

New CAT Bond Task Force in U.K.

The British government has set up a group of experts to make recommendations on how London can become a catastrophe bond center. It expects a report by this fall and is targeting regulatory changes to improve its competitiveness against Bermuda, Gibraltar and other offshore havens that offer tax advantages along with expertise at dealing with companies wanting to set up special purpose vehicles to merge risk transfer and capital investment products.

The CAT bond market stands at about \$22 billion currently but is a growing alternative to the world's \$575 reinsurance market. There were \$8 billion in new CAT bonds launched in 2014, a record year.

INEVITABILITY ▶ SCOTT SINDER AND EVA RIGAMONTI

A Matter of ǝɹɹꞥ

You will be hacked. What are you doing now to prepare?

Almost every day we hear news

stories of cyber attacks and data breaches. These incursions, once rare, are now so common the public has begun to accept them with a remarkable degree of complacency. Indeed, in the past year, 43% of companies experienced a data breach. Still, waking up to find your company at the center of a front-page controversy is every CEO's worst nightmare.

Cyber security is a business reality that should be on every company's radar—ideally, on every company's priority

list—because each one is at risk of being hacked. In fact, in the time it takes to read this column, your firm will likely experience a malware event, a normal, every-three-minute occurrence at a typical business entity, according to a recent report from the cyber-security company FireEye. This is not just a big business issue; 60% of all targeted attacks in the last year have been on small and medium-size organizations.

Yet several studies have noted the majority of U.S. companies do not have a cyber-security policy in place and

two thirds of executives do not believe their organization understands what needs to be done following a material data breach.

In response to the growing media and political attention being paid to cyber risks, the National Association of Insurance Commissioners recently adopted a set of cyber-security principles. The principles are not a new set of standards. Instead, they reflect what has come to be widely accepted cyber-security best practices. They are intended to outline a set of policies and procedures that a regulator would expect insurers and brokerage firms to have in place to protect consumers from data breaches:

- ▶ General protections for personally identifiable information
- ▶ Systems to perform breach alerts or notifications
- ▶ Network safeguards
- ▶ Incident response plans and procedures
- ▶ Appropriate oversight of third-party and service provider security controls ➤➤



MARKET NEWS TICKER

PIONEER UNDERWRITING Launches alternative investment fund managers directive investment management policy. It enables full capital relief from other funds provision of AIFMD. www.pioneer-is.com

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE Partners with Concentric Advisors to offer CyberSafe Solutions program designed to offer better access and prevent and mitigate cyber threats. www.pureinsurance.com

QBE INSURANCE QBE European Operations hires Thomas Huber as head of European liability to lead expansion of the European liability portfolio. He joins from Swiss Re, where he was most recently managing

director of casualty. » QBE medical stop-loss product now includes employer-paid group critical illness enhancement. Pays single lump-sum benefits to covered employees with life-threatening illnesses, including acute conditions such as heart attack and stroke, illnesses like cancer and procedures such as heart valve replacements. » QBE North America hires Peter Tshonas as SVP, chief sales officer. He has previously worked at Liberty Mutual and will be based in the Simsbury, Conn., office. www.group.qbe.com

RANDALL & QUILTER Promotes Nick Frost to president of captive management division. He will also retain his role as president of R&Q Quest Management Services Bermuda, will lead the account executive

team and act as board member on over 40 client companies. www.rqih.com

STATE AUTO Elects Michael LaRocco as director at annual shareholders meeting. He was also promoted to president and CEO. He succeeds Robert Restrepo Jr., who was reelected director and will remain as chairman until he retires in December 2015. www.stateauto.com

SWISS RE Hires Michael Kwan as SVP for casualty North America leadership team. Succeeds Brian Evans who retired in April. www.swissre.com

TOKIO MILLENNIUM RE Promotes Mark Julian to head of Tokio Millennium Re, U.K.

branch. Succeeds Takayuki Sumi, who will assume new role with Tokio Marine in Japan. » Will acquire all outstanding shares of HCC Insurance Holdings for \$78 per share. Total transaction value will be about \$7.5 billion. Expected to close in Q4. www.tokiomillennium.com

UNUM GROUP Thomas Watjen retires. Richard McKenney will take on role of CEO. Watjen will stay active with the company as chairman of the board of directors. William Ryan, former chairman, will take on role of lead independent director. www.unum.com

W.R. BERKLEY Promotes Eugene Ballard, Ira Lederman and James Shiel to EVPs. www.wrberkley.com

INEVITABILITY

- » ▶ Including the cyber-security risks in the enterprise risk-management process
- ▶ Board level review of the cyber-security program and internal cyber-audit findings
 - ▶ Participation in cyber-threat information sharing via information-sharing and analysis organizations
 - ▶ Proper cyber-security employee training.

The principles do not dictate what must be in a plan or security audit, but they reflect a growing expectation that insurers and brokerages will have a basic plan in place encompassing these elements. Basically, the NAIC says what most executives already should know: If a company faces a credible threat, it should plan, prepare and protect itself and then determine what to do



when these efforts fail. This is critical because every company's systems will eventually fail. At that point, the focus quickly shifts to damage assessment. With cyber, that can be enormous, potentially encompassing everything from simple financial costs to immense potential liability and reputational harm.

This same basic road map extends to every client. Each one should have a cyber-security plan in place that encompasses all of the NAIC elements.

Instead of panicking about cyber security while Congress and the states consider ways to address this issue, every company should immediately begin educating itself (if it hasn't already) and working toward a practical and efficient in-house approach.

To start, companies should evaluate their IT networks and put a stop to abusive but controllable internal practices that place the business at risk. An easy starting place, for example,

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is to remove and prohibit the use of unlicensed software. A new study for BSA|The Software Alliance, conducted by the International Data Corporation, found 43% of all software installed on

PCs globally (and more than 18% percent in the United States) in 2014 was unlicensed. The correlation between unlicensed software and malware, it found, is higher than the correlation between education and income or than that between smoking and lung cancer.

IDC estimates enterprises spent \$491 billion in 2014 alone as a result of malware associated with counterfeit and unlicensed software. The implication is clear: Assessing what is in your network and eliminating unlicensed software could help reduce your cyber-security incidents. Yet only 35% of companies have policies requiring the use of properly licensed software.

All of your firms are advising clients on data breach and cyber-security

issues. The insurance market is still in a relatively nascent stage for coverages beyond consumer data-breach related liabilities. As your work in this emerging area and the available insurance products continue to evolve, the cyber-security risk management protocols will continue to become more of a focus.

Enhancing clients' cyber security with straightforward steps, like policies that eliminate exposures from unlicensed software for example, could go a long way toward protecting your client. It could also reduce the cost of insuring exposures as the market continues to develop, and it could cement your role as your clients' advisor of choice.

And isn't that the business we've chosen?

Sinder, CIAB general counsel, is a partner at Steptoe & Johnson. ssinder@steptoe.com

Rigamonti is an associate in the Steptoe Government Affairs and Public Policy Group. erigamonti@steptoe.com

MARKET NEWS TICKER

XL GROUP Offers excess insurance policy to provide U.S. and Canadian clients with simplified solutions for buying additional environmental insurance protection. Provides up to \$50 million in additional pollution limits over another carrier's environmental policy. » Promotes Eugene McQuade to chairman of the board. **TYJS%HR&^TYJS%7&*^X54&S%/0#0XZZ@8%^98//\$#0XZ@8%/\$#056^X^056XZ@G098/08%/\$#056#@154XZ** He has been a director for the company since 2004 and recently retired as vice chairman of Citigroup. He succeeds Robert Glauber, who will remain as a director of the board and chair of risk and finance committee. <http://xlgroup.com/>

REGULATORY NEWS TICKER

ALABAMA New law says companies aren't liable for products they didn't design, manufacture, sell or lease. Particularly applies to generic pharmaceuticals. www.aldoi.org

CALIFORNIA Commissioner Dave Jones approves Workers Compensation Insurance Rating Bureau's 10.2% reduction from Jan. 1 advisory pure premium. Begins July 1 for new and renewal business. » John Finston succeeds Adam Cole as Department of Insurance general counsel. Finston was deputy commissioner for corporate and regulatory affairs and has 25 years of private practice in insurance law firms. » Court of Appeals upholds state's law banning temporary staffing agencies from self-insuring for workers compensation. www.insurance.ca.gov

COLORADO Will prosecute patent trolls—those falsely claiming to have rights to idea or product to coerce inventors and companies to pay them to avoid costly legal action. Frivolous patent claims cost about \$29 billion a year in legal fees, Colorado research says. » State Supreme Courts rules employers can fire workers for failing drug test, even if drug use is for approved medical reason. Consistent with decisions in California, Montana and Washington. Colorado's Constitution says employers don't have to change drug policies to accommodate employees' marijuana use. » New law allows lawsuits against state schools over violent incidents. Limits are \$350,000 per victim or \$900,000 per occurrence when serious injuries or deaths result from school negligence. Legislative

committee will study how to improve school safety and threat assessments. www.dora.state.co.us/insurance

CONNECTICUT State Supreme Court rules CGL personal injury clause does not cover data breach expenses when compromised information isn't provably disseminated or published. www.ct.gov/cid/site

DELAWARE Reduces penalty for possession of small amounts of marijuana, effective this December, to a \$100 fine and a civil violation (not criminal) for possession of up to one ounce of the drug by adults. » Removes notarization requirement from surplus lines affidavit form SL-1923, effective this August. www.delawareinsurance.gov