



MEMORANDUM

TO: Property and Casualty Insurance (C) Committee

FROM: NAIC Staff

DATE: November 3, 2023

RE: Report on the Cybersecurity Insurance Market

Total Premium Volume

This year 151 insurer groups representing 89 individual companies submitted data on the Cyber Supplement for the 2022 calendar year.

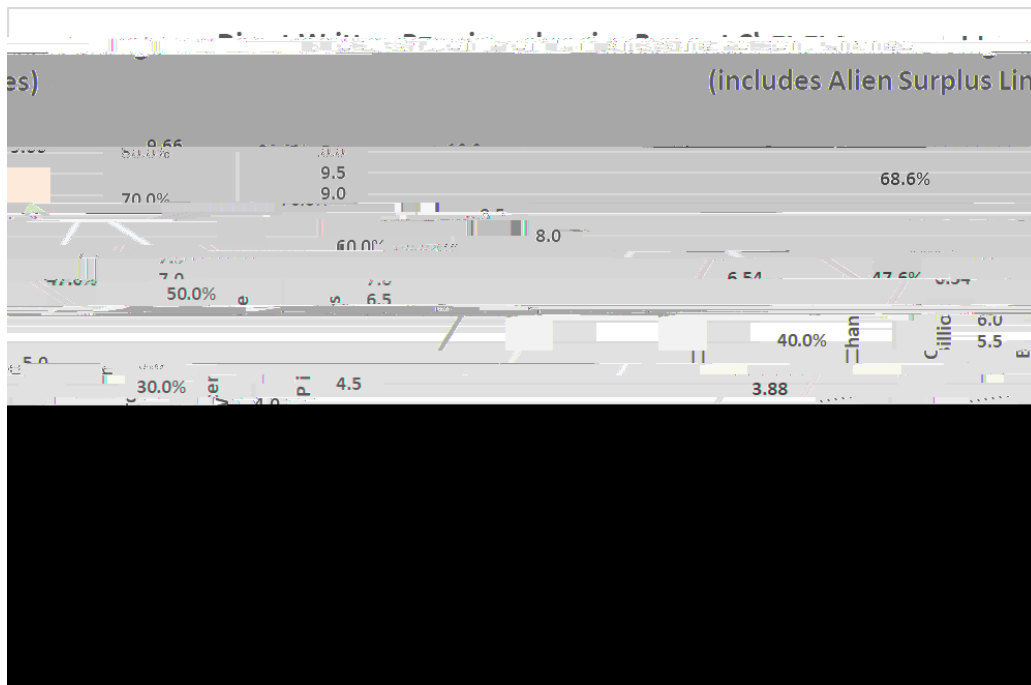
The 2022 data show a cybersecurity insurance market, including U.S. domiciled insurers and alien surplus lines insurers writing business in the U.S., of roughly \$7 billion in direct written premiums, reflecting an increase of 47.6% from the prior year.

U.S. domiciled insurers writing cyber coverage reported approximately \$7 billion in direct written premiums in 2022. Direct earned premiums reported were \$6.5 billion. Direct written premiums for the 2022 data year increased by 49.9% from the 2021 data year. The differences in direct written premiums in the cyber insurance market have been dramatic in the past couple of years. The continued rise in ransomware and the number of costly cybersecurity events partly drove the increase in cyber insurance premiums in 2021. While cyber insurance premiums grew in 2022, they grew at a slower rate.

Alien surplus lines insurers reported approximately \$2.4 billion in direct written premiums in 2022, which is an increase of 41.1% from 2021.

Figure 1 shows the domestic direct written premium from 2018 to 2022 and the yearly percent change. These numbers contain the domestic surplus lines admitted market and the alien surplus lines market.

Figure 1 Direct Written Premium and Percent Change by Year



While the direct written premium increased in 2022, it did not rise at the same rate as the policies in force. The number of policies in force in the admitted and domestic surplus lines market grew by 4.4% from 2021 to 2022. However, it is worth noting that fewer cyber insurance policies were in force in 2021 and 2022 than in 2020. Figure 2 illustrates the number of policies in force from 2018 to 2022 and the rate of change by year. This figure does not include the number of policies in force in the alien surplus lines market.

Figure 2 Policies in Force and Percent Change by*Year

* Does not include Alien Surplus Lines Data

The domestic surplus lines market writes approximately 41% of the U.S. cyber insurance market, while the admitted market writes about 59% of the market. Figure 3 illustrates the growth trends of the domestic admitted and surplus lines market.

Figure 3 Direct written premium in the domestic admitted and

Figure 4 illustrates the direct written premium from 2018 to 2022 for standalone policies, package policies, and total direct written premium for the alien surplus lines market. The direct written premium decreased in 2018 and 2019 but began increasing in 2020. Direct written premiums grew by 41.1% in 2022.

Figure 4 Direct Written Premiums for Alien Surplus Lines 2018-2022

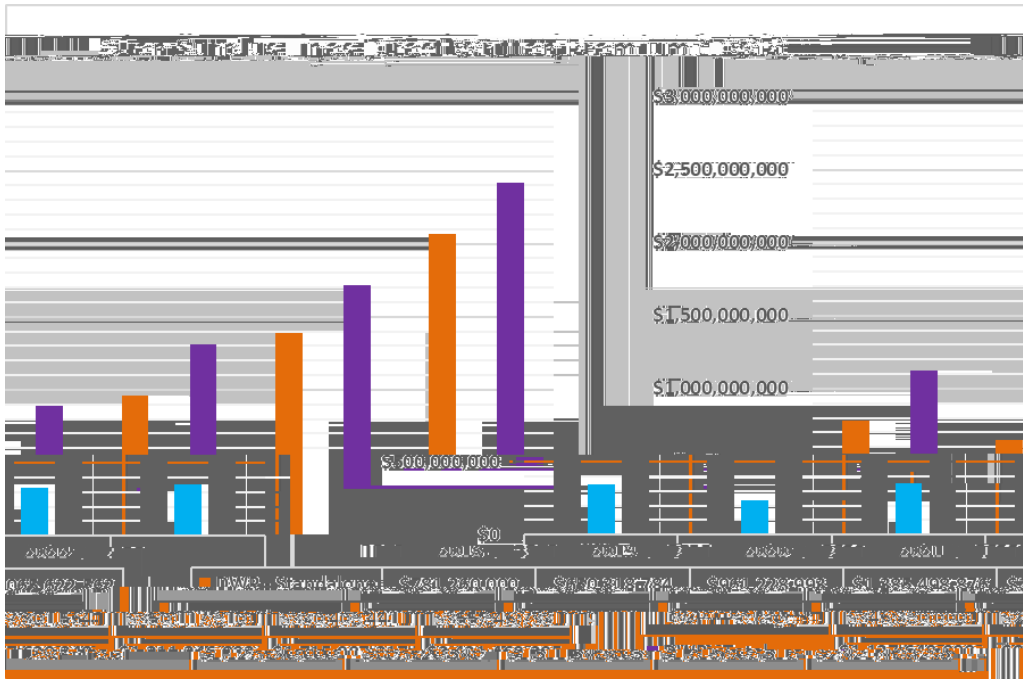


Figure 5 shows the percentage of admitted, domestic surplus lines, and alien surplus lines that are held by the U.S. market. The U.S. admitted market holds 38.5% of the market, followed by the U.S. domestic surplus lines market, holding 36.4% of the market. Alien surplus lines account for 25.1% of the market.

Figure 5 Market Type Percentages

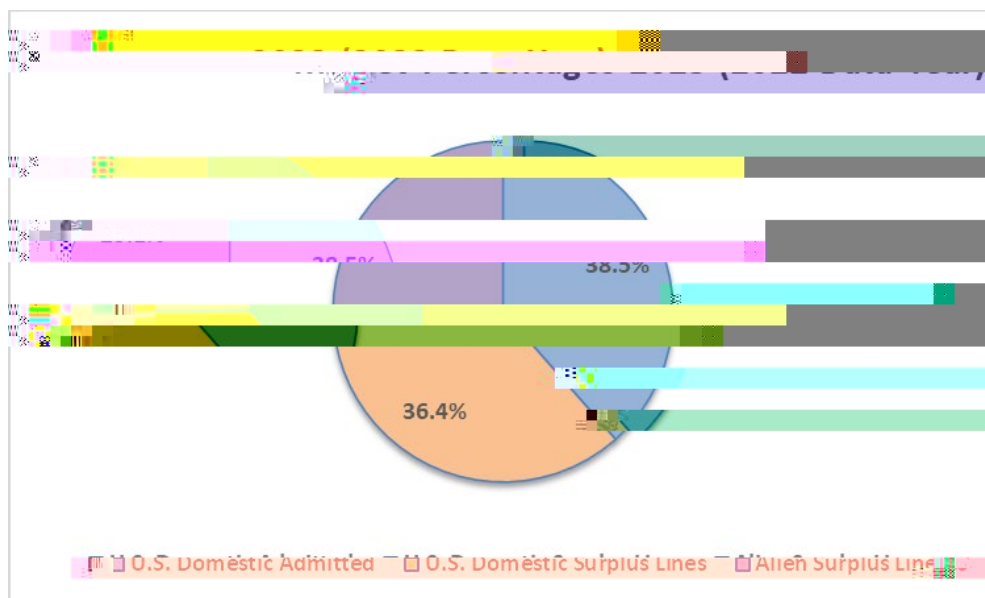


Figure 6 shows the market summary for the admitted and domestic surplus lines premiums, as well as the alien surplus line premiums

Figure 6: Market Summary

Exhibit 1:

Reinsurance

S&P Global believes that reinsurers will continue to play an essential role in developing a viable cyber insurance market. In 2022, primary cyber insurers in the United States ceded slightly more than 50% of their cyber insurance premiums to reinsurers. The reinsurance market will play a significant role in supplying capital and capacity supporting additional premium growth. Using Guidewire's Cyence model, S&P concluded that reinsurers' rate would not have a huge impact on their capital. In 2022, reinsurers experienced low profitability. Additionally, these reinsurers faced underwriting losses in their cyber insurance portfolios; loss ratios slightly exceeded 100%, falling short of primary cyber insurance writers.²²

S&P noted cyber insurance heavily depends on reinsurance and believes reinsurers will continue to play a significant role in the cyber insurance market's growth. While the primary cyber insurance market has softened, this may not be the case for reinsurance. Reinsurers have made higher rate adjustments throughout the first half of 2023.

However, primary cyber insurance underwriters likely will be able to keep from passing the increased reinsurance costs on to policyholders.²⁴

Exclusions

Like any other insurance policy, cyber insurance uses exclusions and coverage limitations to limit exposure.

Most cyber insurance policies typically include a retroactive date. A retroactive date specifies the length of time a policy will cover a loss based on this date. A claim-made policy will not cover a claim occurring before the retroactive date. Businesses must ensure the retroactive date makes -4.2 (h)-66(t)-3.4 6 (a)2.1 (nc)6.37inc t mcie.

Cyber events and losses usually cross state or county borders. This means an insured will want to be sure which countries and territories the cyber insurance policy covers. If a particular country or territory in which an insured requires coverage is excluded from a cyber insurance policy, this coverage should be discussed with the insurer.

This list of exclusions is not meant to include every possible exclusion. However, the exclusions discussed are common exclusions insureds see when purchasing a cyber insurance policy.

Summary

The cyber insurance market continued to be challenging in 2022. However, the market is starting to show signs of improvement. The take-up rates for cyber insurance coverage increased and continue to grow. Additionally, cyber insurance remains an essential part of a business's risk management strategy.