



**Property Casualty Insurers
Association of America**

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**Testimony of
Property Casualty Insurers Association of America**

The Role of Cyber Insurance in Risk Management

**Committee on Homeland Security
Subcommittee on Cybersecurity, Infrastructure Protection and Security Technologies
United States House of Representatives
March 22, 2016**

The Property Casualty Insurers Association of America (PCI) is pleased to offer testimony on the role of cyber insurance in risk management. PCI is composed of nearly 1,000 member companies, representing the broadest cross section of insurers of any national trade association. PCI members write more than \$195 billion in annual premium, 35 percent of the nation's property casualty insurance and many of our members provide cyber insurance to their policyholders.

MARKET WILL DEVELOP NECESSARY CAPACITY

PCI is confident that the private market will be able to develop the capacity to meet the nation's needs for cyber insurance. There is no question that demand is high and growing in light of a number of high profile data breaches at national retailers within the past several years. Insurers have long offered coverage for data breach incidents that offer both remedial services and notification compliance. They are also developing new types of coverage that offer more proactive measures, such as cyber defense assessment.

As with any new types of coverage, a lack of underwriting and rating data is limiting capacity in the cyber insurance market. This is something that the industry is well aware of and is taking steps to remedy. Just recently, the Insurance Services Office (ISO), an insurance servicing firm, announced the "establishment and implementation of a Special Data Call to identify and collect industrywide Cyber insurance premium and loss detail information." The effort is intended to provide insurers that choose to enter this market with the information they need to offer additional capacity. This data call and other efforts like it will help the market mature and satisfy market demand.

SPEED-TO-MARKET CRUCIAL

While we are confident that as the market matures capacity will increase, it is imperative that state insurance regulators recognize the role they play in helping to ensure that the private market can satisfy market demand. State-licensed insurers often must submit policy forms to state regulators for approval. Any delay in obtaining such approvals slows the progress of getting needed cyber insurance products to the market.



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With respect to cyber insurance, we have received reports of widely varying timeframes for obtaining form approval from state departments of insurance. State regulators should be encouraged to expeditiously review and approve such forms.

REGULATORY CERTAINTY NEEDED

Regulatory certainty and simplicity can go a long way toward helping insurers provide products that consumers need. We note that insurers and their policyholders are currently subject to a patchwork of state data security and breach notice laws. This leaves consumers uncertain of how their data may be protected and what their expectations should be in the event of a breach.

Added to this is federal agency action on data security and breach requirements. The Consumer Financial Protection Bureau, Federal Trade Commission and Securities and Exchange Commission have all taken enforcement actions against various commercial interests in the past several years alleging lax data security standards. These agencies are not enforcing any particular set of data security standards; rather, they are pursuing data security claims under their various authorizing or related statutes that do not contain any specific data security standards. The greater clarity there is about what minimum data security standards are expected the easier it is for insurers to offer coverage based on the expectation that those standards will be satisfied. We therefore urge Congress to exercise appropriate oversight over these agencies to ensure that their actions promote the development of clear, consistent, and uniform data security and breach standards.

A number of members of Congress are currently working on legislation to bring about a uniform set of data security and breach notification requirements. PCI generally supports these efforts and has worked with various members and committees on this issue. We caution, however, that such legislation will not achieve the desired uniform data security and breach standards unless it is preemptive, thus preventing states from defeating the goal of uniformity by enacting different requirements of their own.

NAIC IDEAL FORUM TO ADDRESS MANY OF THESE ISSUES

Because of the uncertain prospects for federal legislation, PCI is also working closely with others in the industry to encourage the National Association of Insurance Commissioners (NAIC) to adopt a workable uniform model data security and breach notice law for enactment in the states. While such a law would apply only to the insurance industry, it has the potential to provide much-needed uniformity, which would benefit both consumers and insurers. PCI will continue to work with the NAIC's Cybersecurity (EX) Task Force as it considers draft model legislation.

PCI appreciates the opportunity to provide our thoughts on this important issue and we would be pleased to provide any additional information the Subcommittee may require.