



A Message from New Jersey Schools Insurance Group's Executive Director

NJSIG's Response to the Cyber Liability Insurance Market Changes

Dear members of the New Jersey Schools Insurance Group:

NJSIG has received a number of broker inquiries over the last several weeks regarding the tumultuous cyber liability insurance market, as well as the unfavorable retentions/deductibles, and policy form that were imposed upon our program without warning by our cyber liability insurer, Beazley Group. We wanted to provide you with additional context regarding the state of the cyber liability market, and what we have been doing to attempt to address this issue.

The marketplace for cyber liability insurance has continued to harden over the last several years, a trend that has only accelerated over the last year due to high profile cyber-attacks that exploited vulnerabilities in prominent software platforms such as [SolarWinds Orion](#), [Microsoft Exchange Server](#), [Accellion File Transfer Appliance](#), as well as high profile ransomware attacks on [CNA Financial Corp.](#) (\$40,000,000), [Colonial Pipeline Company](#) (\$4,400,000) and [Brenntag SE](#) (\$4,400,000). In addition to these high profile cyber-attacks, the Federal Bureau of Investigation's (FBI) Internet Crime Complaint Center [reported](#) a stunning proliferation in the sheer number of cyber complaints reported in 2020, totaling 791,790 from the American public, with reported losses exceeding \$4,000,000,000. According to the FBI, this represents a 69% increase in total complaints from 2019 to 2020.

In this context, the more recent acceleration of high profile cyber-attacks aimed at public schools such as [Broward County Public Schools](#), as well as the more general warning issued by the FBI in December 2020 that cyber criminals have been focusing on public schools as targets of opportunity ([Alert AA20-345A](#)), has increased the risk profile for the cyber liability of public schools in the eyes of the cyber liability insurance market. Thus, in this already hardened cyber liability insurance market, these developments have severely reduced the availability of cyber liability coverage, particularly for public schools, and even more so for public school pools. In an attempt to combat these trends, NJSIG's reinsurance broker marketed our group program to at least fourteen other carriers. Unfortunately, due the variability in minimum cyber security controls in place amongst our membership, as well as our membership's unfavorable loss history, we were unable to obtain better terms than those offered by the Beazley Group.

Looking forward, NJSIG currently retains no risk on the cyber liability line of coverage. While we have explored the possibility of retaining risk on the cyber liability line of coverage – and indeed, we do not shy away from retaining risk where our members need us to do so, such as with communicable disease – the current cyber insurance market with its present volatility is not, in our estimation, amenable to pooling at the present time. The current volatility leaves NJSIG without a strong basis upon which to predict future losses in the near term, and thus unable to provide members with predictable rates. While pooling can be very cost-effective for lines of coverage with actuarially predictable losses, if a pool fails to collect sufficient

contributions to cover retained risk, members must be reassessed. Reassessment of members for additional contributions is something that NJSIG aims to avoid, as an additional assessment of members for completed years is antithetical to the cost-effective coverage offering we attempt to offer our members. Thus, so long as for-profit commercial carriers are willing to assume this cyber risk, it is our belief that our membership is best served transferring this risk to commercial insurers on a member-by-member basis. We will continue to assess the situation, and we rely on your feedback to decide next steps for what is best for the membership at large.

NJSIG's cyber liability coverage was previously included as a component of our property coverage in prior years. However, for the 2021/2022 upcoming policy year the cyber liability coverage is an independent line item on your proposal that may be accepted, or rejected. In response to your inquiries, NJSIG requested that Beazley Group confirm that NJSIG members are free to obtain separate policies of cyber insurance with other carriers to cover the retention/deductible in the Beazley policy, and that payments made (whether directly or indirectly) by these separate policies will serve to satisfy the retention/deductible in the Beazley Group policy. In response, on June 11, 2021, Beazley Group has stated that they will "recognize erosion of retention by payments made by third parties towards a covered loss under this policy. The inability of the third party to pay will not relieve the named insured of the obligation to cover our retention. Also, this is subject to review and acceptance of our legal team as well as finalizing the wording." If Beazley Group provides additional information on this point, we will of course let you know.

So, what can you, NJSIG's brokers and members, do to help improve the cyber program for next year? While NJSIG does not view it as within our role, nor within our expertise, to dictate to our members what cyber security measures they should have in place (such as two-factor authentication and strong independent backup protocols), most cyber insurers now require proof of minimum cyber security measures to even consider providing coverage. Many organizations offer public recommendations about minimum cyber security protocols, and recently President Biden issued an [Executive Order](#) dictating the minimum cyber security standards that all Federal Governmental agencies must implement. While this Executive Order is not binding on public schools in the State of New Jersey, it offers a good starting point for thinking about how to improve an organization's cyber security. In addition, the Educational Services Commission of New Jersey cooperative pricing system, in which many NJSIG members also participate, also offers preapproved [cyber security vendor services](#). Finally, members can also join the [New Jersey Cybersecurity and Communications Integration Cell](#) (NJCCIC), which is a component organization within the New Jersey Office of Homeland Security and Preparedness. You can become a member of the NJCCIC at no cost, and the NJCCIC provides a wide array of cybersecurity services, including the development and distribution of cyber alerts and advisories, cyber tips and best practices for effectively managing cyber risk. Other NJCCIC services include threat briefings, risk assessments, incident response support, and training.

Without uniform adoption of minimum cyber security measures by all NJSIG members, we cannot anticipate a material improvement in our membership's loss performance, and thus in the future of our group cyber program. I hope you find this information useful, and I look forward to hearing from you regarding your feedback on the future of NJSIG's cyber program.

Thank you and stay well.

Jill Deitch, Esq.
Executive Director
New Jersey Schools Insurance Group