LLOYD'S

Market Bulletin

Ref: Y5258

Title	Providing clarity for Lloyd's customers on coverage for cyber exposures
Purpose	To notify the market of new requirements requiring clarity of coverage for cyber exposures in all policies
Type	Event
From	Caroline Dunn, Head of Class of Business, Performance Management
Date	4 July 2019
Deadline	To be adopted for all first-party property damage business incepting on or after 1 January 2020
Related links	Dear CEO letter 'Cyber underwriting risk: follow-up survey results' (dated 30 January 2019) – Bank of England website

Lloyd's view is that it is in the best interests of customers, brokers and syndicates for **all policies** to be clear on whether coverage is provided for losses caused by a cyber event. This clarity should be provided by either excluding coverage or by providing affirmative coverage in the (re)insurance policy.

In this, Lloyd's own view is consistent with the approach of the PRA, which on 30 January 2019 wrote to all insurers under the heading 'Cyber underwriting risk: follow-up survey results'. In that letter the PRA made clear its expectation that all insurers should have action plans to reduce the unintended exposure which can be caused by non-affirmative cyber cover.

Requirement to provide clarity on whether cyber coverage is provided

Following consultation with the market, Lloyd's believes that the market should now adopt best practice for all policies. Lloyd's is mandating that all policies provide clarity regarding cyber coverage by either excluding or providing affirmative coverage. To support the market in making the necessary changes this requirement will be implemented using a phased approach:

1. For first-party property damage policies incepting on or after 1 January 2020, Lloyd's underwriters are required to ensure that all policies affirm or exclude cyber cover.
2. For liability and treaty reinsurance the requirements will come into effect in two phases during 2020/2021. Lloyd's will provide more details on how the

requirements should be implemented following a period of further market consultation which will be concluded by the end of 2019.

Lloyd's will monitor compliance with this new requirement through its regular planned oversight activities which will be set out in the market oversight plan for 2020.

For the avoidance of doubt, Lloyd's view policies where no exclusion exists and there is no express grant of cyber coverage as 'non-affirmative'. In all these cases action should be taken to provide clarity of coverage for customers to comply with this requirement.

Phase 1 - 'First-Party Property Damage' lines of business (see Appendix 1)

All first party property damage risks incepting on or after 1 January 2020, regardless whether written on an 'All Risks' basis or as 'Named Perils', must contain policy language which is explicit as to whether coverage exists or is excluded in respect of losses caused by cyber risks. This requirement applies to new and renewal policies and to policies written on both a standalone basis or where first-party exposures are combined with other lines within blended products (in respect of the first-party property damage element of coverage).

For coverholder arrangements, the requirement applies to binding authority agreements that incept on, or after, 1 January 2020. Lloyd's does not expect policies bound under binding authority agreements entered into before 1 January to comply until the binding authority agreement next renews.

For line slips and consortia, Lloyd's expects changes to be made as soon as contractually possible after the implementation date.

Where clarity cannot be provided because wording changes are prohibited by local legal or regulatory requirements, Lloyd's expects managing agents to assume these policies provide affirmative coverage for the purpose of exposure management. Lloyd's recognises that it will remain a matter for the courts in the local jurisdiction to determine the extent of cover, if any, provided by the policy.

Phases 2 & 3 - 'Liability' and 'Treaty Reinsurance'

A market working group, comprised of representatives from Lloyd's, LMA and managing agents, will be established to consider how the requirement for clarity can best be implemented for liability lines of business. This group will report back to Lloyd's before the end of the year and Lloyd's will use this feedback to inform plans for future phases. Details on phases 2 and 3 will be provided early in 2020.

Definition of Cyber

For the purposes of implementing these requirements, and consistent with the definition adopted by the PRA, managing agents should define cyber risk as any risk where the losses are cyber-related, arising from either malicious acts (e.g. cyber-attack, infection of an

IT system with malicious code) or non-malicious acts (e.g. loss of data, accidental acts or omissions) involving either tangible or intangible assets.

Lloyd's Cyber Strategy

The requirements set out in this bulletin are intended to form a component part of Lloyd's updated strategy for the oversight of cyber risks. Work on developing the other parts of that strategy is currently underway and our intention is to publish our strategy document in Q3 2019. As part of preparing that strategy, we will be incorporating the helpful feedback received from the market during our consultation exercise undertaken earlier this year.

Further Information

For any questions relating to this bulletin, contact ClassofBusinessReview@lloyds.com

Appendix 1 - Phase 1 ‘First-Party Property Damage’ lines of business

The following Lloyd’s classes of business are included in Phase 1 ‘First-Party Property Damage’ lines of business:

- Energy Construction
- Energy Offshore Property
- Energy Onshore Property
- Nuclear
- Power Generation
- Cargo
- Fine Art
- Marine Hull
- Marine War
- Specie
- Yacht
- Difference in Conditions
- Property D&F (non-US binder)
- Property D&F (non-US open market)
- Property D&F (US binder)
- Property D&F (US open market)
- Engineering
- Livestock & Bloodstock
- Terrorism