

# Covington Internet of Things Update: Promise and Peril — IoT and Your Insurance

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Two hundred billion IoT devices could be in use by 2020, according to one estimate cited in the World Economic Forum's recent report, [Mitigating Risk in the Innovation Economy](#). This rapid integration of the digital world and the physical world presents unprecedented opportunities for businesses in a wide array of industries. But it also creates unprecedented risks. Despite ongoing efforts to create security standards for IoT devices — for example, the National Institute of Standards and Technology's recent [draft paper](#) to this end — the security of such devices currently remains wanting. With the cyber and physical worlds so closely intertwined, future hacking incidents may threaten not only electronic data, but also property and lives.

Policyholders adopting IoT and related technologies may face [uncertainty](#) over coverage for these so-called “cyber-physical” harms under commonly available insurance policy forms. Most cyber insurance policies have expressly excluded coverage for bodily injury and property damage, while standard-form general liability and property policies may have exclusions that some insurers invoke to dispute coverage for cyber-related harms. In recent years, however, new insurance policies and endorsements have emerged to address this coverage uncertainty by giving policyholders options for explicit coverage for physical damage from cyber attacks.

As policyholders adopt technology that links their physical systems to digital components, they should consider what potential real-world harms could result from their cyber-networked things — and whether their existing lines of insurance cover them. Such policyholders may conclude that it is time to explore the newer insurance products specifically geared towards cyber-physical risks. Even these purpose-built policies and endorsements call for careful scrutiny and potential negotiation, however, because they are not standardized. Not only do policy wordings vary, but so do individual policyholders' risk exposures. For example, a policyholder that may be an especially attractive target for state-sponsored hacking may need to pay particular attention to the wording of exclusions such as the common “war” and “terrorism” exclusions. Guidance from experienced coverage counsel and sophisticated insurance brokers is useful, if not essential, for those exploring this relatively novel territory.

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