

**46th India Fellowship Seminar**

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**Speciality Insurance - Cyber Insurance Portfolio Stress & Governance  
Challenge**

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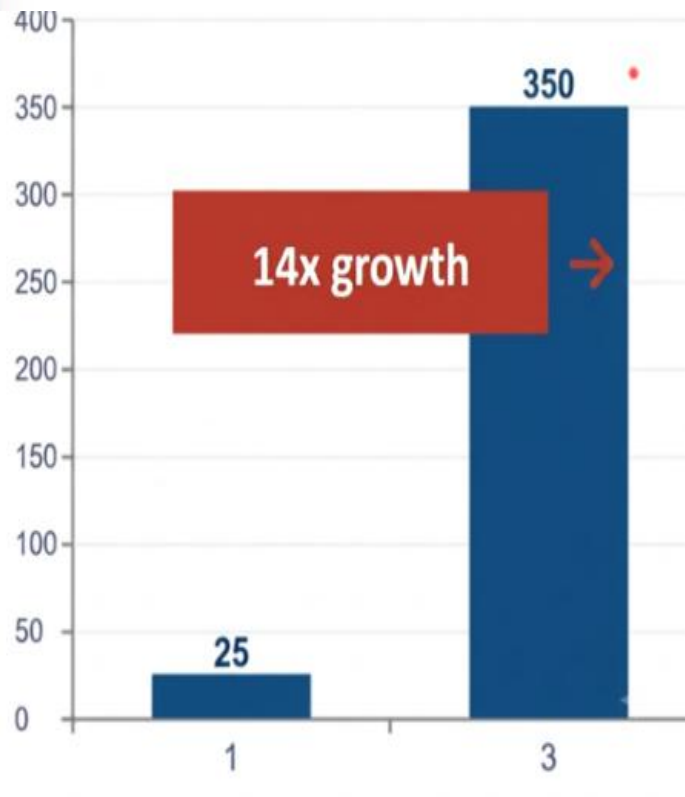
## Case Study Overview:

*Rapid cyber portfolio growth has outpaced underwriting, reserving and governance controls.*



Institute of Actuaries of India

### Cyber GWP trajectory (₹ crore)



#### ! Pricing on broker's word

No in-house cyber Subject matter expert; rates further discounted to win share.

#### ! Weakly rated reinsurer

Foreign RI with no cyber track-record and weak credit rating.

#### ! Case reserves understated ~20%

Severity emerging materially above booked positions.

#### ! IBNR ignores latent events

No allowance for long-tail cyber claim emergence.

#### ! Wordings drift from filings

Issued policies materially differ from IRDAI-filed product.

#### ! Whistleblower on delegated UW

Allegations of inadequate oversight of binder authorities.

# Independent reserve adequacy opinion

*Case reserves and IBNR are materially deficient; current booked reserves do not satisfy APS 21*



Case reserves appear understated by approximately 20%



IBNR does not adequately allow for latent cyber events



Immature data reduce reliability of own experience

## Why This Matters?

- Reported profitability may be overstated; underwriting result not what it appears
- Capital position may be overstated; ASM coverage less than reported
- Future reserve strengthening could create earnings volatility
- Policyholder security weakened if adverse development emerges before reserves catch up

## Recommended Actions

- Immediate reserve review and strengthening
- Explicit reserves for CAT/latent component with ENIDs
- Quarterly reserve monitoring with cause-of-loss granularity
- Independent APS 33 peer review before FCR sign-off

# Product Profitability Analysis

*Is current growth creating economic value?*



## Current Position: Growth Achieved

- Cyber GWP grew from ₹25 Cr to ₹350 Cr
- Strong foothold in a high-growth market
- Established presence in an emerging specialty line

## Strategic Opportunity

- Rapidly growing cyber insurance market
- Low penetration offers significant growth potential
- Early entry can create a sustainable competitive advantage

## Key Concerns

- Pricing relied on broker benchmarks, with additional discounting to drive market share
- No dedicated cyber underwriting expertise; limited monitoring and repricing experience

## Factors that may cause reported profitability to differ from underlying economic profitability

| Risk                | Potential Impact  |
|---------------------|---|
| Reserve deficiency  | Current profits overstated                                    |
| Latent cyber claims | Future adverse developments not accounted in reported profits |
| Weak reinsurance    | Higher retained losses  |
| Wording deviations  | Claims exceed pricing assumptions                             |

# Stress & scenario testing

*1-in-50 aggregate cyber catastrophe breaches available reinsurance*



## ⚡ Headline scenario

**1-in-50**

*aggregate cyber CAT*

### Key Findings:

- ✓ 1-in-50 losses exceed available reinsurance
- ✓ Cyber exposures are highly correlated
- ✓ Potential need for portfolio action

## Scenario Suite

| Drivers                          | Risk Being Tested                          |
|----------------------------------|--|
| Mass ransomware                  | Aggregation exposure                       |
| Cloud outage                     | Business interruption                      |
| Data-breach                      | Latent liability risk                      |
| Software supply-chain compromise | Accumulated risk through common technology |

## Recommended Action

- ✓ Accumulation monitoring
- ✓ Expand Scenario library
- ✓ Integral part of ERM
- ✓ Incorporate in decision making

# Does current reinsurance adequately protect policyholders?

*Existing reinsurance protection is inadequate in both capacity and counterparty quality*



## Key Findings

- ❌ **Capacity gap**  
1-in-50 aggregate scenario produces losses above current cover
- ❌ **Structure weakness**  
Insufficient for catastrophe accumulation.
- ❌ **Weak counterparty**  
Weak Credit rating; No cyber track record
- ❌ **Concentration risk**  
Single reinsurer; cross-border placement concentration

## Remediation Plan

- Reassess program using stress testing and rebuild the structure
- Diversify reinsurer/ supplement with rated panel (A- or better); IRDAI order of preference
- Counterparty due-diligence: cyber claims experience
- Reinsurance program evolve with portfolio growth

# Underwriting governance – AA's assessment

*Portfolio growth has materially outpaced underwriting capability, pricing discipline and oversight*



**Underwriting capability has not kept pace with 14× book growth**



**Pricing is broker-led without independent technical price reference**



**Aggregation, referral and delegated authority oversight are not in place**

## Why This Matters?

- **Solvency risk:** mispriced growth erodes capital faster than reserves recognize it
- **Reserve adequacy at risk** if underlying UW data and segmentation are unreliable
- **Policyholder protection** compromised where rate inadequacy meets aggregation gaps
- **Reputational and regulatory exposure** if a cyber CAT crystallizes before remediation

## Recommendations

- Establish cyber UW capability with subject matter expert
- Cap new business at technical price; pause SME ransomware until RI aggregation cover sufficient
- Reinstate aggregation caps, referral matrix and two-up sign-off – Board to approve appetite
- Audit delegated authorities and report findings to RMC under IRDAI (CG) 2024

# Policyholder protection and conduct risk

*Wording deviation and the whistleblower allegation are serious material conduct issues*



**Wording deviation: issued policies differ from IRDAI-filed UIN**



**Whistleblower allegation: inadequate oversight of delegated underwriting authority**

## Wording deviation

### Why it matters

- **Customer Detriment:** Wrong claim denials
- **Claims Disputes:** Filed vs issued wording
- **Regulatory Intervention:** UIN-filing breach is a market-conduct matter

### Actions for the RMC

- **Remediate** customers; honour cover
- **Re-align** wordings to the align with filed UIN
- **Inform** RMC, PPGRCMC and PMC

## Whistleblower allegation

### Governance failure

- **3 lines of defence (IRDAI CG 2024)**

### Whistleblower Governing Principle

- **Protect the Whistleblower**
- **Independent Investigation**

### Actionable

- **Escalate:** Whistleblower committee → Audit Committee → Board
- **AA's duty:** report to IRDAI if unrectified

# Appointed Actuary's Conclusion

*Through the lens of policyholder protection and statutory duty*



## Risk view

*"Reduce growth immediately."*

## Business view

*"Hold market share before competitors scale."*

## AA's Position

### ⚠ Immediate Action

- Pause aggressive growth – do not exit market
- Cap new business at technical price only
- Pause SME ransomware writing where no adequate RI aggregation cover exists
- Remediation plan for affected policyholder

### ✅ Growth Conditions

- Reserves restated
- Pricing & UW manual rebuilt with cyber Subject matter expert.
- Reinsurance programme upgraded.
- Policy wordings refiled

### ⚖ Statutory Duty

- Policyholder protection & solvency take priority as defined in IRDAI (AFI) Regs 2024
- Growth strategy must operate within statutory constraint, not around it

**Thank You**

**Questions?**