

RISK MANAGEMENT ADVISORY COMMITTEE (RMAC)

Meeting Minutes

August 12, 2016

A meeting of the Idaho Risk Management Advisory Committee was held on this date in the LBJ Building, Conference Room 155, 650 W. State Street, Boise, Idaho. Chairman Geddes called the meeting to order at 10:35 a.m.

Members Present:

Robert L. Geddes, Director, Department of Administration and Committee Chair

Faith Cox, Statewide Risk Manager, Office of Risk Management

Jim Carpenter, Idaho Transportation Department

Senator Dean Mortimer (via telephone)

Representative John Gannon (via telephone)

Theresa Chrisman, Lewis-Clark State College (LCSC) (via telephone)

Members Absent:

Kevin Kempf, Director, Department of Correction

Others Present:

Brad Little, Lieutenant Governor

Marilyn Whitney, Senior Special Assistant, Office of the Governor (via telephone)

Keith Reynolds, Deputy Director and CFO, Department of Administration

Kay Christensen, Chief, Contracts and Administrative Law, Office of the Attorney General

Gideon Tolman, Analyst, Division of Financial Management

Greg Zickau, Chief Information Officer, Department of Administration

Kris Coffman, Lead Claims Adjudicator, Office of Risk Management

Joan Compton, Analyst, Office of Risk Management

Diane Blume, Program Specialist, Department of Administration

Tanya Hellewell, Senior Financial Specialist, Idaho Transportation Department (via telephone)

CYBER LIABILITY INSURANCE

The meeting of the committee was called because the Department of Administration has been considering adding cyber liability insurance to its options of coverages for state agencies, Ms. Cox explained. Several agencies and universities have approached the Office of Risk Management asking that the coverage be marketed for them on an individual basis. Research was conducted and it was discovered to be more cost effective to offer the coverage on a statewide basis. From both a business and an exposure perspective, she said, it would be in the state's best interest to consider a product covering the entire state government.

Bids were obtained from several carriers, she said, and Lloyds of London was the most competitive with the most coverage. It offers \$25 million of coverage per incident with a \$1 million deductible. The types of coverage offered are quite extensive with very few exclusions, and it is willing to cover the entire state. The premium cost would be \$570,000 per year. In addition, the state would have to build-up a fund to cover the deductible which would entail billing agencies about \$900,000 split over a three-year period. Depending on the state's experience at the end of the three years, the premium would vary in amounts required to cover the deductible amount.

Mr. Carpenter questioned whether \$25 million of coverage is low-- ITD alone has over 1.2 million drivers' licenses and social security numbers and it seems potential liability would be much higher, he said. Ms. Cox responded that typically when a breach occurs it does not affect every record and that is the premise upon which the proposed coverage amount was based. The state could purchase up to \$50 million, she said, but it was determined \$25 million would be a good place to start, from a budgeting perspective.

On the contrary, Senator Mortimer suggested the \$25 million amount might be high. He asked if there have been case studies on dollar amounts typically awarded, and whether there have been significant breaches in Idaho resulting in paid claims. Ms. Cox replied she is unaware of significant breaches in the state but said it is not a matter of "if", but "when" a breach will occur. Recently one state was fined by the federal government almost \$3 million after a laptop containing information from Health and Human Services was lost, Mr. Reynolds added. Montana has cyber liability insurance, he said, and subsequent to a breach in its health and welfare program, incurred a cost of \$4 million resulting from the mitigation process. The level of costs incurred by a state can be associated with steps it takes after a breach, such as offering credit-monitoring services, or the amount of correspondence sent out, for example.

Senator Mortimer inquired what the premium cost would be for \$10 or \$15 million of coverage. A quote of \$305,000 was received for \$10 million of coverage, Ms. Cox said, with the same deductible amount. For \$265,000 more, an additional \$15 million of coverage (for a total of \$25 million) can be purchased. This is substantially more coverage without a substantial increase in cost, and it would be a minimal impact if distributed across agencies.

She said the State Risk Insurance Management Association recently sent out a whitepaper after consolidating results of a survey on cyber liability insurance. Responses were received from 21 states—seven states opted for coverage and nine are considering coverage. She said she knows of two states that have coverage with Lloyds of London and have had significant events. Because they were with Lloyds, they were able to utilize its hotline and notification services at a reduced cost. Even with events below the \$1 million deductible, these services are available at a reduced rate.

Representative Gannon asked if the insurance carrier offers expertise to help states improve systems by offering parameters for achieving cyber security. Ms. Cox replied that when the carrier goes through applications and recognizes gaps in security, it offers guidance and expectations for correcting those gaps. The Idaho Technology Authority's guidelines and policies are in line with the carrier's expectations for adequate security.

Once insurance is acquired, what would motivate agencies to continue to enhance their self-protection, Chairman Geddes asked. Ms. Cox replied the enticement for an agency to lower its premium by doing certain things would be an option that she feels the underwriter will support.

Senator Mortimer inquired whether the federal government's assessment of fines is justified and whether the dollars are actually going to claimants. Chairman Geddes replied agencies that have the ability to utilize federal dollars to operate their programs are highly monitored and audited. A fine is assessed when due care for the protection of information is not practiced, and it shows that the federal government is taking this issues very seriously. Senator Mortimer expressed he would hope Idaho's congressional members help verify that the federal government is not merely profiting from the fines, making sure the money is going to individuals who have been harmed.

He also inquired how premium costs are going to be distributed across agencies. Ms. Cox explained it will be similar to the way Risk Management currently allocates liability premiums, and in this case it will be based on record count in the agency and equivalent to the exposure.

There have been discussions with the Governor's Cybersecurity Task Force relating to cybersecurity liability insurance being a possible recommendation brought forward through the task force and ultimately to the budget writers and

legislature for approval, Chairman Geddes said. The market has changed over the years so that it has become affordable but at the same time, risk has increased to a degree that entities are realizing the need to be covered. Senator Mortimer commended the department for pursuing this issue

MOTION: SENATOR MORTIMER MOVED AND REPRESENTATIVE GANNON SECONDED THAT MEMBERS OF THE RISK MANAGEMENT ADVISORY COMMITTEE SUPPORT CONTINUED EFFORTS TO BIND THE STATE WITH \$25 MILLION OF CYBER LIABILITY INSURANCE COVERAGE AT THE STATED PREMIUM AMOUNT AFTER DUE DILIGENCE AND FURTHER DISCLOSURES TO THE AGENCIES AND DEPARTMENTS. The motion passed unanimously.

Chairman Geddes clarified that based on this motion, the Committee is recommending to the Governor's Cybersecurity Task Force that cyber liability insurance would be an important component of the state's plan to protect against cyber threats.

NEXT MEETING

The Committee meets again Monday, October 3, 2016 at 1:00 pm in the Len B. Jordan Building, Conference Room #155.

ADJOURNMENT

The Committee adjourned at 11:05 a.m.



Diane K. Blume, Program Specialist
Department of Administration