



July 18, 2013, 3:24 PM ET

New Insurance Offers Bank Cybertheft Protection To Small Business

Small-business bank accounts are not insured against loss if cybercriminals hack into them and take money, but a new form of insurance being offered by one firm is aimed at filling that void.



Commercial Deposit Insurance Agency

Marc Kramer, president of the Commercial Deposit Insurance Agency.

The Federal Deposit Insurance Corp. only covers bank account losses for depositors when a bank goes out of business, and other federal rules only cover certain losses for individuals but not businesses. Insurers have offered policies for bank account losses from crimes, but the coverage has been bundled in packages that make it too expensive for most small businesses, Marc Kramer, president of the Commercial Deposit Insurance Agency, said.

For Mr. Kramer, an entrepreneur who was unable to find insurance that solely covered his business account in the event of a cybercrime, the quest to find such insurance led him to develop the business with Richard Peterson, a former insurance company president and chief executive. They shopped the idea around looking for investors, and found one in Alteris Inc., a wholly owned subsidiary of publicly listed insurance company Argo Group.

Alteris invested in the idea, and found an underwriter—contract terms with the underwriter prevent it from being named publicly—and the coverage was rolled out earlier this year in New Jersey, Pennsylvania and Delaware. “Thirty companies have signed up so far,” Mr. Kramer

said, and brokers in states where the coverage is not yet offered have called inquiring about becoming brokers for the product. “Right now we are test marketing the product and messaging.”

Coverage costs \$100 a year for \$10,000 in protection, up to \$178 a year for \$50,000, Mr. Kramer said, with the eventual goal to offer up to the \$250,000 in coverage provided by FDIC. “No matter how your money is stolen—whether a business, non-profit or trust account—this is all we cover. If they report to their bank that their money was stolen and file a report within five business days, unless there are extenuating circumstances, like the police think it was an inside job, we pay the money back,” he said.

Michael Scholl, vice president of business and product development at Alteris, said there are no exclusions for negligence by the policyholder that may have contributed to their account being hacked, such as not properly protecting their computer or device, or somehow making public their passwords. And it would drive up premium costs too much if the company had to set up a system to check if each policyholder had proper computer and device protections, or if the company had to provide them with anti-virus software, he said.

One exception: no coverage is offered to businesses that suffered a recent account breach, as malware or viruses may still reside within their computers. “Our goal is to get money back into the hands of the small-business person so they can make payroll and continue their business without slowing down or putting them out of business,” Mr. Scholl said.

It was important to unbundle the cybertheft protection from employee theft and other coverages to make sure people who really need it—business owners for whom a bank account theft could put them out of business—could afford it, Mr. Scholl said. “This is for clients that have everything to lose,” he said.

It took two years from the time Mr. Kramer approached Alteris to when the first policies were being offered because of the newness of the product and the small amount of data available to analyze for help in determining rates and coverages, Mr. Scholl said. “It was not easy to figure out what the losses were. Banks were hesitant to share what their losses were, and since it wasn’t being offered anywhere we couldn’t look at other industry data,” he said. “We ended up piecing together different publicly available data sets.”

There also were regulatory issues associated with bringing a new line of insurance into the marketplace, Mr. Scholl said, and the product had to win approval from each of the three states where it is being sold. “There was nothing in the way of material problems, but there were some standard questions of where the data came from,” Mr. Scholl said.

As for what is being looked at in these test markets, Mr. Scholl said one of the key statistics is the rate at which customers sign up, and the success of the product may depend on how well the company does in educating potential customers who think their bank deposits are covered

against all forms of loss by the FDIC because they see the agency's sticker on every bank window.

"We've had people call banks and been told their money is safe, but that is sort of an apples-and-oranges situation," Mr. Scholl said. "We never said their money isn't safe in the bank, but the fact is if an individual is hacked the bank has no responsibility to make them whole if it is a business account." Even in the case of the government's Regulation E, which protects individual personal accounts from theft, there is a 60-day window to file a claim, Mr. Scholl said.

For now, the company is happy to be the only one offering this standalone cybertheft protection, but Mr. Kramer said it is inevitable other companies will begin offering similar products—and says that will be a good thing. "We might have a year or slightly more of a head start, but we can't cover everybody anyway" with around 28 million small-businesses in the U.S., he said. "It is a big market opportunity and one of those things everybody will want to renew. It won't be any different than owning car insurance, it just becomes part of your budget."

Write to Ben DiPietro at ben.dipietro@dowjones.com, and follow him on Twitter @BenDiPietro1.

Copyright 2013 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com