

Mitigating the Risks of E-Business: Insurance Initiatives

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- What risks do you face?
- Can traditional insurance help?
- Today's New Insurance solutions:
 - 7 basic risks to cover
 - Loss prevention services to ask for
 - Major terms to require and avoid!

How big is the problem?

- 183% increase in number of computer attack incidents in 1999 (CERT)
- 53% of respondents rate overall state of infosecurity at their co. as average or below (Information Security Magazine 1999 Security Survey)
- 47.8% increase in unauthorized access by outsiders (Information Security Magazine)
- 91 breaches resulting in \$23M losses

How Big is the Problem?

“I think many people have a false sense of security”

Michael Vatis,
Director of the FBI National
Infrastructure Protection Center,
on threat of cyberterrorism

How Big is the Problem

CDUniverse

How Important is This?

- \$1 trillion in revenue by 2002
Cisco Systems Inc.
- 210M in internet users by 2002
Drain Rauscher Wessels
- On-line Shopping Revenue will top US \$7B by 2000
Forrester Research
- 90% of all e-commerce is transacted by just 10% of the world's e-commerce companies.

What Risks do you face?

- Property- loss/theft of *intangible* assets
- e-Business interruption loss
- Liability to others
- Media- content related liability
- Cyber-extortion

resulting in

- financial damage, damage to reputation, stock drop, loss of important assets/opportunities

Can Traditional Insurance help?

- Property Policies?
 - Named perils: Fire, windstorm etc.
 - Covers: **Tangible** property only

- Crime Policies?:
 - Covered Criminals: *usually* employees only
 - (“computer fraud” rider adds non-employees)
 - Covers: **Tangible** property only

Can Traditional Insurance help? (part 2)

- Business Interruption Policies?
 - Named Peril: *See Property Policies*
- Cyber-extortion:
 - *not in any standard corporate policy*
 - *sometimes found in certain K&R or contaminated goods insurance*

Can Traditional Insurance help? (part 3)

■ Liability Insurance

- CGL: covers *bodily injury/tangible property damage* suffered by others.
- E&O: Maybe coverage if you provide professional services to others for a fee

■ Media Liability

- CGL- Sometimes. (Links, ads not covered. Recent carriers are expressly excluding.)

Can Traditional Insurance help?

NO.

The Role of Insurance

- Asset protection
 - Financial
 - intangible assets
 - reputation
- Loss Prevention Services
 - technological products and services
- Transitional smoothing/assurance

***Technology + Insurance =
Heightened Trust Environment***

Network Security Insurance

- Specifically designed for risks associated with failures of your network or computer security system to prevent:
 - Computer Attacks (unauthorized access/use)
 - Transmission of a computer virus to others
 - Disclosure of client privacy information

Network Security Insurance

7 Basic Coverages

- Liability
- Media
- Cyber-extortion
- (intangible/information) property loss
- Loss of eRevenue
- Criminal Reward Coverage
- Public relations (crisis mgmt) coverage

Liability Coverages

- Denial of Service Claims
- Virus transmission
- Disclosure of personal or confidential data of your customers
- Professional errors and omissions

Media Coverages

- Libel
- Slander
- Defamation
- Copyright infringement
- Patent infringement
- Right of privacy violations

Cyber-extortion

- Hiring private investigator
- Paying investigation expenses
- Paying ransom demand (must be reasonable)

Property Coverages

- What are these assets worth to you?
 - ❖ accounting information
 - ❖ trade secrets (may require additional information)
 - ❖ customer information
 - ❖ competitive information
 - ❖ supplier information

Business interruption Coverages

- Direct business interruption: Revenue generated from on-line transactions ceases due to attack on your system
- Dependent business interruption
Revenue generated from on-line transactions ceases due to attack on a system of a business you depend upon
- Extended business interruption

Criminal Reward, Public Relations

- Criminal Reward: \$25-50K reward for information leading to the arrest and conviction of a cyber-criminal.
- Crisis communications: \$25-\$50k for public relations/media/crisis communication fees to restore investor or customer confidence.

Loss Prevention Services

- Security Assessment: Cost effective security assessment conducted by a member of the insurer's panel. Partial or total reimbursement sometimes available if you decide to purchase policy.
- Legal analysis: Access to specialized technology law firms.

Key Terms

- “security failures” include attacks:
 - insider or outsider
 - intentional or non-intentional
 - profit motivated or “for fun”
 - Targeted or untargeted victim
 - from failures of software, hardware or firmware
 - social engineering

Key Terms

- Broad definition of Claim (beyond just lawsuits)
- Broad definition of Loss (including punitive damages)
- Broad definition of information assets
- Ability to underwrite trade secrets
- World-wide coverage

What is not covered?

(not exclusive)

- Acts of God, fire, wind...
- Terrorism, explosions, war...
- Poor project planning
- Securities liabilities, ERISA liabilities
- Attacks on internet infrastructure itself
- Fraud (not applicable to computer attacks by employees)

Transactional Smoothing: The Future of Insurance

E-Business Transaction Risks

- Identity of the parties
- Identity/quality of the goods
- Ability to pay / Ability to ship-manufacture
- Actual payment / Actual delivery
- Damage to goods
- Security & Reliability of network / infrastructure

Rounding Out

(focused on management liability)

- Directors and officers insurance
- IPO insurance
- E&O insurance (brick-and-mortar operations)
- Employment Practices (including discrimination/sexual harassment)

For More Information

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