

2023 Embroker Cyber Risk Index: Startup Edition

While AI Accelerates and the Economy Fluctuates,
Founders Agree: Cyber Threats are Everyone's Problem



In the fast and furious world of running a startup, it's hard for founders to know which risks to address first. There is one risk, however, that is both existential and undeniable: cybersecurity. Each year, Embroker surveys VC-backed startup founders and examines their opinions on cybersecurity. This year, it's clear that founders are increasingly aware of digital risks and are prepared to combat them with cyber insurance policies:

Boards and investors are prioritizing cybersecurity and are looking to **invest in startups with proper cyber protections** in place.

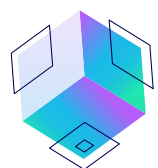


Businesses are **confident in the cyber protections they have in place**, and are looking for more.



Cyber insurance is no longer optional. An overwhelming majority of founders are protected against cyber damages at some level; **90% report having cyber insurance in place.**

Malicious use of AI is a very real fear for founders: **9 out of 10 believe it's a threat to their business** going forward.



Cyber attacks happen to everyone... except me.

While its usefulness is undeniable, founders long considered cyber coverage an optional side to their business coverage entree; furthering a disconnect between perceived risk and reality. **Even as more people directly experience a cyber attack, nearly half continue to believe they are unlikely to encounter one themselves.**

Have you experienced a cyber attack?

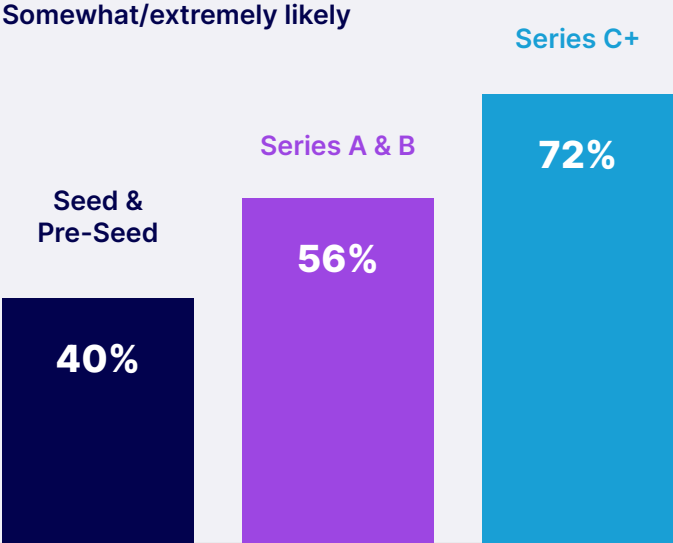
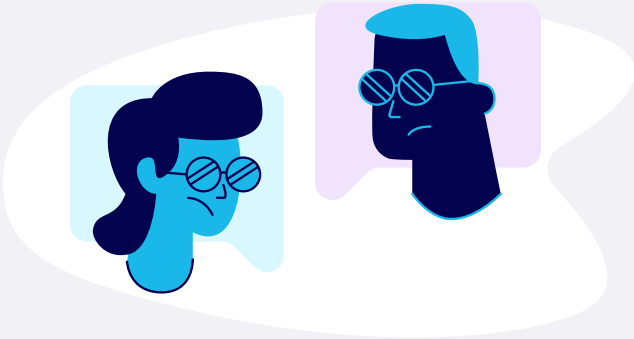


Although 78% have experienced one, nearly half still think they won't face a potential data breach/ ransomware attack.



Ill-fated naivety? *Maybe.* However, this data varies significantly by funding maturity. Series C+ founders expect to face a cyber attack more so than their earlier-stage counterparts.

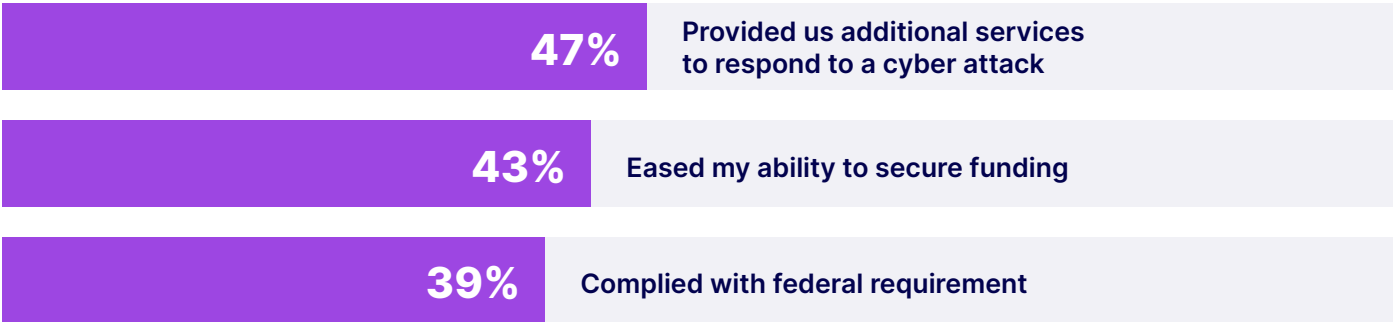
How likely do you believe your company is to face a potential data breach, such as a ransomware attack?



Founders recognize the unexpected benefits of their cyber coverage.

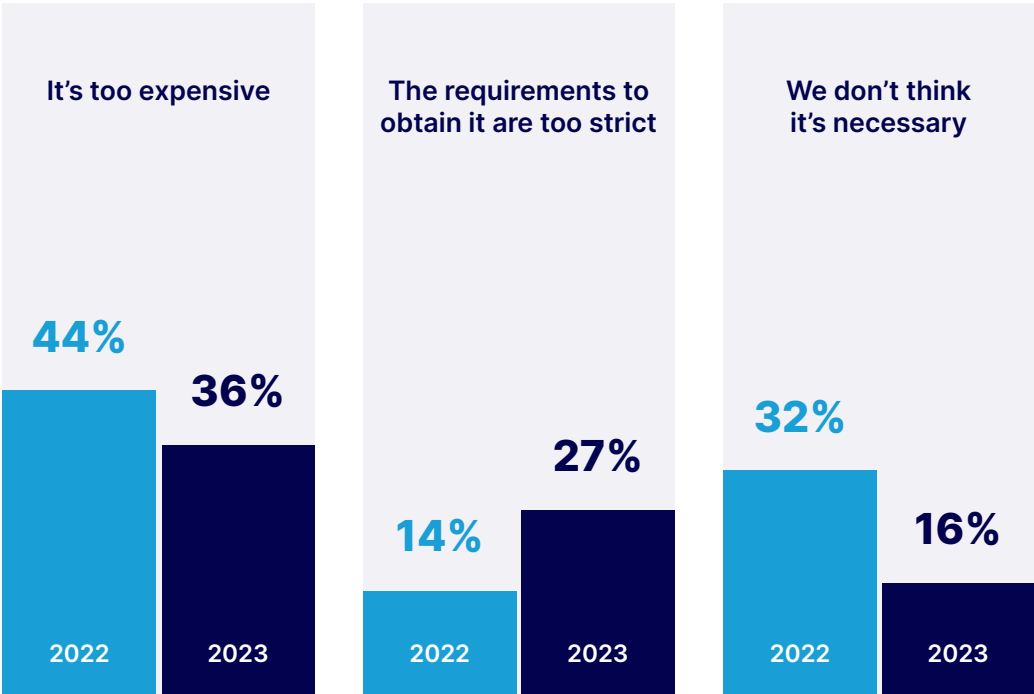
Cyber insurance is doing much more for founders than covering future risks — they report reaping a multitude of benefits from their cyber policies.

How has cyber insurance helped your business?



However, despite the increasing odds and potential costs of a cyber incident, price remained the top reason cited. Those claiming they don't think it's necessary took a nosedive, from 32% in 2022 down to just 16% in 2023.

Why don't you have cyber insurance?



Of those businesses covered by policies, founders' confidence in their cyber insurance has increased massively year-over-year, with 55% believing their current coverage will cover them in the event of a breach.

Do you feel your current insurance policies would cover you against a potential data breach, such as a ransomware attack?



Even if a cyber attack is not their leading concern, an overwhelming majority of founders are looking to up their protections in 2024.

Are you considering any new cyber protections/tools for 2024?

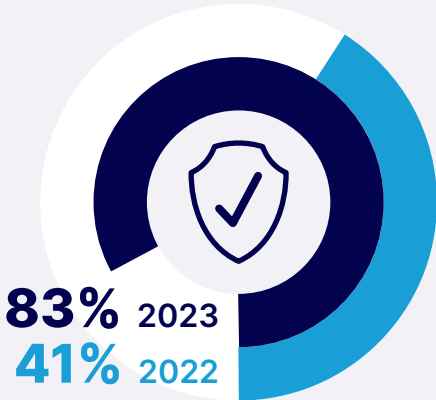


You may want to put your cyber coverage in that pitch deck.

Talk of cybersecurity has skyrocketed within the fundraising community year-over-year. **The volume of founders reporting frequent cybersecurity conversations with their investors and board has more than doubled.**

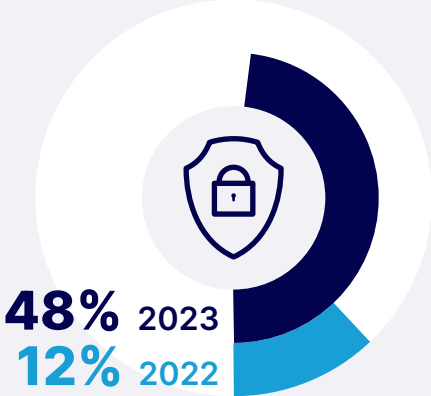
How frequently do you discuss cyber protection with your investors and board members?

Always/Often

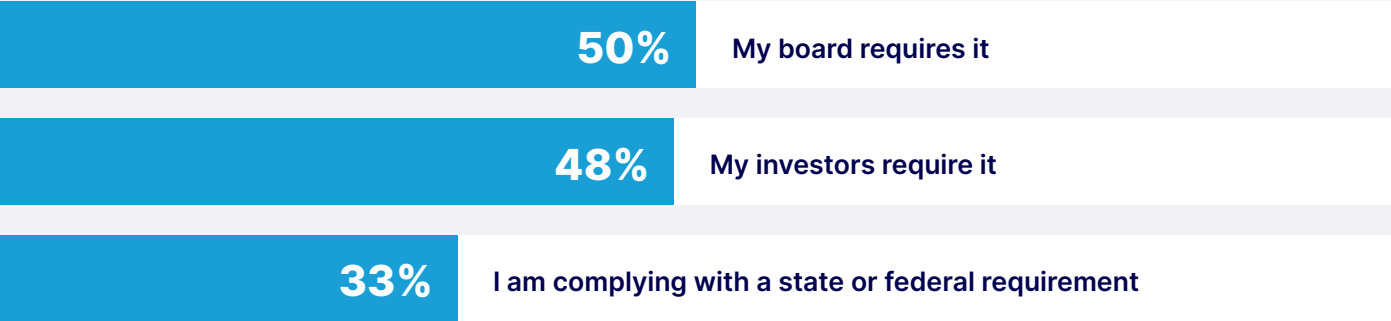


Investors aren't the only ones looking for covered companies: **the rate of customers requiring it for their contracts quadrupled in 2023.** And, as the laws around cybersecurity change, many are seeking cyber insurance as a means to meet changing federal and state requirements.

Certain customer contracts require it



It's not only your pitch deck that needs to mention cybersecurity, though. Regulators, partners, and even customers may require evidence of cybersecurity insurance measures being taken.



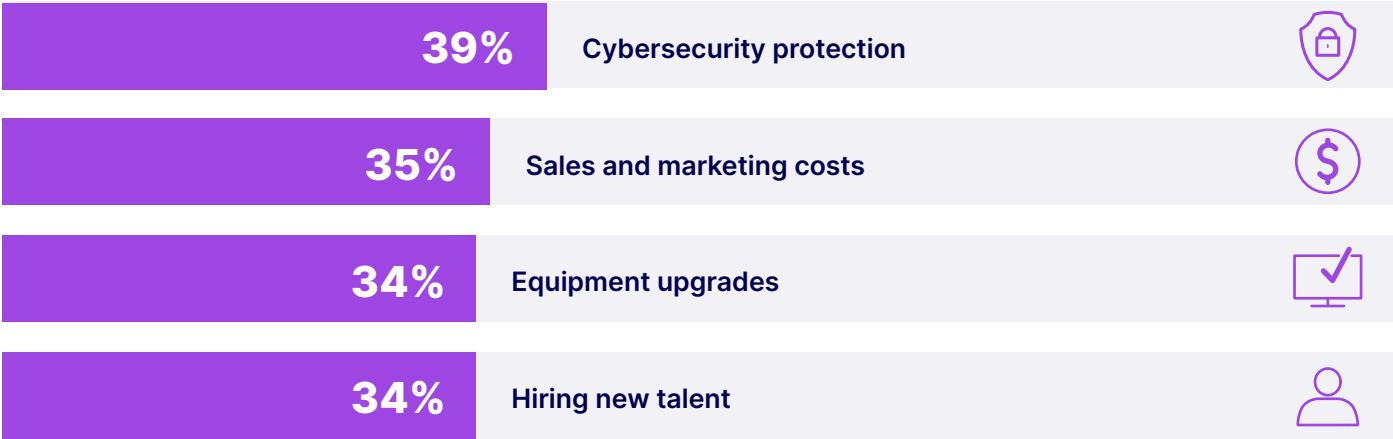
At home or abroad, founders treat cybersecurity as a global issue.

What else is instigating investment? Largely foreign tensions with Russia and China, but also domestic attacks and changing regulations. In July 2023, the [SEC adopted a new rule](#) requiring registrants to **disclose any cybersecurity incidents and all material information** regarding their cybersecurity risk management, strategy and governance, yearly.



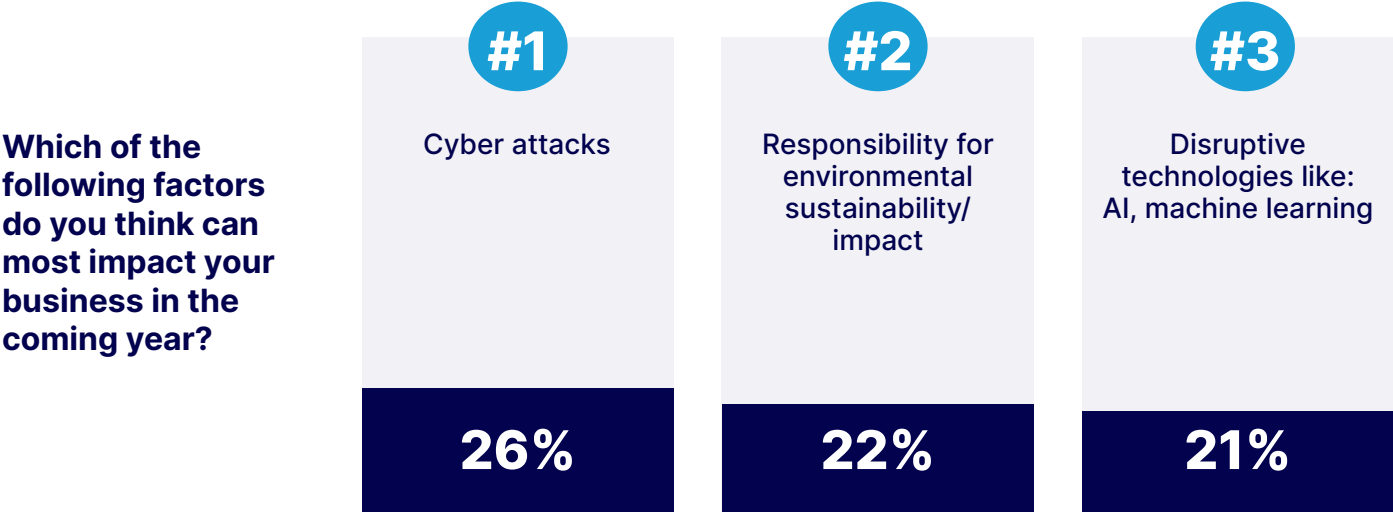
Along with their relative confidence in averting a cyber attack, **founders cited cybersecurity protections as their number one non-negotiable investment area** — making it the leading business priority for the coming year.

Which of the following are non-negotiable areas of investment for your business in the coming year?



Artificial intelligence: A startup’s best frenemy.

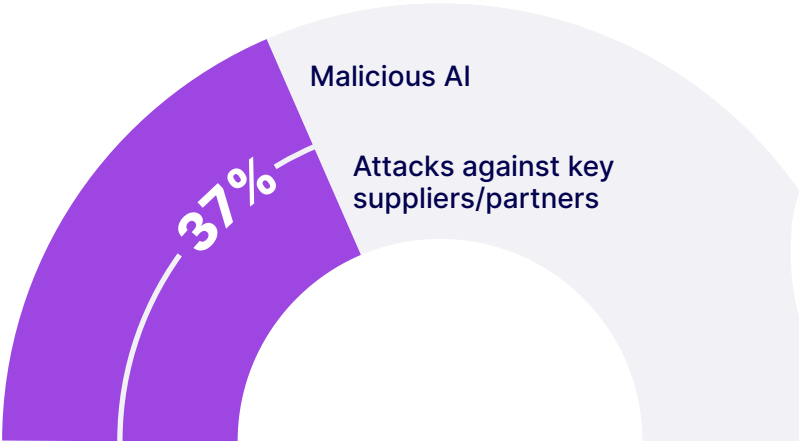
In what is undoubtedly the breakout year of artificial intelligence, founders are wary of disruptive technologies like AI. But, it’s not their top concern in terms of business threats. They’re also feeling the heat of environmental policy, with many concerned over their responsibility for environmental issues. Above both of these, though, are cyber attacks.



Which of the following factors do you think can most impact your business in the coming year?

While it’s not their top priority, it is their top concern: “malicious AI” tied for first with “attacks against key suppliers/partners” as the leading cybersecurity threats to their businesses.

Which of the following cybersecurity threats are you most concerned about for your business right now?



Malicious AI refers to artificial intelligence systems or technologies that have been designed, programmed, or used with harmful intent. These AI systems are created to carry out actions that are detrimental, destructive, or unethical in nature, often causing harm to individuals, organizations or society as a whole.



With the rise of deepfakes and AI-powered voice technology, nearly all (90%) startup founders are keeping a close eye on not just what AI can do for the business, but also what it can do **to** their business.

With the rise of AI, are you concerned about how malicious AI can impact your cyber security in the future?



However, they're confident that if malicious AI does come for their companies, they have what they need to combat it or recover from it.

If your company were to be subjected to malicious AI, would you have the means in place to combat or recover from it?



Conclusion:

Maintaining cybersecurity investments is the ultimate long game, and **founders can no longer gamble on protection and mitigation**. Recent breaches have underscored the consequences of inadequate cybersecurity, prompting founders to take greater measures to ensure their survival should it happen to them. They're confident in the protections they have in place but are far from resting on their laurels – **85% plan to add more cyber protections next year**.

Early-stage founders are more likely to take risks when it comes to their coverage, but as SEC guidelines change and stakeholders focus more on cybersecurity measures, **later-stage founders have adopted a more risk-averse stance**. This group is more likely to protect themselves with the most comprehensive plans available. Regardless of stage, the vast majority of founders recognize that in today's unforgiving business landscape, **cybersecurity safeguards are imperative and indispensable** to their operational stability.

While the cost of cyber insurance is an enduring hurdle, more than ever, founders are recognizing the importance of awareness and investing in protections from cyber attacks. As new federal rules are introduced and cyber risk increases, organizations will be faced with tough choices when it comes to the cost and benefits of cyber insurance and other protections. One thing is for sure, though: **the digital landscape is constantly evolving, and its threats unfortunately are as well**. Founders are preparing themselves for today, but no one knows for sure what tomorrow may bring.

Methodology:

Embroker surveyed over 500 VC-backed founders in the U.S. The survey was completed online and responses were random, voluntary and anonymous. The data was analyzed in September 2023.

About Embroker:

Embroker is a digital-first insurance company helping businesses manage risk with a radically simple approach. Embroker is enhancing the legacy and manually intensive technology of the commercial insurance industry with an end-to-end digital insurance platform that intelligently recommends industry-tailored coverage programs, all in minutes. 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. Visit www.embroker.com for more information.