

# Nordic Captive Summit 2023

Cyber risk management through captive solutions

October 20, 2023



# Cyber Security Awareness Month!



- Cyber Security Awareness Month serves as a reminder for those in your organization to prioritize cyber security!
- As risk or insurance managers, it's the perfect time to take advantage of this month's title and push out more educational content, engage in more conversations, and empower your team to be vigilant against cyber threats.
- All eyes are on you and your team, so it's all about making the most of it while you have the stage.

# Agenda and Intro

## From WTW

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- What is Cyber risks?
- How is cyber insurance constructed
- State of the cyber insurance market
- Captive solutions
- How to benefit Cyber risk management through captive solutions

# What is Cyber risks?

# Business risks

## The most important global business risks for 2023

**Key**

- ↑ Risk higher than in 2022
- ↓ Risk lower than in 2022
- No change from 2022
- (SN) 2022 risk ranking %

Source: Allianz Global Corporate & Specialty

- 1 Cyber incidents ranks higher than business interruption based on the actual number of responses
- 2 Changes in legislation and regulation ranks higher than natural catastrophes based on the actual number of responses
- 3 Shortage of skilled workforce ranks higher than fire, explosion based on the actual number of responses



[Watch our short film about the top 10 risks for 2023](#)



[View the full Allianz Risk Barometer 2023 rankings here](#)



Figures represent how often a risk was selected as a percentage of all survey responses from 2,712 respondents. All respondents could select up to three risks per industry, which is why the figures do not add up to 100%.

# Cyber risks

## The cyber risk landscape



**37%**

of all businesses and organizations were hit by ransomware in 2021

Sophos



**\$5.5 MIL**

Average ransom demand in 2021 by WTW clients

WTW proprietary claims data



**NO 1**

Cyber incidents are the most important global business risk for 2022

Allianz Risk Barometer 2022



**\$9.05 MIL**

The average cost of a U.S. data breach in 2021, up approx. 5% since 2020.

IBM Cost of a Data Breach Report 2021

# How is cyber insurance constructed

# Cyber Insurance (1<sup>st</sup> party)

## Ansvarsförsäkring

Vid **skadeståndskrav** pga

- läckage av personuppgifter alt. konfidentiell företagsinfo.
- bristande IT-säkerhet/spridande av malware

**Myndighetsutredning** – utrednings/ombudskostnader

GDPR-bot?

## Utpressning:

IT-specialister för hantering  
Lösensumma



## Avbrott/Extrakostnader

Avbrottsförsäkring, inkl för underleverantör

Extrakostnadsförsäkring

## Incidenthantering

Egna kostnader för krishantering, rapportering och kommunikation genom

- IT-specialister/forensics
- Juridisk rådgivning
- PR-konsulter

Återställande av data/system  
Kostnadsersättning och support

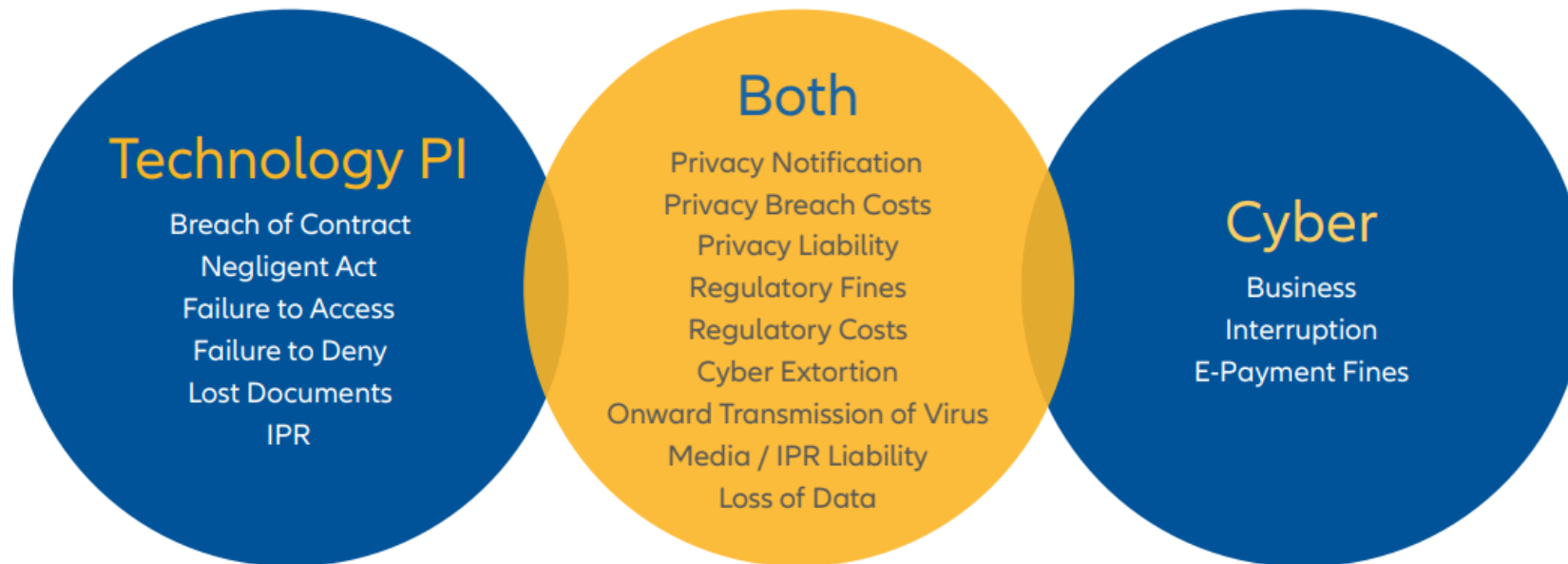


# Tech Professional Indemnity

Professionsansvarsförsäkring – ansvar för ren förmögenhetsskada

Tecknas ofta i kombination med Cyber försäkring, eller som utökning under en Ansvarsförsäkring

För bolag som levererar tjänster/service inom mjuk- och hårdvara  
Alltmer vanlig för tillverkande bolag när produkterna blir mer ”uppkopplade”



# Example of Cyber Insurance Program

Exempel:

Totalt försäkringsbelopp MEUR 60

Självrisk MEUR 2

25% av 20MEUR	37,5% av 20 MEUR	37,5% av 20 MEUR
5 MEUR		
MEUR 10		
10 MEUR		
5 MEUR		
10 MEUR		

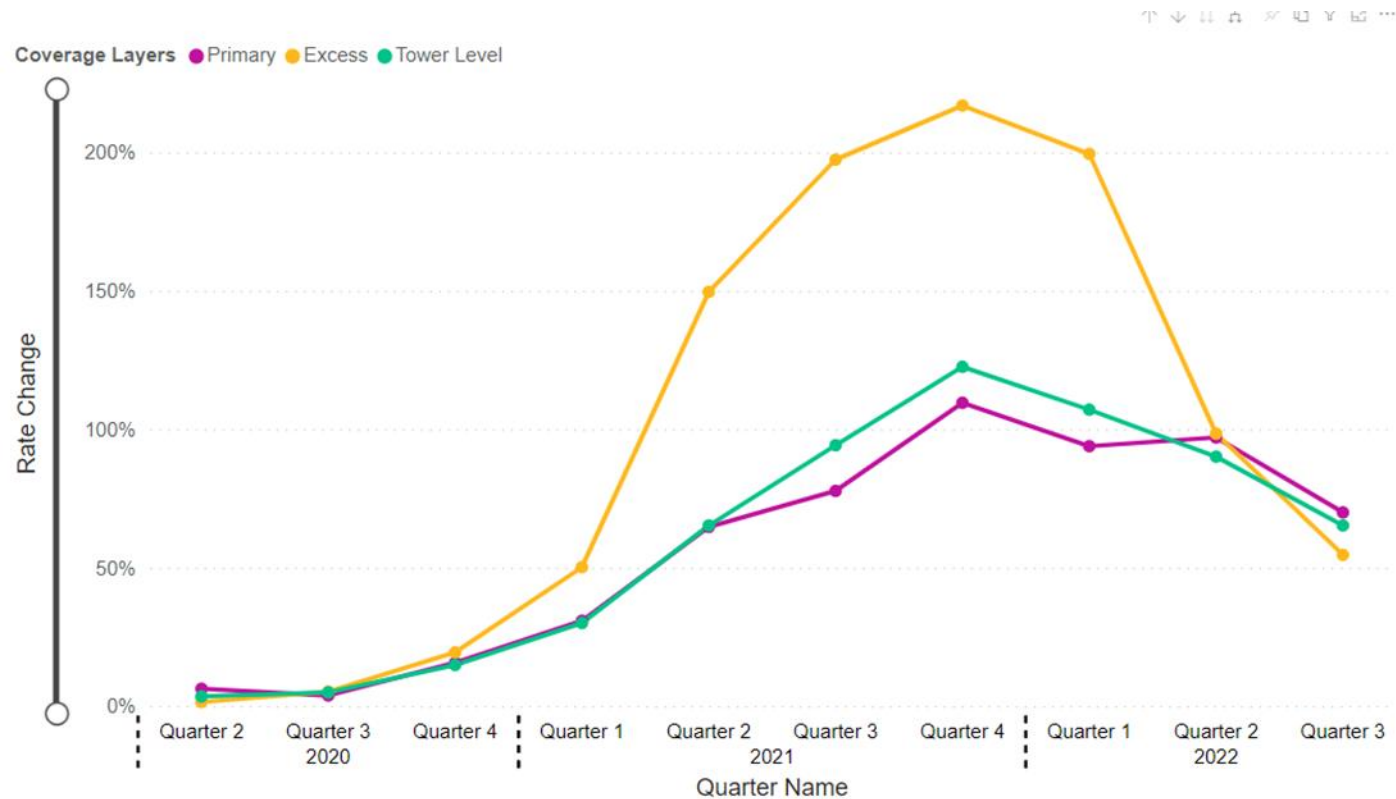
# State of the cyber insurance market

# Cyber Insurance Market

Premier och självrisker ↑

Tillgänglig kapacitet ↓

Under 2023 – mer stabil marknad



# Cyber Insurance Market – Minimum Requirements

## Multi-factor authentication

MFA implemented for all remote access, and also for all access to privileged accounts, even on internal access.

## Endpoint Detection & Response

EDR rolled out on all servers and endpoints capable of carrying an EDR agent.

## Awareness & Phishing training

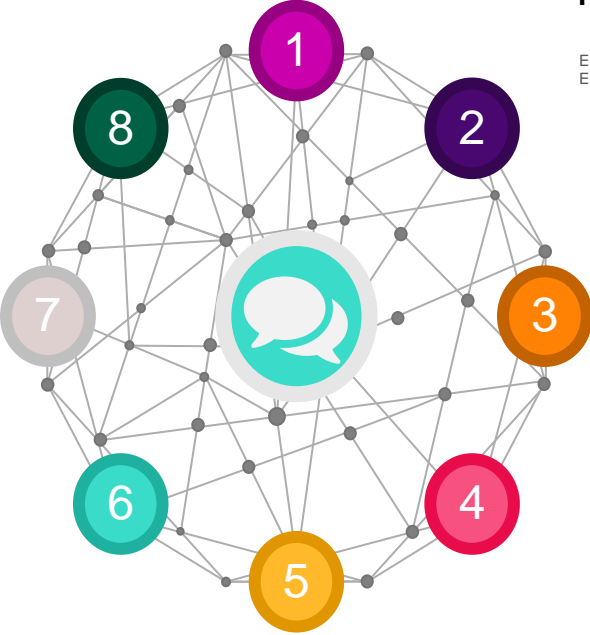
Awareness training provided to all employees, with phishing simulation campaigns for employees in exposed situations.

## Backup procedures

Immutable/Offline backups or alternative solutions that makes it impossible to delete existing backups.

## Active monitoring

The environment must be monitored by a Security Operations Center (SOC), either internal or external, on a 24/7 basis.



## Privileged Access Management (PAM)

A Privileged Access Management tool in place to manage privileged accounts, and Local Administrative rights granted only on a temporary basis.

## Asset Management

Inventory of the environment using a tool for Asset Management.

## Segmentation

The environment should be segmented to prevent an attacker from being able to access the entire environment.

# Captive solutions

# Captive Solutions

## Captives as a Strategic Risk Management tool

### Support move to (further) self-insurance

- Exert control
- Reduce/stabilize cost
- Recapture investment income
- Accelerate/manage cash flow



### Bring discipline and attention to risk management

- Focus operating management attention on loss prevention
- Increase senior management focus on risk



### Create segregated, protected pool of monies to pay for retained losses



### Fund retentions

- Corporate vs. division, etc.
- Deductible buyback



### Create cost allocation tool



## Captive Strategic enabler

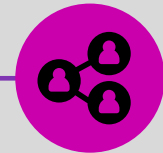
### Coverage

- Fill insurance voids
- Tailor protection to unique risks



### Insure third parties

- Support strategic partners
- Ensure uniformity of coverage
- Make money



### Create access to reinsurers (or other forms of risk transfer)

- Increased available capacity
- Coverage flexibility



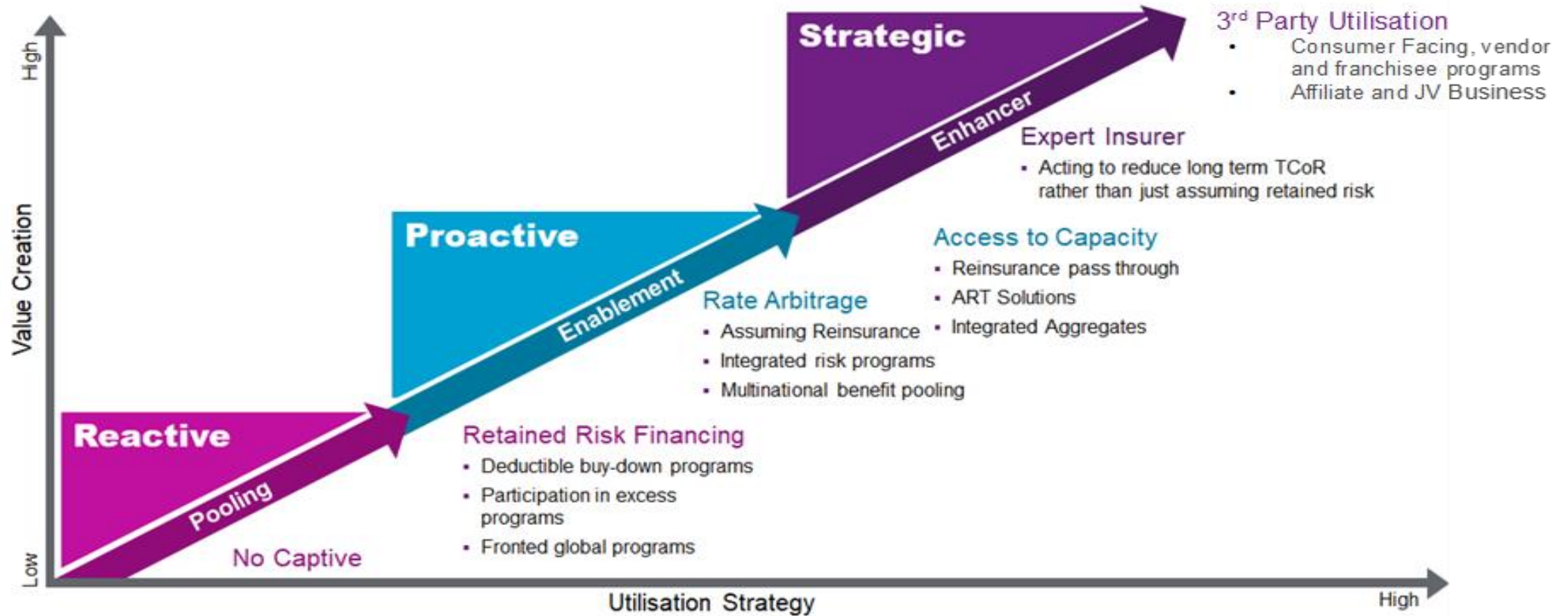
### Warehouse data



### Income tax relief or postponement



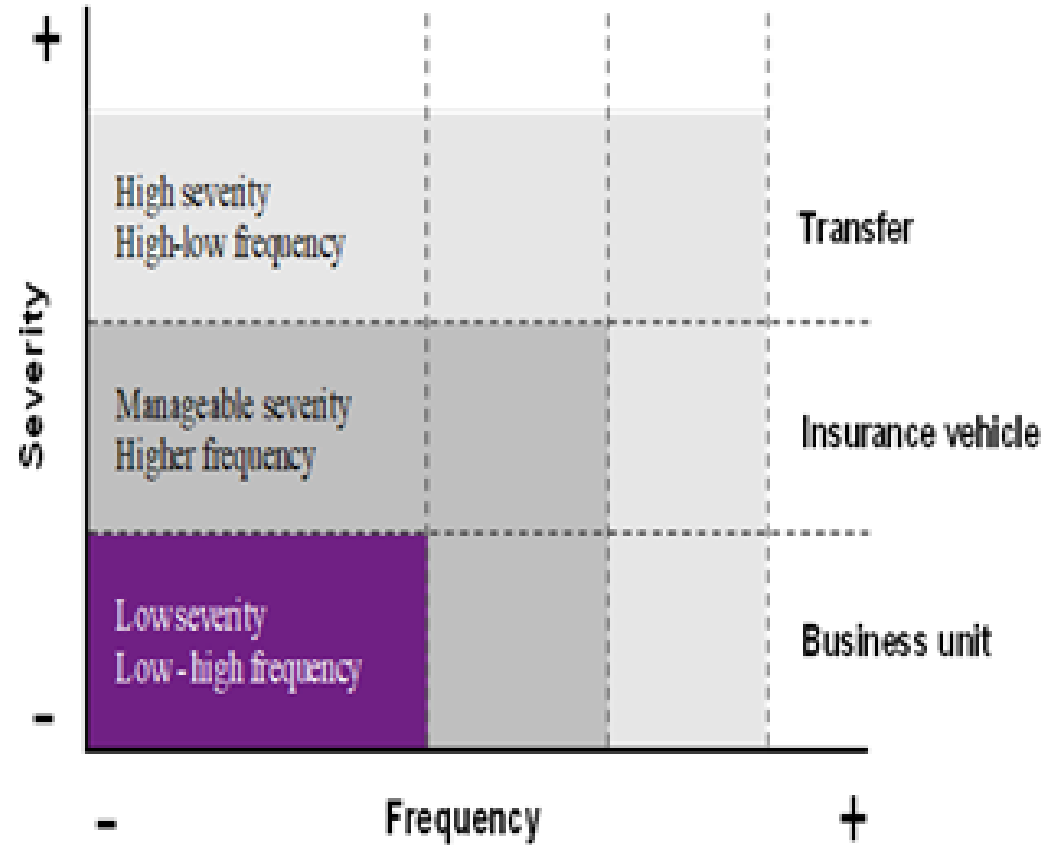
# Captive Strategy Evolution





# Risk transfer and financing strategy

Typical loss frequency/severity relationship



There are critical decisions to make when structuring a cost-effective risk financing program:

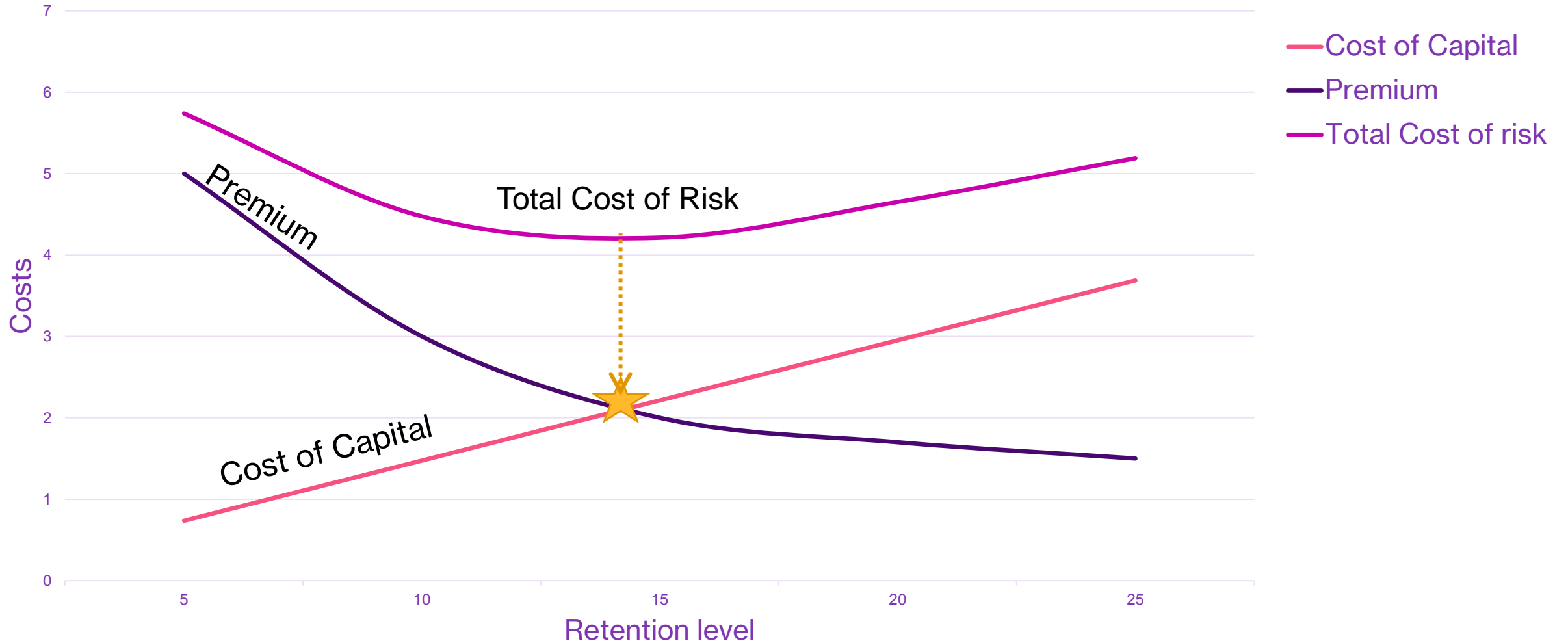
- To retain risk or not?
- If “yes”, how much?
- To pre-fund or not?
- What is the right funding vehicle for the organization?



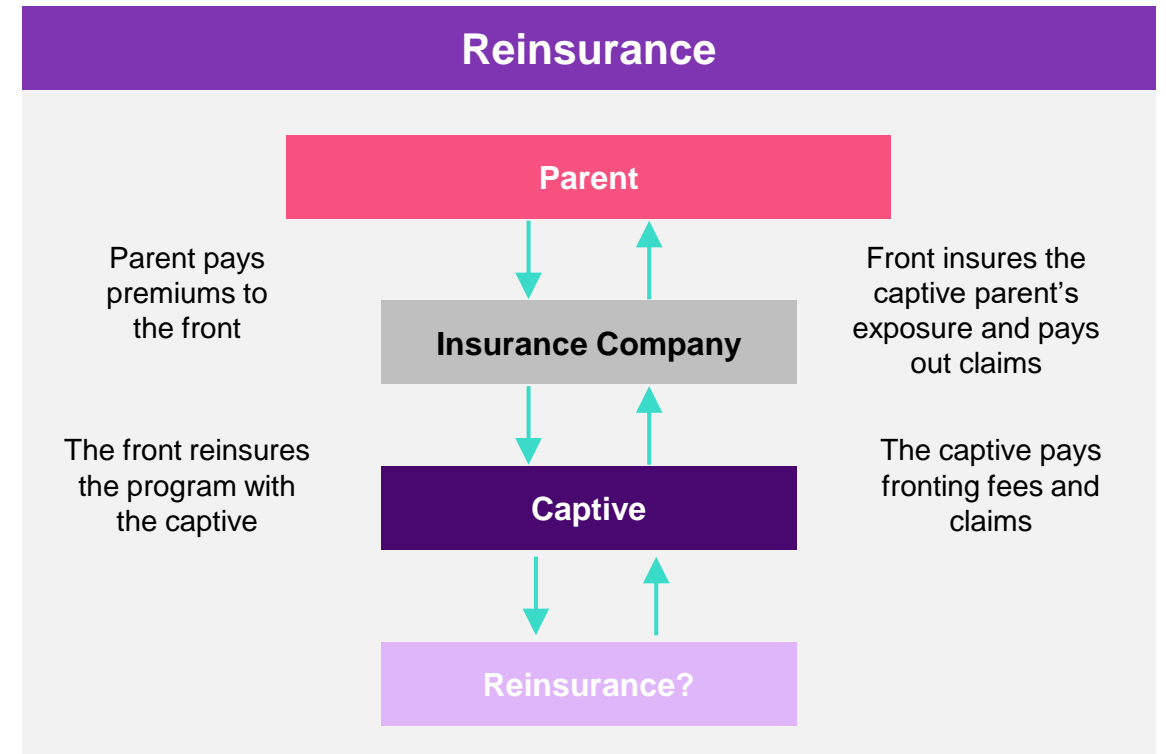
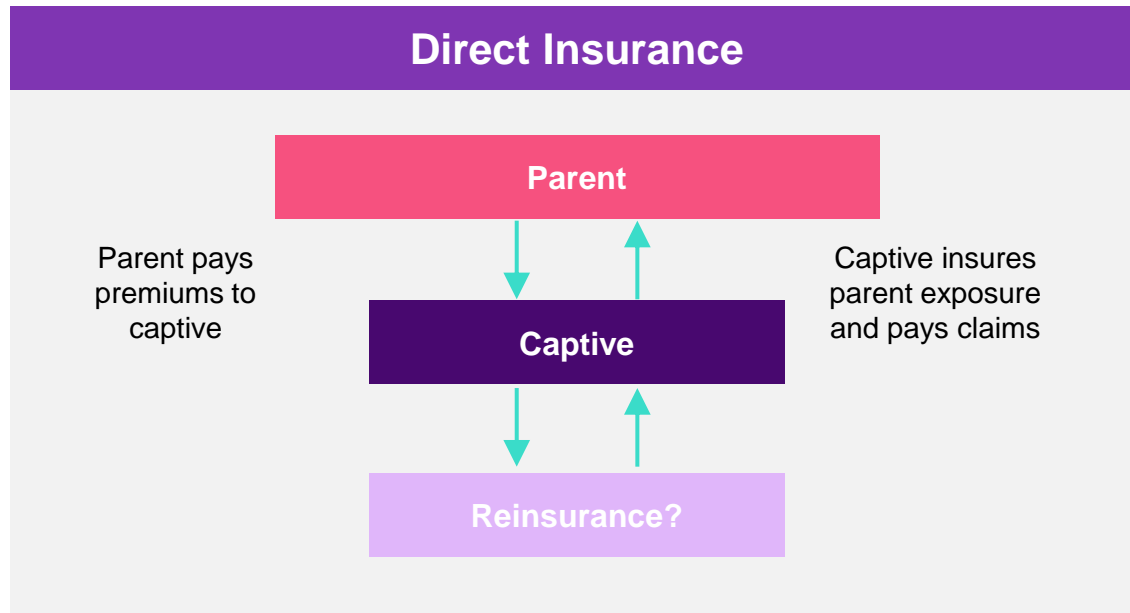
Examples of why you may retain risk?

- Markets reflect market trends rather than insured loss experience.
- Insufficient credit is given for loss control
- Differential coverage standards around the world.
- Difficulties in insuring certain types of fortuitous risk
- Capacity volatility

# Risk financing optimised – an illustration



# Two way of captive solution



# How to benefit Cyber risk management through captive solutions

# How to benefit cyber risk management with captive

## Case studies

- 1) Captive to support risk management
- 2) Captive as a business enabler
- 3) Captive as a strategic purchase vehicle



# Case 1) Captive to support risk management

## Description – Client Issue



- Big cyber exposures in the group
- **No unified way of dealing with risk management**
- IT-department (s) owner of the whole process
- No “real” exposure / scenario analysis

## Characteristics



- No Cyber Insurance in place
- Subsidiaries with various risk appetite
- Issue with risk mitigation prioritization

## Captive Solution and Benefits



- **Captive direct writing 100% of the risk, no reinsurance**
- Local Policy Fronting where needed for license/compliance reason
- Global defined risk principles in line with other ERM risks
- **Cyber risk integrated part of risk management responsibility**
- Quantification of scenarios and losses
- Effective Capital allocation / risk premium / reserves
- Central pool of data allocation
- Effective Claims process with incident response

# Case 2) Captive as a business enabler

## Description – Client Issue



- “Traditional” global manufacturing company  
Digitalization of products – integrated Tech services
- Demand from customers on high **Tech Errors and Emission Liability (20MUSD)**

## Characteristics



- **Company have identified no real need for them to transfer this risk from a risk management perspective**
- Company have a large risk appetite
- The Captive have a reinsurance license
- The insurance market to buy this required cover is limited and therefore expensive

## Captive Solution and Benefits



- A Global insurer offered a 100% Fronted solution
- All risk is ceded to the captive and are retaining 100% of the risk (20MUSD)
- The global insurer issuing the necessary insurance certificates where required by the company customers.
- Flexible for issuing higher limits when requested and integrate newly acquired companies in the tech sector.
- **The captive enabled the parent company to seamless move into the tech-sector and fulfilling customer requirement.**

# Case 3) Captive as a strategic purchase vehicle

## Description – Client Issue



- High insurance premium
- Invested in risk mitigation but not get benefit from the market
- Insurance market have priced the program in an unlogic way compare to risk curve



## Characteristics

- Insurance market have priced the program in an unlogic way
- Excess layers with higher price than underlying layers
- Well capitalised captive

## Captive Solution and Benefits



- **Captive participated with 10 MUSD as a traditional excess insurer**
- Direct writing with follow the form an claims handling from the primary insurers
- **Changed the pricing dynamics of the whole program**

25%	37,5%	37,5%
20MEUR	20 MEUR	20 MEUR
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➔ **Captive**



# How to writing cyber risk in the captive

