

AI, CYBER RISK, AND CYBER INSURANCE FOR SUBCONTRACTORS

INTRODUCTION AND CONTEXT



PRESENTATION OVERVIEW AND IMPORTANCE

Comprehensive AI and Cyber Risk Overview

The presentation covers AI applications in construction / contractors and the cyber risks subcontractors face today.

Real-world Cyber Loss Scenarios

Examines actual cyber incidents affecting subcontractors to highlight vulnerabilities and consequences.

Role of Cyber Insurance

Explains how cyber insurance mitigates risks and details coverage structures and application complexities.

Industry Digital Transition Risks

Highlights construction's move to digital tools increases cyber risk and subcontractors' exposure to attacks.

AI IN CONTRACTORS



You're already using AI whether you realize it or not

ROLE OF AI AND EMERGING TECHNOLOGIES

AI Enhances Construction Efficiency

AI automates estimating, scheduling, risk management, and safety monitoring to improve project efficiency and decision-making.

Digital Collaboration & Project Management

AI streamlines communication among contractors, subcontractors, and vendors through advanced project management software.

Cybersecurity Risks and Dependencies

Increased reliance on digital systems raises cybersecurity risks that subcontractors must understand and manage effectively.

Automation of Administrative Tasks

AI automates document processing and compliance reporting, freeing up time for higher-value construction tasks.



BENEFITS AND RISKS OF AI

AI Efficiency Benefits

AI improves subcontractor efficiency by automating repetitive tasks and enabling better project outcomes.

Safety and Predictive Analytics

AI enhances safety by identifying hazards using predictive analytics and monitoring systems.

Data Security Risks

AI relies on sensitive data, risking breaches and intellectual property exposure if improperly handled.

Cybersecurity Threats

Cybercriminals use AI to enhance attacks like phishing and voice impersonation, increasing cybersecurity risks.

Highly Targeted

- High-Value of payments
- Email driven workflows

Wire Fraud

You receive an email requesting bank change

Ransomware

Your accounting system locks up Friday and payroll doesn't go out

CYBER RISKS WITH CONTRACTORS

COMMON CYBER THREATS

Ransomware Attacks

Ransomware can lock critical construction systems, stopping project management and payroll operations and causing financial loss.

Business Email Compromise

Attackers impersonate vendors or subcontractors to redirect payments, exploiting trust in business email communications.

Data Breaches

Data breaches expose sensitive project, client, and financial information, risking legal issues and reputational damage.

System Outages

System failures or outages disrupt construction workflows, causing costly delays and operational interruptions.





WHY SUBCONTRACTORS ARE VULNERABLE

High-Value Financial Targets

Subcontractors handle large financial transactions, making them attractive targets for cyber fraud and theft attempts.

Email-Based Attacks

Heavy reliance on email exposes subcontractors to phishing and social engineering attacks that compromise security.

Complex Vendor Networks

Numerous vendor collaborations create vulnerabilities where a single breach can impact entire projects.

Limited Cybersecurity Resources

Many subcontractors lack advanced cybersecurity measures like multi-factor authentication and employee training.

Without Insurance

- Your company takes the loss
- Legal exposure
- Downtime costs / lawsuits

With Insurance

- Pays ransom / Fraud / Business Interruption
- Many think GL is covering these losses and it is not

CYBER INSURANCE FUNDAMENTALS



WHAT CYBER INSURANCE COVERS

First-Party Coverage

Covers direct losses like ransomware response, data restoration, and business interruption recovery costs.

Third-Party Coverage

Protects against liabilities from claims by clients, vendors, or regulators after data breaches or incidents.

Additional Coverage Elements

Includes legal fees, regulatory fines, and crisis management such as public relations and customer notifications.

Importance for Subcontractors

Cyber insurance fills gaps not covered by general liability or property insurance for subcontractors.



KEY COVERAGES FOR SUBCONTRACTORS

Funds Transfer Fraud Coverage

Protects subcontractors from losses due to fraudulent wire transfers, a common cyber claim in construction.

Business Interruption Coverage

Covers lost income and extra expenses during cyber-related downtime affecting subcontractor operations.

Data Restoration Coverage

Helps recover corrupted or deleted digital files including project plans and financial records.

Cyber Extortion and Liability

Addresses ransomware demands and protects subcontractors from lawsuits arising from data breaches or failures.

Real Cyber Claim Scenarios (What We're Actually Seeing)

These are the most common cyber incidents affecting construction businesses today - from payment fraud to ransomware attacks that halt operations.

Funds Transfer Fraud

\$150K–\$250K

wired after fake vendor email

Payroll Diversion

Employee banking details changed

payroll redirected

Ransomware Attack

Accounting/project systems locked

operations halted

Email Compromise (Invoice Fraud)

Fake invoice approved

multiple payments sent

Vendor Breach (Subcontractor)

Sub hacked

fraudulent instructions sent upstream

Data Breach

Plans & client data exposed

legal + reputational damage

CYBER INSURANCE APPLICATIONS

HOW TO ANSWER APPLICATION QUESTIONS EFFECTIVELY



Cyber Risk in Contractors isn't a tech problem it's a money problem

- BOP add ons – is it enough?

The application is what security you need in place

Accuracy and Transparency

Provide clear, specific responses with detailed information to avoid vague answers that raise concerns.

Security Controls Knowledge

Understand and describe implemented security controls like encryption, access controls, and incident response planning.

Collaboration with IT Providers

Work closely with IT consultants to ensure accuracy and reflect current cybersecurity practices in responses.

Proactive Risk Management

Address potential gaps proactively to facilitate the application process and reduce future claim denials.