

Small Businesses at Risk: Data Breaches

Customers or employees who entrust you with personal or private information – such as credit card or social security numbers– also put you at risk. If that data is lost, stolen or compromised, your business could face substantial legal liability and regulatory expenses. The incident could also cause lasting damage to your organization's reputation.

Truths about data breaches

Business is booming for cyber criminals. The data that you hold will generate significant profits for identity thieves. And chances are your business doesn't have the sophisticated "cyber-armor" larger corporations do, making you an easier target for criminals.

Data breaches at the hands of sophisticated hackers may capture the most headlines, but a recent study shows the vast majority of data breach incidents -- 88 percent -- result from "insider negligence," which can be as innocent as the administrative assistant who inadvertently tosses sensitive data into the trash.

The problem is not always a computer-savvy criminal circumventing network security ... it may be the employee who accidentally leaves an unencrypted laptop on the commuter train.

Consequences for your business

The costs of a data breach incident mount quickly. When personally identifiable information in your care is compromised, you may be legally obligated to alert those impacted by the breach. A full 46 states currently require businesses to notify consumers when their data is lost or stolen. Federal law now requires notification if protected health information is lost or stolen. You may need to hire legal counsel to navigate the maze of state and federal laws and regulations related to data security.

Plus, credit file monitoring, at your expense, is usually expected by breach victims to help stem potential damages. Computer security experts may need to be hired to get to the bottom of an incident.

There is also the issue of legal liability for the theft, loss or unauthorized disclosure of information in your care, and regulatory proceedings if you are alleged to have violated privacy laws.

How high a price?

A study of the data breach experience of 43 U.S. companies put the average cost of an incident at \$214 *for each customer record compromised*. The vast majority of that cost is attributed to lost business arising from abnormal turnover or "churn" of existing or future customers.¹ How does that cost stack up?

- A retailer with just 10 sales a day would pay \$781,000 for a year's worth of breached records.
- An MRI facility conducting 15 scans daily would face expenses exceeding \$1 million for every year of patient records compromised.

In 2011, more than 23 million records were compromised in 419 reported incidents.
(Identity Theft Resource Center: www.idtheftcenter.org)

Protection for your business

Beazley's Information Security and Privacy Insurance offers multi-faceted protection for both the expenses and the legal liabilities associated with data security privacy breaches. With Information Privacy & Security Insurance, you'll be better prepared to weather the financial storm of a data breach with:

¹Ponemon Institute 2011 . *For purposes of compatibility across different breach incidents, Ponemon measured data breach cost on a compromised record basis (a.k.a. per victim cost).*

- broad coverage for the expenses associated with an incident, including:
 - compliance with data breach notification laws
 - securing legal counsel to advise on incident response
 - providing credit file monitoring to victims
 - hiring forensic experts to investigate the breach
 - paying regulatory defense and penalties from privacy law violations

- extensive coverage for legal liabilities including those arising from failure to comply with state breach notification laws or privacy policies and/or to administer a government-mandated identity theft prevention program

Beyond Data Breaches

Information Privacy & Security Insurance can also provide coverage for media liability arising for electronic content on your website, and can be tailored to protect your business against additional information security-related expenses, such as cyber extortion demands.

Beazley has the expertise

Beazley is a pioneer in managing technology risks, with more than two decades of experience underwriting technology errors and omissions insurance. Our Small Business/Private Enterprise team is comprised of industry professionals with in-depth specialty lines insurance expertise. We have also invested heavily in claim support to offer you highly proactive services in the event of a claim. Our claim and underwriting professionals work on your behalf side by side as a team — a superlative business model that provides you with optimal value and support. Most of our claim and underwriting managers are former attorneys with 10-25 years of legal experience — offering straight answers in a seemingly complex world.

Beazley Private Enterprise specializes in insurance and services for businesses with up to \$35 million in revenue. Beazley offers Information Security and Privacy Insurance on an admitted basis in some states. Along with Information Privacy & Security Insurance, our offerings include: AFB Media Tech (Technology Errors & Omissions Insurance), MPL Secure (Miscellaneous Professional Liability Insurance), Media Liability Insurance, Beazley Breach Response, and Architects & Engineers Professional Liability Insurance.

For more information contact your insurance agent or go to: www.beazley.com/pe.

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