

PROPERTY INSURANCE REPORT

The Authority on Insuring Homes and Commercial Property

Vol. 26#12/612 **Nov. 25, 2019**

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THE GRAPEVINE

California Broadens FAIR Plan Policies in Response to Fires

As California wildfire losses prompt more home insurers to non-renew policies, Insurance Commissioner **Ricardo Lara** has ordered the state's residual market to offer a comprehensive homeowners insurance policy in addition to the current dwelling fire-only coverage by June 1 – a move the president of the FAIR Plan called “misguided.”

The comprehensive policy will have common homeowners insurance features, including coverage for water damage and personal liability. Lara also ordered the FAIR Plan to double the dwelling coverage limit to \$3 million effective April 1. While the FAIR Plan is already taking steps to increase coverage limits, the move to a

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Insurers Take First Shot At Cyber Insurance for Households

Insurers are easing their way into the personal cyber insurance market, relying on reinsurance partners and low coverage limits to manage their exposure in a segment with almost no loss data or claims history to inform pricing.

These new cyber security policies for homeowners are the first taste of a new source of premium years after the commercial cyber insurance market proliferated alongside headline-grabbing corporate data breaches. Total cyber insurance premiums – including both commercial and personal – have more than doubled nationally from \$996 million in 2015 to \$2 billion in 2018, according to the most recent market segment report from **A.M. Best Co.**, though growth slowed from about 30% annually to 12.6% in 2018.

“It’s a growing market, certainly, both on the commercial side and the personal lines side,” said **Loretta Worters**, vice president of media relations at the **Insurance**

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Wisconsin Pursues Regulation Of Adjusters to Limit Storm Chasers

In a world of risk, **Wisconsin** continues to be a good market for property insurers and consumers alike because it remains relatively predictable.

The state has had some wild-and-woolly political battles in the past year after Gov. **Tony Evers**, a Democrat, took office and the Republican-controlled state legislature tried to limit his powers. But Evers’ appointment for insurance commissioner, **Mark Afable** – the longtime chief legal officer for **American Family Insurance**, the state’s largest insurer – is perceived as a pro-business choice acceptable to both sides of the political aisle.

The state Senate confirmed Afable in a unanimous vote earlier this month.

“There’s a base of knowledge here that has served the governor well and has served the industry well,” **Andy**

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Information Institute. “But it’s still kind of in its infancy. Because these risks arise in emerging technologies that make us more vulnerable on the personal lines side, I think you’ll see more companies getting into this space.”

As the market evolves, so will home insurers’ exposure to cyber risk. As threats adapt to evade defenses, policy language and underwriting sophistication will have to keep up.

“The industry faces a major challenge in forming a forward-looking view of risk that can keep pace with the speed of technological change, the threat landscape and the methods that hackers are developing to exploit vulnerabilities in connected devices,” said **Rebecca Bole**, head of industry engagement at **CyberCube**, a cyber risk analytics platform for insurance companies.

The forward and flexible view becomes more important as individuals and organizations become more connected.

Research firm **IoT Analytics** reports that there are around 7 billion devices connected to the internet. These numbers are growing rapidly, and connected device numbers are expected to triple by 2025, according to CyberCube.

“With such a high level of inter-connectivity, there is certainly potential for hackers to carry out a large-scale, systemic attack that impacts a large number of individuals and their homes through their connected devices,” Bole said. “However, there has not yet been an event at a scale deemed to be ‘catastrophic’ for the insurance industry.”

One reason for the lack of a large-scale attack is that it has not been financially rewarding enough for hackers to target an individual’s devices, home appliances or the data stored on them. There is much more low-hanging fruit in the corporate sector.

CyberCube expects both of these states of play to change, however, with homeowners becoming more attractive targets and insurance

claims increasing as penetration grows.

Historically, most personal lines cyber coverage has been limited to high net worth policies, but companies like **Hartford Steam Boiler Inspection and Insurance Co. (HSB)** have recently developed risk models for adding cyber coverages to traditional homeowners policies.

HSB combined loss data from small business commercial cyber insurance, knowledge from its existing identity theft products and information from a household survey that gauged cyber security knowledge, preparedness, concerns and demand.

“We’re in that testing phase right now to see how losses come in, and how that compares to what our models originally predicted, and what we’re charging,” said **Tim Zeilman**, HSB vice president and global product manager for cyber. “But we’ve been really surprised at how widely accepted this product is in the marketplace. We thought we’d have to spend a long time convincing carriers that this was the time for a personal lines cyber product. And we’ve been really shocked at how little of that convincing we’ve had to do, and how anxious companies are for a cyber product.”

Mercury Insurance is one of about 20 carriers offering the product as a bundled endorsement to homeowners policies with HSB as the reinsurance partner. Mercury expanded the coverage to its ninth state, **California**, in September.

“You’re hearing more and more stories about cyber crimes against regular individuals, and I think when you couple that with the huge proliferation of connected devices, unfortunately these



Rebecca Bole
CyberCube

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devices create more opportunity for cyber criminals to infiltrate your home network and steal your data,” said **Robert Hernandez**, a product manager on Mercury’s research and development team. “So we wanted to get ahead of the trend.”

Mercury offers two endorsements, one with a \$25,000 limit and an annual premium of \$30, and the other with a \$50,000 limit and a \$41 premium. The coverage protects against losses from computer attack, home systems attack, cyber extortion and online fraud. The policy might pay for repairing or replacing a computer damaged by a virus, provide professional assistance by cyber extortion experts when responding to ransom demands, or refund payments sent to a fraudulent merchant. For example, the policy would respond if an **Airbnb** guest sent payment outside the platform in exchange for a promised discount only to find that the rental or host is a ghost, Hernandez said. Similarly, for a flat annual premium of \$25, **State Farm** offers an identity theft protection plan with enhancements to protect against cyber attack and extortion. Coverage for cyber attacks and extortion have a combined annual limit of \$15,000.

AAIS has also developed a standalone home cyber program in partnership with **Berkley Re** that insurers can offer their customers. “Most companies getting into cyber coverage for homeowners, from what we are seeing, are working with a reinsurer that can give them guidance on pricing, while providing reinsurance on the back end in order to manage exposures,” said **John Kadous**, AAIS vice president of personal lines.

The standalone home cyber program is the first foray by AAIS in addressing this risk. Kadous said the next step will be an endorsement for simple attachment to homeowners policies. Ultimately, he expects insurers to integrate cyber coverages into the core homeowner’s policy. For now, the AAIS product is available for a flat fee based on the amount of coverage purchased.

“There’s not a great deal of complexity in the

rate for home cyber at this point,” Kadous said. “The more granular you try to get, the thinner the data gets. Right now, the price for home cyber is based on the amount of exposure or the amount of coverage the policyholder is seeking.”

ISO is currently investigating carriers’ appetite for personal cyber policies and defining exactly what coverages should be included. The ISO Homeowners Policy Program already includes identity theft protection.

“From a personal [lines] perspective, there’s many different facets – there’s identity theft, there’s cyber bullying, there are all kinds of examples,” said **William Schlager**, ISO director of personal property product development. “We wanted to make sure that what we come up with is responsive to our customers’ needs.”

AAIS is already in the market with a cyber program, and ISO is in development.

Late last year, ISO surveyed insurance consumers and found that individuals are most at risk of exposing sensitive information online when banking, shopping and scheduling medical appointments. Some 44% of respondents said they would be willing to purchase cyber coverage, according to **Sandee Perfetto**, ISO director of personal lines development.

Even in its nascent stage, cyber insurance has been profitable industrywide, with direct paid losses and defense and cost containment expenses below 25% in 2018 for both standalone and packaged cyber policies, according to the A.M. Best cyber market report. The report’s authors wrote that cyber loss ratios are low because carriers are applying higher loads to pricing due to uncertainty.

“Writers of cyber insurance are still refining their pricing and underwriting,” the report says. “As this line of business stabilizes, more data is gathered, and legal environments become

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Wisconsin Homeowners Multiperil Insurers

Groups Ranked by Total 2018 Direct Premium Written (000)

Group Name	2018 Premium	Mkt share 2018	Loss Ratio 2018	2017 Premium	Mkt share 2017	Loss Ratio 2017	2016 Premium	Mkt share 2016	Loss Ratio 2016
American Family Insurance Group	\$316,397	21.3%	44.9%	\$306,036	21.6%	51.8%	\$300,991	21.8%	33.0%
State Farm Mutual	\$244,183	16.4%	64.3%	\$233,348	16.4%	60.4%	\$228,285	16.6%	46.1%
Acuity Mutual Insurance	\$70,276	4.7%	50.6%	\$69,325	4.9%	53.1%	\$68,188	4.9%	40.4%
Erie Insurance Group	\$66,225	4.5%	70.8%	\$58,626	4.1%	65.9%	\$52,973	3.8%	48.9%
West Bend Mutual Insurance Co.	\$62,892	4.2%	49.1%	\$60,144	4.2%	69.4%	\$58,006	4.2%	53.9%
Allstate Corp.	\$62,665	4.2%	46.6%	\$60,223	4.2%	52.3%	\$58,749	4.3%	42.1%
Auto-Owners Insurance	\$59,625	4.0%	49.0%	\$53,521	3.8%	67.5%	\$49,418	3.6%	39.7%
Liberty Mutual	\$58,122	3.9%	37.9%	\$54,863	3.9%	43.9%	\$51,895	3.8%	44.4%
Farmers Insurance Group	\$48,273	3.3%	35.2%	\$47,681	3.4%	46.9%	\$47,134	3.4%	30.7%
USAA Insurance Group	\$44,160	3.0%	59.6%	\$39,958	2.8%	68.9%	\$36,733	2.7%	51.5%
Secura Insurance Companies	\$28,118	1.9%	38.1%	\$27,377	1.9%	62.2%	\$25,778	1.9%	41.8%
Auto Club Insurance Assn. (Michigan)	\$24,363	1.6%	52.8%	\$24,047	1.7%	50.9%	\$23,891	1.7%	37.3%
Wisconsin Mutual Insurance Co.	\$23,687	1.6%	51.5%	\$22,727	1.6%	67.6%	\$22,134	1.6%	53.0%
Travelers Companies Inc.	\$22,161	1.5%	43.8%	\$20,634	1.5%	34.6%	\$19,732	1.4%	32.4%
Badger Mutual Insurance Co.	\$20,687	1.4%	39.9%	\$18,989	1.3%	63.4%	\$17,690	1.3%	33.3%
Progressive Corp.	\$19,284	1.3%	51.2%	\$12,685	0.9%	58.6%	\$9,482	0.7%	35.4%
Rural Mutual Insurance Co.	\$18,722	1.3%	57.7%	\$17,542	1.2%	68.1%	\$16,628	1.2%	43.7%
MetLife Inc.	\$17,505	1.2%	34.9%	\$17,735	1.3%	50.9%	\$18,452	1.3%	50.2%
Grange Insurance	\$16,681	1.1%	47.7%	\$15,006	1.1%	73.4%	\$13,058	1.0%	33.9%
Chubb Ltd.	\$16,568	1.1%	75.5%	\$15,717	1.1%	27.3%	\$15,610	1.1%	59.7%
Germantown Mutual Insurance Co	\$16,111	1.1%	47.3%	\$15,562	1.1%	70.3%	\$15,550	1.1%	31.0%
Pekin Insurance	\$14,853	1.0%	66.8%	\$15,520	1.1%	91.7%	\$16,445	1.2%	59.6%
Country Financial	\$14,746	1.0%	70.7%	\$14,017	1.0%	57.9%	\$13,630	1.0%	52.4%
The Hanover Insurance Group	\$13,831	0.9%	33.0%	\$12,968	0.9%	54.8%	\$12,579	0.9%	48.5%
Hartford Financial Services	\$11,260	0.8%	64.9%	\$12,380	0.9%	60.7%	\$14,228	1.0%	33.7%
Encova Mutual Ins Group (Motorists)	\$11,166	0.8%	42.8%	\$12,197	0.9%	67.7%	\$13,413	1.0%	26.6%
IMT	\$11,163	0.8%	59.1%	\$10,746	0.8%	85.5%	\$10,486	0.8%	34.5%
Nationwide Mutual Group	\$11,126	0.8%	74.6%	\$13,155	0.9%	70.8%	\$15,502	1.1%	52.0%
Cincinnati Financial Corp.	\$9,872	0.7%	70.7%	\$9,882	0.7%	71.3%	\$9,879	0.7%	72.2%
Mutual of Wausau	\$9,799	0.7%	35.2%	\$8,605	0.6%	53.8%	\$7,826	0.6%	36.4%
QBE Insurance Group Ltd.	\$8,724	0.6%	67.3%	\$10,245	0.7%	85.9%	\$10,833	0.8%	63.7%
Hastings Mutual Insurance Co.	\$8,703	0.6%	54.2%	\$8,411	0.6%	76.9%	\$8,348	0.6%	54.8%
State Auto Insurance Companies	\$7,741	0.5%	27.9%	\$7,503	0.5%	61.1%	\$8,515	0.6%	19.7%
Mt. Morris Mutual Insurance Co	\$7,607	0.5%	83.0%	\$6,679	0.5%	50.1%	\$6,042	0.4%	41.4%
Penn National Insurance	\$7,128	0.5%	52.3%	\$6,840	0.5%	61.1%	\$6,720	0.5%	42.3%
Kemper Corp.	\$6,619	0.5%	43.4%	\$6,494	0.5%	59.5%	\$6,865	0.5%	66.0%
Donegal Insurance Group	\$6,488	0.4%	61.4%	\$6,762	0.5%	84.5%	\$6,647	0.5%	39.9%
Western National Insurance	\$6,139	0.4%	39.7%	\$6,158	0.4%	113.3%	\$6,073	0.4%	27.8%
WEA P&C Insurance Co.	\$5,844	0.4%	37.6%	\$5,535	0.4%	66.9%	\$5,479	0.4%	48.5%
McMillan-Warner Mutual Ins Co.	\$4,906	0.3%	68.2%	\$4,742	0.3%	47.8%	\$3,254	0.2%	27.7%
Statewide Totals	\$1,484,980		52.0%	\$1,419,783		58.8%	\$1,379,295		42.9%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.

Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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Franken, president of the **Wisconsin Insurance Alliance**, said of the new commissioner.

Afable succeeded **Ted Nickel**, a promoter of innovation who served as president of the **National Association of Insurance Commissioners** in 2017. Afable has continued his predecessor's focus on technology, particularly the use of big data and algorithms to rate insurance policies.

"It is important that these practices are applied effectively and don't unfairly discriminate," Afable said in an email. "That means we also have to develop and enhance our own data collection and analysis capabilities so that we are better positioned to regulate the industry as data plays an ever-growing role in insurance underwriting. At the same time, we're focused on the ongoing need for consumer education and outreach."

Wisconsin is a stable market with relatively few catastrophic events over the past decade, al-

though severe cold and a devastating windstorm were issues in the last year. Housing prices are on the rise – the median sales price for September this year was \$195,000, up \$10,000 from a year ago and \$46,000 since five years ago, according to the **Wisconsin Realtors Association**.

For the decade ended 2017, Wisconsin home insurers generated an average annual profit margin of 7.8%, better than the 6.8% national average and 26th highest in the country. Last year, the statewide homeowners insurance incurred loss ratio was 52.0%, far better than the 72.4% national average.

Smaller insurers have had a rougher go of it than larger competitors.

"Our smaller town mutual insurers were impacted more severely by the extreme cold weather this past year by seeing increases in claims related to roof collapses, frozen pipes, etc.," Afable said in his email response to questions. "Although claims increased for town mutual insur-

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Wisconsin											
Property Insurance Profit Margins											
10-Year Summary, % of Direct Premiums Earned, With National Averages											
Line of Business	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	2008 Total Profit	Avg Total Profit
State Homeowner	9.5	20.0	20.1	10.8	15.0	20.6	-9.8	-7.8	9.9	-10.4	7.8
Nat'l Homeowner	-2.6	11.8	14.0	13.9	16.5	8.1	-3.8	7.2	5.7	-2.4	6.8
State Fire	18.7	21.0	29.2	-7.6	22.7	24.5	15.6	26.5	-38.9	14.0	12.6
Nat'l Fire	4.7	11.0	24.2	21.4	26.9	24.7	24.8	27.6	24.5	13.2	21.0
State Comm	9.7	18.0	19.0	9.8	6.5	19.7	10.2	7.8	6.5	11.8	11.9
Nat'l Comm	0.6	9.8	14.5	12.4	14.9	9.0	4.1	13.2	11.0	9.2	9.9
State Allied	22.6	33.0	24.8	-1.8	-27.1	-3.6	38.2	28.7	16.4	-4.4	12.7
Nat'l Allied	-37.6	10.6	19.2	15.7	6.3	-19.4	5.7	28.5	21.2	2.8	5.3

Note: Profit calculations are by *Property Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

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ers, they remain financially stable because they are supported by strong reinsurance programs.”

On the legislative front, insurers’ main priority is a bill that would license public adjusters.

Public adjusters would have to be registered with the **Wisconsin Office of the Insurance Commissioner**. Assembly Bill 357 requires adjusters to disclose conflicts of interest to their client, such as a financial interest in companies providing repair work and, as amended, allows consumers to rescind a contract within five days. In addition, the legislation caps fees at 10% of a recovery when a claim results from a catastrophic disaster “to protect consumers from price

gouging that could arise,” according to a letter from state Sen. **Dan Feyen**.

Wisconsin is one of only five states that does not have the authority to license or regulate public adjusters.

In September after a bout of flooding, Afaible warned consumers about “storm chasers,” unscrupulous contractors who dupe consumers with inflated prices and unfinished work. Insurers say the problem often involves out-of-state adjusters who descend on a catastrophe area and file inflated or fraudulent claims on behalf of policyholders.

The bill, which received support from in-

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Wisconsin

Commercial Multiperil Nonliability Insurers Groups Ranked by 2018 Premiums Written (000)

Group Name	2018 Premiums	Mkt share	Loss Ratio
Travelers Companies Inc.	\$31,624	6.6%	87.8%
Chubb Ltd.	\$29,509	6.2%	101.8%
American Family Insurance	\$29,225	6.1%	65.4%
Society Insurance a Mutual Co.	\$27,160	5.7%	52.7%
Auto-Owners Insurance	\$25,323	5.3%	52.2%
Secura Insurance Companies	\$20,837	4.4%	33.5%
Rural Mutual Insurance Co.	\$18,589	3.9%	41.9%
The Cincinnati Insurance Cos.	\$17,167	3.6%	83.1%
Acuity Mutual Insurance	\$17,010	3.6%	53.3%
Erie Insurance Group	\$15,283	3.2%	64.6%
Germantown Mutual Insurance Co	\$14,502	3.0%	50.4%
West Bend Mutual Insurance Co.	\$13,859	2.9%	95.5%
State Farm Mutual	\$13,315	2.8%	63.5%
QBE	\$12,905	2.7%	134.6%
CNA Financial Corp.	\$12,113	2.5%	104.7%
Hanover Insurance Group	\$11,375	2.4%	96.4%
Nationwide Mutual Group	\$11,074	2.3%	69.6%
Church Mutual	\$10,345	2.2%	168.4%
Liberty Mutual	\$9,341	2.0%	643.8%
Grange Insurance	\$7,560	1.6%	81.6%
W. R. Berkley Corp.	\$6,806	1.4%	78.4%
Farmers Insurance Group	\$6,620	1.4%	42.1%
Statewide Totals	\$477,695		90.6%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

Wisconsin

Fire Insurers Groups Ranked by 2018 Premiums Written (000)

Group Name	2018 Premiums	Mkt share	Loss Ratio
Auto-Owners Insurance	\$15,568	8.9%	36.6%
West Bend Mutual Insurance Co.	\$13,166	7.5%	151.1%
Travelers Companies Inc.	\$12,207	7.0%	52.9%
American International Group	\$11,481	6.6%	3.6%
FM Global	\$10,873	6.2%	%
Farmers Insurance Group	\$9,378	5.4%	48.2%
Acuity Insurance Mutual	\$8,917	5.1%	114.7%
Zurich Insurance Group	\$7,762	4.4%	98.7%
Liberty Mutual	\$6,431	3.7%	53.5%
EMC Insurance	\$5,137	2.9%	85.2%
AXA / XL	\$4,605	2.6%	218.2%
Allianz Group	\$4,117	2.4%	%
The Cincinnati Insurance Cos.	\$3,976	2.3%	64.5%
Municipal Property Ins Co.	\$3,307	1.9%	35.5%
CNA Financial Corp.	\$2,879	1.6%	663.4%
Assurant	\$2,766	1.6%	50.4%
STARR Cos.	\$2,684	1.5%	10.7%
Munich Re	\$2,551	1.5%	29.5%
Selective Insurance Group Inc.	\$2,527	1.4%	-21.6%
Germantown Mutual Insurance Co	\$2,464	1.4%	44.2%
Berkshire Hathaway Inc.	\$2,259	1.3%	63.6%
Swiss Re	\$2,173	1.2%	43.7%
Statewide Totals	\$175,282		162.5%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

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urers, the insurance regulator and trade associations representing public adjusters, passed the Assembly Nov. 12. It has hit a snag in the Senate, where some lawmakers object to occupational licensing in general.

Another bill sought by insurers would decrease the time frame for notifying policyholders when a renewal includes less favorable terms of a premium increase of 25% or more. Senate Bill 289 would require insurers to notify consumers 45 days prior to the renewal date instead of the 60-day requirement under current law.

According to information provided to lawmakers, Wisconsin is one of six states with a 60-day notification requirement. Eleven states have a 45-day notice requirement and the majority require 30 days.

Insurers would also like a change in state law regarding raze orders, which require the destruction of a property if the cost of repairs equals 50% or more of the building's value. Since property values are low in many rural areas, it often makes more sense to have the flexibility to make

reasonable repairs rather than declare a total loss, Franken said. In some cases, insurers have challenged raze decisions, which necessitate the payment of full policy limits

The state's property insurance market is led by American Family, a Wisconsin-domiciled company, and **State Farm**, which have a 21.3% and 16.4% share of the market, respectively.

The Wisconsin homeowners insurance market is the 27th largest, with \$1.48 billion in premium in 2018, up 4.6% over 2017.

Among the top 10 homeowners insurance groups, **Erie Insurance** grew fastest, with a 13% increase in premiums that propelled it to No. 4 in the state, jumping ahead of **West Bend Mu-**

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Wisconsin

Allied Lines Insurers

Groups Ranked by 2018 Premiums Written (000)

Group Name	2018 Premiums	Mkt share	Loss Ratio
West Bend Mutual Insurance Co.	\$24,586	16.1%	59.5%
FM Global	\$15,976	10.4%	3.8%
Travelers Companies Inc.	\$11,186	7.3%	81.8%
EMC Insurance	\$9,132	6.0%	65.0%
Acuity Mutual Insurance	\$8,393	5.5%	42.2%
Municipal Property Ins Co.	\$6,613	4.3%	116.2%
Zurich Insurance Group	\$5,351	3.5%	140.9%
American International Group	\$4,265	2.8%	391.2%
Assurant	\$4,148	2.7%	43.5%
The Cincinnati Insurance Cos.	\$4,030	2.6%	50.5%
Farmers Insurance Group	\$4,011	2.6%	3.7%
Selective Insurance Group Inc.	\$3,441	2.3%	86.6%
Sentry Insurance Mutual	\$2,741	1.8%	44.0%
Liberty Mutual	\$2,424	1.6%	23.2%
Rural Mutual Insurance Co.	\$2,303	1.5%	30.2%
Munich Re	\$2,171	1.4%	46.8%
CNA Financial Corp.	\$2,024	1.3%	-2.6%
Everest Re	\$1,820	1.2%	0.2%
Hanover Insurance Group	\$1,703	1.1%	250.0%
Sompo Holdings Inc.	\$1,658	1.1%	-3.7%
Statewide Totals	\$153,215		90.6%

Source: S&P Global Market Intelligence and the *Property Insurance Report* database. Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

Wisconsin 2016 Insured

Home Values (HO3 Policy Form)

Home Value	Wisconsin	National Average
<\$50K	0.4%	0.2%
\$50-75K	0.7%	0.5%
\$75-100K	1.8%	1.6%
\$100-125K	4.1%	4.2%
\$125-150K	7.1%	7.0%
\$150-175K	10.3%	9.3%
\$175-200K	11.8%	9.9%
\$200-300K	37.7%	32.6%
\$300-400K	15.7%	17.3%
\$400-500K	5.4%	8.1%
>\$500K	5.0%	9.2%
Total exposures	961,620	48,948,950

Source: NAIC, *Property Insurance Report*

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tual Insurance and **Allstate**. The other top 10 groups with a double digit premium increase are **Auto-Owners Insurance**, whose 11.4% growth moved it ahead of **Liberty Mutual Group** to No. 7, and No. 10 **USAA**, which grew 10.5%.

Progressive stands out for its 52% premium growth, which boosted its market share to 1.3%, enabling it to leapfrog eight insurers to No. 16.

The state is a competitive and affordable market for consumers, with an average 2016 premium of \$762 that ranks it 47th, far less than the \$1,192 national average. On our HURT Index, which compares premium to income as a gauge of affordability, Wisconsin ranks a very affordable 45th.

In filings reviewed so far this year, the top 10 homeowners insurance groups lowered rates by an average 0.2%, driven by State Farm's 4.4% rate reduction and **Acuity's** 3.7% cut after keeping rates flat last year. By contrast, since the start of 2018, **Erie** has raised rates an average 7.8%, **Liberty Mutual** increased rates 6.8% and **USAA** raised rates 9.1%.

Wisconsin's insurance affordability is attributed to two factors – one forward-looking and one tied to its past. Under insurance commissioners Nickels and Afable, the state has embraced insurers' use of technology and data analytics. The robust presence of Wisconsin-domiciled insurers, which arose from early farmers' mutual insurance companies, plays a role in the favorable legislative and tax environment.

One of those home-based companies, American Family, has been particularly aggressive about acquisitions since its reorganization as a mutual holding company in 2017. It purchased several insurance-related technology companies and in October closed on its \$1.05 billion acquisition of **Ameriprise Auto & Home**, a De Pere, Wisconsin, insurer that sells its products through a partnership with **Costco**. PIR

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more defined, A.M. Best expects that the current profitability of cyber insurance will attract more competition, which will ultimately pressure profitability.”

It's not yet clear which indicators will be useful for predicting an individual's cyber risk – age, income, online presence, number of connected devices, or other factors. “That's the piece we're very anxious to see over time,” Kadous said.

Risk mitigation efforts like using cyber security software or complex passwords are only as effective as the human behind the keyboard allows them to be. Human error is a consistent theme in many of the attacks on businesses that cyber security firm **Crypsis** is called in to remediate.

“A lot of times [the breach] is an email that is sent to an individual employee that purports to be from a legitimate source that contains maybe a link that is malicious and downloads some sort of malicious software into the client's environment,” said **Brendan Rooney**, a Crypsis director. “That happens very frequently. I think the potential for that to occur in either commercial or personal lines is equal.”

Personal lines insurers should tread carefully as demand for cyber coverage grows. Commercial insurers have found that organizations of every size and type are suffering cyber losses at nearly equal frequencies, said **Jeff Cohen**, president at **Advisen**, which collects and analyzes cyber security loss information.

“So the assumption that bigger companies have more data and that they're more susceptible – it's not true,” he said. “You have to think the exact same things are going to hold true for individuals.”

Affluent individuals with high net worth policies largely have access to cyber coverage already. But people of average means are at risk, as well. Hackers can commandeer a personal

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email account or computer and demand ransoms payable by people of average incomes.

“These types of things are clearly already happening,” Cohen said.

The difference is a matter of scale. Preparing for an attack on a major city or corporation, cyber criminals will perform a large amount of reconnaissance to identify weak points and vulnerabilities before infecting the system, Zeilman said. These ransomware programs encrypt an organization’s file system and demand a ransom, typically paid in cryptocurrency, in exchange for a decryption key. Commercial victims and their insurers often prefer to pay the ransom to recover files and systems quickly, rather than risk days or weeks of lost revenue trying to recover data without the key.

On the homeowners side, cyber criminals take a scattershot approach, casting a wider net for smaller fish.

“Certain types of ransomware effect only businesses, but ransomware as a phenomenon is a problem for homeowners, as well,” he said.

The most vulnerable are computer users with poor “cyber hygiene” – those who engage in practices that increase their exposure or don’t take steps to improve online security. A home computer user with poor cyber hygiene, for example, could be infected with ransomware by clicking a bad link in an email or an infected pop-up web page. These types of cyber attacks have targeted Windows machines for years, and there have been more recent reports of malware emerging for Macs, too. In 2013, a number of Trojan malware applications emerged to infect Android mobile devices, often masquerading as legitimate apps. Once installed, they lock the phone until a ransom payment is made.

In 2014, antivirus software provider **Avast** reported that a mobile ransomware called Simplelocker infected more than 20,000 users. It demanded a modest ransom in the hundreds of dollars to unlock a user’s device and recover

the encrypted files. Experts easily decrypted Simplelocker-held files because the key was hardcoded into the malware, and the key wasn’t unique for each device, Avast wrote in a company blog post. But Simplelocker was important because it was the first-known mobile ransomware program that actually encrypted the users’ files – previous mobile malware only claimed to, according to Avast. By the next year, a new Simplelocker program that encrypted victims’ files and used a unique key for each device infected more than 5,000 users within days.

A ransomware attack on a customer of Mercury’s cyber security endorsement would trigger multiple coverage components, Hernandez said.

“We would make sure the demand is paid, the computer is working OK, and we removed

Ransomware is a near-term threat for cyber attacks of personal computers.

any backdoors to prevent any future recurring events,” he said.

If personal information was taken, extending the loss over time, coverage would continue until meeting the policy limit.

Perils on the internet change quickly, and so do the characteristics of people most susceptible to cyber exposure and the types of coverages they will want.

FBI cyber crime statistics illustrate how quickly the digital world and its cyber victims evolve. Last year, the FBI received a total of 351,936 complaints with losses exceeding \$2.7 billion, an increase from 16,775 referred cases of fraud valued at \$17.8 million in 2001. The most recent figures, based on reports from individual and businesses, do not include lost business, time, wages, files, equipment, or any third party remediation services acquired by a victim.

Victims of cyber crimes are older than they used to be. Last year, for crimes that include an

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associated age range, people older than 60 were the most common victims, with 62,085 losing \$649.23 million. In 2010, most victims were between 40-59, and in 2001, the average victim was 39. The gender distribution also changed, with men and women more equally affected as compared to 2001, when 70% of fraud complainants were male.

The types of scams have also shifted substantially. For example, last year, there were 1,493 reported incidents of ransomware, which was not even listed as a category in 2010. (As the database is dependent on crimes being reported to the FBI's Internet Crime Complaint Center, the true number is likely much higher.)

Compromised email was the most common cyber crime, with 20,373 complaints and adjusted losses of more than \$1.2 billion. These scams typically involve a perpetrator hacking or spoofing personal or business email accounts through social engineering or digital intrusion and then conducting unauthorized wire transfers, according to the FBI.

The crimes of 2001 look quaint in comparison – online auction fraud represented the biggest threat, accounting for 42.8% of cyber frauds reported to the bureau. Non-delivery of payment or merchandise placed second at 20.3% of complaints. The classic “Nigerian letter” scam ranked third at 15.5%. Identity theft ranked near the bottom at 1.3%. Today, the FBI doesn't even report online auction fraud as its own category.

Personal insurers venturing into the cyber insurance market will have to stay ahead of trends that change much more quickly than the perils they are accustomed to, like fire, wind or water.

“We've seen the commercial coverages evolve very rapidly, and ... we've seen coverages being used in ways that we didn't anticipate when we first rolled them out, because the world has changed,” Zeilman said. “And we definitely expect to see that same evolution on the personal side, as well.” **PIR**

PROPERTY INSURANCE REPORT

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Property Insurance Report, © 2019, published bi-weekly, 24 times a year, by Risk Information Inc., 33765 Magellan Isle, Dana Point, CA 92629. It is a violation of federal law to photocopy or reproduce any part of this publication without first obtaining permission from the Publisher. ISSN: 1084-2950

Subscription Rate: \$827 per year by mail, or contact the Editor for information on enterprise-wide electronic delivery.

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comprehensive policy would require a massive buildup of personnel with different expertise, ultimately pushing up rates. “The commissioner's call for the FAIR Plan to offer liability coverage and an HO-3 policy would have unintended consequences that could ultimately hurt consumers,” FAIR Plan President **Anneliese Jivan** said in an email. “Not only would this take significant time and divert resources from core activities focused on improving service to existing and new FAIR Plan policyholders, but it will also result in increased operating costs that will be passed along in the form of higher rates for all policyholders.”

Since 2015, about 350,000 policies were nonrenewed due to brush and wildfire exposure, according to data from the California Department of Insurance. Jivan said that during that same period, the FAIR Plan grew less than 50,000 policies in those areas. **PIR**

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