

AmeriTrust Group Cyber Insurance

Rate Memorandum

Program Overview

AmeriTrust Group is introducing a new Cyber Liability insurance coverage. The program is designed to provide cyber event insurance protection.

This Cyber Insurance policy has eight coverage components, and is written on a claims-made basis. Policies will have both a claim limit and an annual aggregate limit.

Coverages

Coverage A – Multimedia Liability
Coverage B – Security and Privacy Liability
Coverage C – Privacy Regulatory Defense and Penalties
Coverage D – PCI DSS Liability
Coverage E – Breach Event Costs
Coverage F – System Failure
Coverage G – Cyber Extortion
Coverage H – BrandGuard®

Rating

Experience

AmeriTrust Group has no direct experience writing Cyber Liability insurance. Historical company experience to justify the rating (via an actuarial analysis) and to subsequently develop rates is not available. Accordingly, the rates are based on underwriting judgment and a rating methodology developed by Certain Underwriters of Lloyd's of London. Their competitive market rates are the best cyber-specific data obtainable at this time that match the coverage being provided by this policy. As company-specific experience is gained, rates will be reviewed and adjustments made as necessary.

Key Areas of Judgment

Pricing was developed to make this product affordable to small business owners and easy to apply across our existing general liability portfolio of accounts. The base rate, which reflects the premium rate for \$100,000 of cyber coverage, is intended to attach to all liability policies within a designated portfolio unless specifically opted out. We view this to be the minimum prudent level of cyber insurance protection for our insureds. In addition to the base rate, optional higher limit rates are available for insureds requiring additional cyber liability insurance.

Base Rate

The annual base rate is \$64.

The base rate is based on:

- Loss severity and frequency assumptions included in the "Methodology" section below related to "opt-out" programs
- Expense margin estimate of 30% to account for commission expense and underwriting expense

Frequency

Frequency for the base rate is estimated to be 0.34% based on Lloyd's cyber liability Underwriters' experience with this line of coverage. It is important to note that this frequency percent captures

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only incidents that have insurable losses as is therefore lower (and more precise) than generally available frequency statistics.

Severity

Severity for the base rate is estimated to be \$13,200 based on claim experience between 2017 and 2019 from certain Lloyd's cyber liability Underwriters' when writing embedded policy limits of \$100,000 and underwriting judgement.

Loss Costs

Loss Costs are based on Frequency times Severity.
 $0.34\% \times \$13,200 = \44.88

Expense Provision

The Expense Provision is 30% to account for broker commissions assumed to average 15% and underwriting expense assumed to average 15%.

Premium

The average annual base rate is *rounded* to \$64.

The Premium Rate is calculated as Loss Cost $\times \frac{1}{(1 - \text{Expense Provision})} = \$44.88 \times \frac{1}{(1 - 0.30)} = \64.11

Optional Higher Limit Rates

Higher limits may be purchased by insureds requiring more than the base coverage. Accordingly, the associated loss frequency is expected to be higher. Loss severity is also expected to be higher as a result of higher limits.

While the \$100,000 limit policy will be applied to all insureds, optional higher limits of \$250,000; \$500,000; and \$1,000,000 are available.

Note that the Optional Limits are inclusive of the Basic Limit: \$250,000 (\$150,000 xs \$100,000); \$500,000 (\$400,000 xs \$100,000); \$1,000,000 (\$900,000 xs \$100,000).

Revenue [†]	Annual Premium by Limit			
	\$100,000	\$250,000	\$500,000	\$1,000,000
\$0 to \$1,500,000	\$64	\$477	\$549	\$903
\$1,500,001 to \$2,500,000	\$64	\$894	\$994	\$1,497
\$2,500,001 to \$5,000,000	\$64	\$1,089	\$1,203	\$1,776
\$5,000,001 to \$7,500,000	\$64	\$1,564	\$1,713	\$2,456
\$7,500,001 to \$10,000,000	\$64	\$2,037	\$2,219	\$3,130
\$10,000,001 to \$12,500,000	\$64	\$2,731	\$2,963	\$4,123
\$12,500,001 to \$15,000,000	\$64	\$2,950	\$3,197	\$4,436
\$15,000,001 to \$17,500,000	\$64	\$3,514	\$3,803	\$5,241

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\$17,500,001 to \$20,000,000	\$64	\$3,917	\$4,234	\$5,817
\$20,000,001+	\$64	Refer to Company		

Higher Limit Rating

The base rate \$100,000 limit policy is automatically provided to *all* insureds – regardless of their cyber exposure. Insureds who proactively seek the optional higher limits are *significantly riskier* insureds. For the optional higher limit policies, only insureds who believe they need the coverage will buy the policy. There is a high level of information asymmetry. Due to adverse selection, premiums for these optional higher limits policies are *significantly higher* than the base premium.

Accordingly, based on Lloyd's cyber liability data and Underwriter judgment:

For \$1,000,000 limit at the first revenue band, selected frequency is 1.50% and the selected average severity is \$66,120. This implies a loss cost of \$992 for the full \$1,000,000.

Based on the limit factors below the loss cost for \$900,000 xs \$100,000 is assumed to be:
 $(1 - 0.408) * \$992 = \587.26

The base rate loss cost of \$44.88 is added to derive the total loss cost of \$632.14

The Premium Rate is calculated as Loss Cost $\times \frac{1}{(1 - \text{Expense Provision})} = \$632.14 \times \frac{1}{(1 - 0.30)} = \903.06

Premium for \$1,000,000 in limit for the first revenue band is rounded to \$903. Premium for \$250,000 limit and \$500,000 limit are based on the limit factors below.

Selected decreased limit factors are:

\$1,000,000	:	1.000
\$500,000	:	0.750
\$250,000	:	0.700
\$100,000	:	0.408

Each revenue band has incremental additional premium to account for higher assumed frequency attributable to increased revenue as an exposure base.