AM BEST SINCE 1899

BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

June 24, 2024

US Cyber: Hot Pricing Cools Off, Rapid Growth Stalls

Systemic risk and artificial intelligence have become top concerns for cyber insurers

Principal Takeaways

- Cyber premium growth, as reflected in NAIC filings, slowed in 2023, with direct premiums written rising 0.1% from 2022 (based on premium reported as of June 10, 2024), despite a significant increase in the number of policies. Calendar year results were stable.
- Surplus lines carriers maintained their leading market share over admitted writers—and generated better results.
- Systemic risk, risk aggregations, and artificial intelligence are key concerns for the segment.

AM Best has assigned a Stable outlook to the global cyber market. Access the report here for more information.

Cyber insurance is still evolving. Premium growth, loss ratio and rate stabilization, modeling evolutions, and the growth in the ILS market are all positive signs for the market. However, insureds and insurers are still in early stages of figuring out the risk, how much insurance is needed, and appropriate actuarial risk-adjusted rates. Modeling results are still volatile; although some of the volatility may be because of a dynamic risk environment, it is fair to say that the models have not yet been tested.

After more than tripling from 2019 to 2022, cyber premium growth slowed in 2023, with just a 0.1% increase in direct premiums written (DPW), according to filings from the National Association of Insurance Commissioners (NAIC) (based on premium reported as of June 10, 2024). Data on US captives and offshore insurers are not available; AM Best believes, however, that a good amount of premium may be from these non-NAIC filers (including captives and Lloyd's). The reduction in rates has been due to various factors, including increased competition from the supply side. In addition, improving cyber security practices and decreases in claims frequency have also led to rate reductions after a period of accelerated rate increases driven by a surge in ransomware attacks in 2020 and 2021. Claims severity is down, more than offsetting the increase in frequency.

Good cyber practices have proven beneficial to both insureds and insurers. These practices have led to a steady decline in the segment's loss ratio, despite a sharp increase in ransomware attacks in 2023, which resulted in a 50% increase in first-party claims. However, given practices related to backup and the realization that paying ransom may not get data returned to insurers or destroyed at the hacker's end, many clients are now refusing to pay the ransom. Industry estimates suggest that over 70% of ransomware claims have no ransom paid and that ransom victims are expediting their recovery back to normal function.

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By now, larger, sophisticated insureds already have cyber coverage. Further growth will need to come from small and medium-sized entities (SMEs) as they move to digital platforms. SME insureds may find packaged policies easier to manage since all coverage will be on one policy form, limiting concerns about how to purchase cover and who is responding if an event occurs. Many insurers may find providing coverage to SMEs to be more attractive as underwriting can be automated and managed on a portfolio basis with prudent limits management. Growth could lead to risk aggregation issues for insurers since a large number of smaller policies could still lead to significant exposure.

Surplus lines carriers took over a majority of the cyber market in 2022 and continued to expand their share in 2023. Since they don't need approved policy form language, surplus lines carriers are in a prime position for even more growth in cyber insurance since they can respond faster to the changing needs of insureds. Additionally, as more SMEs move to digital environments, surplus lines writers will be best suited to tailor policies to the clients' desires.

Despite a significant shift to first-party claims, third-party claims still make up over 20% of cyber insurance claims, leaving a tail on this business. Schools and hospitals, which are typically lagging in both onsite systems and security for those systems, remain primary targets.

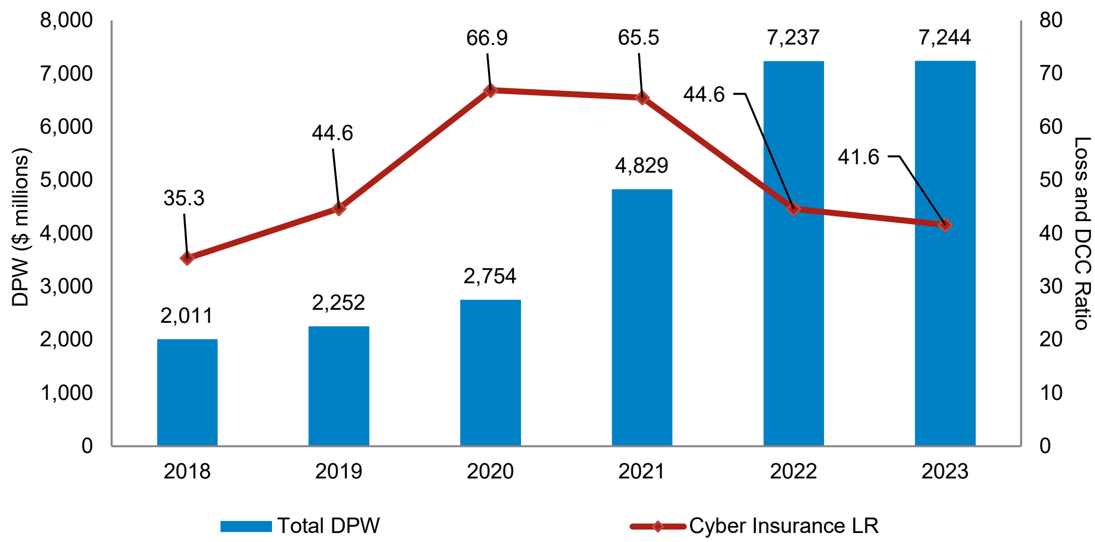
Emerging Issues

Systemic risk has moved to the forefront and insurers are looking to limit their aggregate exposure. Insurers rely heavily on models for estimating aggregate risk, but so far no systemic event has occurred meaning the models have not yet been tested, tempering the desire to depend on them.

Cyber insurers still rely heavily on reinsurance, with over 50% of cyber premiums ceded to reinsurers. This dependence on reinsurance leaves cyber insurers somewhat at the mercy of their reinsurers. With cyber insurers already focusing on aggregate exposures to systemic risk, any pullback by reinsurers to limit their own capacity on cyber coverage will certainly flow downstream to primary insurers and limit primary insurers' appetite for cyber insurance.

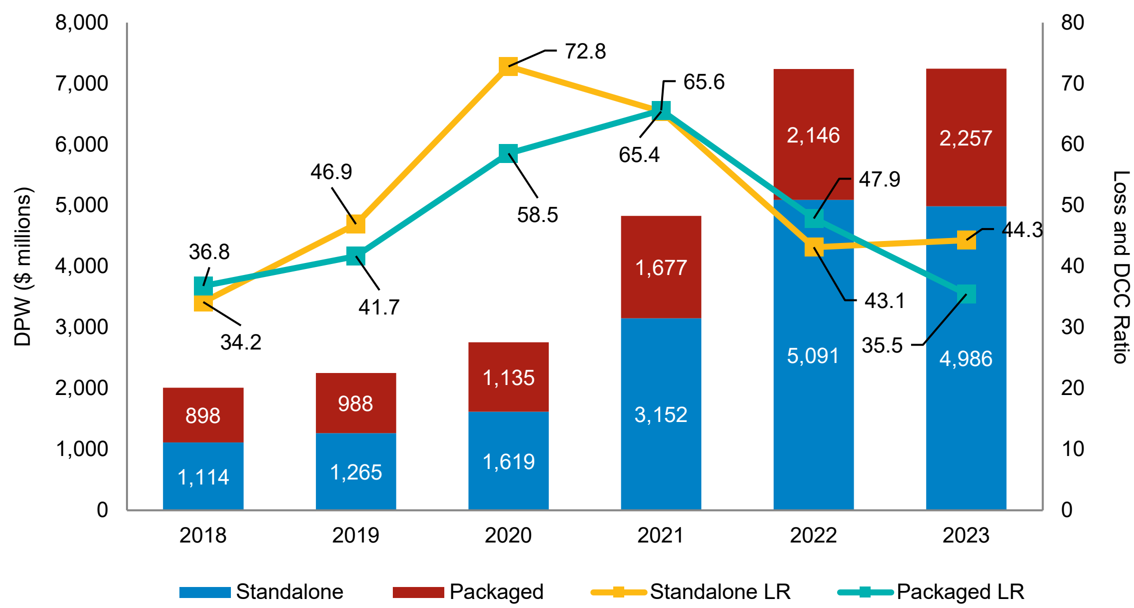
Artificial intelligence has become a significant concern among cyber insurers. Media liability and intellectual property are now at the center of many legal disputes. Because artificial intelligence uses external inputs, it is vulnerable to copyright violations. The highest profile suit right now is the *The New York Times'* lawsuit against OpenAI for ChatGPT's use of Times content without permission or proper citations. The outcome of this case could determine cyber insurers' liability for AI content.

Exhibit 1a
Cyber Direct Premiums Written with Loss & DCC Incurred Ratios



Source: AM Best data and research (based on premium reported as of June 10, 2024)

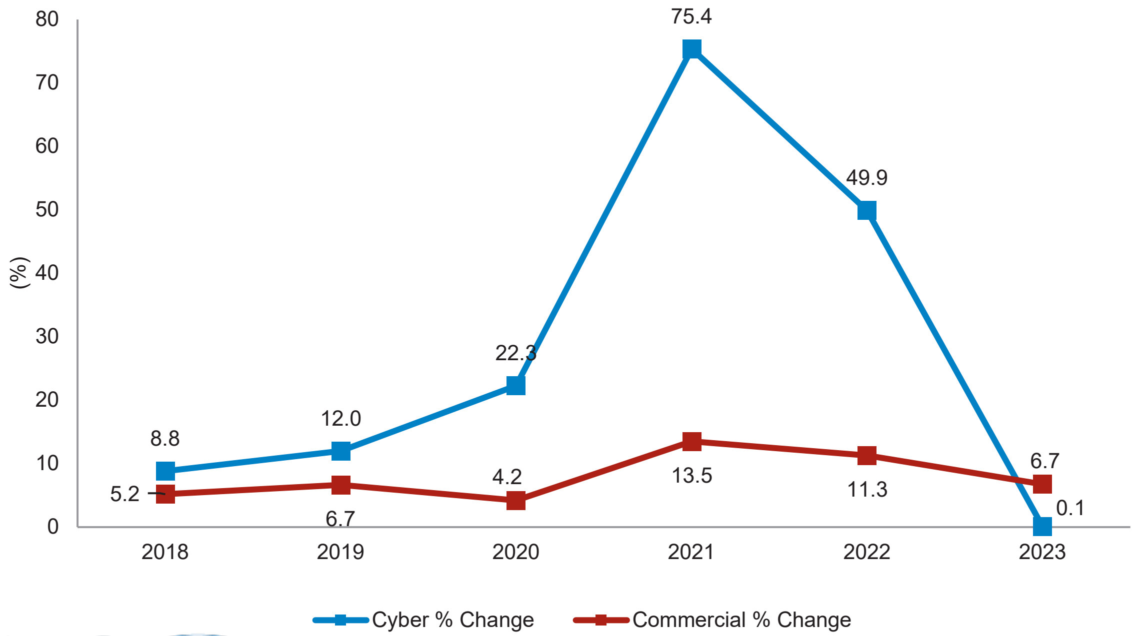
Exhibit 1b
Cyber Direct Premiums Written with Loss & DCC Incurred Ratios



Source: AM Best data and research (based on premium reported as of June 10, 2024)

- DPW growth leveled off in 2023, up only 0.1% from 2022.
- Loss ratios remain stable. Improved cyber practices minimizes claims severity.
- DPW on packaged policies grew 5% but fell 2% for standalone—the first drop recorded—despite an increase in policy count (see **Exhibit** 7).
- SMEs, which are the area where cyber can grow the most in the short term, are more likely to purchase packaged policies for all-in-one coverage.

Exhibit 2
Change in Cyber DPW vs All Commercial Lines, 2018-2023

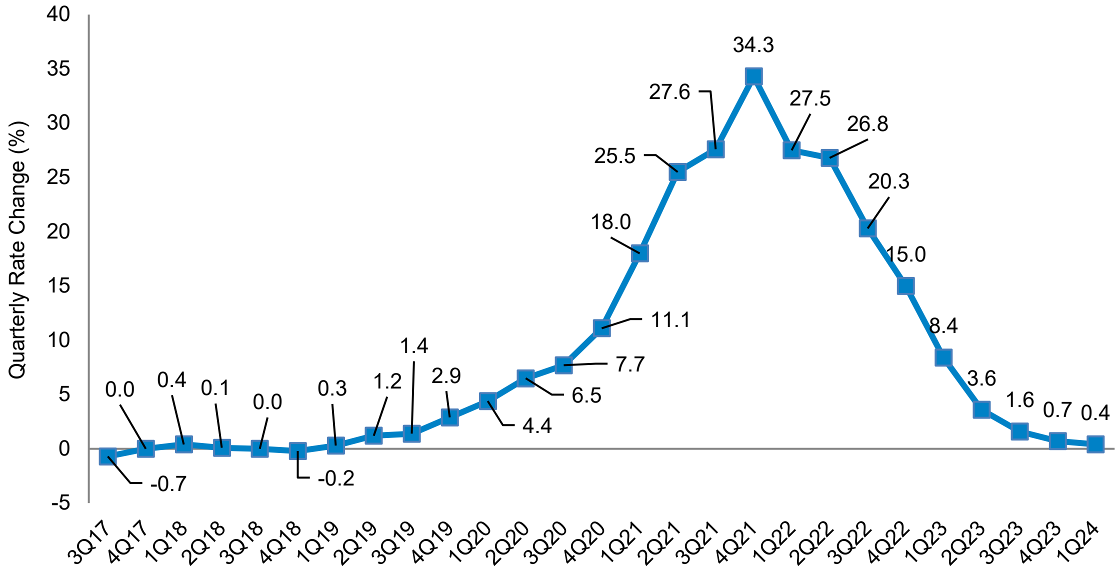


Source: BESTLINK

- Cyber DPW growth leveled off, but its 28% average annual growth over the past five years has outpaced commercial lines' 8% annual growth.
- Demand for cyber insurance will continue to grow, which leaves room for insurers to expand, especially among less sophisticated clients that may not have the best systems.

Exhibit 3

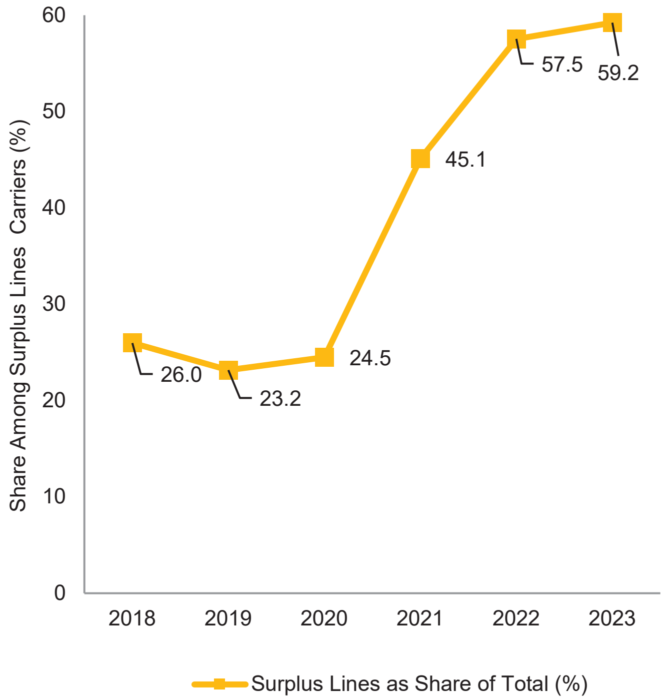
US Cyber Insurance – Pricing Changes by Quarter, 3Q17-1Q24



Source: CIAB

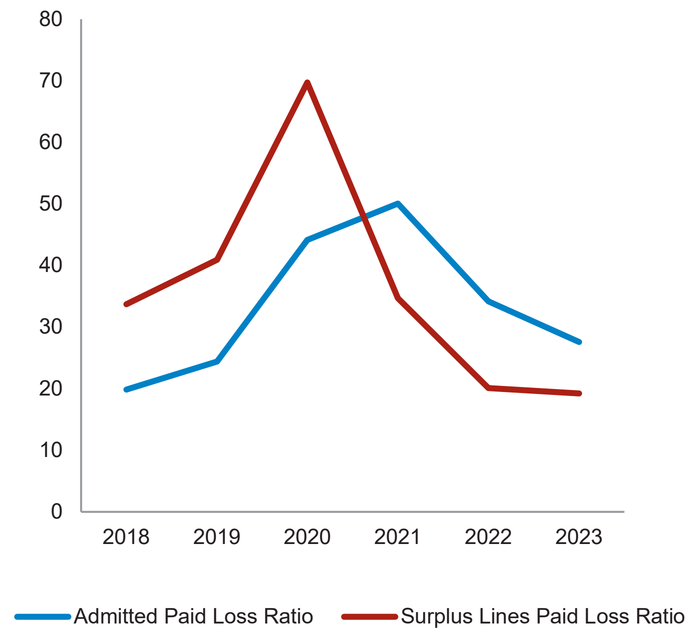
- Pricing is essentially flat; inflation, growing exposures, and flat pricing are effectively softening the market.
- Insurers have switched their focus from pricing to managing systemic risk.

Exhibit 4
Surplus Lines as Share of all Cyber DPW



Source: BESTLINK

Exhibit 5
Admitted vs Surplus Cyber Paid Loss and DCC Ratio



Source: BESTLINK

- Surplus lines writers increased their share of the market in 2023 and now account for the majority of cyber premium, particularly standalone policies. The unique nature of cyber insurance needs for each individual insured is a perfect fit for surplus lines insurers, which can tailor policies instead of relying on standard admitted policy form language.
- Surplus lines writers have outperformed admitted writers the past three years.

Exhibit 6

Top 20 Cyber Insurers

($ millions)

Rank 2022	Rank 2023	Company Name	2022 DPW	2023 DPW	22-23 DPW Chg (%)	Market Share (%)	% of Cybersecurity DPW Standalone	% of Cybersecurity DPW Packaged	2022 Loss & DCC Ratio	2023 Loss & DCC Ratio	Est. UW Exp Ratio	Est. Comb Ratio
1	1	Chubb INA Grp	604.9	573.6	-5.2	7.9	0.0	100.0	53.8	39.1	23.6	62.7
3	2	XL America Companies	527.4	487.2	-7.6	6.7	100.0	0.0	66.2	62.6	24.2	86.8
2	3	Fairfax Financial (USA) Grp	563.0	463.0	-17.8	6.4	100.0	0.0	54.0	51.0	33.7	84.6
6	4	Travelers Grp	315.3	384.9	22.0	5.3	84.7	15.3	34.8	22.4	33.8	56.2
4	5	Tokio Marine US PC Grp	367.6	377.9	2.8	5.2	78.0	22.0	57.8	44.6	29.0	73.6
12	6	Berkshire Hathaway Insurance Grp	228.5	289.3	26.6	4.0	40.3	59.7	48.1	47.1	26.5	73.6
5	7	Arch Insurance Grp	346.4	282.1	-18.5	3.9	88.6	11.4	52.3	58.1	30.0	88.1
7	8	American International Grp	299.0	274.4	-8.2	3.8	100.0	0.0	47.6	79.3	23.3	102.6
10	9	Sompo Holdings US Grp	248.0	262.9	6.0	3.6	100.0	0.0	50.1	44.9	25.5	70.4
208	10	Starr International Grp	0.0	260.0	NA	3.6	47.8	52.2	0.0	0.0	16.0	16.0
11	11	CNA Insurance Companies	228.9	228.4	-0.2	3.2	13.1	86.9	26.5	36.2	28.4	64.6
8	12	Nationwide Property & Casualty Grp	257.3	226.5	-12.0	3.1	93.8	6.2	12.5	27.6	32.8	60.4
9	13	Zurich Insurance US PC Grp	252.5	199.2	-21.1	2.8	72.8	27.2	68.2	63.5	20.0	83.5
15	14	AXIS US Operations	195.7	181.3	-7.4	2.5	88.5	11.5	85.9	73.2	28.7	101.9
13	15	Liberty Mutual Insurance Cos	208.2	178.3	-14.4	2.5	45.6	54.4	57.5	74.0	46.7	120.7
20	16	Hartford Insurance Grp	152.3	174.8	14.8	2.4	14.1	85.9	15.5	11.3	30.5	41.9
17	17	Ascot Insurance U.S. Grp	166.6	174.5	4.8	2.4	52.6	47.4	30.2	30.1	31.9	61.9
24	18	AmTrust Grp	115.9	170.0	46.7	2.3	87.8	12.2	7.6	4.9	36.4	41.3
16	19	Beazley USA Insurance Grp	174.6	149.6	-14.3	2.1	93.7	6.3	19.6	18.3	28.4	46.7
22	20	Intact US Insurance Grp	123.9	144.6	16.7	2.0	87.4	12.6	32.9	18.6	39.1	57.6
		Top 5*	**2,378.3**	**2,286.4**	**-3.9**	**31.6**	**68.7**	**31.3**	**54.9**	**43.5**	**28.4**	**71.9**
		Top 10*	**3,500.2**	**3,655.2**	**4.4**	**50.5**	**71.1**	**28.9**	**53.3**	**46.4**	**26.9**	**73.2**
		Top 20*	**5,376.2**	**5,482.4**	**2.0**	**75.7**	**68.6**	**31.4**	**47.4**	**42.2**	**28.6**	**70.7**
		Total Standalone	**5,090.8**	**4,986.5**	**-2.0**	**68.8**			**43.1**	**44.3**	**28.8**	**73.1**
		Total Package	**2,146.0**	**2,257.4**	**5.2**	**31.2**			**47.9**	**35.5**	**36.3**	**71.8**
		Total P/C Industry	**7,236.7**	**7,243.9**	**0.1**	**100.0**	**68.8**	**31.2**	**44.6**	**41.6**	**31.1**	**72.7**

Ranked by 2023 total standalone and packaged cybersecurity direct premiums written (based on premium reported as of June 10, 2024).

Source: BESTLINK

- Chubb remains the largest writer of cyber insurance.
- XL America has taken the top spot among standalone writers. In 2023, 11 of the top 20 cyber carriers saw a drop in DPW, which is typical when rates are flat.
- Managing systemic risk has taken precedence over pricing, resulting in lower pricing. Insurers are willing to take pricing cuts in exchange for diminishing their exposures.

Exhibit 7
Top 20 Cyber Insurers by Policies in Force

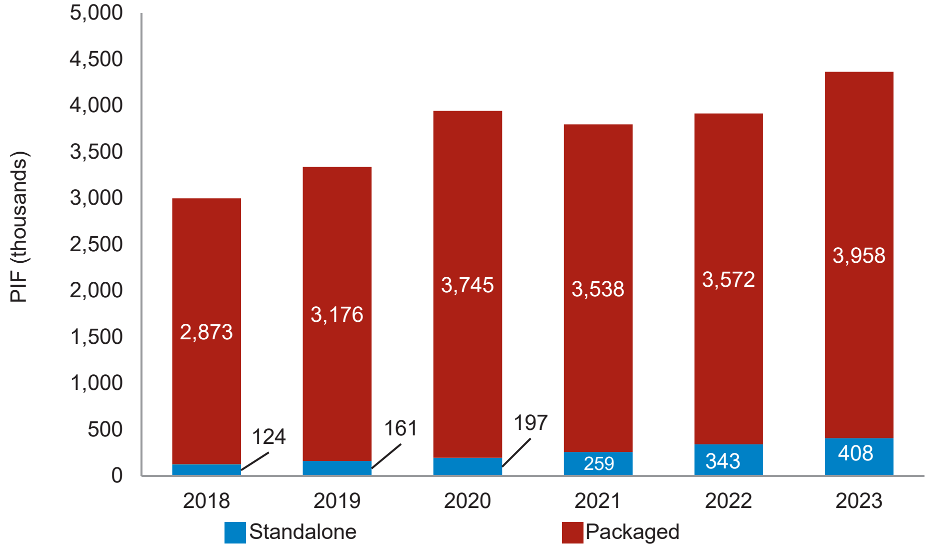
Rank 2022	Rank 2023	Company Name	PIF* (Thousands) 2022	PIF* (Thousands) 2023	YoY % Change
1	1	Hartford Insurance Grp	629.9	667.4	6.0
9	2	American Family Insurance Grp	93.6	349.5	273.2
3	3	Erie Insurance Grp	198.3	284.6	43.6
2	4	Berkshire Hathaway Insurance Grp	248.3	267.1	7.6
4	5	Farmers Insurance Grp	170.8	162.9	-4.6
5	6	Tokio Marine US PC Grp	144.8	143.2	-1.1
6	7	CNA Insurance Companies	125.6	136.9	9.0
7	8	Selective Insurance Grp	114.2	122.8	7.5
8	9	Hanover Ins Grp Prop & Cas Cos	110.8	115.5	4.2
10	10	Chubb INA Grp	93.5	96.1	2.8
16	11	W. R. Berkley Insurance Grp	53.1	89.2	67.8
11	12	The Cincinnati Insurance Cos	82.7	78.1	-5.6
14	13	Brotherhood Mutual Insurance Co	62.8	67.5	7.5
15	14	Travelers Grp	62.2	64.8	4.2
12	15	Nationwide Property & Casualty Grp	82.6	58.4	-29.4
22	16	Markel Insurance Grp	42.6	53.1	24.6
19	17	Federated Mutual Grp	43.7	45.7	4.8
18	18	Arch Insurance Grp	44.8	45.6	1.6
21	19	United Fire & Casualty Grp	42.7	44.4	4.0
23	20	Church Mutual Insurance Grp	38.7	44.3	14.4
		Top 5	**1,340.9**	**1,731.6**	**29.1**
		Top 10	**1,929.9**	**2,346.1**	**21.6**
		Top 20	**2,485.8**	**2,937.1**	**18.2**
		Total P/C Industry	**3,914.7**	**4,365.4**	**11.5**

* Includes standalone and packaged cybersecurity policies.
Source: BESTLINK

- The number of policies in force rose 11.5%. The number of policies increased at 18 of the top 20 writers.
- The growing policy count reflects the rising demand for cyber coverage as the world becomes ever more digitized.
- Policy growth is about the same for both standalone and packaged policies.
- Flat premium growth and a higher policy count highlight the pricing cuts on cyber policies.

Exhibit 8

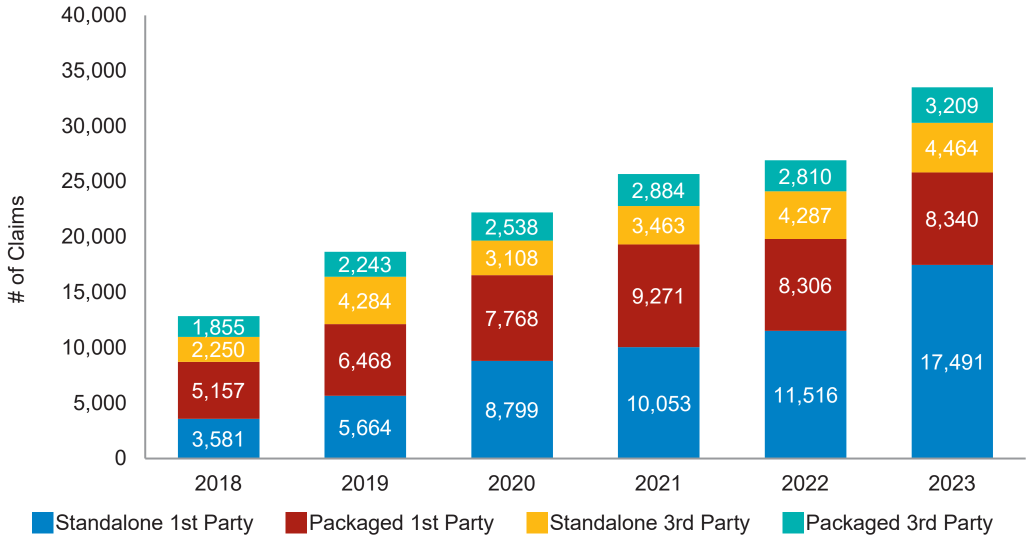
Cyber Policies in Force by Type



Source: BESTLINK

- Even though standalone policies now account for the majority of DPW, packaged policies outnumber standalone policies by nearly ten times.
- The wide divergence between premium and policy count highlights how many SMEs are getting cyber coverage and why they offer the best growth potential for cyber insurers.

Exhibit 9
Cyber Claims by Policy and Claim Type



Source: BESTLINK

- First-party claims account for more than 75% of all claims. Ransomware attacks are up significantly, but companies are often refusing to pay the ransom. Improved cyber practices include better back-up procedures, greater preparation for restarts, and better strategies to deal with cyber criminals.
- Third-party liability claims are still lingering. Schools and hospitals remain primary targets for data mining, mainly for two reasons: (1) they contain valuable information for threat actors and (2) their security systems tend to lag commercial standards.

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