

# Market Conditions

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## Crime Market Conditions

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The state of the crime insurance market is very different depending on whether you are referring to the London or U.S. marketplace. The London market is experiencing market contraction with capacity pulling out of the crime market, particularly with respect to primary capacity.<sup>1</sup> This is particularly devastating, because at one point in time, London capacity was willing to provide full social engineering limits. Contrast that with the U.S. market, where the outlook is relatively stable. In 2020, we forecast slight increases in premium. We are beginning to see upward pressure on retentions and some capacity reductions. Those reductions do not seem to be the result of any book overhauls, but rather strategic in nature for large primary placements as an overall limits-management approach.

Social engineering claims continue to be an issue. Accenture Security's annual report, *The Cost of Cybercrime*, states that "[p]hishing and social engineering attacks are now experienced by 85% of organizations, an increase of 16% over one year."<sup>2</sup> That same report suggests that the annual cost of social engineering attacks has increased 8% as well.<sup>3</sup> For these reasons, social engineering coverage continues to be a topic of conversation during renewals with clients and also during key coverage negotiations with carriers. Social engineering and excess capacity are still available for the right price. As discussed in last year's market conditions report, insurers have begun to add explicit exclusions for this exposure if the explicit coverage is not purchased. Carriers took this new approach after courts held in a few cases that these losses could be covered under computer fraud or funds transfer fraud insuring agreements. As a result, reviewing the terms of your program is critical, including whether or not you have the exclusion or explicit coverage (and, if the latter, whether callback verification requirements exist).

With so much attention continuing to be paid to social engineering losses, it's important to remember that employee dishonesty claims continue to be the largest source of crime losses. They can also be quite costly. Hiscox's recent embezzlement study suggested that the average cost was \$350,000.<sup>4</sup> Of those surveyed, only 39% of the total embezzled funds were recovered either by restitution or insurance.<sup>5</sup> Carriers have also seen increased frequency and severity of international claims and have increased pricing and restricted terms for multinational corporations, including adding higher retentions for foreign claims. It remains as important as ever to ensure that you evaluate your crime program and policy limits each year relative to your exposure.

Overall, for 2020 we anticipate:

- Single-digit percentage increases
- Upward pressure on retentions
- Reduction in limits for large-limit primary programs
- Underwriting scrutiny on application materials and loss control

<sup>1</sup> <https://www.ajg.com/uk/news-and-insights/2019/november/state-of-the-market-for-management-liability/>

<sup>2</sup> [https://www.accenture.com/\\_acnmedia/pdf-96/accenture-2019-cost-of-cybercrime-study-final.pdf](https://www.accenture.com/_acnmedia/pdf-96/accenture-2019-cost-of-cybercrime-study-final.pdf) at 13.

<sup>3</sup> *Ibid.* at 17.

<sup>4</sup> <https://www.hiscox.com/documents/2018-Hiscox-Embezzlement-Study.pdf>

<sup>5</sup> *Ibid.*

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