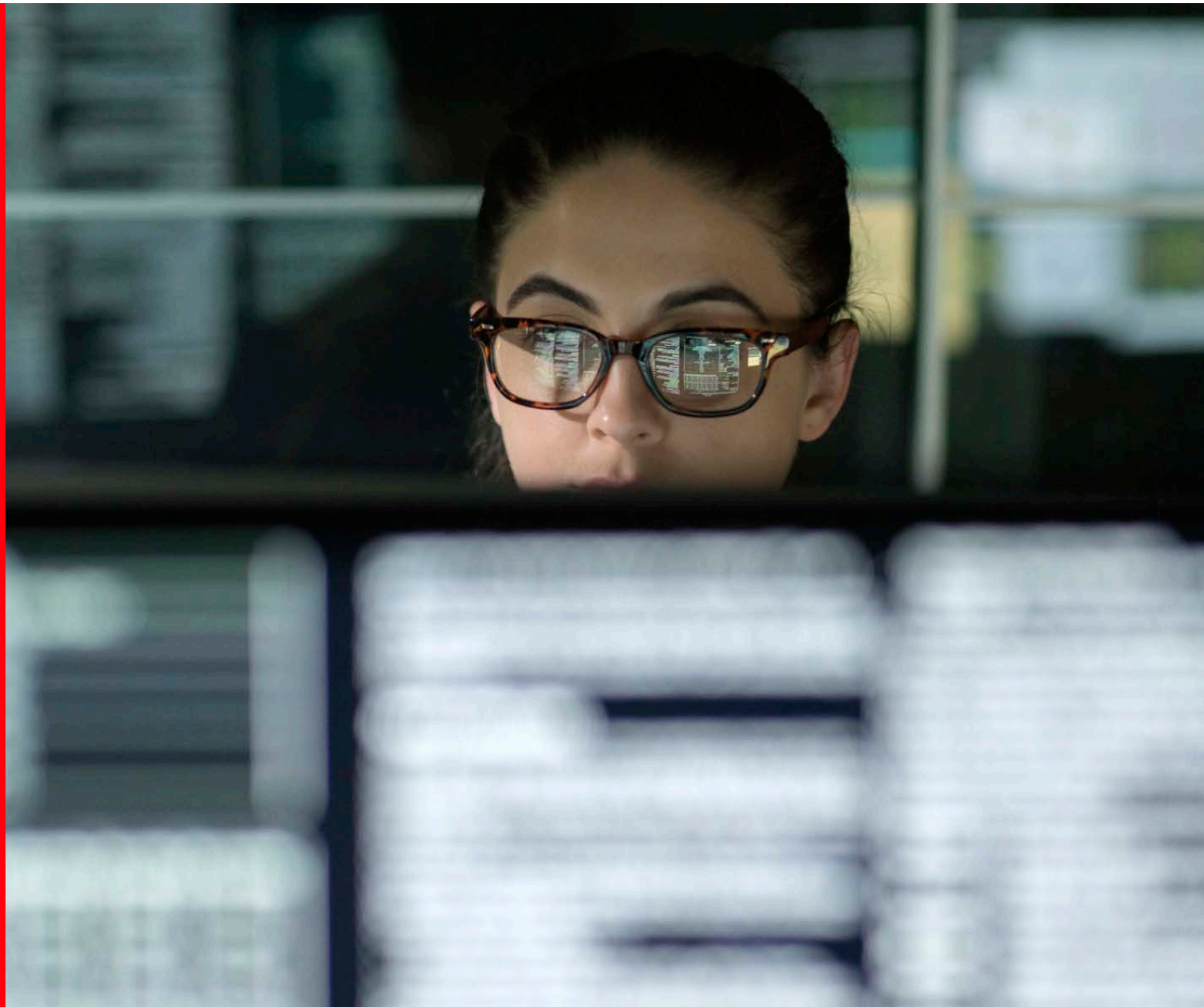
AON

Pension Scheme Cyber Risk

The Outlook for 2022



It has been more than four years since the Pensions Regulator issued its guidance on how pension schemes should deal with cyber risk. In this note we reflect on the current environment and what it means for pension scheme trustees and sponsors.

As recently as five years ago, many pension schemes were largely oblivious to the risk that cyber attacks posed to their schemes. That started to change with GDPR coming into force on 25 May 2018 when it refocused trustees' attention on the data that they held. At the same time, in April 2018, the Pensions Regulator issued its guidance on cyber security principles for pension schemes. In the following years, cyber risk awareness has progressively made its way up the agenda for trustees and sponsors. In this note, we focus on three areas that have changed noticeably in that period:

- Increase in incidents
- Increase in scheme activity
- Increase in regulation

We expect all of these to have an impact on pension scheme trustees and sponsors in 2022.

Cyber Risk Assessment Cycle

Source : Pensions Regulator, 2018

If you would like to compare your scheme's approach to cyber governance against the Regulator's guidance or what other schemes are doing, complete our online Cyber Scorecard and receive a free benchmarking report: www.aon.com/cyberscorecard

Increase in Incidents

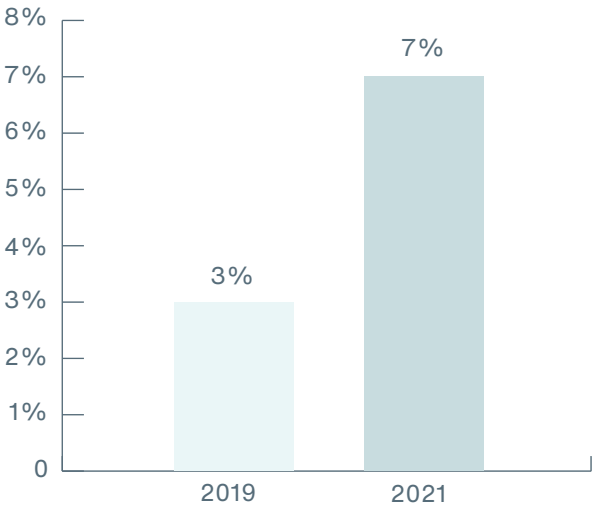
There are many sources around the world that track cyber incidents, and most of them note that cyber attacks are increasing. There are limited public sources specifically on the attacks impacting UK pension schemes, mostly because organisations struck by cyber incidents tend to not publicly disclose information. But what evidence there is shows the same trend.

- Freedom of information requests show that the number of ICO reports relating to pensions continues to increase.
- One law firm reported last year that over a third of schemes had suffered a data breach in the past year.
- Aon's 2021 Global Pension Risk survey reported that the percentage of schemes that had been impacted by a cyber incident more than doubled, from 3 percent in 2019 to 7 percent.

Alongside the data, there are increasing numbers of examples of real incidents impacting on schemes. Just in the past year, we have seen a range of incidents including:

- A cyber attack on a sponsor that caused the in-house pensions team to be taken out of action for almost a month.
- Fake disinvestment instructions circulating on multiple schemes, with a spike in cases when signatures were published online in statements of investment principles.
- Large third-party administrators, in-house administrators and pension providers being impacted by cyber attacks
- A trustee email account being compromised, resulting in payments being redirected to fake bank accounts.

Percentage of schemes impacted by cyber incidents



Source : Aon Global Pension Risk survey 2021

While the examples above all relate to the pension schemes themselves, the knock-on impact on other stakeholders can be material.

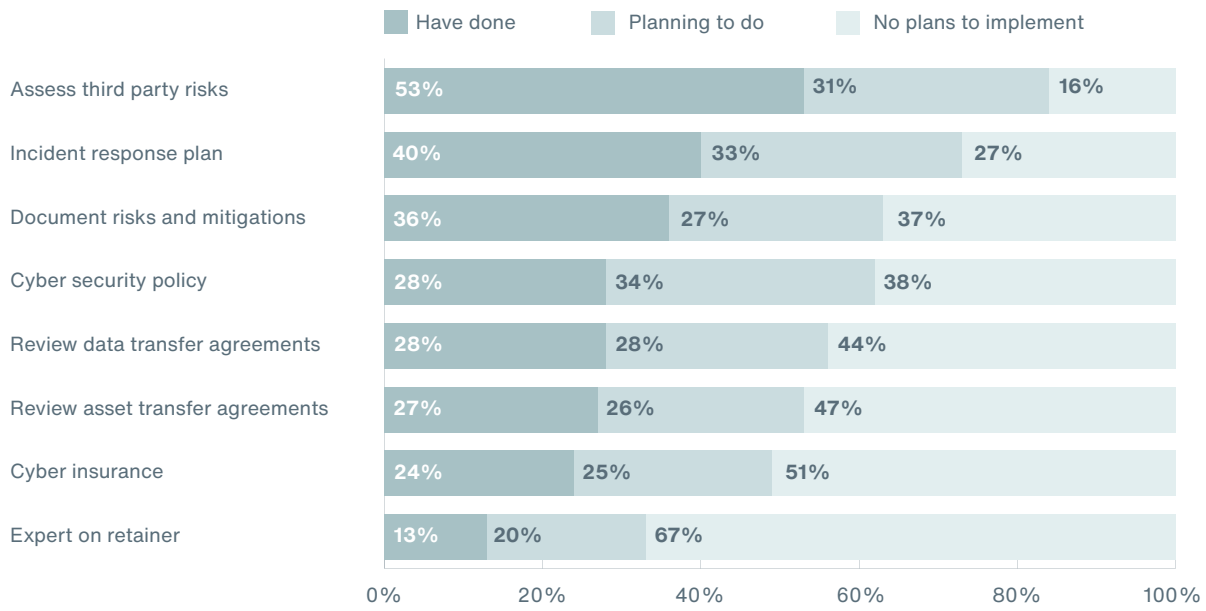
- Reputational damage to a sponsor can, in turn, impact the covenant supporting the pension scheme.
- The impact on pension scheme members themselves can include their benefits being put at risk, or broader identity theft.

This increase in cyber risks leads to the next change that we're seeing, which is an increase in activity being undertaken by pension schemes.

Increase in Scheme Activity

Since 2017, pension schemes have rapidly increased the actions they are taking in relation to cyber risks. Aon's 2021 Global Pension Risk survey shows the range of activity now taking place.

Progress on cyber related actions



Source : Aon Global Pension Risk survey 2021

Digging into the data further, and supplementing it with information from Aon's Cyber Scorecard, there are clear trends visible:

- Third-party provider reviews: While about 90 percent of schemes ask their administrators questions on cyber, across other providers it tends to be under 50 percent.
- While there is some correlation with scheme or asset size, tackling cyber risk is not limited to larger schemes. There are small schemes with very good practices and there remain some large schemes with poor practices.

One particular point to note is that three years after the Pensions Regulator effectively advised all schemes to have an incident response plan, only 40 percent of schemes do so.

Looking forward, many schemes expect to undertake further activity in the coming years.

Some of that is catching up on work that was due to take place earlier but was postponed due to the pandemic.

But the next catalyst for change, which will drive actions in 2022 and beyond, is the new Single Code of Practice, due to come into force around October, 2022.

Increase in Regulation

Since the Pension Regulator's guidance on cyber security was issued in 2018, there has been no change in the regulatory position. That is due to change in 2022.

A key purpose of the new single code is to consolidate multiple and disparate codes in a single place. However, at the same time, some aspects of the Pension Regulator's oversight are being extended.

The change in relation to cyber risk is not primarily about content. The issues highlighted in the single code are essentially the same as were included in the 2018 guidance, although in a little more detail. The main difference is that they are now in a formal code of practice rather than a guidance document.

In layman's terms, the requirements have been promoted from something that trustees are expected to think about to something that they are definitely expected to do.

Overlaying the new single code are additional requirements such as an effective system of governance and an own-risk assessment. Neither of these are specifically related to cyber risk, but given the inclusion of cyber risk in the single code, cyber risk and mitigations will certainly need to appear in those documents when they are produced.

Where To Start — Benchmarking

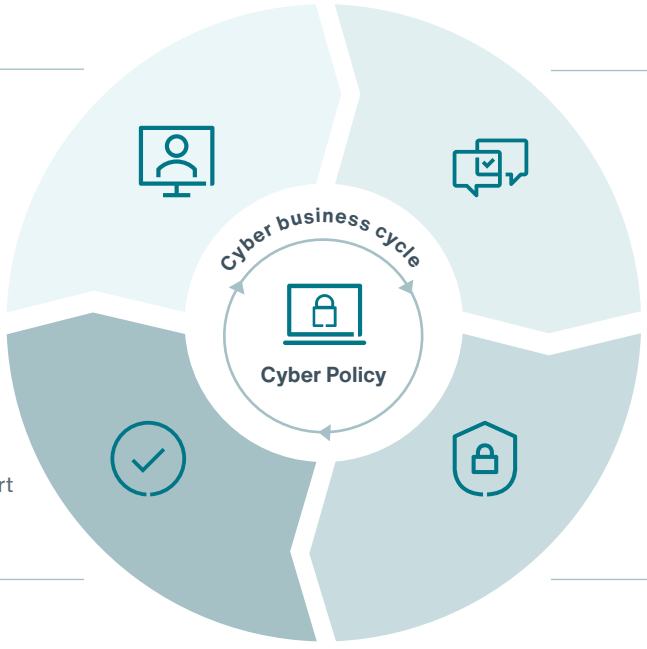
In a rapidly changing market, it is hard to know whether the actions you are taking are in line with expectations or not. Aon's pension cyber scorecard is a free benchmarking tool that allows you to get a quick, but robust, assessment of the approach your scheme is taking to cyber governance.

Whether you are starting on your cyber journey and want to know what to prioritise, or whether you have a strong plan and just want to check you are not missing something, the assessment provides insights into how your scheme is doing.

The assessment is based on around 50 multiple choice questions and will take you 20-30 minutes to complete. For your own scorecard, visit: www.aon.com/cyberscorecard

Depending on your position, there are a range of actions that pension schemes may want to take. Speak to us about our "Seek-Shield-Solve" framework and how we can support your pension scheme on its cyber journey.

Seek-Shield-Solve Framework



Review

- War game
- Cyber Scorecard

Seek

- Training
- Data and asset maps

Solve

- Incident response plan
- Incident response support
- Cyber insurance and contacts

Shield

- Trustee cyber-hygiene
- Phishing exercise
- Assess third-party providers

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