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Digital-disaster insurance is taking off

IDEAS AT WORK
Cheryl Hall

Amy Elizabeth Stewart thinks your business needs cyber insurance.

No, the 48-year-old managing principal of Amy Stewart Law PC doesn't sell it. But she specializes in making sure legal clients have adequate insurance protection from the spectrum of possible mishaps and disasters.

And these days, she's advising all of her clients to have insurance specifically protecting against technology-related damage, whether it's caused by an absent-minded employee or someone far more sinister.

"We're a seven-attorney boutique law firm, and we have cyber insurance," Stewart says. She has coverage protecting her firm from confidential client information finding its way into exploitative hands.

Cyber coverage is the hottest segment in insurance. One in 4 U.S. companies had cyber insurance at the end of 2014, up from 1 in 10 just a year earlier, according to Ponemon Institute, a nonprofit that tracks data breaches.

Cyber insurance has existed for decades but mostly has been bought by tech, health care and financial companies. The mad dash for coverage began after headline-grabbing data breaches of major retailers, the government and, most recently, the Houston Astros.

Not surprisingly, larger companies are far more likely to have cyber protection.

But any company that uses email, takes credit-card payments, stores customer information, has

outside vendors or simply has a website is vulnerable.

"Getting coverage under traditional policies is becoming increasingly more difficult as insurers use exclusions on traditional policies to push coverage over to cyber, where they can hike premiums," says Stewart, who enjoys studying the ingredients of insurance policies the way a foodie likes taking apart a recipe.

Widespread risk

Stewart uses the example of a company victimized by a phishing scam. The CFO received an email that appeared to be from the CEO directing her to wire-transfer a large sum of money.

The CFO realized that the email was fraudulent after she hit "reply to all" to say that the transfer had been made and a bogus email popped up. By then, the money was long gone.

The company's traditional insurance policy didn't pay for the loss, but its cyber coverage did.

Kara Altenbaumer-Price, management and professional liability counsel for USI Southwest, says her insurance agency has been selling cyber policies for more than a decade and pushing them for five years. But clients began to listen only recently.

"We have seen a dramatic uptick in purchasing in the last two to three years," Altenbaumer-Price says. "It's a misconception that cyber insurance is only for online businesses or companies that accept credit cards. While the risks may be higher for such companies, all companies in

Amy Elizabeth Stewart

Title: Managing principal, Amy Stewart Law PC

Age: 48

Grew up: Rocky Mount, Va.

Education: Bachelor's degree in political science, Liberty University, 1989; law degree, University of Virginia, 1992



Vanessa Gavalya

today's world have cyber risk."

Altenbaumer-Price, who has worked with Stewart for four years, enjoys comparing notes with her on cyber. "There are many lawyers writing and speaking about cyber insurance," she says, "but, frankly, many of them still aren't that well-versed in it. Amy truly is."

Ready for an 'oops'

Stewart, who started her legal career as a commercial litigator, got her first taste of insurance in 1995, when her boss asked her to analyze a policy for a client.

"Most people with a litigation background who are asked to analyze an insurance policy would just as soon eat grass," she says. "I liked it. I like things that are difficult, complex and challenge me. It's fun."

When it comes to cyber, figuring out what you need and how much of it is difficult at best, Stewart says. One size does not fit all.

A couple of months ago, Stewart was examining a renewal policy for a technology client and discovered that it didn't have network interruption coverage.

Business interruption insurance that covers losses

from disasters such as Hurricane Katrina often doesn't cover network outages.

"That was a big hole," she says. "If their systems went down, it would have been a really significant loss for them."

And don't buy on price alone, she says. Carriers with the lowest upfront policy costs are often the most difficult when it comes time to pay a claim.

Don't overstate your internal controls in the hopes of getting a less expensive premium, Stewart says. Insurers may try to use this information to avoid paying a claim, saying you didn't follow your procedures.

Better yet, don't buy insurance from a company that has this dangerous exclusion, she says.

"Most data breaches are the result of human error," she says. "You may have an oops where someone did not do what they were supposed to do. But isn't that why you buy insurance?"

"It would be like having a wreck because you ran a red light and the insurance company denied coverage because it was your fault. 'Too bad. You screwed up,'" she says. "If there's an exclusion like that, you need to shop somewhere else." ■