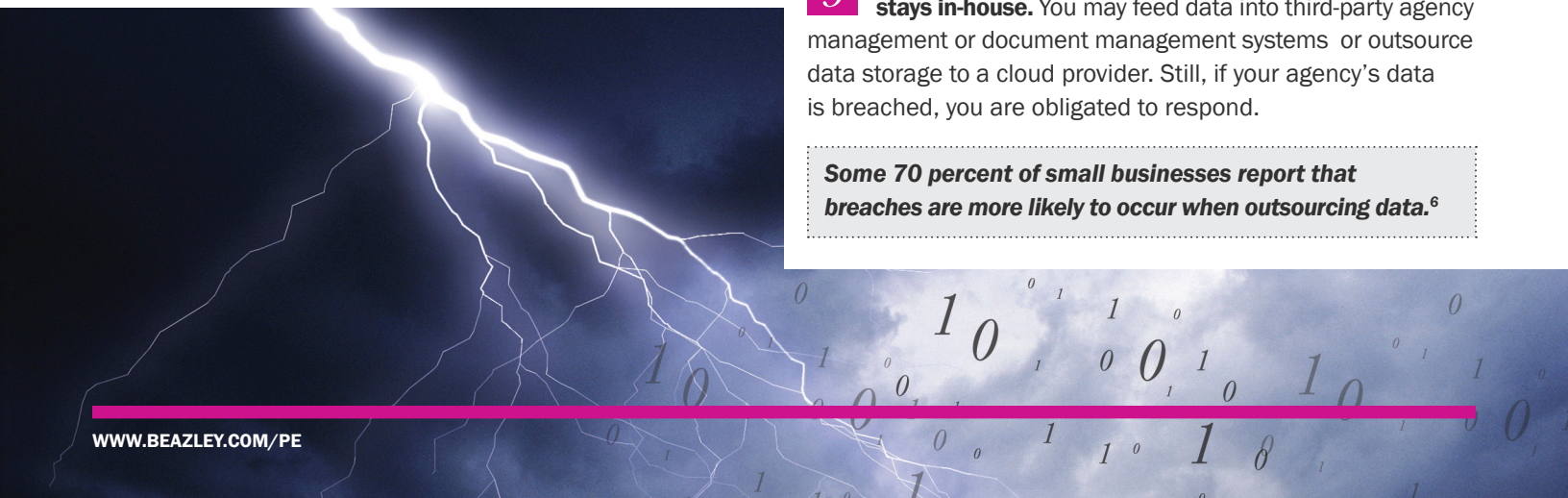
3 **Package policies are not up for the task.** Your commercial package policy may have a cyber liability extension, but take a hard look at the coverage it provides. Endorsements typically carry low limits and few options. If first-party coverage is provided, limits may be inadequate for the exposure. For third-party liability, coverage may fall short in key areas, such as responding to acts of rogue employees. Does it address regulatory fines and penalties? Does the insurer have the duty to defend?

4 **You are obligated to protect data you collect.** This might include everything from personal information, such as addresses, Social Security and driver's license numbers of employees, policyholders or prospects, as well as corporate information -- including sensitive financial information on commercial clients. If you handle employee benefits, you may have personal health information in your care.

State and federal regulations dictate proper handling of private information. If this information is breached, agents must navigate the different laws in 46 states that mandate how victims must be notified. [5]

5 **Even if you outsource data handling, your exposure stays in-house.** You may feed data into third-party agency management or document management systems or outsource data storage to a cloud provider. Still, if your agency's data is breached, you are obligated to respond.

Some 70 percent of small businesses report that breaches are more likely to occur when outsourcing data.[6]



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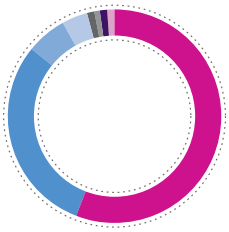
6 **The exposure is not just from hackers intruding on electronic systems.** Breaches are caused by everything from lost, discarded, or stolen laptops, PDAs, smartphones, and portable memory devices, to innocent procedural errors and acts of disgruntled employees.

Records breached



Total
563.9 million
Since 2005

Source: Privacy Rights Clearinghouse, 10/18/2012

Hacking or malware – Electronic entry by an outside party	**56%**
Portable device – Lost, discarded or stolen laptop, PDA, smartphone, portable memory device, CD, hard drive, data tape, etc	**30%**
Insider – Someone with legitimate access intentionally breaches information – such as an employee or contractor	**6%**
Unintended disclosure – Sensitive information posted publicly on a website, mishandled or sent to the wrong party via email, fax or mail	**4%**
Stationary device – Lost, discarded or stolen stationary electronic device such as a computer or server not designed for mobility	**1%**
Payment card fraud – Fraud involving debit and credit cards that is not accomplished via hacking. For example, skimming devices	**1%**
Physical loss – Lost, discarded or stolen non-electronic records, such as paper documents	**1%**
Unknown or other	**1%**

What amps up an insurance agency's exposure?

Answering yes to any of the following questions:

Do you have employees?

Do you keep employee records?

Do your client records include third party corporate information (such as company financials)?

Do you handle personal lines?

Do you offer premium financing?

Do you have computers, back-up tapes, a copier, a fax machine?

What can happen

A computer network used by insurance agents was breached by cybercriminals. While the attack was discovered and contained quickly, the personal information – including Social Security and driver's license numbers of one million policyholder and non-policyholders was comprised.[7]

How it adds up

Every data breach is different. Generally speaking, however, in considering the cost of a response you can expect to pay from $10,000 to $100,000 just for a forensics expert to get to the root of a breach and contain it. Creating and mailing notification letters to victims is in itself costly. Once you do that, you typically must also set up a call center to respond to inquiries from victims, and offer credit monitoring to victims to help mitigate damages. Smaller businesses are less likely than larger ones to have the internal resources and expertise to handle a breach response, so they are more likely to have to pay outside experts – including specialized privacy counsel, consultants, crisis management and public relations professionals – to assist. Then there is the cost of any regulatory actions, penalties, or lawsuits that could arise from the incident.

Being protected = Being prepared to respond

It could be a lost flash drive, or a persistent attack by hackers a world away. Every breach is different – and every one requires a smart, strategic response.

With Beazley Breach Response, your agency can secure comprehensive coverage for the expenses incurred to respond to a breach -- and have experts standing ready to deliver the well-coordinated response you need to mitigate financial damages and protect your reputation. It encompasses everything from forensic investigation, legal, compliance and public relations services, to breach notifications, call center servicing, and on-going credit and data monitoring.

To learn more, contact your Beazley territory manager or underwriter or go to www.beazley.com/pe.

1. Privacy Rights Clearinghouse: Chronology of Data Breaches
2. Ponemon Institute. (Also citation 6)
3. Verizon2013 Data Breach Investigation Report, p. 5
4. California Attorney General/Privacyrights.org (Also citation 7)
5. http://www.ncsl.org/issues-research/telecom/security-breach-notification-laws.aspx