

Addressing Cybersecurity: Economic Incentives

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Scenario

- Decentralized provision of security
- Decision-makers have diverse incentives
- Security is interdependent

Risk management

- Assessment
- Precautions
- Coordination
- Insurance

Market failure

- Positive externalities
- Non-contractibility
 - Moral Hazard
 - Adverse selection

Implications

- Socially deficient security
- Opacity of investments and incentives
- Cyberinsurance is counterproductive
- Bonus contracts address externalities

Roles for government

- Clarify legal and regulatory framework
- Facilitate contracting
 - Catalog standards
 - Enforce disclosures
- Support appropriate new markets
 - Bonus contracts?
 - Derivatives?