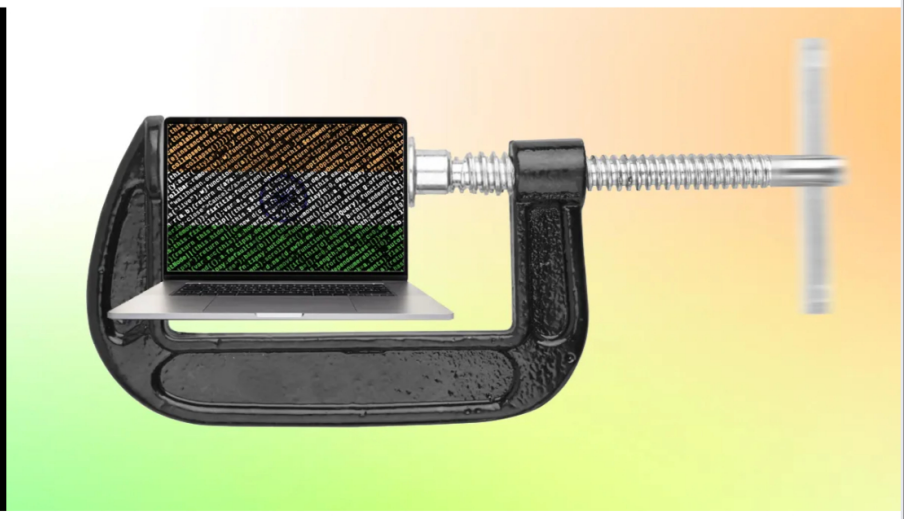
Feature

India cyber feels reinsurance capacity pinch



Indian firms are clamouring for cyber cover but international reinsurers remain wary of deploying capacity.

Blake Evans-Pritchard

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(Re)in Summary

- India's cyber insurance market is projected to grow at a 27-30% compound annual growth rate, according to Deloitte.
- India's digital economy is expected to rise to US$500bn by 2025, from US$200bn in 2019.
- However, reinsurance capacity constraints are limiting expansion of cyber insurance offerings in India.
- Reinsurers are cautious due to a lack of detailed risk assessment data and significant rate differences between India and Western markets.
- Efforts are being made to increase reinsurance capacity, including better technology infrastructure and robust cyber defences.
- Personal cyber coverage has seen success in the Indian market, indicating innovation and product specificity.

India's cyber market is projected to grow at a staggering 27-30% compound annual growth rate, according to a report from Deloitte published at the end of last year. Yet tight capacity in the reinsurance market could limit future potential.

"Cyber insurance is one of the most important discussion points whenever we meet with the chief financial officer or other senior executives at any of our clients," says Amit Agarwal, Chief Executive Officer at Howden Brokers India. "If you are a corporate dealing with data, you either have already been hacked or you will be hacked in the future. There is no other way."

According to the Deloitte report, the Indian cyber insurance market is currently worth between US$50m and US$60m.

This compares to the US$16.66bn that the global cyber insurance market is estimated to be worth, according to a study from Fortune Business Insights.

With the government predicting that India's digital economy will rise to US$500bn by 2025, up from US$200bn in 2019, there is a significant opportunity for the insurance market to grow.

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Amit Agarwal
Chief Executive Officer at Howden Brokers India

"Conditions are ripe for the cyber insurance market to take off. Rising awareness and hard-hitting experiences over the past few years have brought focus on how to secure against cyber risks," says Deloitte in its report.

Reinsurance constraints

As interest in cyber cover continues to grow in the country, insurers are exploring ways of expanding their

product offerings to meet this demand. However, their ability to do so is being constrained by the difficulty of offloading cyber risk into the international reinsurance markets.

"Given the nascent nature of this line of business in India, underwriting practices are yet to be validated by the wider international reinsurance community, creating constraints," says Juan Marcano, Principal Client Account Manager at CyberCube.

> *"Given that cyber insurance needs specialised underwriting and risk assessment skills, the overall reinsurance capacity continues to be limited."*

Hiten Kothari
Chief Underwriting Officer and Chief Actuary for HDFC ERGO

Hiten Kothari, Chief Underwriting Officer and Chief Actuary for HDFC ERGO, says that reinsurance capacity has grown in tandem with the underlying growth in the cyber insurance market, but there are still severe constraints.

"Given that cyber insurance needs specialised underwriting and risk assessment skills, the overall reinsurance capacity continues to be limited and the overall market is led by few large reinsurers globally," says Kothari.

However, he adds that over the past year there has been a greater willingness of global reinsurers to work with the local market.

"They use their experience in overseas markets to offer customised solutions for emerging Fintech and InsurTech industries in India," he says.

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Juan Marcano
Principal Client Account Manager at CyberCube

Munich Re is the largest provider of cyber reinsurance capacity in the country, but recognises that there is a lot that still needs to develop the market.

"Cyber capacities in India may be perceived to be sufficient, however only for risks which have the adequate cybersecurity controls in place and are risk commensurately priced," says Sudeep Pandey, Senior Underwriter for Casualty and Cyber for Munich Re India. "The market is estimated to be around US$70m and is still a small segment, in which a few large claims can change the situation quickly."

> *"Unlike some overseas markets, personal cyber coverage has taken off well in the Indian market."*

Sudeep Pandey
Senior Underwriter for Casualty and Cyber for Munich Re India

He adds, however, that there remains a significant amount of innovation within the Indian cyber market.

"Unlike some overseas markets, personal cyber coverage has taken off well in the Indian market, which is evidence that the underwriters are able to create new products which are more specific to their market, solve the distribution challenge and create awareness about this emerging risk – not only for corporates but also for individuals like you and me," he says.

There are a few reasons why capacity remains constrained.

One is the reluctance of reinsurers to take on risk that they don't fully understand or can't adequately measure.

Ranjan Pal, a Research Scientist at the Massachusetts Institute of Technology who has been studying the market, says that one problem is that there are not enough data points for reinsurers to make a detailed risk assessment.

"There has not been a major attack that has brought a large number of systems down. It would be very difficult for insurers to manage such an event. It may be that reinsurers are waiting for such an event to happen so that they can see the magnitude of the damage and then perform a detailed cost-benefit analysis to see if this is a market they should be in," says Pal.

He adds that, while this trend may be true throughout the globe, it is particularly relevant for "densely digitally knitted India". A lack of interconnectedness between different data banks can also make modelling the risk exposure in the country more challenging, he says.

"But we may be at the cusp of that place where things do become more interconnected," he predicts.

Another reason for a lack of interest in providing more reinsurance capacity may be down to the difference in rates between cyber in India and more established markets.

"If you are getting US$100 per US$1 million of cyber cover written in Europe or the US, that number may be US$20 or US25 in India," says Agarwal from Howden. "This is the kind of rate differential we are seeing between India and the West, so reinsurers may feel that it makes more sense to deploy their reinsurance capacity elsewhere."

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Ranjan Pal
Research Scientist at the Massachusetts Institute of Technology

Building capacity

But there is work underway to bring more reinsurance capacity to the market.

Kothari from HDFC Ergo says that reducing risk exposure, through better technology infrastructure and more robust cyber defences, will help encourage more reinsurance capacity into the sector.

Munich Re has been engaging with clients to help address this gap.

"Cyber is still such a new and dynamic line of business in India, we are putting our energy in addressing the knowledge gap, creating awareness about the accumulation challenge and having continuous discussions with all key stakeholders on pressing topics," says Pandey.

Howden Brokers has been working on a new mechanism to bring new capacity into the market, which Agarwal says will be available to customers in India by the beginning of April, which is when India's main renewal event takes place.

"We have been working on certain primary programs on the cyber side with Lloyds of London, trying to bring that capacity across every single operation of Howden," says Agarwal. "With April 1 being such an important date in India's renewals calendar, deployment of capacity is being prioritised here."

But there is also a balance to strike. Not enough reinsurance capacity makes it difficult for primary insurers to adequately manage their risk while too much capacity could drive rates down to unsustainable levels.

"India has started seeing its fair share of cyber claims now, so we do not want a scenario in which products become unsustainable for reinsurers and they start pulling capacity back," says Agarwal.

"India's cyber insurance market is growing at a healthy pace right now. Could it be higher if there was more reinsurance capacity in the market? Absolutely. But how much more capacity should there be, and exactly how will this impact growth in the market? That is yet to be tested."

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