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2018 HISCOX Small Business Cyber Risk Report™

While the threat of a cyber attack is real for businesses of all sizes, nearly half of small businesses in the US have suffered a cyber attack in the past year. Small businesses are less likely to have strategies in place to ward off attacks, detect them early if they do occur, and reduce the damage. And, they are less likely to be able to withstand the financial impact of a hack or breach.

Small businesses can take steps to counter the ever-evolving threat of cyber attacks and become cyber ready. These steps are not overly complex or costly, and small businesses can significantly protect themselves by taking action.

Cyber Attacks are the New Normal

Hackers are becoming bolder and cyber attacks are getting bigger all the time.

Ransomware, spear phishing, malware, drive-by attacks, DDoS attacks – the list goes on and on. While cyber attacks that make the news are often large in scale, make no mistake that small businesses are being attacked, too. In fact, small businesses may be more vulnerable to cyber threats than large corporations.

Forty-seven percent of small businesses suffered at least one cyber attack in the past 12 months. Of those, 44 percent experienced two, three, or four attacks in the past year, and eight percent had five or more attacks.

Business owners and executives ranked a cyber attack as one of the top two concerns for their business, along with fraud. Sixty-six percent of small businesses said they were concerned or very concerned about cyber risk. Yet the vast majority haven't taken the basic steps to prepare.

Top cyber-related insurance claims*

- Ransomware
- Hackers
- Loss or misuse of data

What is ransomware?

Ransomware, a hack that locks you out of your data and demands payment for its release, made headlines in 2017 when the WannaCry attack disabled hundreds of thousands of computers around the world.

This is the most common type of cyber attack, according to Hiscox claims data, and can take one of two forms. In a targeted attack, the hacker preys on a specific organization and demands a large ransom for the release of the files. In a more commoditized version, the hacker will cast a wider net and seek a more modest (but still significant) payment. Small businesses often get caught in these attacks.

Source: Hiscox claims data

Cyber Security Keeps Businesses up at Night

Small businesses are worried about cyber-related incidents.

Cyber risk is a top concern for the majority of small businesses owners. So, what obstacles stand in their way? Fifty percent said lack of budget is a challenge or a major challenge.

All businesses face trade-offs when they try to allocate limited resources, but it's crucial to keep in mind that the cost of a cyber incident can be significant, and it increases as your company grows. Small businesses estimated their average cost for incidents in the last 12 months to be $34,604. Among large companies (more than 1,000 employees), the annual average cost of cyber crime was $1.05 million.

Hidden costs of cyber crime

These figures indicate the scale of the cyber threat, but they only include direct costs. The indirect costs that result from an attack can include lost customers (or difficulty attracting new ones) and damage to the brand. There are also costs associated with the hours required to remedy the attack and the distraction a breach can cause.

What if this happened to your business?

Your consulting firm is working on an HR project for a client. One of your employees has the client's employee data, including names, social security numbers and home addresses on a laptop, which gets stolen from the employee's car. The data is not encrypted, which violates your contract with your client. Besides losing the project and the client, you get hit with a lawsuit for the costs to mitigate the damage.

As Cyber Attacks Increase, Small Businesses Remain Unprepared

Only 16 percent of small businesses are very confident in their cyber security readiness. These areas are lacking:

Strategy
Barely half (52%) of small businesses have a clearly defined strategy around cyber security.

Accountability
Twenty-three percent of small businesses have a leadership role dedicated to cyber, whereas most (46%) have no defined role at all.

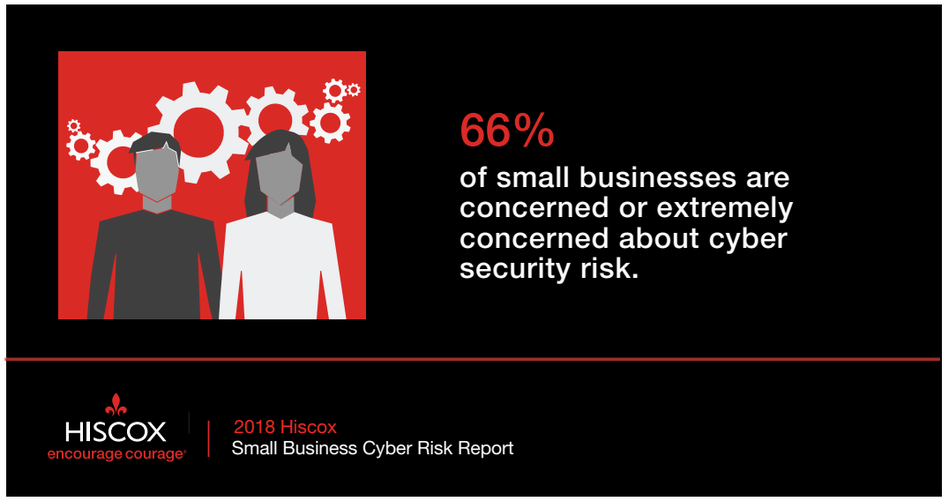
Willingness to respond
Remarkably, 65% of small businesses have failed to act following a cyber security incident.

Training
Less than one-third (32%) of small businesses have conducted phishing experiments to assess employee behavior and readiness in the event of an attack.

Insurance
Less than a quarter (21%) of small businesses have a standalone cyber insurance policy, compared to more than half (58%) of large companies.

Outsourcing is an option

For smaller businesses in particular, outsourcing cyber security can be an effective way to increase preparedness. Engaging a consultant can mean lower costs and a quicker ramp-up of your cyber program. Employees must still be aware and engaged in the process of protecting your company's data but an outside firm can lend expertise.



Cyber Security Best Practices: Prevent, Detect and Mitigate

A simple three step process.

Prevent

- Involve and educate all levels of the organization about cyber threats.
- Have a formal budgeting process and ensure cyber is a part of all decision making.
- Institute cyber training during the on-boarding process and in an ongoing manner.

Detect

- Include intrusion detection and ongoing monitoring on all critical networks.
- Track violations (both successful and thwarted) and generate alerts using both automated monitoring and a manual log.
- Record all incident response efforts and all relevant events.

Mitigate

- Create a plan for all incidents, from detection and containment to notification and assessment, with specific roles and responsibilities defined.
- Review response plans regularly for emerging threats and new best practices.
- Insure against financial risks with a stand-alone cyber policy or endorsement.

People, processes and technology

Budgeting for resources is important, but a successful strategy includes people, processes and technology. An effective program includes planning responses, practicing those responses and evaluating their success. Simulating an attack or conducting a phishing experiment will tell you a lot about how prepared you are.

What is cyber insurance?

A targeted hack or simply a lost laptop could result in a company incurring various costs and expenses. A cyber policy is designed to cover privacy, data and network exposures and provide peace of mind. Whether it is sensitive client or employee information, there are increasing expectations that this information is secure. The list of regulations and statutes regarding the use and protection of this information, and notification in the event of a breach, continues to expand.

65%

of small businesses fail to act following a cyber security incident.

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Don’t Wait, Start Today

Three simple solutions.

Create a plan
- Make sure cyber security is a priority at all levels.
- Assign responsibility to one person.
- Identify the compliance requirements for your industry.

Implement your human firewall
- Your employees may be the best defense against cyber attacks.
- Train new and current employees and keep awareness top of mind.
- Conduct phishing experiments to gauge employee awareness.
- Make cyber security part of annual reviews.

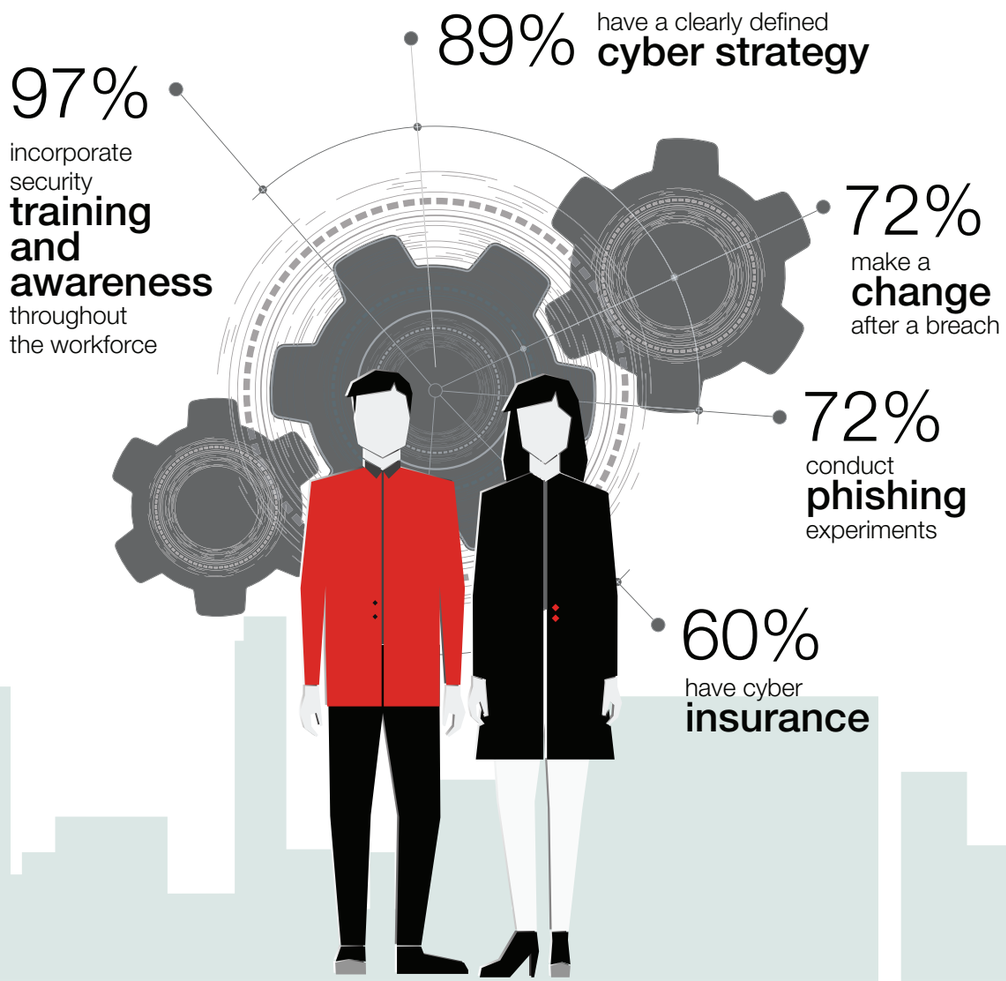
Insure your business
- Determine what coverage is in place.
- Identify additional coverage that may be needed.

Be strategic

Take the first steps toward protecting your company against the threat of a hack or data breach. Create a strategy, assign responsibilities, implement a training program that includes evaluation, and insure your business with a stand-alone cyber insurance policy or endorsement.

What Makes a Cyber Security Expert?

These are the key characteristics of a cyber security expert:



$1.05 million is the average **cost** of cyber crime for large US businesses per year

Based on a survey of 4,100 managers and senior executives, the 2018 Hiscox Cyber Readiness Report is a snapshot of how prepared companies are for a cyber attack and how they have been affected by the attacks they've suffered. Using a cyber readiness model, the report divides respondents into 'cyber novices,' 'cyber intermediates' and 'cyber experts.' 7 out of 10 organizations (73%) fell into the novice category, suggesting they have a way to go before they are cyber ready.

Source: 2018 Hiscox Cyber Readiness Report

Visit **www.hiscox.com/cybersecurity** to download the full report.

Methodology

The 2018 Hiscox Small Business Cyber Risk Report™ focuses on the responses of US small businesses surveyed as a part of the Hiscox Cyber Readiness Report 2018™, which was released February 7, 2018.

Hiscox commissioned Forrester Consulting to assess organizations' cyber readiness. In total 4,103 professionals responsible for their organization's cyber security strategy were contacted (1,000 plus each from the UK, US, and Germany, and 500 each from Spain and the Netherlands). Drawn from a representative sample of organizations by size and sector, these are the men and women on the front line of the business battle against cybercrime. While all are involved to a greater or lesser extent in their organization's cyber security effort, more than 30% make the final decision on how their business should respond. Respondents completed the online survey between October 12, 2017 and November 10, 2017.

About us

Hiscox, the international specialist insurer, is the first company in the US to offer insurance for small businesses direct, online and in real-time. We provide professional liability, general liability and business owner's insurance, underwritten by Chicago-based Hiscox Insurance Company Inc., which is rated 'A' (Excellent) by A.M. Best Company. Coverages are subject to underwriting and may not be available in all states. Hiscox Ltd is listed on the London Stock Exchange UK: HSX.

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