

Embroker Cyber Risk Index: Startup Edition

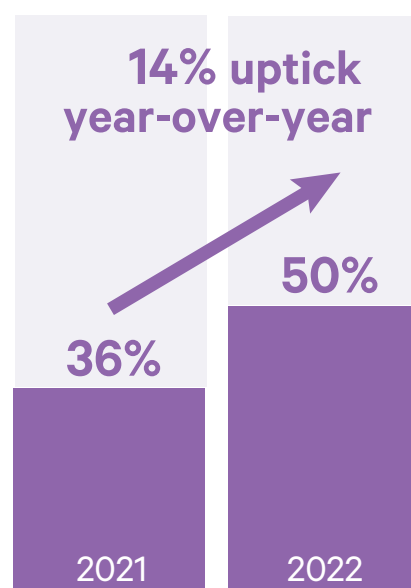
Founders' Focus on Cybersecurity Endures During Challenging Times for Startups

Today's startups are facing substantial headwinds. Beyond the everyday challenges of running a company, building a product and trying to grow, external risks abound. Many founders are worried about a restrictive funding environment, volatile public markets and broader socio-economic shifts. Behind these headlines is another external risk that continually surfaces and resurfaces in founders' minds: cyber risk. **So, as emerging challenges like recession and inflation take center stage, how are founders thinking about their investments in cyber protection? And what influences their level of investment?**

Embroker surveyed over 400 VC-backed startup founders about the importance of cybersecurity, including cyber insurance, how they protect their business from modern external risks, and how their perception around the reality of cyber risks is changing year-over-year.

Concern Over Cybersecurity Grows

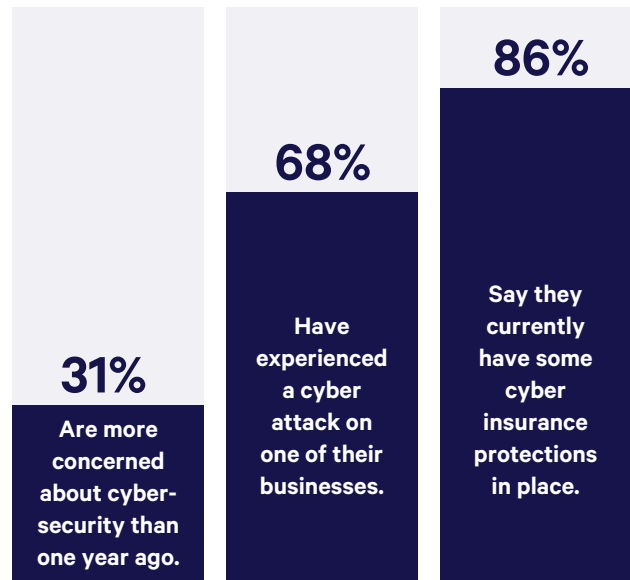
Expectations for the likelihood of facing a cyber attack are on the rise.





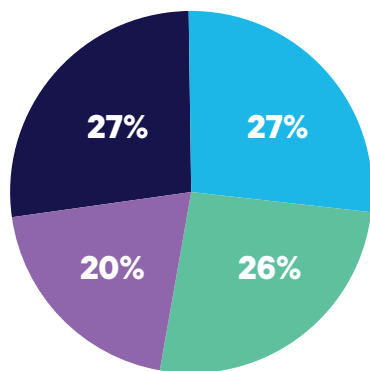
Past Threats, Present Protection

Business owners shifted their perceptions on cyber risk in the past year.



Startups Get Serious About Cyber Insurance

Of those startups that have some cyber insurance in place, over **52%** describe it as either “customized to our needs” or “the most comprehensive available”:



- We’ve **simply added on to an existing policy**, covering the basics
- We have a **customized cyber package** that addresses our individual needs
- We have **the most comprehensive cyber insurance** a company could get
- We have a **standalone cyber policy from a good carrier with standard coverage**

Startups that don't have cyber insurance



14% | A small percentage **don't have cyber insurance.**

44% | Of those **cite cost as the number one reason.**

Startups that have cyber insurance



50% | Believe their 2022 policies **would only partially cover them.**

27% | **Compared to those who answered this way in 2021.**

How has having cyber insurance helped your business?



45%

Meeting the requirements and needs of customers and vendors

43%

Providing additional services to respond to a cybersecurity attack

38%

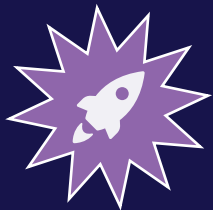
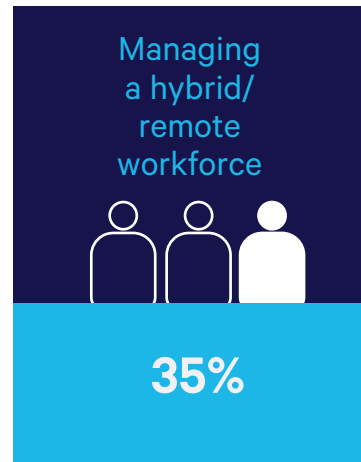
Surfacing the need for supplementary cyber protections

Social Influences Are Driving Decision-Making

Data insights show that macro, globalized events are having a marked effect on the commercial insurance space and its trends. As founders look toward 2023, impacts from **the following factors weigh most heavily on their minds:**

32%	Inflation	24%	Interest Rates
27%	Cyber attacks	22%	Competition
26%	Supply chain challenges	22%	Climate Change

When it comes to purchasing cyber insurance - including evaluating premium rates and limits - **founders cite their decisions are most motivated by:**



From Q1 to Q2 2022, Embroker saw a **50% increase** in shopped cyber policies. Cyber also went from 15% of Embroker's total applications submitted in Q1 2022 to 22% in Q2.

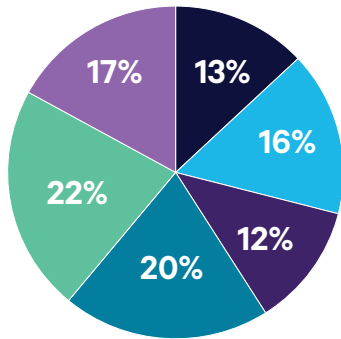
This coincides with increased concerns for cyber-related incidences including potential retaliatory cyber attacks from Russia resulting from US support of Ukraine.

Investor and Board Pressures Still Include Cybersecurity

Nearly half (49%) of founders cite cybersecurity insurance protections as required by their investors, their board or both. Pressure from investors and board members is a key component in driving investments in cyber security insurance.

This indicates that startup founders increasingly view cyber insurance as a necessity regardless of outside pressures to obtain it, and that cybersecurity remains an important ongoing focal point with the powers that be.

Is obtaining a certain level of cyber insurance a requirement for your business?



- My board requires it
- My investors require it
- Certain customer contracts require it
- My board and my investors both require it
- Nobody requires me to have cyber protections but I still have them
- Nobody requires me to have cyber protections and I don't have them



97% of founders



Discuss their cyber protections and issues with investors and board members

Predictions for 2023 and Beyond

Ransomware attacks will persist and evolve as criminal organizations look to evade the Office of Foreign Assets Control block list and apply pressure tactics for payment. Remote and dispersed workforce will continue to present security challenges for organizations large and small and social engineering tactics will remain a key method for bad actors to obtain employee data and credentials.

Despite the looming recession and rising costs, founders cite the following as their top three “non-negotiable areas of investment” for the coming year:



Product innovation



32%



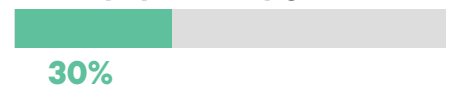
Cybersecurity protection



31%



Equipment upgrades



30%

And most founders aren't satisfied with their current level of protection.

For 2023, are you considering any new cyber protections / tools?



Conclusion

Embroker surveyed over 400 VC-backed startup founders and discovered not only that they are becoming more concerned about cybersecurity protections but that they often factor external risks like inflation and current events - in addition to internal elements like investor requirements - into their decision-making processes. Survey results revealed that worry and awareness around cybersecurity is rising among founders - and they are taking action. Whether influenced by investors or not, founders understand that cybersecurity protections are no longer an option to keep their business safe. In their eyes, investments in cybersecurity and insurance are shifting from perceived 'nice-to-haves' to necessities in order to survive and grow their business.

Methodology

Embroker surveyed over 400 VC-backed startup founders in the U.S. between November 10-14, 2022. The survey was completed online and responses were random, voluntary and anonymous.

About Embroker

Embroker is transforming commercial insurance by making it radically simple for businesses to get the right insurance at the best price. Embroker focuses on industry-specific coverage for the most complex and inefficient lines of insurance, such as Directors and Officers, Employment Practices Liability, Cyber, and Professional Liability. Embroker uses predictive modeling powered by proprietary technology to fully automate underwriting and make the buying process simple, fast, and more affordable. Through Embroker Access, Embroker provides partner agencies and wholesalers with the capability to offer all of Embroker's industry-leading insurance products to their customers. Founded in 2015, Embroker is headquartered in San Francisco and has raised more than \$140M in funding from leading Fintech and Insurtech investors. With a Net Promoter Score (NPS) of 70+, Embroker is also the highest rated business insurance company in the market.