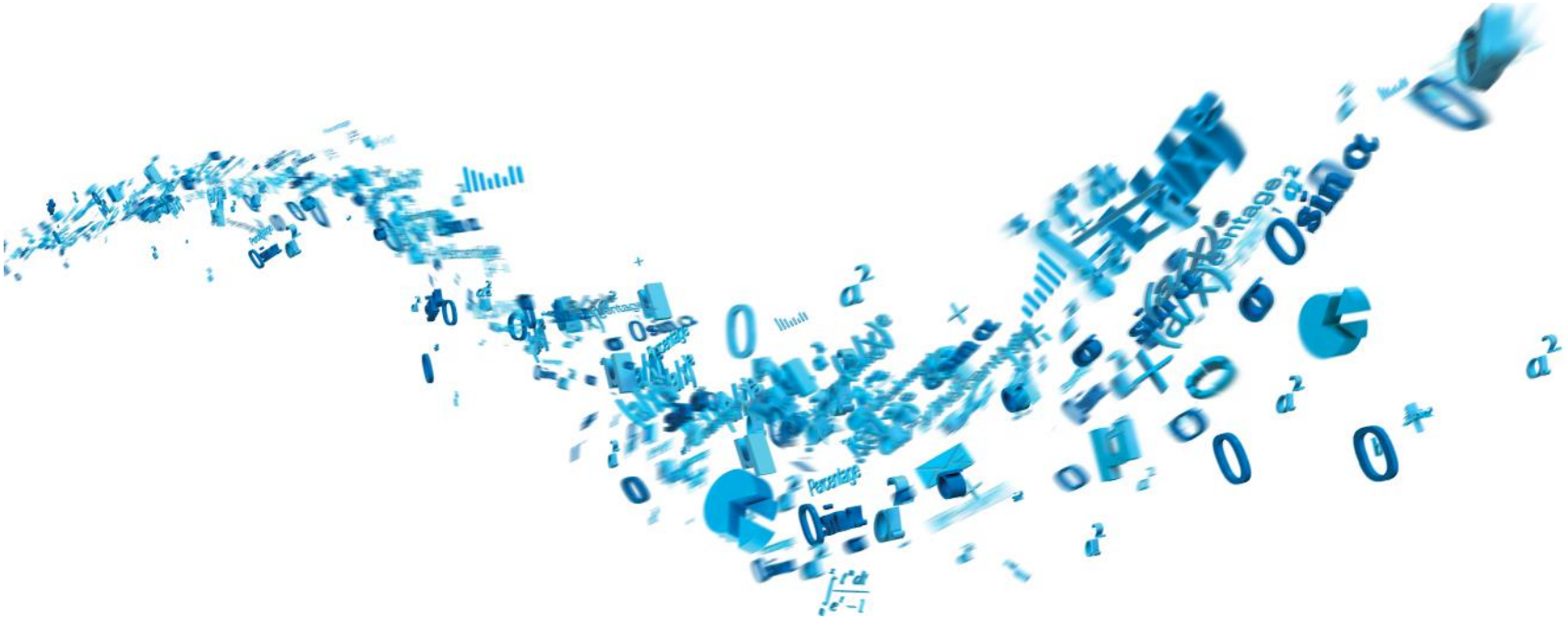


Davidson & Company
CFO Series XIII: Cybersecurity
Network, Data Security & Privacy Liability Insurance

Prepared by Aon Risk Solutions
Aon Cyber and Privacy Practice (ACAPP)

Empower Results®

‘Cyber’ Risk Factors

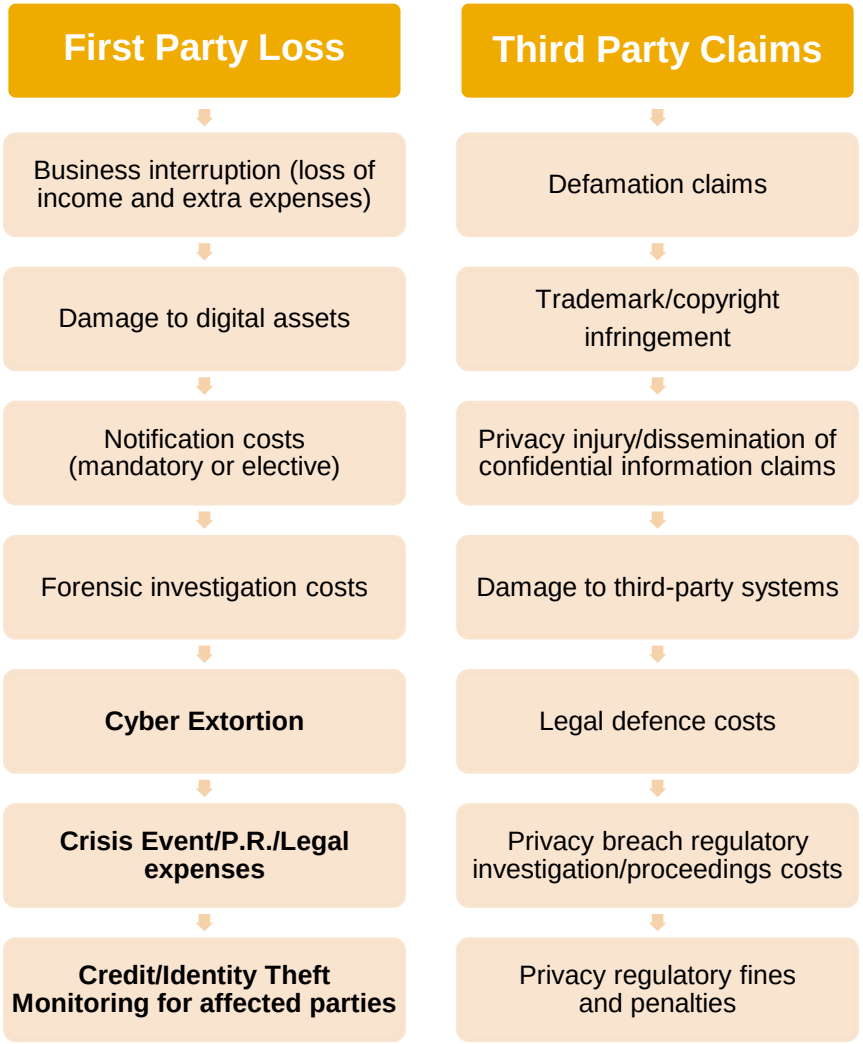
- A high degree of dependency on electronic processes and computer networks
- Large volumes of private personal and/or confidential corporate information collected, maintained, disseminated or stored (clients, employees, business partners, contractors)
- Potential vulnerability to reputational harm
- Employees; potential for human error and/or malicious acts
- Increasing business-related online and social media activity
- Exposure to vicarious liability relating to third party service providers, business partners, vendors
- Subject to regulatory statutes/oversight in Canada, U.S. and other jurisdictions
- PCI (Plastic Card Industry) fines and assessments
- Potential for cyber-related Property & Business Interruption loss
- Vulnerability to cyber-extortion
- Critical Infrastructure / Industrial Control Systems potentially at risk from a cyber-event

To Insure, or to Self-Insure Cyber Risk?

There are many factors to consider in answering this question, among them:

- Your organization's level of risk tolerance/appetite for retaining risk
- The extent of in-house resources available to establish and execute Incident Response Plans (Risk Management, Legal, Compliance, Information Security, I.T.)
- The volume of private records your organization holds, and the potential cost of notification to and credit/identity theft monitoring services for affected customers, employees or business partners
- Your industry's attractiveness as a 'target'
- The extent to which your organization might be exposed to liability or loss arising out of the use of third-party service providers
- Your organization's potential exposure to infrastructure damage / business interruption losses arising from a cyber-event (this is an 'evolving' area where insurance response is concerned)

What Does a “Cyber Risk” Policy Look Like?



Why Aren't 'Traditional' Insurance Policies Enough?

- Property insurance policies cover "tangible property" – which data isn't
- Business Interruption cover responds only when insured property has been physically damaged by an insured peril
- General liability policies speak to bodily injury/property damage risk, and do not contemplate claims brought by employees
- Crime/Employee Dishonesty policies have no "liability" component
- D&O Liability policies ***might*** partially respond depending on circumstance, but much depends on the nature and target of the allegations
- Professional Liability policies ***might*** partially respond, but will only address third-party loss arising from allegations of professional negligence
- Conventional insurance policies contain terrorism exclusions
- K&R policies don't provide fulsome (or any) coverage for cyber-extortion
- None of these policies address first-party expenses; forensic investigation costs, notification/credit monitoring costs, legal/crisis response/public relations expenses, privacy regulatory investigation costs/penalties, cyber-related business interruption, damage to digital assets

Privacy Risk Exposures

Customer/Employee Data

- Credit/debit card information
- Bank account information
- Credit reports
- Employee medical records
- Social Insurance numbers
- Personnel files
- Student transcripts
- Payroll Information
- Motor vehicle abstracts
- Mortgage insurance records
- Employment contracts

Corporate Information

- Client/investor lists
- Compliance reports and data
- Litigation records
- Merger/acquisition plans
- Marketing/advertising plans
- Corporate contracts
- New product development plans
- Security assessments
- Network architecture details
- Business continuity plans
- Restructuring/hiring/lay-off plans

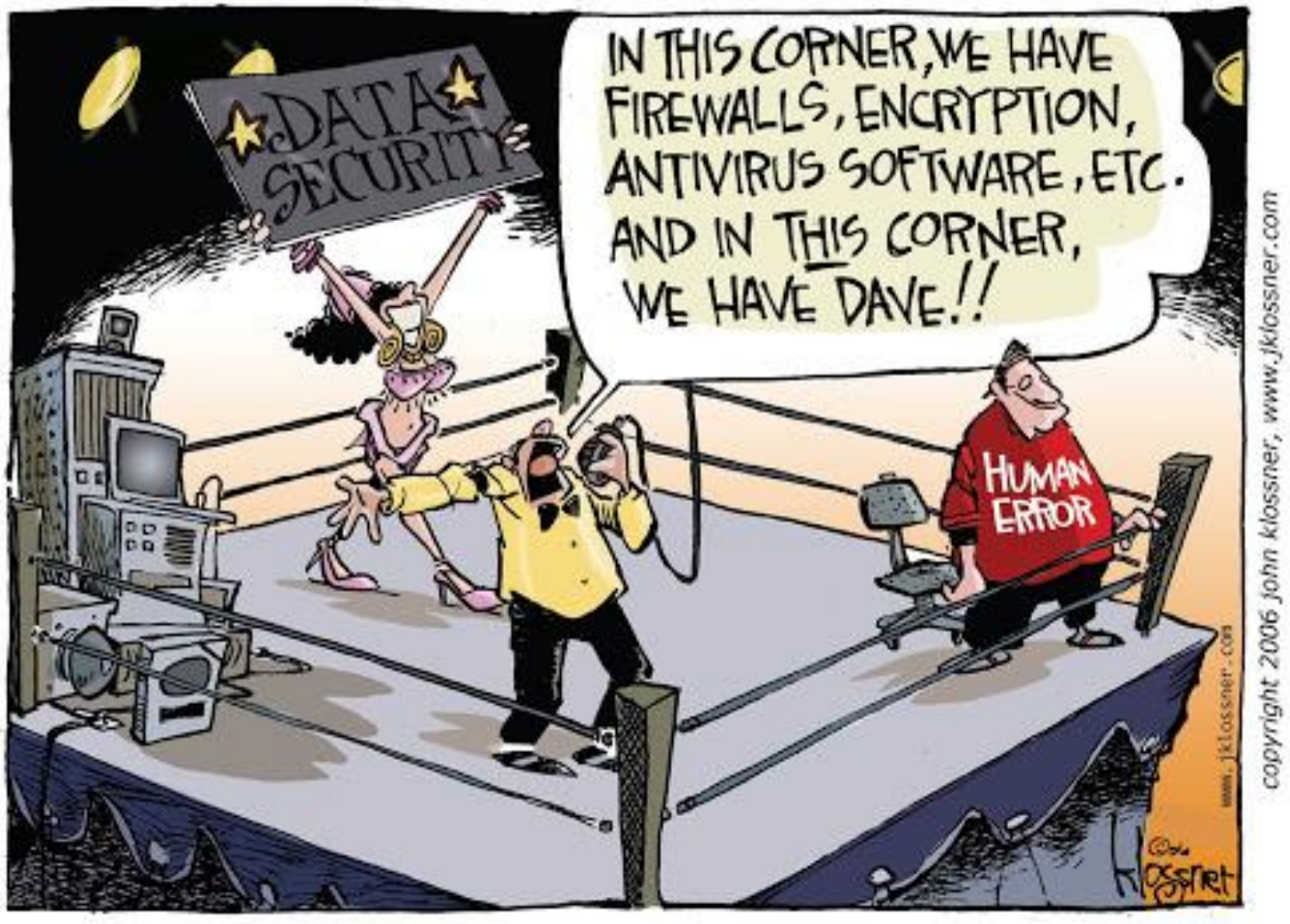
Can’t We ‘Transfer’ Cyber-risk to External Service Providers?

- Third-party service providers (e.g. payment processors, cloud storage providers, I.T. consulting firms) typically contractually limit their liability, and they rarely indemnify their customers; this can result in significant exposure to their customer in terms of potential financial and reputational loss
- In limited circumstances where contractual indemnities are forthcoming, the service provider’s ability to honour the indemnity should be assessed; many do not carry Professional Liability/Cyber-risk insurance themselves, and/or are unlikely to have the financial resources to fulfill their indemnity obligations
- You can contractually request that service providers carry Technology Errors & Omissions/Cyber-risk coverage, but their policy(s) are highly unlikely to directly address your organization’s legal costs or third-party/first-party damages
- Where protection of brand reputation is concerned, reliance on a third party contractor’s resources and decisions would be undesirable for most organizations

Won't Our I.T./Information Security Controls Protect Us?

- Not all Privacy/Data and Media/Content risk exposures relate to hacking or electronic exploits
- The majority of privacy breach and network security incidents are attributable to employees, not to outsiders
- Human error is a huge risk; lost paper files/laptops/USB sticks, misdirected emails, falling for phishing attempts
- Loss arising from the actions of rogue employees (whether acting alone or in collusion with outsiders) is a significant risk exposure, particularly if that employee(s) is familiar with your organization's systems and controls
- The bad guys on the outside keep getting smarter, particularly where cyber-extortion is concerned

Dave


DATA SECURITY
IN THIS CORNER, WE HAVE FIREWALLS, ENCRYPTION, ANTIVIRUS SOFTWARE, ETC.
AND IN THIS CORNER, WE HAVE DAVE!!
HUMAN ERROR
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Cyber-risk Coverage Checklist

Cyber-risk policy offerings and wordings vary greatly from insurer to insurer. A few things to look for when reviewing your existing policy or 'shopping' for coverage:

- Does the 'Crisis Response' coverage module response to voluntary notification to affected parties, or only to notification mandated by legislation/statute?
- Is there a Retroactive Date on your policy? This can be problematic in the context of a persistent threat that was undetected at the time of binding cover.
- Are there sub-limits associated with certain sections of your policy? With some isolated exceptions, full policy limits should be provided across all insuring agreements.
- Does the Media/Content Injury coverage module restrict cover to 'website' content only, or has it been expanded to include all modes of information dissemination – including social media?
- Is there clear, affirmative cover for vicarious liability arising from your organization's use of external service providers?
- Does the policy clearly detail incident response reporting coordinates?

For More Information…

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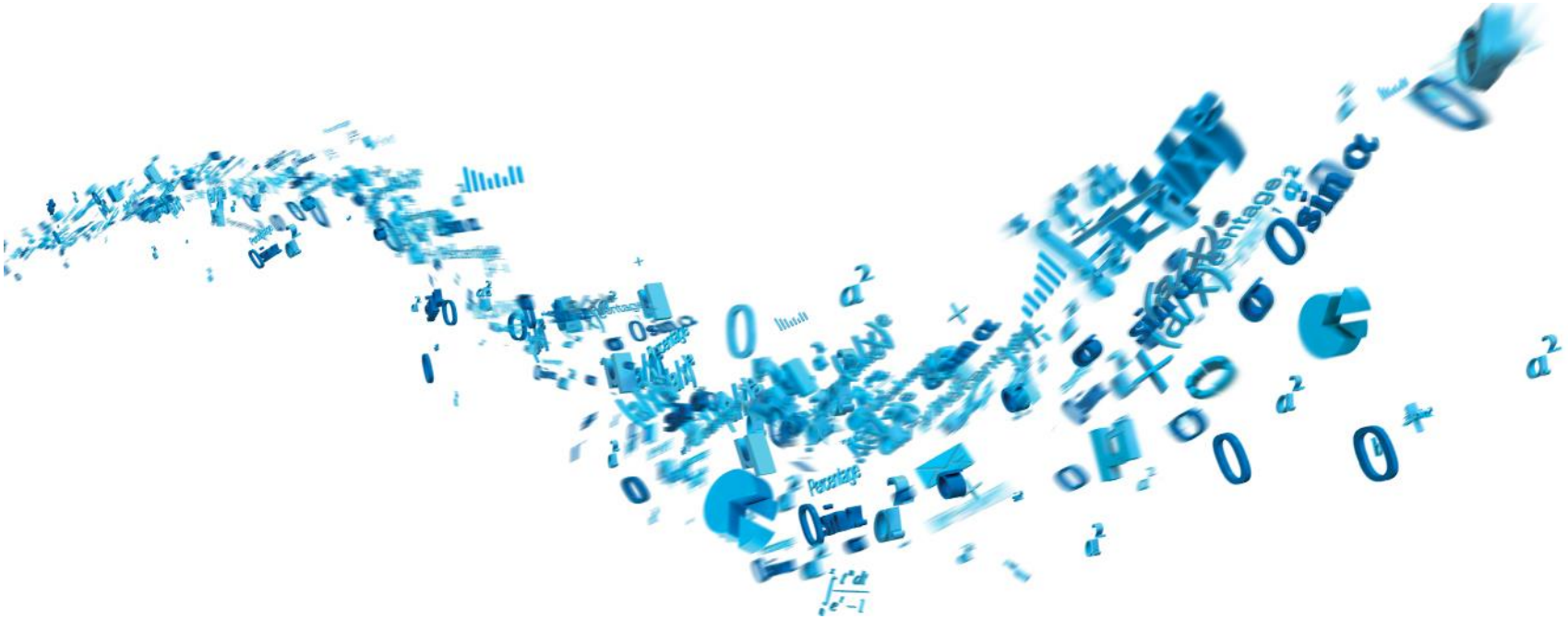

Questions/Thank you

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