

Cyber Coverage Is Unprofitable, Now What?



Cyber coverage was once very profitable.

But that is no longer.

As I report in my recent article, [Cyber Challenges](#), the growth of ransomware attacks and undisciplined underwriting practices are pressuring a line already considered too risky for most insurers.

The line's overall unprofitability was bound to happen. Sooner or later, profitability challenges hit every insurance line. That can be positive in the long term. Low returns on investment can motivate necessary soul searching that leads to growth and development.

To be clear, a line's overall profitability is not indicative of an individual insurer's experience. Some insurers are still making a decent buck selling cyber insurance. To stay in the cyber game, however, less profitable competitors are likely looking to reduce what they cover or quit offering coverage altogether.

Cyber insurance has always been risky business. Pricing coverage is challenging amid ever-changing risks. Since I began covering cyber insurance in 2014, data breaches were insurers' main concern.

But that changed.

Changing Risk

[In 2018, data breaches continued to be the top concern.](#) Ransomware was beginning to raise its ugly head. Back then, cyber coverage was also quite profitable. With losses at only 40% of expenses, there was plenty of room for double-digit profitability.

Now, cyber actuaries, charged with developing rates with little past or present data, are finally getting enough information to anticipate losses associated with data breaches. Actuaries have also become more sophisticated with scenario planning.

Despite these improvements, pricing cyber remains a delicate matter. Since cyber insurance was profitable, underwriters had some wiggle room for pricing coverage. But not anymore. Tighter underwriting, it is hoped, will result in organizations “getting religion” on risk mitigation. Recent harrowing ransomware attacks, such as the [Colonial Pipeline’s](#), should serve as a wake-up call as well.

Battling cyberbullies is part of the price we pay for digital dependence.

Monitoring cyber insurance continues to be a challenge. Yes, there is plenty of data about cyber security. That, however, is only the risk side of the insurance equation.

While writing this article, I was surprised that after a three-year hiatus from covering cyber insurance, only one organization provided an estimate for the combined ratio — the insurance industry’s go-to profitability barometer. The little publicly data available was laden in grains of salt or caveats as with sources warned the information does not paint a full picture.

Cyber insurance is important for protecting organizations when if a cyber attack occurs. Improving cyber security is vital, but so is building stronger partnerships between insurers and their customers. That critical piece could turn out to be the most important.

[Driverless Commercial Trucks Wait at the Intersection of Insurance](#)



Driverless commercial trucks are evolving much like their private-passenger counterparts. There are basically two paths. Vehicle manufacturers are either moving to near-autonomous vehicles practically whole cloth or are evolving trucks and cars piece by piece. Both approaches make sense for different markets.

The innovators expect the insurance industry to get on board. Insurers, however, are not exactly excited about covering unknown risks. My Leader’s Edge article, [Coming to a Highway Near You](#), explores the intersection of commercial automated vehicles and the business of insuring them.

As the article explains, brokering insurance depends on which path the driverless vehicle is developing. Conventional trucks with some automation — whether fresh off the assembly line or installed aftermarket add ons — are covered by traditional commercial auto policies. The more advanced the technology, the fewer insurance company options are available.

Manufacturers and owners of more advanced autonomous trucks, some of which are practically

driverless, are obtaining coverage through technology brokers. This represents a significant shift, where trucks are viewed through the lens of software more than grease and gears.

Another huge challenge is finding insurance companies willing to cover unchartered technology with their eyes half shut.

When I wrote my first driverless vehicle article [six years ago](#), the insurance industry identified concerns yet to be resolved. First, the safety of driverless cars was initially overhyped. The promise that driverless cars would eliminate about 90% of accidents was based on a study that had nothing to do with driverless vehicles. The actuarial community also showed the risks that driverless vehicles introduce, a reality that receives little attention. Manufacturers heretofore have been unwilling to share their data. This does not exactly build trust between the manufacturers and insurers expected to absorb mostly unquantifiable risk.

Another huge challenge is finding insurance companies willing to cover unchartered technology with their eyes half shut.

Some insurance industry professionals raise concerns that if the insurance industry does not start covering semi or more fully commercial autonomous trucks, manufacturers will, in effect, [self-insure](#). It is already happening. And it is not just Tesla offering coverage to their California drivers. Commercial trucking manufacturers are doing so as well. Then there is also the question of what insurance will look like as automation puts the burden of liability more on the manufacturer than the driver.

On a personal note, I believe automated commercial trucks and vehicles will continue appearing on American roads at a faster clip than private passenger vehicles. Unless there is a tax break or other financial incentive — or the United States economy rebounds rapidly — most Americans will find semi-autonomous vehicles difficult unaffordable in the near term. I discuss this in my well-received piece, [ADAS Go For a Ride](#).

My article explores these issues in more detail. Hopefully, it will inspire more dialogue between manufacturers and the insurance industry.

P.S. For more information, check out my award-winning piece, [Driverless Utopia](#).

[Why Commercial Auto Rates Keep Rising](#)

Commercial Auto rates have been rising for more than a decade. What gives? In my recent Leader's Edge article, [Where Are We Going?](#) I dig deeper to find the answer.

As you would expect, there are several reasons. The greatest one, in my opinion, is distracted driving.

Yes, you have heard that before. However, I did not fully believe until I spoke to an actuary who

looked into the data. The fact that commercial auto premium began to climb in 2011 was no accident. Around the time, smartphones were rapidly replacing flip phones, giving Americans something else to do when they were supposed to be doing a different something else.

Another explanation is higher litigation costs. There is no doubt that commercial auto insurers, especially those that cover trucks, get hit with paying some crazy-huge settlements. If you check out my Actuarial Review article, [Tipping the Scales: Measuring the Impact of Social Inflation](#), you'll see that the actual losses from litigation are difficult to measure as a whole.



In my opinion, the insurance industry needs to pony up for a study that proves how much litigation impacts overall severity and, in turn, rate increases.

The reality is, semi-autonomous vehicles, including trucks, can improve safety for many scenarios (for more on that, please read [Moving Parts: ADAS Go For a Ride in Actuarial Review](#)). Cameras can also track an accident to show true fault, but many truck drivers feel they interfere with individual privacy. Most accidents, a trucking expert told me, are not caused by professionally trained truck drivers. Often the fault rests with the other party.

Just how safe semi-autonomous vehicles are and how much autonomous vehicles will be is a matter of debate. I cover that in another article to be published soon. When it comes out, I'll let you know.

[Commercial Property Insurance in Peril](#)

Commercial property insurance was already struggling before COVID-19 hit the scene. Double-digit rate increases were bad enough but hit the highest in 35 years.



As I cover in [Actuarial Review's article, Perilous Times: COVID 19 & Vexing Variables](#), there were several things going on. Consider:

- Catastrophic weather-related losses have been exceptionally high - at least for the years 2017 and 2018.
- Thanks to the response to the COVID-19 pandemic, commercial space has been at low capacity for seven months.
- Declining investment income due to lower returns on mortgage-backed securities.
- Riots similar to the late 1960s have made a comeback - big time.

I wrote the commercial property insurance article before a multitude of hurricanes hit the United States, especially in the Gulf states. While the article focuses on commercial property insurance, it should also interest homeowners' insurance policyholders as well.

My thoughts on "Civil Unrest"

As an aside, I found it distressing that last summer, some people said it was OK to destroy buildings because that is not harming people. It depends on how someone perceives harm. Small business people who lose their companies and their employees who lose jobs feel harm. So do the neighbors. People have been physically harmed or even killed. Businesses that hang on despite the damage still have to pay deductibles for their commercial property insurance. Their premium can also go up.

By the way, if civil unrest sounds like rioting, then you need to get current. The Associated Press Style manual recently instructed journalists to avoid using "riot" as a term. ["A riot is a wild or violent disturbance of the peace involving a group of people. The term riot suggests uncontrolled chaos and pandemonium,"](#) according to the AP Stylebook's twitter feed. Apparently, the act of going into someone else's neighborhood, stealing property and destroying buildings could be stigmatized like the protests of the 1960s. "Unrest is a vaguer, milder and less emotional term for a condition of angry discontent and protest verging on revolt," [tweets the AP Stylebook](#).

Whatever it is called, I wish the Golden Rule would make a comeback. Treating people the way we want to be treated with kindness, dignity and respect would go a long way. Sounds like Martin Luther King doesn't?

[Social Inflation Impact Begs for Quantification](#)

Social inflation was attracting a lot of attention before COVID-19 hit the scene. Search the internet for buzz words like “nuclear verdicts” and “reptile theory” and you’ll see what I mean.



Before COVID-19, insurance company presidents and experts pointed to the phenomenon as a force behind rising premiums for most commercial insurance lines. But I was skeptical. After 30 years in the property/casualty insurance world, this was not the first time I heard social inflation was rearing its ugly head and pressuring insurance premium costs.

What is social inflation? To oversimplify, its essence is that Americans unhappy with the nation’s economic and social conditions are more likely to be sympathetic to plaintiffs who sue companies. Of course, there is a lot more to this, including legal strategy, jurisdictional differences and so forth.

My recent Actuarial Review cover story, [Tipping the Scales: Measuring the Impact of Social](#)

Inflation, reviews its evidence, its impact on losses and ultimately, rates. Although there is proof that social inflation is a thing, it is not showing up in industry data. Therefore, it is difficult to know its real impact and frankly, how much attention it deserves.

**...the insurance industry should invest
in quantifying social inflation's impact**

That is why I believe the insurance industry should invest in quantifying social inflation's impact on coverage costs. This could eliminate a lot of confusion and facilitate a more informed dialogue about the impact of legal costs in general.

If social inflation is linked to American satisfaction, which was not great before the coronavirus crisis, there are certainly more economic and social reasons for so-called "angry" juries to be in a worse mood now. In fact, the industry could have a stronger case for the impact of social inflation than before.

Perhaps the phenomenon is a symptom of deeper problems. Why are Americans angry? My suspicion is we expect more today than our ancestors. If we expected as much from ourselves as we do our institutions, everyone would be better off.

The article also provides evidence that juries are losing impartiality by giving more weight to feelings than facts. In that regard, social inflation should concern us all.

**If we expected as much from ourselves as we do our institutions,
everyone would be better off.**

How COVID-19 Will Impact Health and P&C Insurance



Copyright Insurance Communicators, LLC

COVID-19 will have vast implications on both health and property and casualty insurance lines. Two of my articles, which are cover stories for two award-winning insurance industry magazines, offer the details.

The May 2020 issue of Leader's Edge covers the impact that the [coronavirus will have on health care](#). Actuarial Review's May/June 2020 issue looks at the [COVID-19 effect on property-casualty insurance](#) including workers' compensation and personal auto. Writing about both requires an understanding of how health and P&C insurance work. Each are vastly different but does influence one other.

Keeping a subject fresh for the far-in-advance print publishing deadline when information is changing multiple times a day is tough. Once an article is published, there is no correcting, changing or manipulating it. Producing printed articles requires a commitment to thoughtfulness and accuracy that cannot be changed and updated online. This necessitates old-fashioned shoe-leather journalism that showcases the experts and insists they tell the story.

It also means having the knowledge to carefully find useful information by sorting through a barrage of biased news reporting, knee-jerk comments, horn-tooting news releases and dizzying technical reports. (My inbox in March and April could have been a story of its own.)

MORE COVID-19

I've been a COVID-19 follower since the third week in January. Actuarial Review editor Elizabeth Smith asked me to run a piece on the coronavirus in [the March/April issue](#). I've been watching it ever since.

Just as my first article was coming online, the reality of COVID-19 hit the nation. As I began the COVID-19 cover stories, the lockdown began. During the first couple of weeks, the so-called "new normal" began. My husband moved into my home office. My daughter returned from college and cooped up in her library-quiet bedroom through finals. My other daughter, a senior in high school, waited for the school system to start online learning. It never worked out well.

Those weeks were eerie and confusing. We were waiting to learn if anyone in the family had caught COVID-19. While trying to finish interviews just in case sources got sick, my inner mother-bear/domestic goddess came out. Between interviews and research, I was making homemade chicken soup and sewing masks for that once-a-week visit to unpredictable empty store shelves.

There is still time to positively influence the future outcomes of COVID-19, but it requires vigilance and thoughtfulness in a me-first culture.

While the lockdown was challenging at home, it was nothing compared to the ordeals of others. Over time, the stories from friends and colleagues kept coming in. People died. Others lost jobs. Medical personnel was overwhelmed and exhausted. The fear was palatable. Nobody knew what was coming around the corner.

It reminded me a little bit of 9/11 when I lived three miles from The Pentagon. The next few days were suspended as we waited to see what was next. The messaging was clear. We were a country united. I had not felt so much patriotism since America's bicentennial.

Not with COVID-19. It's hard to consistently message about a moving target amid the fear and chaos ensuing from a potentially deadly virus. At first, we were told not to wear masks. Once the rate of the curve began to slow — and there were enough masks for everyone to wear — we are now to wear them. As states began to “open up,” the disease started to spread.

But too many people let down their COVID-19 guard. The virus had not changed, it has remained a threat. I just shook my head when the beaches began to open. Did we learn nothing from Spring Break?

When I think about everything I have heard, learned and written about COVID-19, it frustrates me that too many are forgetting that virus's spread and its long-term impact are far from over. There is still time to positively influence the future outcomes of COVID-19, but it requires vigilance and thoughtfulness in a me-first culture. To protect the country, we *must* be united.

How well we protect the vulnerable says everything about who we are as people. There will be hard choices. Do we bring back jobs to the United States when goods are likely to cost more? How can we find ways to retrain people for jobs when the automated future is also at our doorstep? How can we encourage Americans to live healthier to reduce the demand on a limited health care system?

How well we protect the vulnerable says everything about who we are as people.

In the meantime, my commitment to covering COVID-19 remains. Besides working on future articles, I am also keeping a journal for Shenandoah County, Virginia as part of a project to record history for future generations. It is my way of giving back to the county's diarists who recorded daily life during the Civil War. Their now historic words have provided insight for a book I am writing about a war far too complex to be generalized in sound bites. It is an honor to give back.

Eventually, the time of COVID-19 will pass. But for now, we are all in this together. My hope is each

of us will find ways to protect and support each other.

[Climate Change Pressures Higher Property Insurance Premiums](#)

Climate change is already pressuring premiums for homeowners, commercial and other types of insurance coverage. California homeowners in wildfire-prone areas are being turned down for coverage. The National Flood Insurance Program



(NFIP) will be increasing premiums this spring.

My article in the January issue of *Leader's Edge*, [Climate Appetite](#), explains why businesses should consider the change in climate seriously to mitigate future risk. The piece also covers the important role insurance agents and brokers will play to support their clients.

There is also an overview of catastrophic losses and their impact on insurers.

Whether you believe global warming will cause serious changes to the earth's environment — or not — the story should be a wake-up call. Businesses need to take a harder look at their properties. Being sustainable could mean relocating, reinforcing buildings or taking maintenance and repair more seriously.

Making these investments now is a good idea. Besides protecting business personnel and property, it could keep insurance premiums in check.

After reading my latest [Leader's Edge](#) article, please check out my [Actuarial Review](#) articles relating to weather and insurance.

- [Risky Business](#) explains why climate change has become the top risk of concern for actuaries and risk managers.
- [2017: The Year of the CATs](#), discusses how extreme weather made 2017 the highest loss year for losses, bypassing 2005 of Hurricane Katrina fame.
- [The SLR Factor](#) covers why sea levels are on the rise. It also explains why actuaries should consider the impact of rising sea levels when developing rates for pricing property insurance.

[The Truth about Advanced Driver Assistance Systems \(ADAS\)](#)

Advanced driver assistance systems (ADAS) are helping drivers with reducing auto accidents and will impact the future of driverless cars, but there are limitations.

“My latest article in Actuarial Review is a must-read for consumers and the insurance industry that serves them. [Moving Parts: ADAS Go For a Ride](#) moves beyond the generalizations to help readers understand the advantages and the multiple limitations of automatic safety parts.



My article also provides a one-of-a-kind sidebar that provides at-a-glance information per ADAS feature based on multiple sources. Trust me, it was not easy to assemble, so do enjoy!

Key ADAS Take-Aways

- As evolving features, the safety-encouraging parts are not perfect. There are a few situations when they can cause accidents.
- Vehicles with ADAS features are unaffordable for the majority of Americans. The cost of a new car, never mind the ADAS features, is more than half the average American family's income. Used cars average \$20,000.
- It will take several years, if not more than a decade, for ADAS to be commonplace on American roads. Why? Americans are keeping their older cars longer than ever because they are well-built and car payment free.
- Repair costs are expensive and technicians can be hard to find.

- Unless insurers see a marketing opportunity, do not expect discounts for having ADAS in your vehicle. The safety features can help prevent accidents, but repairs are costly.
- Due to a lack of data, insurers are still getting up to speed on the impact of ADAS, which varies by vehicle make and model.

- Manufacturers know the most about their ADAS systems but they are not sharing data with insurers. Tesla's executives believe there is adequate data to offer competitive auto insurance, but its introduction has been a bumpy ride.

ADAS and Driverless Cars

The article also offers a more realistic consideration of the future of driverless car safety. The evolution of safety technology for conventional vehicles is not much different than for driverless cars.

This is a big deal. For the past five years, driverless car enthusiasts have stressed the future safety advantages of automated vehicles. It was backed up with faulty logic presuming that since most accidents are caused by humans, another misnomer, driverless cars would make the roads safer. (Please read [my award-winning article](#) about driverless cars for further explanation.)

It would have been better if driverless car advocates empathized convenience rather than safety. But here again, as both conventional vehicles and driverless cars evolve, their differences will probably be few over time. There is also a growing acknowledgment that drive-free cars might never come to fruition, requiring drivers as the final safety, ironically, when technology finds its limits.

The Bottom Line

ADAS is showing its mettle for preventing accidents. Any automation should be viewed as *tools for drivers*, rather than the *replacement of drivers*. After all, humans do not just cause accidents. They prevent accidents too.

Generation Z Looks to People for Complex Insurance Interactions

Generation Z, which presumably embraces digital everything, also likes the human touch when dealing with insurance companies.



Generation Z wants more than digital interaction with insurers.

Born from about 1996 to 2015, the oldest of the digital native generation is beginning to buy their own personal lines insurance. And they have been around the digital block. As my recent Actuarial Review article, [Coming of Age: How will Gen Z Impact Personal Lines Coverage?](#) explains, constant exposure to social media, digital marketing, clickbait and fake news has created a deep hunger for authenticity and transparency.

For many, finding trust and credibility means doing business with insurance professionals. At least half of Gen Zers purchasing auto, renters or homeowners insurance, surveys show, seek out insurance agents or customer service representatives for help. This is especially true for complex insurance transactions, such as purchasing coverage or filing a claim.

The article also specifies why Gen Z is different from previous generations. It explains how generational differences have vast implications on insurance product development, pricing, marketing and communication. While researching for the article, I found that Gen Z does expect insurers to offer multichannel, 24-7 access.

However, surveys and interviews hint that the digital natives might not be as quick to purchase simplified insurance through icons and a few clicks as much as [insurtech](#) investors hope. Rather, Gen Z seeks insurance for security. Digitally jaded to some extent, they want to build trust with people who represent brands.

Gen Z seeks insurance for security.

Retailers are also finding that Gen Z does not necessarily embrace online shopping. Gen Z will start the process online to collect information. But ultimately, they prefer to shop at brick-and-mortar stores, according to the [National Retail Foundation](#).

This reminds me of a hilarious [Bad, Bath and Beyond online commercial](#) that introduces the concept of offline shopping. “It’s like online shopping but in real life.”

Reaching Generation Z

Smart insurers will find the right balance of reaching Gen Z by offering both digital and human interaction. Online, they will blend both traditional and simple iconic elements with language that educates consumers without compromising meaning.

Progressive’s website is a great example. It presents a traditional navigational look with little scrolling and clickable headlines while offering straight-forward clickable insurtech-inspired icons. Explanations provide enough information to help viewers.

Successful insurers educate their Gen Z customers by straightforwardly presenting information. They hire communicators who get insurance and can explain it simply without marketing flash or dumbing down critical information.

Finally, I like Gen Zers. As a stay-at-home mom who watched Gen Z grow up, I like that they are smart, pragmatic and refreshingly honest.

Thanks to Actuarial Review

On another note, I was deeply touched and humbled by what Actuarial Review Editor Elizabeth Smith wrote about me in the publication’s current issue. It says:

Thanks to our award-winning author and cover story writer, Annmarie Geddes Baribeau. “She knows insurance, and she also knows actuaries and what they’d like to read.”

Thank you for the opportunity. Actuaries are great fun!

Emerging Risks Insurers Are Watching — and So Should You

Emerging risks are a mixture of perception and reality. If you asked executives in 1999 to name one of their top



The experts weigh in on emerging risks.

concerns, many would have answered Y2K. It turned out Y2K caused a lot of hysteria and a lot of computer consultants made a ton in the process.

Then there are the risks that people don't perceive but insurers do. Auto insurers know most accidents take place within a five-mile radius of the home. Drivers do not think about that when getting on the road.

Insurers, actuaries, risk managers and world leaders see emerging risks from the broader perspective. Insurers have to think ahead to figure out which emerging risks they can cover and the cost.

My most recent [Actuarial Review](#) article considers three recent surveys to break down five emerging risks from the insurance and business perspective. Consumers can benefit from the article as well.

Climate change bypassed cyber risk as the largest emerging risk of concern. One source said off the record that this is largely due to news coverage on climate change that showcases the evidence of rising sea levels. (Yeah, I covered [that](#) too.)

The insurance industry has to anticipate what is possible to make contingencies. Unfortunately, fear-mongering politicians are muddying the public climate change conversation. I am thinking of two in particular. They warn of doom in 12 years if we do not act now. Thankfully, the [Associated Press](#) fact-checked the 12-year claim and wrote, "There is no scientific consensus, much less unanimity, that the planet only has 12 years to fix the problem."

All nations should be doing their part to take care of the planet. But my largest concern relates to cyber risk and unintended consequences of emerging technologies. Insurance executives do as well, ranking cyber risk second among emerging risks. (Covered [cyber](#) too.)

An Emerging Risk for Consumers

From a consumer standpoint, I see one big risk: data privacy. We unwittingly gave away a lot of personal information by participating in social media, "trusted" websites, DNA testing...the list goes

on. Suppose personal data lands in the “wrong hands.” Just look back at history, assume it repeats itself, add in personal data and play it forward.

I am hopeful about the [California version](#) of Europe’s General Data Protection Regulation, which is to go into effect next year. However, if the Silicon Valley companies (I won’t say who they are I will just point) can successfully lobby lawmakers, it might lose some teeth.

Which emerging risks concern you and why?