

Next Insurance - Senior Vice President at USI Insurance Services

Interview conducted on October 31, 2022

Topics

Cyber Insurance, Underwriting, Insurtech, Liability Policy, Managing General Agents, Remote Work, Hybrid Policies

Summary

During a conversation between a Tegus Client and a Senior Vice President at USI Insurance Services, the expert explains that the cyber insurance market has been around for over 20 years but has become more necessary due to the increase in hacking and ransomware attacks. Cyber insurance is becoming standardized as a requirement for engaging with someone on a contractual basis, and the underwriting process can take less than two minutes for small start-ups with revenue under \$10 million. Ancillary services are being added to differentiate the product, and companies like Coalition and At-Bay include pamphlets with suggestions for customers to implement to be less likely to be a victim of hacking. The expert also discusses the importance of having multiple quotes and notes that cyber insurance has historically been sold on a standalone basis or as part of a larger liability policy. Finally, they suggest that the actual annual premiums for SMEs could be closer to \$10 billion and note that the market for cyber insurance is on a good growth trajectory due to the increasing risk of cyber attacks with the spread of remote employment.

Expert Details

Senior Vice President at USI Insurance Services. The expert specializes in D&O and cybersecurity and has over 40 years of experience in the brokerage space.

Senior Vice President at USI Insurance Services. The expert is an insurance broker with 40 years of experience. The expert's business is split between 3 major endeavors. Firstly, they are a broker helping startups with creating and managing their business insurance policies. Usually Liability coverage, Workers Compensation, D&O, E&O, Cyber Security Insurance and benefits. Secondly, Advising insurtech startups from founding to funding or launch: www.wthfaye.com www.safetywing.com www.trustlayer.io are just a few clients. Finally, advising and acting as a broker for a new generation of Remote Employers OysterHR.com and Safeguard Global are clients.

Q: Describe your role and responsibilities in the cyber/tech D&O insurance industry.

A: Specialized in this for over a decade and have 40 years in the industry overall.

Q: On a scale of 1-5 (5 being the highest) rate your ability to speak in depth to the following, related to cyber/tech D&O insurance: coverage, distribution methods and general market trends.

A: 5

Tegus Client

Hello. Thank you very much for talking to us today. Could you start with your background?

Senior Vice President at USI Insurance Services

Yes. So I've been in the insurance industry for a really long time. And I've held multiple roles as employee or manager, founder, CEO and adviser. I've been really fortunate to work with great people on great projects in almost every area of insurance, maybe it's because I just can't hold a job or something, I'm not sure. But I think that my current role in my life is actually where I received the opportunity to make the most impact. And that's helping people who know nothing about the insurance industry but are really smart who have an

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idea about how they could maybe make an impact with the new product, new service, new technology.

And I guide them from that idea to actual founding, funding and launch. And so I've been able to help a variety of insurtech start-ups for the last four years now, companies that are famous and not so famous and actually a couple of infamous ones. So clients of mine have included Zenefits, SafetyWing, Oyster HR, remote.com, trustlayer.io, Suretys, most recently WithFaye launching in April, travel insurance, and including a couple of cyber projects like Sayata Labs and others. So really, the product to me isn't as important as the team and the ability to execute and whether the idea is actually smart or not. It doesn't really make a difference.

Tegus Client

Can you just tell us a little bit about like your thoughts on the overall trend line in the cyber insurance space? And are people moving away from D&O insurance?

Senior Vice President at USI Insurance Services

So it's a very mature market. I wouldn't call it new. It's been around for over 20 years. When I founded my first SaaS company, another guy in Illinois have founded the first ever cyber liability insurance company. And so it's been around for a long time. It's just been lately, the need for it has become so great because so many people have been affected negatively by hacking, by ransomware, you name it. When you have state-sponsored hackers whose only thing in life is to make somebody else's life miserable, they're going to find weaknesses and they're going to figure a way to make it happen, and they've been very successful.

So there isn't anybody I don't think has been affected one way or the other through whether it be loss of identity or others forms of hacking. So, you've got companies that started just a few years ago, like At-Bay, Cowbell, Coalition, who are probably the more popular names, but all along, you had entities from the U.K., like CFC, Acclaim that were out there beforehand, including Beazley, Hiscox, Tokio Marine, Hartfords, Travelers of the world, they've all been doing this now for a good decade or so.

Tegus Client

So more people are buying it as they hear about other people impacted or whatnot. Is that part of it? Or is there also a case where it's a check-the-box compliance purchase for them?

Senior Vice President at USI Insurance Services

Yes. Check-the-box compliance is really important. You can't get a VC deal right now or a deal with anybody who has any experience where they're not requiring that you have general liability, D&O, E&O, cybercrime, bonds. So yes, it's becoming really standardized as far as the requirements of engaging with somebody on a contractual basis. So you do have a lot of these different pressures that are causing people to have to buy it.

And then when they're buying it, they're going through this process of, okay, what am I really buying? What is this I'm really getting? Because you could either have the idea, hey, look, I need to pay for this, give it to me and let's move on. I'm just buying it because I have to. Okay, if something happened, what am I really getting? Am I getting something that's reactionary? Is this giving something that basically I can send out a letter from the old TRW, whatever, and everybody's notified they got hacked? Or is there something I'm getting on the front end that's going to review what I do, my practices, my procedures, am I doing double verification authentication?

Are my people following the right processes? What kind of firewall protection am I getting somebody from you who's reviewing my cloud and whether somebody is trying to hack it or not? What am I getting for this? So we're seeing more and more ancillary services being added to the product to differentiate from the product.

Tegus Client

And when you say ancillary, like let's say you are hacked like how to deal with that hack and comply in an efficient manner?

Senior Vice President at USI Insurance Services

So, actually even at point of proposal, companies like Coalition, At-Bay are including pamphlets that will tell the customer, here are all the services that you must implement if you want our insurance based upon how we've reviewed you and here's the things that we think you should do. And here's your suggestions, right? So on the front end, here's what we're going to help you with to get you to be less likely to be a victim. And then on the back end, like you just mentioned, if you're hacked, here's who you call and here's the process that you need to follow immediately.

Tegus Client

So are there certain cyber security or software or mitigation tools that are needed in order for effective underwriting?

Senior Vice President at USI Insurance Services

So let's say you're going through the process of getting a quote. When you go through that process for getting a quote, for most companies, it's a form-based process where you fill out a form and you tell the insurance company, here's who I am and you answer a bunch of underwriting questions that they have, and then they stick you up back a rate. With some companies, though, they'll actually go to your website and based upon what they see.

They'll adjust their rates up or down. Now, I don't know what it is that they're looking for. In fact, I probably should ask. But they do that, and you will get a quote based upon their research of your company's website and your company and any procedures that they see, comments maybe that they see in Glassdoor, who knows. But yes, it's getting much more intelligent as far as how they're risking the customers, the prospects.

Tegus Client

How difficult is underwriting in this market? Like I feel like it's a little bit different than like normal P&C insurance or something, obviously, given it is specialty, but it feels like anyone can get hacked at any time, like how difficult is underwriting? How long does it take? And how has that impacted premiums over time?

Senior Vice President at USI Insurance Services

So you've got a combination of things. Historically, it was underpriced, right? Because basically, they just wanted the business, they wanted the premium. And so, they wanted to make it as attractive and as easy for the customer to say, yes, just add it in, I'll buy, it's \$1,000? Fine, add it to the cart. What's happened over COVID is that their losses, for the most part, are going up. They're actually paying out money and they're paying out a lot. And you, of course, have the famous ones and the infamous ones.

But for the most part, yes, we're seeing even smaller ones where somebody hacks a database, gather some information and it's like \$100,000 claim. It's not the \$1 million claims you hear, but it's the \$100,000 claim. I've had those with start-ups that just get ripped by somebody, not a big number, small number, but still pain in the neck. You've got as a customer to go through the entire process of what they got, how they got it, tell the carrier that and then, of course, make sure that you fixed that problem and that it won't happen again.

Tegus Client

How long is like an underwriting process? Does the application has to go through a wholesaler where you may not conform to traditional underwriting of the carriers?

Senior Vice President at USI Insurance Services

So I can get you a cyber quote in less than two minutes, typically. If you're a small start-up, SME, any kind of SME, revenue is under \$10 million, I can get you a cyber quote in just a couple of minutes. If it's got some hair on it, then it's a little bit different. Maybe they're doing medical records. Maybe they're working with hotels and restaurants or hospitals. Maybe they're doing software for cities or something. Something where that the traditional customer that is hacked, will be hacked or has a higher propensity to be hacked, then yes, you've got to answer a few more questions, maybe fill out a form, and it may take a couple of days to get the quote, but you will get it. Something will bid on your business.

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Tegus Client

How do you get a cyber quote under a few minutes? Are you using some type of software product? Or what does that look like?

Senior Vice President at USI Insurance Services

So I can log on to any of the portals that I normally use as a broker to get quotes. I can enter the effective date, the address, the description of the business, their website, their revenue, their number of employees. And then I can answer underwriting questions. Do you have double verification authentication? Are you paying for the cloud? Who are you paying? Is it Azure? Is it Amazon? So, there's about another page full question to answer in that. And then you decide what kind of coverage do you want? Do I want \$1 million, \$2 million, \$100,000? What deductible do I want? Do I want to cover ransomware? Do I want all the different options that might be out there?

If somebody were to interfere with a wire, how big of a wire? So yes, you have a lot of choices as a broker, and I can do it very quickly to generate a quote. I mean I can do it on this phone call, like in two minutes.

Tegus Client

Yes. Is that like your broker created a portal? Or you're logging into a carrier portal? Like what does that look like?

Senior Vice President at USI Insurance Services

Yes. So, I am a broker. And so I have access to Chubb and Traveler. But when I think for me, when I do my mental math in my head when I'm talking to somebody, I will probably initially go to Attune insurance, attuneinsurance.com, which is owned by Coalition. Coalition being a good cyber company. And they bought Attune a year ago.

Attune was focused on SMEs for general liability, professional liability, flood and workers' comp and pretty much for your Main Street kind of a business and single professionals, yoga instructors, opticians, dentists, that kind of thing. And they bought them, and now they're cross-selling the heck out of their cyber to that installed base. And so I can go to Attune, and in couple of minutes generate a quote for all those kinds of coverages for a prospective customer.

Tegus Client

And is that comparing prices against multiple carriers? Or just for a single carrier?

Senior Vice President at USI Insurance Services

No, that just one. So, if I'm just quick and dirty and the customer wants to get their keys to their business, whatever, they're trusting me a lot. And then, of course, I'm not going to try to jam them with something. I'm going to get them what I think is a normal deal. But if they want a comparison quote, I can also go to a place like prowritersins.com. That does give me up to six different markets and a beautiful comparison proposal where the customer compare and contrast both E&O or professional liability and cyber liability if they wanted.

Tegus Client

How important is that to have multiple quotes? Like do they vary a lot in perhaps the premium?

Senior Vice President at USI Insurance Services

It depends on your customer base as a broker. Now when I was younger, it was critically important to me and to my customers to know that they've shopped, got the best deal. Now pretty much what I'm doing is checking the box kind of a thing like compliance, where I've got start-ups that, hey, we just got our term sheet, we need D&O now. So, whoever gets the quote fastest is going to get the business because they need to close. And that's the same typically like when I'm helping insurtech start-ups, we've got a term sheet for Markel or a term sheet from Nationwide. We've got to get them at coverage and we got to do it as quickly as possible.

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Really, if there is not a massive difference in price, seriously, there really isn't when you're talking small business, I mean, your minimum premium for BOP business insurance is \$500, and everybody is around there, right? So it's not like one company should be \$5,000 and another one's \$500. And as a broker, you look like an idiot, like you've stolen money from somebody if you sold them the \$5,000 when knowing, there's a \$500 one out there.

Tegus Client

Yes. And can you always do like the best deals?

Senior Vice President at USI Insurance Services

It's dependent on what I'm trying to accomplish. Like for instance somebody calls and says, look, I need to get insurance to comply with Amazon, I'm an Amazon reseller, let's say. And I'll go online, and I'll get them the general liability quote maybe from NEXT, because there's a partnership. But then I'll go to Attune, and I'll get quotes, and then I'll say, hey, by the way, you're selling on Amazon, would you like to get cyber coverage? And they'll say, yes, and I'll quote the cyber alongside it. Do you have any employees? They might say, yes. And I'll quote the workers' comp.

But if they're just calling me for cyber only or they're calling me for E&O only, I will go to ProWriters because I can get them six of five quotes, and they'll say, yes, we want it. One will say, no, we don't, and tell me why. And I'll get them a nice spreadsheet and I'll know that they've gotten a lot of options to look at and we'll pick the best one for them. It's really situational.

Tegus Client

Yes. What exactly does cyber insurance cover? Is it like a fine? Or how do you determine the financial impact?

Senior Vice President at USI Insurance Services

When you're talking to people who are fineable, people who do make a lot of outbound calls, right? People who are in the sales business and they are reaching out and gathering information and they do it their own way. The PCI fines can be pretty big. I have three really large international global companies that do employee records. So those customers are very concerned with privacy, violations of privacy and getting fined by the EU or any governmental authorities. So it depends on who your audience is, who your customer is, as to whether they are out of the box immediately, they bring up the fines, are these fines going to be covered. And usually, the reason they bring it up is because they have been fined.

Tegus Client

So is it typically like covering the fine?

Senior Vice President at USI Insurance Services

It depends upon the carrier. The carrier could not only cover the fine, they could cover the administrative cost of the hearing. I mean it's really detailed what they can and cannot do and what they're willing to do. So I mean, you really do want to know what's going on.

Tegus Client

And is cyber trends typically packaged as part of like a larger liability policy? Or is it like standalone? How is it typically sold?

Senior Vice President at USI Insurance Services

Cyber has historically been sold one of two ways. One, on a standalone basis. Two, you've gone to a Hartford, a Travelers, a Chubb. And as part of the quoting process, the broker will tell you, by the way, I included \$25,000 of cyber insurance, whatever that means, as part of your quote. Maybe we should talk about getting a higher limit and then it's sort of like a conversation starter. It opens up risk management that you couldn't, as a broker, provide on behalf of your customer. So the carriers initially were really smart about that, and by including just a little bit, they were able to sell these massive amounts of small itty-bitty policies

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that now put them in the position of selling the \$1 million, \$2 million, \$5 million policies that people actually need.

Tegus Client

Yes. Like you as a broker and I guess as a carrier like today, is it even worth your time to like underwrite a \$500 premium monthly policy or whatever is it is a positive gain?

Senior Vice President at USI Insurance Services

Yes, there's actually brokerages like Marsh, Aon, Lockton, and Gallagher that tell their producers, we will not pay you anything if you write a policy less than \$5,000 worth of commission a year, meaning if anything under \$50,000 a year, if your customer's not generating that, we're not going to work with you. We're not going to pay you for doing it. So the brokers typically would say, hey, call your Farmers guy or call the local guy. I'm not going to deal with it. But I've always done that. And in fact, the reason I've always written those small ones is because they always turn out to be something. And you never know what it's going to turn out to be.

I wrote one Amazon reseller. I now have 200 of them. Now is it worth my time dealing with all those people every year at anniversary? I can tell you right now, no. I should never have done it. So now people call me from all over the world every week, wanting to buy \$500 worth of general liability insurance from NEXT.

Tegus Client

I guess that led to more people buying cyber online through like a Coalition or Attune or whatever it may be?

Senior Vice President at USI Insurance Services

Yes.

Tegus Client

Got it. What are your thoughts on like the different online models here? Like an MGA versus, I don't know, just like a broker that's comparing quotes, like any thoughts on that?

Senior Vice President at USI Insurance Services

So back in the day, when the roll-ups were first starting to happen and USI was doing their first roll up, which has led to the Acrisure of this world, becoming the third largest insurance company in the country. Maybe 30 acquisitions a year was huge by anybody. Everybody was requiring independent agencies.

When they got tired of that, they realized, that there's this whole world and universe out there of managing general agents who are the wholesalers to all these agents. And you know what, it's the same model. In fact, they actually even make more money because instead of getting the agent's commission, they're getting the managing general agent's commission, which is double.

So instead of getting 15%, they're going to 30%. Plus, oh my goodness, they're getting all these fees. They're able to charge underwriting fees and program fees and policy fees and broker fees. So this is a business that now, yes, we're seeing roll-ups in and a great place to be if you're investing is acquiring an MGA because all of a sudden, now you have access to thousands of brokers that you can market your products to.

Tegus Client

Yes. It feels like there's been a shift from tech E&O to cyber, like is that line blurring a little bit?

Senior Vice President at USI Insurance Services

Yes. In fact, what we're seeing are products that look and feel like they're the same thing, but they're not. They're sort of like this hybrid of the two. Travelers created the first one called CyberFirst that they marketed to SaaS companies where it looks and feels, when you read it, like a mishmash. What is this? What do they buy? But when you read it, it's a little bit of both. It's not a great cyber policy, but it's not bad either.

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It's not a great E&O policy, but it's not bad either. It's in the middle. And if you are talking about something that's specifically created for a market, that's what we're going to be seeing is probably more of that specifically for certain industries. I would guarantee that you'll see that for medical. I'd guarantee you'll see that for restaurants and hotels, hospitality, that something does cover a little bit of both to protect them.

Tegus Client

Is that the same like carrier that is doing cyber and tech? Or is it just kind of like a weird hybrid policy you mentioned?

Senior Vice President at USI Insurance Services

Yes, all three. They're doing standalone E&O, standalone cyber and a mishmash, a hybrid because there's a market for it.

Tegus Client

So, let's say, like the markets like \$4 billion in the U.S. or somewhere in that range from a market size perspective. Do you have any sense like what percentage of that is like kind of SMBs that we're talking about? Is that the majority or minority of the market? Or is it like primarily like the big Fortune 100 companies or something that represent the majority of the market from a premium?

Senior Vice President at USI Insurance Services

So, the TAM is always bigger than you think. Even though you think it's inflated, if not. It's always bigger. And the second thing that's really important to know is that those people, those 100, that 500, they are custom designing and having lawyers look at every single word of that policy. They're fighting over every word, and it takes a long time to get to the end of the trail before that policy is actually issued. And by the time it's issued, they're at it again, going through it for a second year or the renewal. When you're talking about the small business stuff, which is where I live and breathe, I think that, that TAM of \$4 billion for cyber is really low.

Tegus Client

Could you explain why?

Senior Vice President at USI Insurance Services

Because I don't think it addresses the rise in costs that we've seen over the last two years. I think that number is old as most numbers that we get typically are, they're ancient, they're in the past. And we're also seeing the increase of both claims.

So you're seeing claims increase, premiums increase, and it's a vicious cycle that they have to catch up to what the real number might be. So I think when you're looking at what this might be as far as cyber, I'm probably be closer to \$10 billion in annual premiums for SMEs than I would any other number.

Tegus Client

But for SMEs alone?

Senior Vice President at USI Insurance Services

Yes, SMEs alone.

Tegus Client

And do you think that market is on a pretty good growth trajectory, just given everything that's going on in the world that is more hacks?

Senior Vice President at USI Insurance Services

Yes. And not only that, but because I do think as we become more global, as we become more remote, we only increase the possibility of an employee who happens to decide to go live in Portugal, not paying

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attention, and that's where they get you. Where that employee is on the beach in Ecuador, and that's where they get you. So I think we're looking at the spread of remote employment, you're talking about spread of risk.

Tegus Client

Okay. Thank you very much. This was really helpful. Bye.

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