

Title	Cyber Insurance – PMD updated approach to oversight
Purpose	To notify that Lloyd's cyber insurance oversight framework is to be aligned with the approach set out in the PRA Supervisory Statement SS4/17
Type	Event
From	Jon Hancock Performance Management Director
Date	20 December 2017
Deadline	Immediate
Related links	Cyber insurance underwriting risk – SS4/17 (link to Bank of England website)

In July of this year, the Prudential Regulation Authority (PRA) published its Supervisory Statement SS4/17 which sets out the PRA's expectations of firms regarding cyber insurance underwriting risk. In view of SS4/17, Lloyd's is updating its approach to the oversight of cyber risks to align it with SS4/17.

The change will allow managing agents to follow a single set of standards, reducing the burden on managing agents.

In view of the risks that can arise from the imprudent underwriting of cyber risks Lloyd's will continue to closely monitor these exposures. In the first instance, managing agents are being asked to attest on behalf of each syndicate that they manage that the managing agent is compliant with SS4/17.

Background

In November 2015, Lloyd's issued Market Bulletin Y4938: 'Cyber-attack: managing catastrophe-risk and exposures'. This set out Lloyd's oversight and reporting requirements

for cyber-attack risks. In July 2017, the PRA issued its supervisory statement SS4/17 'Cyber Insurance Underwriting Risk'.

While there is a significant degree of overlap between Lloyd's approach in Market Bulletin Y4938 and the approach set out in the PRA's supervisory statement, there are some differences. These include:

- The PRA supervisory statement is not limited to exposures from a 'malicious electronic act' but also includes non-malicious acts (e.g. accidental acts or omissions).
- While both Lloyd's and the PRA require managing agents to have a defined cyber risk strategy, appetite and risk management framework, the PRA supervisory statement includes a specific requirement for both quantitative and qualitative elements.
- The PRA requires that detailed management information should be reviewed by the board at regular periods.
- Cyber expertise – the PRA requires that insurers demonstrate a continued commitment to developing their knowledge of both affirmative and non-affirmative cyber insurance underwriting risk.

Lloyd's updated approach

In order to ensure consistency of approach between the PRA and Lloyd's and to reduce the burden on managing agents that would be involved in complying with different PRA and Lloyd's requirements, the Lloyd's cyber oversight framework is being aligned with the broader PRA approach.

To that end managing agents should regard the PRA's supervisory statement SS4/17 as superseding and replacing the requirements set out in Market Bulletin Y4938. Managing agents that can demonstrate compliance with SS4/17 will be considered as meeting Lloyd's expectations for the underwriting of cyber risks.

Lloyd's ongoing cyber oversight activities

Lloyd's intends to remain actively involved in the oversight of cyber risk underwriting and cyber will therefore continue to be a risk managed in the 2018 Market Oversight Plan.

Lloyd's ongoing work and requirements will therefore be as follows:

- 1 In the first instance, Lloyd's wishes to ensure that managing agents are addressing the expectations of the PRA, as set out in SS4/17. Lloyd's therefore requires that managing agents attest on behalf of each syndicate that they manage that the managing agent is compliant with SS4/17. This attestation should be made as part of the annual Lloyd's minimum standards board attestation, the guidance for which will be issued this month.

- 2 In July 2017 Lloyd's sent out a questionnaire to all managing agents to understand how the board receives and quantifies exposures to cyber-attack through all lines of business. Lloyd's has now received managing agents' responses to that questionnaire and will shortly be providing feedback to the market on its findings.
- 3 The Class of Business team is currently undertaking a targeted review of managing agents' compliance with Lloyd's cyber underwriting requirements. As Lloyd's recognises that managing agents will still be in the process of making any process changes to ensure they are compliant with SS4/17, the review will focus on compliance with Lloyd's existing requirements as set out in Market Bulletin Y4938.
- 4 In 2018 Lloyd's will undertake a thematic review of the underwriting of cyber exposures within all lines of business and compliance with the PRA supervisory statement. The Managing Agents selected for inclusion in this review will be notified through the 2018 oversight letters.
- 5 Lloyd's cyber-attack and Realistic Disaster Scenarios (RDS) reporting requirements for 2018 have already been communicated to the market by email on 18 October 2017 sent by David Clouston, Interim Head of Exposure Management. See also Market Bulletin Y5131.
- 6 Finally, in 2017 Lloyd's published a report in collaboration with Cyence to help quantify cyber-risk aggregation by looking at two scenarios: a hack that takes down a cloud-service provider and an attack that causes the failure of a particular operating system. In 2018 Lloyd's is working with AIR to publish a report looking at the impact of the failure of a cloud service provider in the US market. This is expected to be available in early 2018.

Further Information

If you have any questions about this Market Bulletin or any of the other ongoing cyber oversight activities please contact:

Class of Business: Christian Stanley – christian.stanley@lloyds.com
Risk Aggregation: David Ryan – david.ryan@lloyds.com