

Insurance - a Vital Component of Your Risk Management Solution

Insurance– A Vital Risk Management Component

- Traditionally, the payment card industry has only acquired standard commercial liability insurance to protect against risk.
- In the last several years, new insurance programs have emerged that offer new tools to risk management.
- Three of the most popular insurance programs that provide additional risk tools are:
 - Merchant data breach
 - Uncollectible chargeback
 - Privacy violation

Merchant Data Breach Insurance

Product overview

- Designed specifically to protect acquiring banks, ISOs, and processors and their merchants against the significant expenses resulting from a suspected or actual data breach.
- The product covers:
 - The mandatory forensic audit required by the Payment Card Industry Data Security Standard (PCI DSS) when a data breach is suspected.
 - Card replacement costs and related expenses.
 - PCI assessments and fines resulting from a breach.
 - Any fraudulent use on the cards that were breached.

Merchant Data Breach Insurance

How does the product assist with risk management?

- The **direct cost** (audits, fines, notification, etc) of a data breach **rose 20% in 2009**, according to the Ponemon Institute and PGP!
- The average cost of a **level 4** merchant breach now **exceeds \$38,000**
- Direct data theft from employees and former employees **accounted for nearly 20% of all reported breaches in 2009**, according to the Identity Theft Resource Council so risk exists despite PCI –DSS compliance.
- Most level 4 merchants do not have the money available in their merchant accounts to pay for the expenses resulting from a data breach.

Merchant Data Breach Insurance

How is it purchased?

- A single policy is issued to the acquiring bank, ISO, or processor.
- The product is a portfolio product and is placed on all merchants under either a mandatory or opt-out program.
- The product is either bundled with a PCI DSS compliance program or provided as the backstop to a stand-alone breach assistance program for merchants.
- The program is billed monthly.

Merchant Data Breach Insurance

What to consider when evaluating the product?

- Only purchase a product that offers full administrative support.
- Do not purchase a product with an aggregate policy limit if you intend to tell merchants what the liability limit is on each of their merchant accounts in your breach assistance program.
- Only purchase the product from an insurance carrier with an “A” or better rating from a major rating agency like A.M. Best.
- Consult with your attorney to make sure that your are launching your program in a way that does not put you in conflict with state insurance regulatory agencies.

Uncollectible Chargeback Insurance

Product overview

- Designed specifically to help acquiring banks, ISOs, and processors protect themselves from the losses incurred by merchants who can't meet their chargeback obligations.
- The product covers uncollectible chargeback losses that you become legally responsible for resulting from the fraudulent activity or insolvency of a merchant.
- The product has basic underwriting standards similar to what most of you are doing today.

Uncollectible Chargeback Insurance

How is it purchased?

- A single policy is issued to the acquiring bank, ISO, or processor.
- The product is generally offered as a **catastrophic** loss product with merchant or aggregate deductibles, merchant reserves (may be required), and high limits (up to \$25 million). Pricing is based on transaction volume and card type (card present and card not present).
- The product can also be offered as a **portfolio** product that is mandatory for all merchants with low per merchant deductibles and lower merchant limits (from \$100,000 to \$250,000 per merchant with a policy aggregate). Pricing is a flat per merchant monthly rate.

Uncollectible Chargeback Insurance

How does the product assist with risk management?

- Provides additional comfort to regulators, boards of directors, and acquiring banks (for ISOs) that a high-volume merchant in a more risky segment, like a delayed-delivery business, will not cripple the acquirer in the event of fraud or failure.
- Allows acquirers to maintain reasonable merchant reserves (and sometimes reduced reserves) for specific merchants in various MCC codes.
- Allows acquirers to be more accepting of higher-risk merchants.

Uncollectible Chargeback Insurance

What to consider when evaluating these insurance products?

- Only purchase a product that offers protection from chargebacks that become uncollectible from fraudulent activity and insolvency.
- Only purchase the product from an insurance carrier with an “A” or better rating from a major rating agency like A.M. Best.
- Consult with your attorney.

Privacy Violation Insurance

Product Overview

- Designed to protect a business from the loss of sensitive client data from:
 - a hack of its information systems
 - the theft of sensitive client data by employees
 - use of a policy holders information systems to steal sensitive client data from **another companies** systems

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Privacy Violation Insurance

The product covers:

- ▣ the cost of forensic investigations
- ▣ legal assistance
- ▣ public relations expenses
- ▣ notification expenses
- ▣ credit monitoring expenses
- ▣ call center services
- ▣ civil fines and penalties
- ▣ PCI DSS fines and assessments.

Privacy Violation Insurance

How is it purchased?

- A single policy is issued to the acquiring bank, ISO, or processor.
- The product is generally offered in components:
 - Security and Privacy Liability (3rd party)
 - Network Liability
 - Event Management
 - PCI – DSS expenses
 - Individual endorsements

Privacy Violation Insurance

How does the product assist with risk management?

- Provides additional comfort to regulators, boards of directors, and acquiring banks (for ISOs) that a theft of sensitive client data will not cripple the acquirer.
- Allows for rapid response in the event that a breach does occur to calm clients and to prevent a significant degradation in the reputation of the merchant.
- Provides a reliable source of funds for these sudden and significant expenses.

Privacy Violation Insurance

What to consider when evaluating these insurance products?

- Only purchase a product that offers protection from all of your areas of exposure including PCI – DSS expenses.
- Only purchase the product from an insurance carrier with an “A” or better rating from a major rating agency like A.M. Best.
- Consult with your attorney.

Thank you for your consideration