

From: Cyber Underwriters LLC, John Lovegrove, President
Proposal: 1550 (RIN 7100--AE-61) (Ver 1)- Enhanced Cyber Risk Management Standards
Subject: Enhanced Cyber Risk Management Standards

Comments:

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Proposal: Enhanced Cyber Risk Management Standards [r-1550]
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Your comment: We are a new company created specifically to address cyber risk in financial institutions for advising insurance companies. We worked with a major cyber insurance firm to create a Quantitative Risk Assessment (QRA) Process for Cyber Risk of Financial Institutions. Our approach follows standard QRA methods using success trees and probability to arrive at a score for twenty-eight technical characteristics. High scores indicate low risk and low scores indicate high risk. We observe that most quantitative measures stop when they characterize technical risk. We have found, however, that technical risk does not readily translate into the type of risk that insurance companies and Risk Officers understand. We therefore created a method to map technical risk into business risk. Business risk is characterized by first party losses and third party liabilities, and are broken down further into sub-categories that are familiar to insurance companies. Our methods use K-Factors specifically designed for the financial services industry. The K-factors were determined by using the delphi method with a group of financial CIO's, Risk Officers, and insurance underwriters. With the K factors applied the technical risk is converted into business risk. At this point the Risk Officer has three choices: -create a technical solution to mitigate the risk -buy insurance to mitigate the risk, or -accept the risk and create a reserve We have used our method to create insurance policies for financial institutions that consider the current technical state of the infrastructure and the future state after fixes are applied. We adjust premiums and limits of the policies to account for the risk as it is mitigated. We believe that the holistic application of insurance premiums and QRA vulnerability assessments provide a balanced approach to mitigation of cyber threats. Too often a critical threat is discovered that forces an unplanned expenditure and significant disruption to infrastructure. Our method allows the institution to adjust their insurance while taking the time to understand the threat and the best way to mitigate. At this point we consider our method to be proprietary. We are willing to open it to the public domain if the Board feels that there is merit to the approach and wishes to use it in the proposed rule. Thank you for your consideration. John Lovegrove President Cyber Underwriters