

# Mitsui Sumitomo Insurance Underwriting at Lloyd's

## *Cyber exposure review*

### Introduction

In 2015, the Lloyd's Franchise Performance Directorate (FDP) challenged its membership to define their probable maximum loss exposure to cyber risk. In response, Mitsui Sumitomo Insurance Underwriting at Lloyd's (MSIUL, Syndicate 3210) created an affordable, consistent and repeatable process, which delivered a confident and detailed response to fulfill the FDP's expectations.

### The Challenge

MSIUL had limited appetite for writing cyber business within its existing portfolio. Graeme Rayner, Chief Underwriting Officer for Syndicate 3210, took the challenge of responding to the Lloyd's FDP request to Tim Selwyn, Underwriting Operations Manager, with a view to reporting MSI's exposure to cyber for any live risks as at 1st January 2016.

Tim explained: "In effect, this meant identifying the cyber exposure for every risk, after the risk had been written and filed. With approximately 8,000 slips written during 2015, undertaking this task manually was not feasible."

"There were two early decisions: 1) to establish a pan-business Cyber Working Group with representation from Underwriting, Risk, Actuarial, Operations, Exposure Management and IT; and 2) that group agreed that, if possible, all slips should be reviewed to identify cyber exposure."

Cyber-attack is now recognized as a proximate cause of loss on property, business interruption, financial lines and many other types of (re)insurance. In December 2015, Lloyd's Performance Management Directorate requested all members provide PML data on their cyber exposures by 1st April 2016.

**Cyber: A new  
regulatory risk for  
(re)insurance**

*"The consequences of a major attack could be disastrous so it's understandable that Lloyd's would want to understand how its members will cope in the event of a catastrophic cyber-event."*

—Laurie Davison  
MD, UK Insurance Market, Exari

## The Solution

MSIUL had an existing relationship with Exari, being a long-term user of Exari Match: software used to review contract certainty.

Tim continued: "I was aware of Exari's latest work relating to the review of clauses and endorsements in (re)insurance contracts, which involves quite complex analysis. Recognizing the similarities in process, I asked Exari to apply the same technique to reviewing our slips for cyber exposure."

Working with Exari, the Syndicate created a robust approach to contract analysis which delivered clear and positive results. Cyber-related clauses and any notable language contained in the 8000+ contracts (slips) were identified and extracted for review.

"Exari added value in many ways; both their people and technology surpassed our expectations, finding even peripheral mentions of exclusionary language. For example, where brokers may have abbreviated a clause to 'see CL380' or 'LMA5240' rather than stating the full wording," says Tim. "There were also contracts with exclusions containing errors or misspellings, but the software had no problem picking these up."

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*"Exari has been instrumental in a project that has significant implications for our business. Their analysis has provided us with a confident, repeatable and simple mechanism to monitor cyber exposure, which has enabled us to make our business much more resilient against such risks."*

—Tim Selwyn

Underwriting Operations Manager, Syndicate 3210

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## The Result

The results were extremely clear, revealing how the Syndicate had almost 4,000 contracts containing standard market cyber exclusions and a small minority that included non-standard exclusions or sub-limited coverage.

### RESULTS

MSIUL used Exari's cutting-edge technology to identify and quantify its cyber exposure for more than 8,000 policies, a process which now takes only three days to complete.



## Great Clarity

Having uncovered the bare facts of its exposure to cyber risk, the Syndicate questioned whether deeper analysis of the wordings and clauses would provide greater clarity. Concern had been raised that the variety of exclusionary language meant that some clauses were more effective than others. Enlisting the support of Hans Allnutt, partner from DAC Beachcroft, MSIUL's existing endorsements were compared to the Lloyd's definition of cyber so their efficacy could be measured.

"A £100m limit on a policy could be completely exhausted by a cyber-attack due to third party losses. However, with appropriate exclusionary language in place, the exposure can be mitigated to zero," says Tim, adding: "Hans's work enabled us to apply an efficacy rating to every exclusion."

Armed with a fully transparent view of its policy language relating to cyber, Syndicate 3210 was able to feed this data into its cyber realistic disaster scenario (RDS). The weighted exclusions were reflected in a confident probable maximum loss figure.

## Empowering Underwriters

Tim added: "Hans followed up this work with training sessions for underwriters, providing real-world examples of cyber losses, and crucially, explaining how to amend endorsements to make them more effective."

## Enduring Benefit

This process has become an embedded part of the Syndicate's portfolio risk management. "We continue to repeat this analysis quarterly, while also capturing the information direct from underwriters."

Tim concluded: "Exari has been instrumental in a project that has significant implications for our business. Their analysis has provided us with a confident, repeatable and simple mechanism to monitor cyber exposure, which has enabled us to make our business much more resilient against such risks."

### Cyber Catastrophe Scenarios

Modelling specialist Risk Management Solutions designed a range of scenarios in its 2015 paper 'Managing Insurance Accumulation Risk'. These included mass co-ordinated data breaches and distributed denial of service (DDoS) attacks on a biblical scale, causing amongst other things, a global collapse in consumer confidence or the theft of billions in assets from financial institutions.

## ABOUT EXARI

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Exari delivers the most complete Enterprise Contract Lifecycle Management platform, used every day by market-leading companies to understand all aspects of their contract ecosystem worldwide. With Exari, customers can reduce contract risk and improve operating efficiency with 100% Contract Certainty™.

