

Trend Review
October 25, 2022

ID Theft and Personal Cyber Coverage Becoming Essential

The pandemic has expanded the threat of ID theft exponentially

Principal Takeaways

- Our highly digitalized environment has elevated personal cyber risk, especially during the pandemic, and resulted in an increase in claims.
- Insurers that expand their personal cyber coverage to better manage the evolving risk will be more valuable to their clients.
- Services offered in tandem with ID theft coverage, whether external or internal, are a vital part of coverage and provide customers with beneficial resources.

The act of stealing someone's private information and using it to impersonate that individual is ID theft, a risk that is unfortunately growing more common in our world today. Because of the COVID-19 pandemic, most people increased their usage of digital technology and the Internet, which has expanded this risk exponentially. With the majority of Americans either working from home or attending school online, the Internet became the central platform for communication—facilitating conversations and transactions that could no longer happen in person. In an attempt to capitalize on this change, hackers have become ever more sophisticated. Cyber risk is making its mark on the commercial side, but personal lines are not completely spared, and insurers must evolve and reevaluate their policies and coverages.

Personal lines cyber insurance generally covers key risks such as ID theft, cyber extortion, social engineering, financial fraud, and systems compromise. ID theft risk is more specific to stolen personal information, whether in the form of medical insurance theft, driver's license theft, social security theft, or criminal ID theft. According to the Federal Trade Commission, the most common form of ID theft reported in 2021 was the theft of government benefits such as social security payments, followed closely by credit card fraud (**Exhibit 1**). Coverage for these perils often includes reimbursement for the financial cost incurred by policyholders to re-claim their identities and can include compensation for attorney's fees, lost salaries, and the repair of credit reports. Coverage can also include services from the insurer or external partnerships to help victims restore their identities by reviewing and monitoring accounts to prevent further losses.

Huge Increase in Standalone Policies

ID theft coverage is offered as a standalone policy but is more commonly sold as part of a package with other types of coverage such as homeowners (**Exhibit 2**). Over the past five years, however, standalone policies have become even more popular,

Exhibit 1

Top Five Types of Identity Theft in 2021

Type of ID theft	# of reports	% of Top Five
Government benefits applied for/received	385,264	31.0
Credit card fraud - new accounts	363,092	29.2
Miscellaneous ID theft*	300,244	24.1
Business/personal loan	105,711	8.5
Tax fraud	86,649	7.2
Total, top five	1,243,960	100

* Includes online shopping and payment account fraud, email and social media fraud, medical services, insurance, and securities account fraud, and other types of identity theft.

Sources: Federal Trade Commission, Consumer Sentinel Network

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likely due to the rising awareness and severity of ID theft as a risk. The gradual increase up to 2020 may have been driven by those who were personally affected by ID theft fraud, were more susceptible to risk, or desired additional protection, especially as the risk has grown significantly the past few years. In 2021, the number of standalone policies exploded from about 300,000 to 2.3 million due to USAA, the largest provider of ID theft coverage, offering standalone policies.

A few years back, standalone policies covered a majority of ID theft claims, most likely because an individual purchasing standalone coverage may have had a higher exposure to the risk.

The number of claims from package policies skyrocketed in 2019 and 2020, reaching 64,375 from 9,898, before dropping to just over 3,000 in 2021. Although one single insurer, Mercury General, made up over 90% of that figure, the number of claims excluding that company was still significantly higher than in 2018 and prior years, and remained higher than the number of claims from standalone policies (**Exhibit 3**). In 2021, a spike in standalone policy claims reversed the trend, so that standalone policy claims outnumbered package policy claims. Over 95% of these claims

came from a single insurer, the Markel Corporation Group. Although the elevated level of claims in 2020 appears to be an outlier, with significant attention placed on ID theft risk, claims are likely to continue growing overall.

Greater Attention to Partnerships

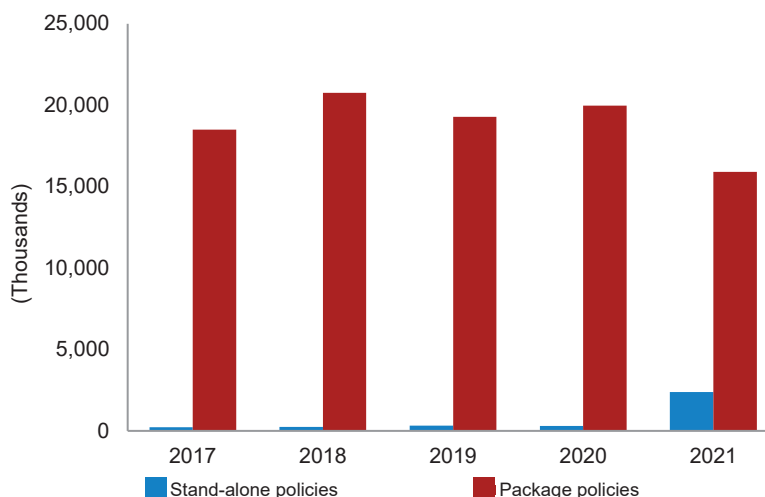
Insurers should not only look to evolve their ID theft insurance policies offered, but should also pay special attention to the services they offer their clients. ID theft fraud can be difficult to track, especially for those that have no idea how the hacking occurred. External carriers that specialize in cyber defense are able to provide clients with a wide range of supplemental services: assessment of devices, networks and online accounts; training services; online monitoring; and additional resources from experts. Nationwide, for example, has introduced a new web portal with Online Data Protection (ODP) software that comes with the company's ID theft coverage and provides three pieces of preventive software, along with guidance from cyber risk specialists; data recovery; device clean-up assistance; and even the restoration of Internet security. Insurers who work with these vendors and provide these additional resources to clients will be better equipped to manage increasing personal cyber risk and the obstacles faced in restoring the damage.

Premium Collections Vary by Insurer

ID theft coverage can be included in a policy in several ways, depending on the insurer. Many insurers give customers the option to add ID theft coverage to either a homeowners, condo, or renters insurance product as a part of a package for an additional cost of anywhere from \$25 to \$60 per year, usually covering losses anywhere from \$25,000 to \$50,000. A few policies may cover

Exhibit 2

Identity Theft Policies in Force by Type, 2017-2021



Source: **BESTLINK**

Exhibit 3

Identity Theft Claims by Type, 2017-2021

	Standalone Claims	Package Claims
2017	22,374	1,577
2018	7,533	1,916
2019	4,049	9,898
2020	4,078	64,376
2021	11,583	3,007

Source: **BESTLINK**

lower limits, up to approximately \$5,000, for example, but do not charge additional premium. Due to the disparity in the cost of coverage, direct premiums written from ID theft coverage vary greatly (**Exhibit 4**). As the largest ID theft insurer, USAA historically received zero premium because its cyber coverage was included in homeowners' policies at no extra cost. Travelers, however, offers a package at an additional cost and receives premium based on that cost. Both premiums written and policies in force have been rising gradually for a majority of the top ten insurers, highlighting the growth in customer demand for the coverage. The exception is USAA, which saw a drop of about two million total policies in 2021.

Exhibit 4

Identity Theft – Top 10 Writers by Number of Policies and Direct Premiums Written, 2017-2021

Company Name	2017		2018		2019		2020		2021	
	# of Policies	DPW (\$000s)	# of Policies	DPW (\$000s)	# of Policies	DPW (\$000s)	# of Policies	DPW (\$000s)	# of Policies	DPW (\$000s)
USAA Grp.	5,460,971	0	5,634,825	0	5,738,659	0	5,898,705	0	3,955,842	0
Farmers Insurance Grp.	2,928,990	8,416	2,947,663	9,368	2,928,580	9,893	2,882,083	10,222	2,873,911	10,804
State Farm Grp.	1,166,259	29,086	1,222,166	30,507	1,260,589	31,492	1,307,637	32,694	1,356,522	33,885
Erie Insurance Grp.	803,165	8,513	890,564	8,926	1,024,269	8,973	1,222,265	8,917	1,318,103	9,482
Liberty Mutual Insurance Cos.	812,799	11,326	953,605	11,278	999,318	11,845	1,216,766	12,485	1,138,206	13,339
Travelers Grp.	993,557	21,407	989,719	21,355	973,977	21,194	954,318	21,109	1,010,218	22,367
Nationwide Grp.	-	34,329	681,075	29,105	725,566	30,982	779,837	33,005	799,698	33,141
Hanover Ins Grp. Prop & Cas Cos	390,193	11,316	415,713	12,056	438,704	12,722	445,053	13,352	483,445	14,503
Auto-Owners Insurance Grp.	341,656	4,014	390,469	4,477	439,610	4,893	434,708	4,757	451,543	5,801
American Family Insurance Grp.	356,524	8,813	407,758	10,128	405,423	10,119	405,631	10,138	414,669	10,360
Total	18,730,887	191,466	20,995,843	190,668	19,603,543	198,079	20,283,072	200,318	18,301,169	202,991

Source: 

As awareness and the need for ID theft coverage builds, insurers who charge can capitalize on premium growth. This will be beneficial for many organizations, specifically those providing additional services, since the cost of providing services with coverage often exceeds the amount of premium collected, making it difficult to accurately price and analyze an insurer's actual profitability.

ID Theft Line of Business Remains Profitable

The ID theft line of business remains profitable despite growing concerns. Standalone paid loss ratios vary, although large losses in the past four years have been concentrated among just a few companies, and the remaining writers have zero loss ratios (**Exhibit 5**). Loss sensitivity for this line of coverage is particularly elevated on the standalone side because of the low premium base and some volatility in the losses incurred. Packaged ID theft coverage remains profitable, but the increase in loss ratios, in conjunction with premium growth during the four years, may be a cause for caution, as the line may be subject to more losses because of an increase in customers with coverage.

As a business line, ID theft generally doesn't deal with huge shock losses, with the exception of major data breaches, which have been occurring with greater frequency. Hackers are not only becoming more clever in stealing people's ID, but also in breaching private information, which only makes the environment more vulnerable to ID theft fraud.

As life becomes further integrated with technology, organizations are accumulating personal data more quickly, and data breaches, both small and large, are happening more frequently. Even smaller, less-publicized breaches can have significant consequences, depending on the nature of the compromised information.

Exhibit 5

Identity Theft – Paid Loss Ratio by Year, 2017-2021

	2017	2018	2019	2020	2021
Standalone Earned Premium	18,637	10,056	10,174	7,554	18,844
Standalone Paid Loss Ratio	15.9	153.5	4.6	17.5	3.7
Package Earned Premium	197,943	211,925	218,169	226,278	248,359
Package Paid Loss Ratio	0.1	0.2	0.6	1.0	1.1
Total Earned Premium	216,580	221,981	228,343	234,671	267,203
Total Paid Loss Ratio	0.0	0.1	0.0	0.0	0.0

Source: 

Exposures to cyber risks on the personal lines side, particularly ID theft, will only continue to grow as our lives become increasingly digitized. Insurers that adapt to this environment and provide more detailed coverage will remain relevant in the market, improve relations with customers and agents, and likely grow in premium. Reinsurance options are also available to mitigate ID theft risks.

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