Segal Select Insurance

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MEMORANDUM

To: Anne-Marie Sims
Account Executive

From: Robert Nobile
Segal Select Insurance Services

Date: October 22, 2014

Re: **Unite/HERE Local 25 & Hotel Association of Washington, DC Pension Fund, Health & Welfare Fund, Group Legal Services Fund, and Hospitality Industry 401(k) Plan**
Cyber Liability Insurance

Thank you for the opportunity to provide a Cyber Liability Insurance quotation for the Trustees' consideration.

What is Cyber Liability Insurance?

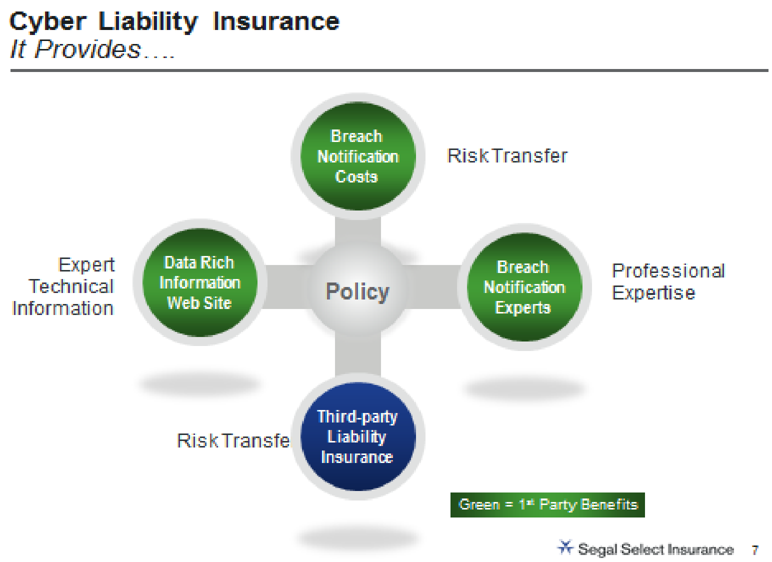
- Cyber Liability Insurance is an insurance policy triggered by unauthorized (malicious or accidental) access and/or disclosure of personal information, known as a "breach event."
- Once triggered, the policy is designed to provide experts to help respond to and resolve a breach event, and pay the direct notification costs associated with a breach event.
- Ultimately, should a third-party sue or make a demand for financial damages against the Fund, the policy also provides liability protection insurance to provide defense, settlement, and judgment coverage.

For a significant breach event, which involves Personal Identifiable Information (PII) or Protected Health Information (PHI) that is lost, stolen, or misplaced *without* recovery, or inadvertently *disclosed*, cyber liability insurance provides valuable benefits.

What does it provide?

Cyber Liability policies provide several benefits, which are summarized in the following graphic:

1. Expert Breach Notification Teams

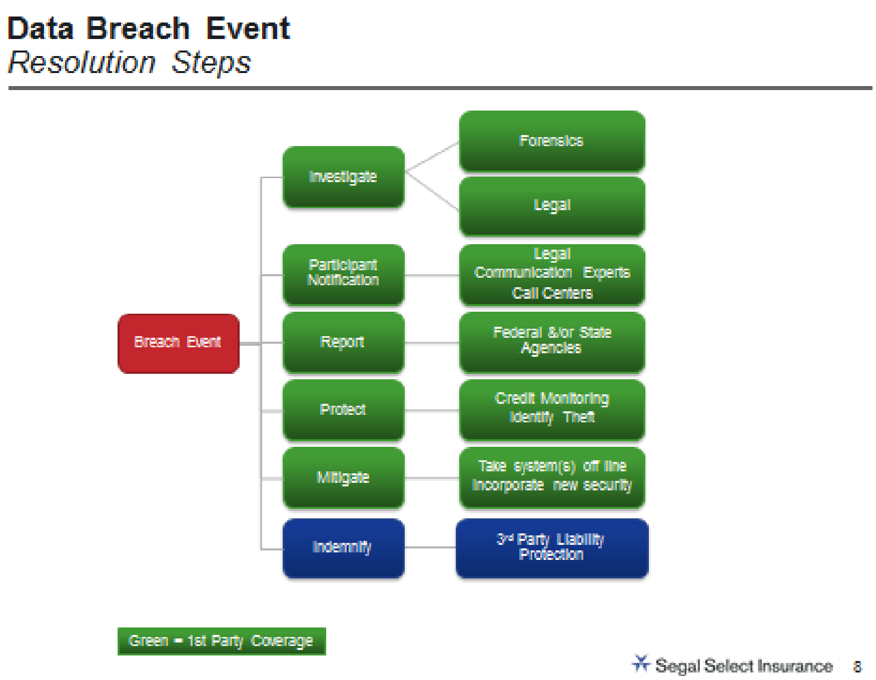


In the event of a breach, prompt, professional reaction is critical. Cyber liability insurance provides a full spectrum of expert, seasoned, professional vendors that can help a plan efficiently and effectively deal with this complex process. The team is available 24/7/365 and can be initiated via a toll free telephone number.

2. Coverage for Incurred Breach Notification Costs

Even in the simplest of breaches, there will be costs. In the simplest case, these costs may be minimal; in a complex case, they can be significant. Cyber liability will pay these costs up to the policy's purchased limits of liability. If a breach event falls within the policy's deductible, the insurer's negotiated (discounted) rate structure still applies for these services. Since engaging expert services in a crisis scenario is rarely inexpensive, this discounted rate structure can be very cost effective.

To see why breach notification costs can be so expensive, consider the following chart, which identifies the major steps required following a breach event. In the simplest case, these steps may be simplified; in a significant case, they can be very complex and expensive.



In reviewing this chart, an important consideration is whether ERISA's preemption will apply. While this is a legal question, in 2011, an ERISA Advisory Council regarding Privacy and Security said in part:

> "ERISA does not directly address whether and how employee benefit plans should protect PII (personal identifiable information) of participants (and beneficiaries) of retirement benefit plans. There has not been any jurisprudence concerning the potential of ERISA preemption of state laws concerning PII. ERISA's preemption provision may not reach many of these state laws. Consequently, plans have to comply with many of these state laws including SSN disclosure laws because there are no overall federal issued guidelines. Thus, the Council believes that as state laws are developed in the area of privacy of financial data and other PII, retirement plan administrators will need to be mindful of these laws and adjust their administrative practices accordingly."

To the extent ERISA preemption may not apply, plans may/will be required to comply with the breach notification laws of each state where its members are resident. Currently, 47 states have specific breach notification laws.

3. Expert Technical Information

Our insurer's make available to their insureds websites dedicated to cyber liability. These websites contain articles, statutory law, forms & templates, sample policies (such as an information security policy), loss scenarios, and other relevant. For both your plan's IT staff and legal counsel, these websites can be a valuable information and research asset.

These three services are neither covered nor intended to be covered by any other insurance policy.

4. Other Reasons to Buy Cyber Liability Insurance

- Cyber liability and the risk of a cyber breach event are not going to go away.
- Despite maintaining the very best and most current industry software, it is impossible to fully eliminate the risk of a cyber breach event.
- A significant percent of cyber breach events result from either negligence or acts by disgruntled employees. No security software can fully protect a Plan from these exposures.
- Cyber laws and regulations will get more strict over time.
- Cyber breach costs will likely escalate rather than decrease.
- The Ponemon Institute annually surveys the cost of cyber breach events. Even discounting for costs not related to an ERISA benefit plan, its 2012 survey indicates a significant cyber breach may easily cost between $25 - $75 per record.
- Cyber breach costs can create significant cash flow problems and, in the worst case, trigger sales of securities in an adverse market.

5. Third Party Liability

Finally, in addition to these benefits, cyber liability insurance also offers Third Party Liability. This is similar to and may overlap with a plan's fiduciary liability insurance. This may be duplicative or provide extra liability insurance. In our opinion, it should not be a priority factor in the decision whether or not to purchase cyber liability insurance.

Coverage Recommendation

- We believe Cyber Liability policies provide coverage for a new area (data breaches) that may not have existed in the past. The services provided by Cyber Liability carriers, including a streamlined notification process and preapproved vendors, can provide significant value in the event of a massive breach.

- Beazley takes a more controlled approach with claims, assigning various vendors to handle a breach. We have had positive feedback from clients that have worked with their dedicated Breach Response unit during a data breach event.

- As cyber liability is evolving through federal and state laws and regulations, cyber liability insurance also is evolving in its scope of coverage and cost.

The attached chart on the following page provides more detailed information on the coverages and premiums for Cyber Liability Insurance from Beazley.

Subjectivities

Please be advised that before we can bind coverage with Beazley, we will need the following items:

1. Completed, signed and dated Beazley Application
2. Contact information of the employee designated to manage a breach response

Beazley Excess & Surplus Lines Disclosure

The quotes received are available only on an excess and surplus lines basis in most states . The premium would be subject to an excess and surplus lines tax, and a filing fee. Because this policy is available only on an excess and surplus lines basis, the insured has no recourse with the state's insurance department if there are any disputes with the carrier, or the carrier becomes insolvent.

Please advise us of the Trustees' decision as soon as possible. We are also available to answer any questions or concerns you or the Trustees may have.

Beazley Coverage Proposal (**50,000 notification limit**)

First Party Expense Coverage		Limit	Retention
Forensics, Legal Expense, Crisis Management, Public Relations, Voluntary Notification		**$250,000 aggregate**	**$2,500**
Breach Notification Services Coverage		**Limit**	**Retention**
Required Notifications, Credit/Identity Monitoring		**50,000 notifications**	**Required notification of 100 individuals**
Call Center Services		**90 days, 10,000 calls/day**	
Third Party Liability Coverage		**Limit**	**Retention**
Security & Privacy Liability, Website Content, Business Interruption, Data Protection, Cyber Extortion		**See $1-million and $2-million two aggregate limit options below**	**$5,000**
Regulatory Action Defense / Penalties Coverage		**$500,000 sublimit**	
Premium	**$1-million aggregate**	**$1,750 + taxes and fees**	
	$2-million aggregate	**$2,800 + taxes and fees**	

Note: This policy summary is not a legal interpretation of coverage. Cyber Liability is a legal contract that Plan Counsel should review.
Beazley provides three separate and distinct limits of liability for First Party Expenses, Breach Notification Services and Third Party Liability.

Beazley Coverage Proposal (**100,000 notification limit**)

First Party Expense Coverage		Limit	Retention
Forensics, Legal Expense, Crisis Management, Public Relations, Voluntary Notification		$250,000 aggregate	$2,500
Breach Notification Services Coverage		**Limit**	**Retention**
Required Notifications, Credit/Identity Monitoring		100,000 notifications	Required notification of 100 individuals
Call Center Services		90 days, 10,000 calls/day	
Third Party Liability Coverage		**Limit**	**Retention**
Security & Privacy Liability, Website Content, Business Interruption, Data Protection, Cyber Extortion		See $1-million and $2-million two aggregate limit options below	$5,000
Regulatory Action Defense / Penalties Coverage		$500,000 sublimit	
Premium	$1-million aggregate	$2,500 + taxes and fees	
	$2-million aggregate	$4,000 + taxes and fees	

Note: This policy summary is not a legal interpretation of coverage. Cyber Liability is a legal contract that Plan Counsel should review. Beazley provides three separate and distinct limits of liability for First Party Expenses, Breach Notification Services and Third Party Liability.

Notice of Claim Provisions

The policy language requires that the carrier be notified as soon as practicable. In at least one policy, notice must be within sixty (60) days of knowledge by any of the insured's executive management. As HIPAA or state notification provisions may also impose a strict reporting time-line, and since coverage may be sought for the claim notification expenses, giving timely notice to the carrier should be obvious. If any subsequent claims are initiated by a person or entity against an insured, make sure that notice is also provided to the carrier as soon as possible. Once notice is provided, the policies will also require written notice of any expenses incurred. Again, at least one carrier imposes a sixty (60) day notice of any incurred expenses and a six (6) month notice for a detailed "proof of loss."

Failure to provide adequate and timely notice could jeopardize coverage under the policy. Please call us if you need assistance or have any questions with regard to giving notice to the carrier. Notice must be in accordance with the policy's terms and conditions and must be sent to a designated address. **Disclosure in an application does not meet these terms and conditions.**

Segal Select Insurance Services Scope of Services and Compensation

Segal Select Insurance Services provides insurance brokerage services. For these services, Segal Select is primarily compensated through commissions paid by the insurance carriers. Annually, Segal Select discloses to each client, in writing, the amount of commissions we received during the prior year for that client. For a more detailed description of Segal Select's scope of services and its compensation arrangements, please use the following hyperlink http://www.segalsi.com and then click on the section entitled "Services and Compensation."

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