Meeting the pensions industry's cyber protection needs

Pensions Age speaks to Aon associate partner, David Burwell, about the benefits of a cyber incident insurance policy specifically tailored to the needs of pension schemes

We've all seen the spate of cyber attacks on businesses in the news lately. I'm sure most schemes will be concerned about a data breach at their third-party administrator. However, won't the costs of a cyber incident in that scenario be picked up by the scheme's provider?

For schemes outsourcing their administration, typically there will be some contractual protection about what might happen in the event of a serious data breach or a cyber incident. To some extent, if there's a big problem, the schemes can fall back on those contractual protections, but by no means will it cover all scenarios.

There is likely to be some additional costs that a scheme will likely have to pick up itself. So, the first thing is to understand what the full range of costs might be and who will bear them in which scenario.

You mentioned how contractual protection may not protect schemes against all the costs of a cyber incident. Is this where cyber insurance may help? Please could you explain how cyber insurance can protect schemes should a cyber attack occur? What circumstances are typically covered by this sort of policy?

Cyber insurance is supposed to capture as many as possible situations as can be envisaged by the scheme. Now, clearly, it's not going to be able to capture every single scenario under the sun. It is designed to capture some of the credible worst-case scenarios that a scheme might face, and that might be an incident impacting the scheme itself, or an incident which originates from a third party.

Additional advisory fees can be significant, particularly if you need to bring in specialist legal counsel, technical expertise or prepare additional member communications. These are all costs that very well could fall to the scheme. Actually, a lot of the value from the insurance policy comes from access to these specialist services that the insurer can provide.

Have many schemes already taken cyber insurance? Isn't this just something for the largest schemes?

It is a very new product; until very recently, there wasn't a cyber insurance policy designed for a pension scheme that a trustee board could buy. Instead, cyber insurance has been directed at corporates or similar institutions, which have a more typical business operating model than a pension scheme.

But now cyber insurance for pension schemes is available, it is something that all schemes should consider. We think it is appropriate for schemes of all sizes, because we think cyber is a ubiquitous risk that all schemes need to take steps to protect themselves against.

Cyber insurance can be affordable for schemes of all sizes but it may not be suitable for all. There will be several variables that impact the cost, but individual schemes can explore those and work out whether it would be a viable option for them, or whether they should continue to effectively self insure.

To expand on the cost element of that, I imagine cost may well be the main barrier preventing schemes from taking out cyber insurance. What might a typical cyber policy cost, and what kind of variables in the policy could affect the cost?

The market is still developing and the different flavours of this policy will evolve over time.

The variables may be things such as the amount of excess a scheme is willing to take on, and the maximum level of cover.

Also, the amount of additional services will impact the cost. For instance, how many additional specialist advisers might need to be on hand, given the size of the scheme and its complexity.

In terms of pricing these sorts of poli-

cies, we think that an annual premium might be in the region of £10,000-20,000 for up to £1-2 million of cover.

Other than cost, what else should schemes consider when weighing up the pros and cons of taking out cyber insurance?

The main thing for schemes to think about is their ability to withstand a major cyber incident.

Trustees may find that they have levels of cover and protection in different places. So although the simple question might be, can I not just insure this away, the answer is 'it depends', not just on the cost and the services you're effectively getting, but also where there might be cover already in place in the scheme's existing policies.

A scheme might have, for example, a trustee indemnity insurance policy. They might also have some contractual protections with third parties, plus some level of cover under the sponsor's cyber insurance policy.

So, the first thing to do is really to understand the level of risk the scheme is running and then conduct a gap analysis to see where there is still exposure in the event of a cyber incident.

From there, a scheme can determine where it makes sense to plug the gaps with a specific pensions cyber insurance policy.

So, if there is a very strong sponsor for a well-funded scheme, then just from a financial point of view, the policy might not be suitable. Or, if the scheme can already access the additional services that the policy would provide through the sponsor, such as technical expertise.

However, I think for most schemes, the premium price of having this extra cyber incident protection through an insurance policy is not going to break the bank.

Also, given that many trustees are thinking about managing schemes into their endgame, financial risk and investment risk is less important as they are well hedged.

Instead, attention is on operational risks, and the number one operational risk for most trustee boards will be cyber risk.

So, the option to insure that risk and have access to all those bells and whistles that come along with that policy is probably a sensible spend for a trustee board. It provides peace of mind and having a policy like this is good governance for trustees.

Why has it taken so long for the market to provide a cyber insurance policy tailored to the needs of pension schemes?

We have been giving cyber governance and advice to pension schemes for around eight or nine years. From day one, trustees were asking us what can be done about cyber insurance, whether they could simply buy a policy that insures the scheme. Unfortunately, that product just hasn't been out there to buy until now.

I think that was due to a slight knowledge gap in the insurance industry as to how pension schemes work and operate. Underwriters found it difficult to get to grips with how pension schemes operate, with their questions more geared towards traditional corporates.

Therefore, we have had to work very closely with brokers and underwriters to develop a cyber insurance product and I'm pleased to say the market can now offer a policy that is appropriate for pension schemes.