Marsh

Marsh Specialty

# UK cyber insurance H1 2022 trends

October 2022

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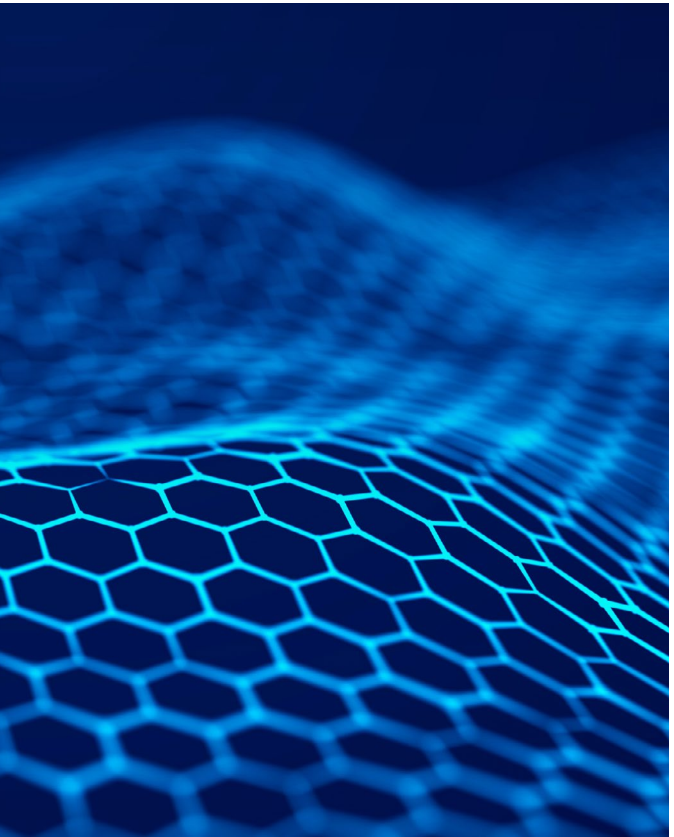


## Cyber market volatility continued in the first half of 2022, with continued price escalations and the Russian-Ukraine conflict bringing exclusionary language related to war into sharp focus.

The first half of 2022 saw cyber risk management remain atop the risk registers of large UK organisations. Driven primarily by the threat of cyber crime, particularly ransomware, first-time buyers of cyber insurance continued to come to the market.

Cyber insurance pricing again increased in the first two quarters, while the level of underwriter scrutiny of cyber controls persisted; all of which continued to add friction to cyber insurance purchasing. However, the pace of pricing increases moderated in the second quarter, amid signs that pricing is stabilising. In addition, several new market entrants brought additional capacity and competition.

### Scrutiny around cyber hygiene and cyber controls persists

In 2021, the cyber insurance market experienced its most volatile year since its inception in the 1990s, with consistent and significant increases in pricing and retentions, as well as reductions in coverage. These trends continued into 2022.

The Russian invasion of Ukraine in February 2022 negatively affected many financial markets; the cyber insurance market was no different. Lloyd's Market Association (LMA) published its model cyber war exclusions in late 2021; in 2022 the conflict in Ukraine further highlighted the issue. Though a rise in cyberattacks has yet to materialise to the extent some had feared, insurers continued to scrutinise organisations' cyber controls as part of the underwriting process.

Insurers continued to focus on better understanding insureds' IT real estate, networks, and the application of cyber hygiene controls. The number of insurer questions in the submission process continued to increase.

In addition, many leading cyber insurers hired technical experts to support underwriters and to increase their depth of expertise. Strict requirements from insurers regarding key cybersecurity controls continued to positively change underwriters' views on cyber hygiene at the majority of insureds compared to 2021 and before.

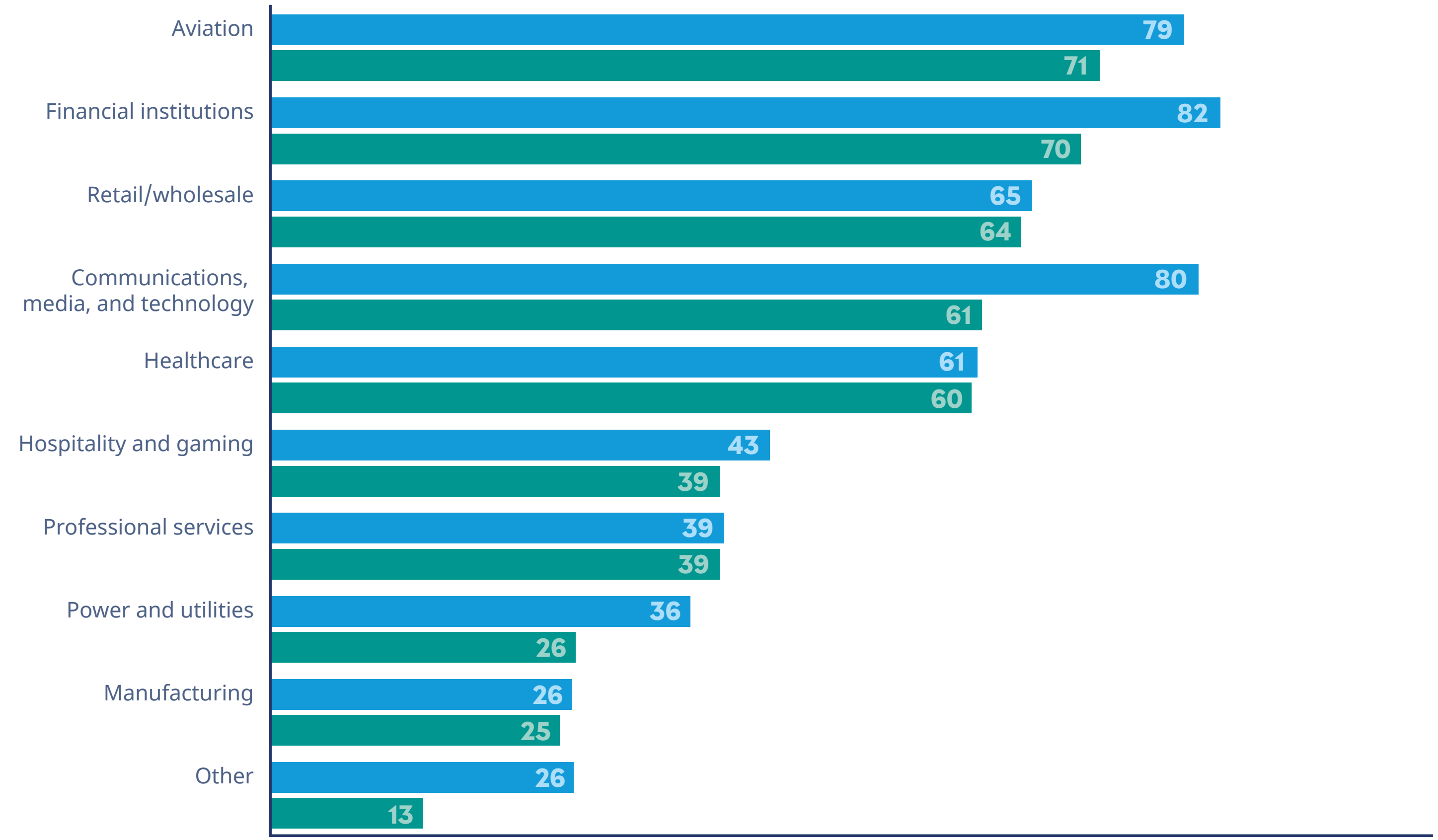
## Pricing drives limit reduction

The rapid increase in price forced many buyers to re-evaluate, and in many cases reduce, the limits being purchased.

In the first half of 2022, the average limits purchased by clients reduced in every industry.

Unsurprisingly, the industries experiencing the highest price rises — communications, media, and technology, and hospitality and gaming — also saw some of the biggest limit reductions (see Figure 1). Price is not the only consideration in reducing limits — available insurer capacity and diminishing insurer appetite also contributed.

## 01| Average limits purchased by industry in H1 2022



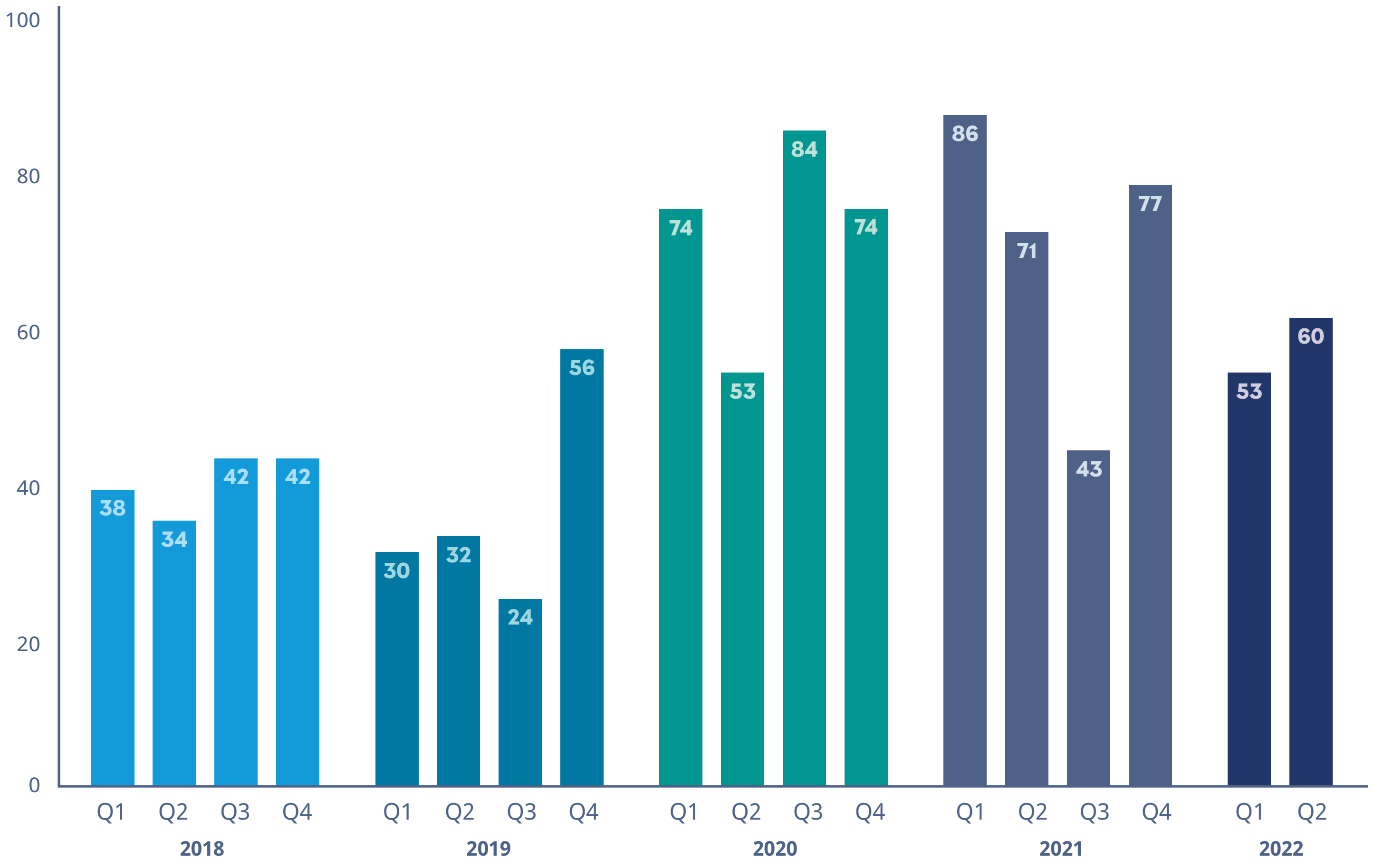

**Average limits purchased in UK by industry (£ millions)**

2021 2022

Marsh data based on all clients with revenues over £500 million.

**2022** – Based on firms renewing between Jul-21 – Jun-22 | **2021** – Based on firms renewing between Jul-20 – Jun-21

## 02| Number of cyber claims drops in H1 2022




Number of claims

## Spike in Russia-Ukraine related claims has yet to materialise

Claims data always lags as it takes time from identification to insurer notification, and again from notification to determinations of validity. So, there is an expectation that claims statistics will develop over time. However, Marsh data pointed to a reduction in the number of cyber incidents occurring, an observation reinforced by various threat intelligence organisations (see Figure 2).

It's possible that Russian domiciled/sponsored cyber criminals have been distracted by the conflict, or that the disbandment of the Conti Group, in particular, materially diminished the capabilities of a prolific ransomware group. It could also be that improvements in controls are working to deter attacks.

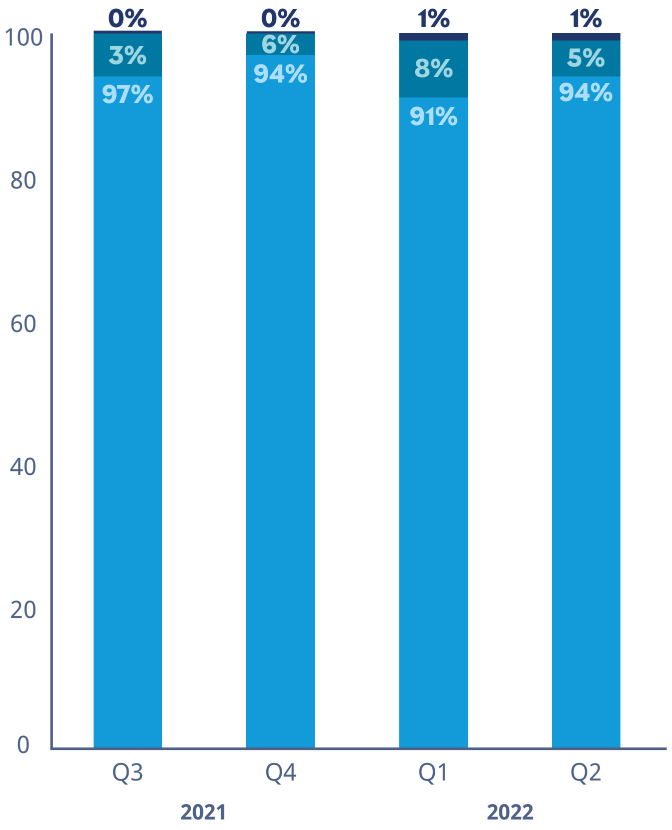
These are only hypotheses; a more cynical theory is that cyber criminals have turned their attention to territories and industries where insurance has less visibility and/or lower adoption rates, therefore the industry is witnessing the reporting, but the events are still happening. There is also a lingering concern that stronger cyberattacks are in the works.

Despite reductions in the number of claims in the first half of 2022 compared to 2021, it should be noted that the numbers are still well in excess of the norms reported in the period 2015 – 2019.

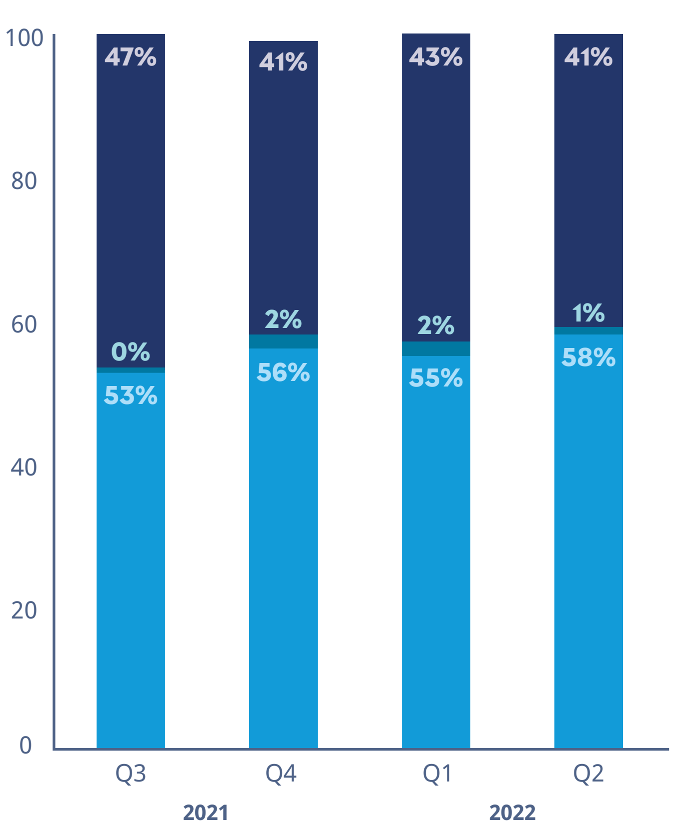
## Predictable patterns of pricing and retention change

In the first half of 2022, more than 90% of clients experienced cyber insurance pricing increases (see Figure 3). The two primary levers available to insureds to combat price increases and maintain budget are to decrease limits and increase retentions. In many cases, the increases in retentions have been driven more by insurers than buyers (see Figure 4), as insurers want insureds to have more 'skin in the game', which has driven up the average retentions.

### 03| Most clients experienced continued cyber insurance pricing increases




### 04| More than half of clients experienced increase in retentions




Increase Decrease No change

## Are we through the peak?

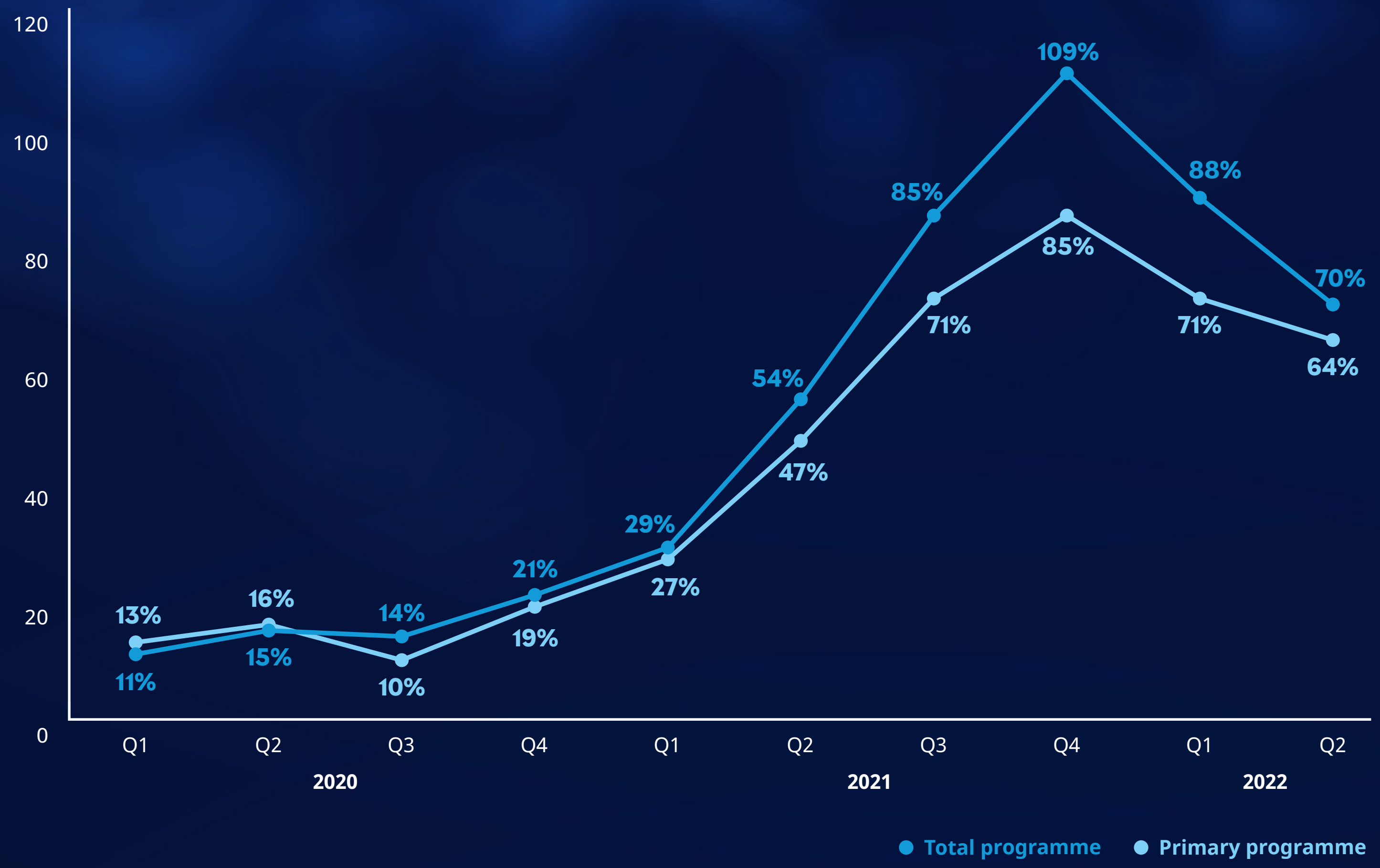
Six quarters of rapid pricing increases have now been followed by two quarters of slower rises, which likely signals that the relevant price-to-exposure corrections have largely taken place (see Figure 5). Signs now point to a period of levelling in the market, barring a systemic loss event. As insurer competition increases, insureds with favourable risk profiles and effective cyber controls may start to see pricing reductions.

There was a period through 2021 in which the pricing differential between primary and excess layers shrunk. Increased insurer competition may cause excess layer pricing to decline.

There are indications that the period of rapid pricing increases and coverage issues is turning. That said, issues surrounding systemic risks/cyber catastrophe scenarios remain of concern and may affect insureds in the form of cyber war exclusions and digital supply chain coverage restrictions.

The second half of 2022 holds considerable interest for all involved in the cyber insurance markets, and may well set the course for its future.

**05| Average cyber insurance pricing increases have moderated since Q4 2021**



# ABOUT MARSH SPECIALTY'S CYBER TEAM

**>400**

Cyber professionals globally.

**Cyber Broker of the Year** Advisen three time winner.

**34**

Risks with limits **>$300 million**** placed in London.

Proprietary Marsh CyberShield product and **$92 million** cyberECHO excess facility.

Expertise drawn from specialisms including: technical, consulting, claims, legal, and incident response.

Cyber coverage for **five of the top seven** independent Lloyd's syndicates.

We place **over 180** cyber risks with limits **>$100 million** though London.

We place over **20%** of total London market cyber premium.

**>9,000**

Cyber and technology errors and omissions clients globally.

**21%**

FTSE100 cyber market share.

**18%**

FTSE350 cyber market share.

**>$2bn**

Of cyber insurance premiums placed into the global insurance market.

*| Based on policies incepting between January 2021 to December 2021. **| Placements in the US, UK, and Continental Europe.

# For more information on Marsh Specialty's cyber insurance solutions, please contact your local Marsh office or visit marsh.com.

**Sarah Stephens**
Managing Director, International Head of Cyber and FINPRO UK Cyber Practice Leader

+44 (0)7508 051 080
*sarah.stephens@marsh.com*

**Brian Warszona**
Senior Vice President, UK Cyber Deputy Practice Leader

+44 (0)7392 123 570
*brian.warszona@marsh.com*

**Gareth Bateman**
Cyber Growth Leader, UK

+44 (0)7765 581 587
*gareth.bateman@marsh.com*

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