

SPOTLIGHT ON TECHNOLOGY INSURANCE

SURVEY

Brokers' verdict on technology insurance

A Travelers/Insurance Times survey asked brokers for their views on how the insurance industry caters for the ever-changing needs of technology companies

BEN DYSON

The technology industry has very specific coverage requirements that cannot be satisfied with standard business insurance. These firms require tailored insurance packages and additional services to meet their needs. They also need their insurance providers to be able to adapt to change.

So how well is the industry doing on fulfilling these key requirements of the technology sector? As the results of this Travelers/Insurance Times broker survey show, there is good and bad news.

First, the good news. Most respondents are at least quite confident that technology insurers offer specialist support to the

industry they are covering, such as risk mitigation, and a large chunk of the respondents (38%) are either very confident or confident.

As support features risk mitigation advice is such an important component of this product – in some cases taking precedence over the coverage itself – the industry should be pleased with this outcome.

Slow reactions

However, the industry should not get too comfortable with the survey's findings. The most popular answer was "quite confident" (47%), and 15% were either not very confident or not confident at all. This indicates some uncertainty about the

industry's abilities overall, and shows that there is still work to be done.

Perhaps more concerning is brokers' views on insurers' ability to stay abreast of the changes in the technology industry. Just 31% of respondents believe insurers are reacting fast enough to provide adequate cover that matches the pace of change.

In addition, 69% of respondents felt that the insurance cover provided did not take into account future issues that are likely to affect technology companies.

The responses to these two questions show that the industry overall needs to be more flexible and more forward looking to cater to the needs of technology companies. Technology firms' ability to innovate and release new products and updates quickly is what makes them successful, so it is important that their insurance products can keep up.

In addition, Europe-based technology companies and others holding sensitive customer data will face tougher rules on disclosing data breaches when the new EU data protection legislation comes into force. While this is a way off, technology companies will want to ensure they have some protection to cover the costs of notifying clients about breaches quickly.

Onerous conditions

There is also a concern that some policy terms are too inflexible for technology firms.

When asked whether they had experienced a relaxation in onerous policy conditions, 45% of the brokers surveyed said yes and 55% said no.

The survey also reveals that there is little increase in risk appetite where technology companies are clamouring for cover (see page 18–19). Technology firms are open to attack from customers who believe their products have not met expectations, and so there is a demand for efficacy cover. These firms frequently work on a contract basis, so are open to contractual liability.

Also, as Apple's recent legal battles with Samsung show, companies are fiercely defending hardware and software patents, so breach of patent cover is a growing concern.

The insurance industry is clearly getting some things right when supplying coverage to technology companies. However, these survey results also show it has some way to go before it meets brokers' and clients' expectations. Its report card would read: "Could do better".

insurancetimes.co.uk/
Insurance Monitor 4 – Cyber goog.gl/ru95ia

69%
of brokers said insurers are not forward-thinking on IT issues

KEY FINDINGS

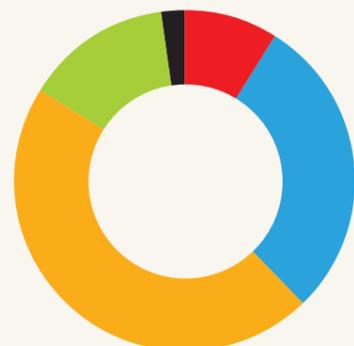
- A large chunk of the respondents (38%) are either very confident or confident in insurers' support services
- EU legislation due in 2016 may well usher in tougher rules, so firms need to be flexible to adapt

COULD DO BETTER

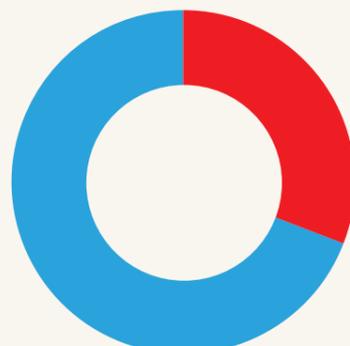
BROKERS REVEAL WHAT IS AND ISN'T WORKING ABOUT INSURERS' TECHNOLOGY OFFERINGS

Source: Travelers/Insurance Times survey
Datagraphic: Insurance Times

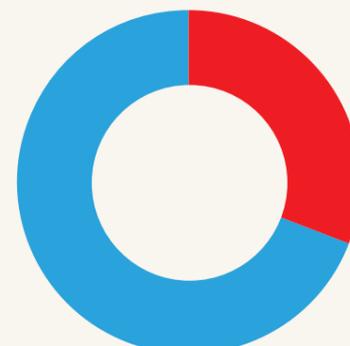
1 Are you confident that technology insurers offer specialist technology industry support⁽¹⁾?



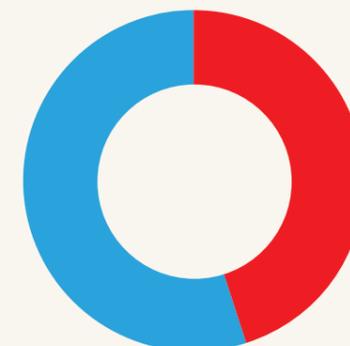
2 Are insurers reacting fast enough to provide adequate cover that matches the pace of change in technology?



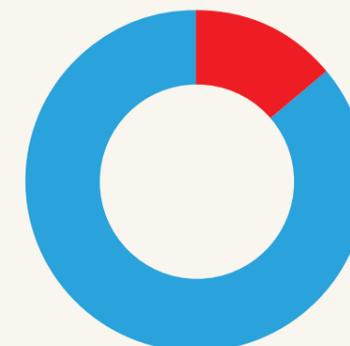
3 Do you feel that insurance cover takes into account future issues that are likely to affect technology companies⁽²⁾?



4 Have you experienced a relaxation in the use by insurance providers of onerous policy conditions⁽³⁾?



5 How likely are you to place cover for a growing technology business with a non-technology specialist insurer?



8% Very confident
30% Confident
47% Quite confident
14% Not very confident
1% Not confident at all

31% Yes
69% No

31% Yes
69% No

45% Yes
55% No

14% Likely
86% Not likely

(1) Examples are risk mitigation, business advice for business interruption and professional indemnity (2) For example, the costs associated with notification of data breaches (3) Such as 'Warranties' and 'Precedent to Liability'

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Market continues to struggle with technology risks

- Despite the growing cyber threat, many brokers are still wary of technology coverage and don't fully understand clients' risks
- There is only a small pool of specialists to choose from in the UK

BEN DYSON

"It was absolutely ridiculous," says Hamilton Leigh Insurance Brokers managing director Lee Cohen.

He is describing a situation where a 250-employee technology firm was insured under a standard retail policy rather than a specialist technology package. "You have to ask yourself why. They were missing out on half the covers."

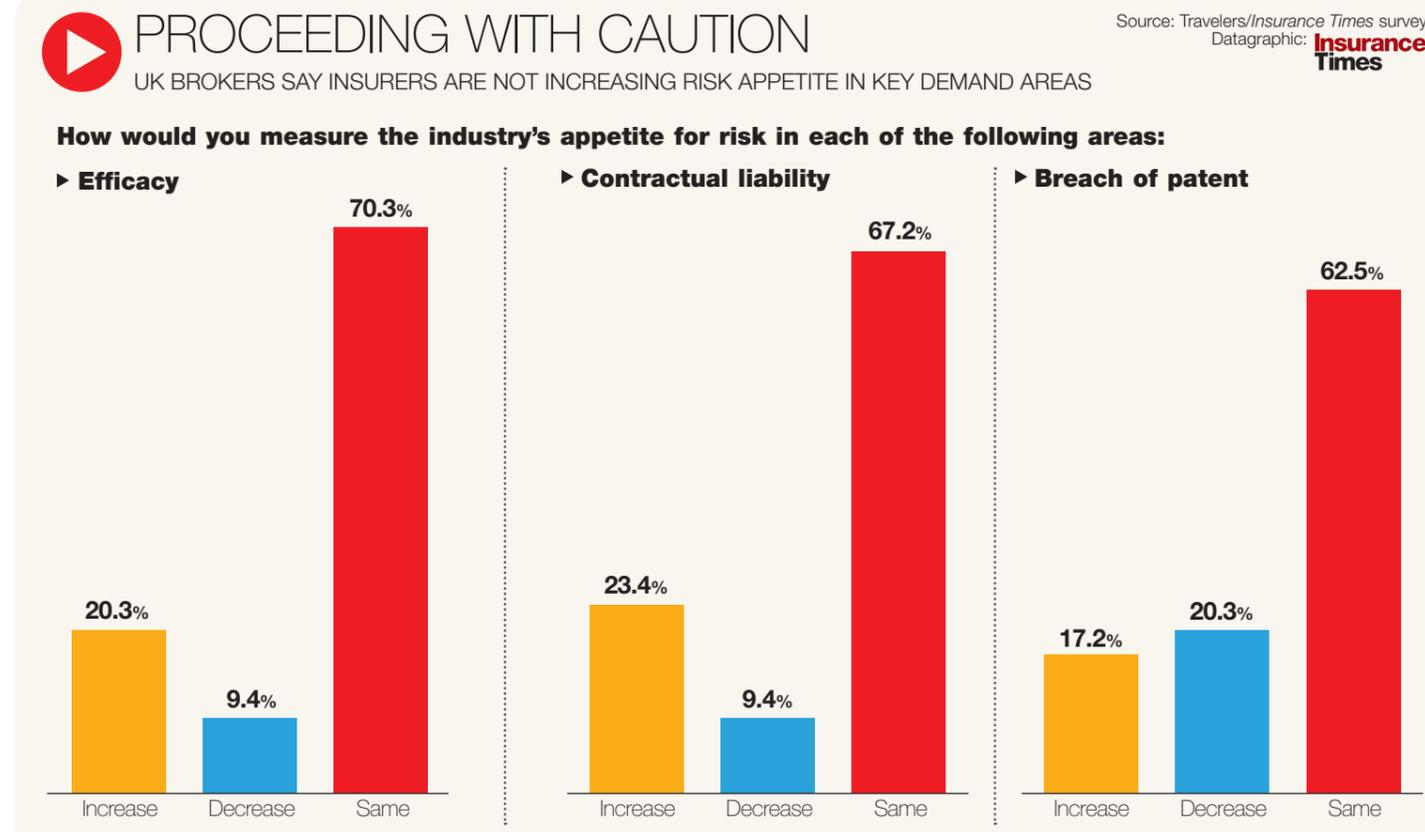
This is a clear example of how brokers, clients and insurers alike need to understand the technology insurance market better. Clients should learn whether their existing insurance covers their exposures. Brokers need to understand the clients' risks and recommend appropriate coverage. And insurers need to tailor their products and risk appetite to cater for this fast-changing industry, though some, such as Travelers, are innovating to help.

Insurance broker Griffiths & Armour partner and director at Carl Edwards adds: "There is a great lack of understanding about what these companies actually do, especially from the broker market."

Specialist cover

As Cohen's example shows, standard products are inadequate for the technology industry. In addition to more standard coverage for buildings and employers' liability, technology firms require protection against data breaches, first- and third-party cover from cyber crime and specific intellectual property cover, among other risks.

However, not all clients are getting what they need. While brokers feel technology insurers generally do a good job of



providing a broad range of coverages, there are some areas where the protection on offer is insufficient.

One of the main areas of shortfall is for reputational risks after a data breach or other cyber attack. Edwards says: "We have found this slow to get off the ground in the UK despite the fact that there have been several high-profile cases."

Another area that is not well catered for currently is cover for bespoke hardware and software products. These are where a technology company creates a one-off solution for a specific client that is outside their typical product range. These products' untested nature makes insurers wary.

In some cases, the clients themselves do not know enough about the insurance to be aware of whether they are covered or not. One example is contractual liability. Much software development is done on a contract basis. The software firms may assume that they are covered for any breaches of the contracts that they sign, but depending on the terms of the contracts, this may not always be the case.

Edwards says: "As a broker we offer to check the insurance implications and risk implications of any contract a client has. But we have seen a lot that sign contracts happily and won't realise there is a problem until they have a claim."

Often, however, the issue is not the lack of a type of cover, but quantity. Edwards says: "It is a developing market so can [insurers] lay down £500m-worth of cover?"

Small market

Technology insurance is clearly a job for specialists rather than generalists. The results of the Travelers/Insurance Times technology survey bear this out. When asked whether they would place cover for a growing technology firm with a non-specialist insurer, most brokers surveyed (86%) said it was highly unlikely.

There are relatively few specialists that brokers feel they can turn to. Those widely believed to be doing a good job have with US parents. Travelers and Chubb are generally held to be the front-runners.

US firms do particularly well because products such as cyber liability and directors' and officers' liability are much more mature and widely used in the US.

Hamilton Leigh's Cohen says: "The industry as a whole is not doing a great job. Insurers are very much aware that both cyber liability and network security are growth areas and this will come more to the attention of the clients as time goes on, especially as new regulations regarding data security become law in the next year or so.

"Insurers have been slow to pick up on these things and it is only the US insurers that tend to be ahead of the game."

However, there is hope on the horizon. The importance of technology firms to the overall economy and the number of risks they face means there are plenty of opportunities for insurers that have the appetite and the knowledge.

Edwards at Griffiths & Armour says: "There are a lot of new players now bringing out packages. People are waking up to the fact that they are not going to get access to this sector unless they have specific products."

UK technology firms may have gaps in their coverage now, but if this development continues that could soon be over.

insurancetimes.co.uk/news Are you covered for a cyber attack? [12/06/13]

BROKER VIEWS



"This market is going to grow exponentially with the new types of technology coming out. It is going to have to be refreshed on a much more regular basis. Although insurers are doing a brand refresh now, it has been a while since they have done that. The pace of change is going to grow, as well as the size of the market."

Carl Edwards, partner and director, Griffiths & Armour



"A lot of these [technology] companies are trading much further afield than ever before. There is a definite increase in the number of clients entering into contracts, or setting up sales offices or production facilities outside the UK, often in emerging markets. They need a specialist insurer that understands the sector and can manage the overseas exposure."

Lee Cohen, managing director, Hamilton Leigh Insurance Brokers

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