



Affirmative vs. Silent Cyber: An Overview

Cyber liability is a young class of business, but it continues to experience rapid growth spurts, seemingly following each major global cyber breach or attack. As a peril, cyber risk can be defined as any risk emerging from the use of information and communication technology that compromises the confidentiality, integrity or availability of data, systems or services.

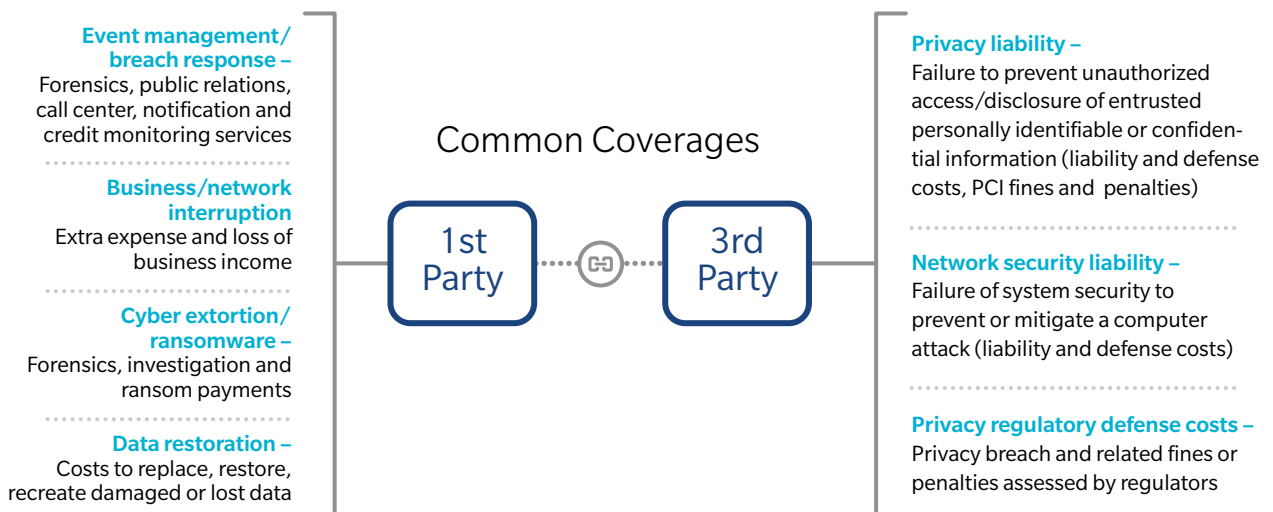
Cyber risk is characterized by interdependencies, potentially extreme events with a high uncertainty with respects to the data and modeling approaches. In the past, the focus was mostly on issues surrounding third-party liability; however, in 2017, WannaCry and Petya/NotPetya caused a shift in the cyber discussion to first-party liability, such as extortion, ransomware

and business interruption. Losses from NotPetya, in particular, extended over the billion dollar mark in part as a result of the broadening of the original security and privacy policy language for first-party coverages, such as system failure and business interruption.



What is Affirmative Cyber?

Coverages for cyber perils contained within either Stand-Alone Network Security & Privacy policies or endorsements added to P&C policies covering costs associated with the impact of a data breach and network security failure/attack



What is Non-Affirmative/Unintended/Silent Cyber?



Instances in which a P&C insurance policy (i.e. General Liability, D&O, Property, Marine, etc.) is triggered where:

1. Cyber perils are not explicitly included or excluded;
2. Exclusionary language, when included, is ambiguous;
3. Insuring agreements are satisfied, however the insurer did not price for or contemplate loss scenarios emanating from a cyber peril/threat



Examples

Property

Business interruption from non physical property damage



Ransomware attack caused computer systems to be inoperable causing business interruption

Errors and Omissions Liability

Coverage for negligent acts in securing data



Law firm breached and client records are stolen. Due to professional standard of care, third party coverage applies

Directors and Officers

Indemnification coverage for any legal action due to failure to have adequate protocols and procedures in place



Publicly traded company breached causing stock drop and a class action lawsuit follows

General Liability

Bodily Injury, property damage liability and privacy



Cyber attack causes building's heating system to overheat causing an explosion. Bodily injury and property damage ensue

WannaCry and Petya/NotPetya also contributed to the current affirmative versus non-affirmative/"silent cyber" coverage debate, a lurking variable in the cyber risk discussion. "Silent cyber", also known as "unintended" or "non-affirmative" cyber, refers to the unknown or unquantified exposures originating from cyber perils that may trigger traditional property and liability insurance policies, which may not explicitly provide a cyber coverage grant, or from a cyber exclusion that is poorly worded or ambiguous. The systemic nature of the cyber risk means "silent cyber" is becoming endemic in virtually every type of insurance policy.

While initiatives have emerged across the industry to address non-affirmative cyber coverage, there is still a great degree of uncertainty as to the extent to which this type of coverage is unintentionally being written. This area of unknown leaves the industry vulnerable to a major accumulation of losses, which will only grow in today's market conditions. The dynamic nature of cyber risk and the rapid pace of technological innovation cannot be understated because the challenges they create are profound. Disruptive technologies are not only changing the way we do business but transforming the way we communicate, the way we make decisions and the way we see our place in the world.

From a reinsurer's perspective, providers would like to see more clarity of coverage in standard property/casualty lines with respects to cyber, with exclusions added where necessary. If cyber is defined as affirmative security, business interruption and privacy insurance then, in the current environment, sufficient

reinsurance capacity is available. If the definition of cyber were expanded into non-affirmative cyber, where losses attributable to cyber could also impact traditional property and casualty lines of business, especially non-physical business interruption losses, we would see some reinsurers exit the space or, possibly, reduce their capacity. While there would be a premium charge for adding non-affirmative or unintended cyber, Guy Carpenter has provided client solutions to address this exposure. As the first dedicated cyber specialty reinsurance broking practice in the industry, Guy Carpenter leverages technical product expertise and best-in-class analytics to provide innovative first-to-market solutions.

"Silent cyber", also known as "unintended" or "non-affirmative" cyber, refers to the unknown or unquantified exposures originating from cyber perils that may trigger traditional property and liability insurance policies.

For more information and general enquiries please reach out to one of the Guy Carpenter contacts below:

Jeremy S Platt

Managing Director
New York
+1 917 937 3002
jeremy.s.platt@guycarp.com

Ralph Caravello

Managing Director
New York
+1 917 937 3043
ralph.m.caravello@guycarp.com

Eddy Vanbeneden

Managing Director
Brussels
+32 267 49811
eddy.vanbeneden@guycarp.com

Elizabeth Pullum

Senior Vice President
New York
+1 917 937 3420
elizabeth.pullum@guycarp.com

Chris Shafer

Assistant Vice President
New York
+1 917 937 3423
christopher.shafer@guycarp.com

Carolyn Morley

Managing Director
London
+44 207 357 2733
carolyn.morley@guycarp.com

Thomas Herde

Managing Director
London
+44 207 357 1511
thomas.herde@guycarp.com

Laura Boettcher

Vice President
San Francisco
+1 415 984 2860
laura.c.boettcher@guycarp.com

Siobhan O'Brien

Managing Director
London
+44 207 357 5593
siobhan.obrien@guycarp.com

Kirsten Eickstaedt

Managing Director
London
+44 207 357 5083
kirsten.eickstaedt@guycarp.com

Aris Papachronopoulos

Vice President
London
+44 207 357 1516
aris.papachronopoulos@guycarp.com

About Guy Carpenter

Guy Carpenter & Company, LLC is a leading global risk and reinsurance specialist with more than 2,300 professionals in over 60 offices around the world. Guy Carpenter delivers a powerful combination of broking expertise, trusted strategic advisory services and industry-leading analytics to help clients adapt to emerging opportunities and achieve profitable growth. Guy Carpenter is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy, and people. With nearly 65,000 colleagues and annual revenue over \$14 billion, through its market-leading companies including Marsh, Mercer and Oliver Wyman, Marsh & McLennan helps clients navigate an increasingly dynamic and complex environment. For more information, visit www.guycarp.com. Follow Guy Carpenter on Twitter @GuyCarpenter.

About Guy Carpenter

Guy Carpenter & Company, LLC is a leading global risk and reinsurance specialist. Since 1922, the company has delivered integrated reinsurance and capital market solutions to clients across the globe. As a most trusted and valuable reinsurance broker and strategic advisor, Guy Carpenter leverages its intellectual capital to anticipate and solve for a range of business challenges and opportunities on behalf of its clients. With over 2,300 professionals in more than 60 offices around the world, Guy Carpenter delivers a powerful combination of broking expertise, strategic advisory services and industry-leading analytics to help clients achieve profitable growth. For more information on Guy Carpenter's complete line-of-business expertise and range of business units, including GC Specialties, GC Analytics®, GC Fac®, Global Strategic Advisory, GC Securities*, Client Services and GC Micro Risk Solutions®, please visit www.guycarp.com and follow Guy Carpenter on LinkedIn and Twitter @GuyCarpenter.

Guy Carpenter is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. The company's more than 60,000 colleagues advise clients in over 130 countries. With annual revenue over \$13 billion, Marsh & McLennan helps clients navigate an increasingly dynamic and complex environment through four market-leading firms. Marsh advises individual and commercial clients of all sizes on insurance broking and innovative risk management solutions. Guy Carpenter develops advanced risk, reinsurance and capital strategies that help clients grow profitably and pursue emerging opportunities. Mercer delivers advice and technology-driven solutions that help organizations meet the health, wealth and career needs of a changing workforce. Oliver Wyman serves as a critical strategic, economic and brand advisor to private sector and governmental clients. For more information, visit mmc.com, follow us on LinkedIn and Twitter @mmc_global or subscribe to BRINK.

*Securities or investments, as applicable, are offered in the United States through GC Securities, a division of MMC Securities LLC, a US registered broker-dealer and member FINRA/NFA/SIPC. Main Office: 1166 Avenue of the Americas, New York, NY 10036. Phone: (212) 345-5000. Securities or investments, as applicable, are offered in the European Union by GC Securities, a division of MMC Securities (Europe) Ltd. (MMCSEL), which is authorized and regulated by the Financial Conduct Authority, main office 25 The North Colonnade, Canary Wharf, London E14 5HS. Reinsurance products are placed through qualified affiliates of Guy Carpenter & Company, LLC. MMC Securities LLC, MMC Securities (Europe) Ltd. and Guy Carpenter & Company, LLC are affiliates owned by Marsh & McLennan Companies. This communication is not intended as an offer to sell or a solicitation of any offer to buy any security, financial instrument, reinsurance or insurance product.