

More cyber risks added to the basket

Retailers have lost no time in harnessing the internet's potential to boost sales and diversify, but they must now contend with rising cyber crimes.

By Andrew Don

The internet presents lucrative opportunities for ambitious retailers, but risks need to be managed. Data theft arising from hacking, denial of service attacks, malware and viruses can cause retailers severe business interruption and, most importantly, reputational damage.

Internet sales represented about 9.3 per cent of retail sales in 2012 compared with 8.3 per cent in 2011, says the British Retail Consortium (BRC).

E-crime and fraud accounted for 41 per cent of the total cost of retail crime in 2012 to 2013 – a year-on-year increase of 15 per cent.

Blurred lines

The BRC found that most retailers reported that cyber-attacks posed a critical threat and retailers identified that a 'considerable' proportion of plastic card fraud, account credit fraud, refund fraud and voucher and gift card fraud was committed online.

Retailers' cyber risks come primarily from:



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Alan Midson, Head of Retail Practice at JLT Specialty

- Cyber criminals looking to make money through fraud or through the sale of information.
- Hackers who might want to hijack a brand because of the media profile and 'goodies' they can access.
- 'Hacktivists' who attack companies for political or ideological reasons.
- Rogue employees who have privileged access.

JLT is working together with retailers and insurers to understand the risk and has developed about 15 loss scenarios, focused on the retail sector, that it assesses with clients.

Simon King, Partner at JLT Specialty, says online trading has been a lifeline for many of the traditional high-street retailers during the economic crisis, growing more than 10 per cent against the backdrop of stagnant or declining high street performance.

One of the latest successful developments in the ever-changing market has been 'click and collect', blurring the lines between the internet and the high street. "Another development is that retailers are now opening shops with a view to boosting local online sales," King adds.

King notes "a sea change" in attitude from major retail boards in the past two years with an appetite now to understand and manage the risk. "Some of the big brands are buying catastrophe cover as pricing, capacity and wording have improved," he says.

Wait and see

But many retailers in the mid-market retail sector are awaiting changes in the regulatory regime in the form of the draft General Data Protection Regulation before considering insurance, believes Glyn Thoms, Partner at JLT Specialty.

The regulation aims to harmonise data protection laws across all EU member states, although its final implementation

Social media present reputational risks

Social media are becoming an ever more prevalent part of retailers' strategy, with the likes of Facebook, Twitter and Pinterest increasingly used for marketing purposes.

But reputations can be destroyed by something as simple as the retweeting of a customer's bad experience, says Alan Midson, Head of JLT's Retail Practice. "The way you insure against loss of reputation can take many forms. The most obvious is to look at the loss of sales arising from adverse publicity," he says.

"With our Retail Forum JLT is looking to

address that for our prospective clients. We will work with insurers to enable retailers to understand the risk and develop a product that is easily translatable and understandable. We are working to demystify the product, allowing it to provide clarity as to the coverage available with simple wordings."

Yet smaller retailers might shy away from such policies because of the expense, fears Midson. "If a customer tweets something to their followers it could be retweeted to two million people within hours."

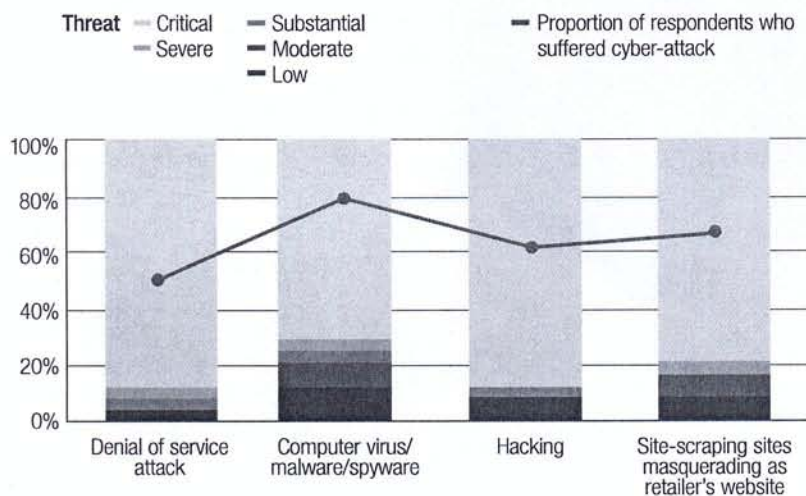


Online trading has been a lifeline for many retailers

Fraud incidents committed online



Retailers who suffered cyber-attack vs threat posed by cyber-attacks



could still be a year or two away.

"The liabilities which the proposed new regulations would impose are likely to lead to an increase in interest and take-up of insurance products in the retail sector as a whole" he says.

JLT expects many organisations to re-evaluate how they look at data security generally and the need to purchase cover, because cybercrime can cripple small and medium-sized enterprises.

Currently there are around 20-25 insurers with a cyber-insurance product offering. Premiums can range from £1,000 at the lower end to a few million for the larger, more complicated risks. They cover third-party liability, business interruption and areas such as cyber extortion, legal advice, IT forensics and customer notification costs.

Thoms says that even if a business is initially able to manage its risk, technology is changing so fast that the risk quickly changes. ■

For more information

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SOURCE: BRITISH RETAIL CONFEDERATION'S RETAIL CRIME SURVEY (2013)