

Cyber Underwriting

Non Affirmative Cyber and Systemic Risk

8th December 2022

Agenda

Cyber risk

Digital technology is constantly evolving. So too are Lloyd's cyber insurance solutions.

1. Introductions
2. Cyber Underwriting at Lloyd's
3. Non Affirmative Cyber exposures
4. Systemic exposures – catastrophic nation state attacks.
5. Question and answers

Cyber Underwriting Overview at Lloyd's

Remediation leading to profitability

Background

- The first cyber policy was produced at Lloyd's in 1999
- The market is 6% of Lloyd's premiums in 2022
- Lloyd's is committed to this class but it has a number of challenges, including systemic exposures, continuously evolving exposures and a relatively new market.
- As part of this oversight we aim for a profitable market over the cycle.
- We focus on Managing Agents who invest in expertise across multiple disciplines including Exposure Management, Claims, Risk Assessment, Pricing as well as underwriting.
- Approximately 89% of cyber insurance written at Lloyd's is written by Expert Syndicates with the remaining business with those developing their expertise.

Maintaining focus on cyber performance whilst enabling growth

Strong push on pricing adequacy supports profitability

- The market in 2018 and 2019 was driven by exposure growth and reducing rate
- In 2020 the GWP growth was driven by rate and limited exposure.
- In 2021 there was a meaningful reduction in exposure and a substantial increase in RARC.
- The planning has seen a similar pattern for 2023 - rate increase, inflation and limited exposure growth.

Cyber Underwriting Non Affirmative cyber

Challenging headwinds and structural challenges

Non Affirmative cyber

Providing clarity of coverage and placed with those who have the right level of expertise

- Lloyd's view is that it is in the best interests of customers, intermediaries and underwriters for all policies to be clear on whether coverage is provided for losses caused by a cyber event.
- To provide this clarity, Lloyd's mandated in 2019 that all policies either affirm cyber coverage in, or exclude it from, the (re)insurance policy.
- This change was implemented using a phased approach with the fourth and final stage completed in July 2021. Lloyd's instructed the underwriters that policies where no exclusion existed and where there was no express grant of cyber coverage should be treated as 'non-affirmative'. In all these cases, underwriters were required to provide clarity of coverage for customers.

Non Affirmative cyber

Providing clarity of coverage and placed with those who have the right level of expertise

- A full schedule of classes and the implementation timeline for this exercise are contained in Lloyd's Market Bulletin Y5277 published in January 2020. Lloyd's definition of the cyber risk was aligned with the PRA's approach
- Lloyd's Wording Repository currently contains in excess of 300 clauses used in cyber insurance policies. This covers all classes of business written at Lloyd's
- Following this, Lloyd's has carried out four attestation exercises (January 2020, January 2021, July 2021 and January 2022) which sought Lloyd's underwriters' confirmation that they comply with the requirement to ensure clarity on cyber coverage by either excluding or affirming it. 97.2% of policies underwritten at Lloyd's have a clause clarifying non affirmative cyber coverage.

Monitoring Systemic Exposures

Realistic Disaster Exposures

- Lloyd's maintains a set of mandatory Realistic Disaster Scenarios (RDSs) to stress test both individual syndicates and the market as a whole. While probabilistic models and third-party tools for assessing cyber risk continue to develop, scenario modelling is a key methodology for assessing and understanding cyber risk across both affirmative and non-affirmative coverages.
- The event scenarios are regularly reviewed to ensure they represent material catastrophe risks. There are currently four cyber RDSs which include Business Blackout, Ransomware Contagion, Cloud Cascade and Major Data Breach.

Catastrophic nation state backed attacks.

Clarifying coverage

Nation State backed attacks

Cyber at Lloyd's

- War is a required exclusion to write business in the Lloyd's market unless it is written in the War market.
- The most commonly used clause NMA 464 was drafted in 1938, we were aware of over 40 clauses being used.
- Lloyd's role is to support a competitive and resilient cyber insurance market and this bulletin has not mandated clauses for Managing Agents.
- We're committed to innovating to support the growth of this important class, while navigating the unique and complex challenges cyber poses for insurers and customers alike.
- The Lloyd's Market Association (the association that represents underwriters at Lloyd's) issued guidance on war exclusions last year

Nation State backed attacks

The requirements from Bulletin Y5381

At a minimum, the state backed cyber-attack exclusion must:

1. exclude losses arising from a war (whether declared or not), where the policy does not have a separate war exclusion.
2. (subject to 3) exclude losses arising from state backed cyber-attacks that (a) significantly impair the ability of a state to function or (b) that significantly impair the security capabilities of a state.
3. be clear as to whether cover excludes computer systems that are located outside any state which is affected in the manner outlined in 2(a) & (b) above, by the state backed cyber-attack.
4. set out a robust basis by which the parties agree on how any state backed cyber[1]attack will be attributed to one or more states.
5. ensure all key terms are clearly defined.

The Managing Agent can ask for an exemption if the clause used does not align with the Bulletin.

LMA Cyber War and Cyber Operation exclusions

Lloyds Market Association Bulletin

LMA21-042-PD | 25 November 2021

Cyber War and Cyber Operation Exclusion Clauses

The LMA Cyber Business Panel has drafted the following clauses

- **LMA5564** – War, Cyber War and Cyber Operation Exclusion No.1
- **LMA5565** – War, Cyber War and Limited Cyber Operation Exclusion No.2
- **LMA5566** – War, Cyber War and Limited Cyber Operation Exclusion No.3
- **LMA5567** – War, Cyber War and Limited Cyber Operation Exclusion No.4

In discussion with Lloyds it has been agreed that, in respect of stand alone cyber insurance policies, these clauses meet the requirements set out in the Performance Management — Supplemental Requirements & Guidance (July 2020) which state that all insurance and reinsurance policies written at Lloyds must, except in very limited circumstances, contain a clause which excludes all losses caused by war.

[LMA Homepage](#)

[Lloyd's Wording Repository \(registration required\)](#)

LMA Cyber War and Cyber Operation exclusions

Overview

LMA5567 (No. 4)

- War
- Retaliatory Cyber operations (“back and forth”) between any specified states. Two or more specified states must become impacted states (major detrimental impact)
- Cyber operations that have a major detrimental impact on a state Exclusion does not apply to by standing cyber assets (collateral damage)

LMA5566 (No. 3)

- War
- Retaliatory Cyber operations (“back and forth”) between any specified states.
- Cyber operations that have a major detrimental impact on a state.

LMA5565 (No. 2)

- War
- Retaliatory Cyber operations (“back and forth”) between any specified states.
- Cyber operations that have a major detrimental impact on a state (sublimits apply)

LMA5564 (No. 1)

- War
- Cyber operations

Broad

Exposure/
Coverage

Narrow

Cyber Underwriting

Questions and Answers

Disclaimer

This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. It is the responsibility of any person communicating the contents of this document, or any part thereof, to ensure compliance with all applicable legal and regulatory requirements.

The content of this document does not represent a prospectus or invitation in connection with any solicitation of capital by Lloyds. Nor does it constitute an offer by Lloyd's to sell securities or insurance, a solicitation of an offer to buy securities or insurance, or a distribution of securities in the United States or to a U.S. person, or in any other jurisdiction where it is contrary to local law. Such persons should inform themselves about and observe any applicable legal.

This document has been produced by Lloyd's for general information purposes only. While care has been taken in gathering the data and preparing this document, Lloyd's does not make any representations or warranties as to its accuracy or completeness and expressly excludes to the maximum extent permitted by law all those that might otherwise be implied.

Lloyd's accepts no responsibility or liability for any loss or damage of any nature occasioned to any person as a result of the acting or refraining from acting as a result of, or in reliance on, any statement, fact, figure or expression of opinion or belief contained in this document. This document does not constitute advice of any kind.

LLOYD'S