18 August 2021

# funk*forum*

## MARKET EDITION


**THE GERMAN INSURANCE MARKET IN 2021**

**SUSTAINABILITY**

## Implications of the coal phase-out

**CYBER MARKET**

## The dark side of digitisation

# More mettle for individual solutions!

The trend towards low cover and high premiums has continued due to the pandemic and natural disasters. Property, cyber and executive liability (D&O) insurance are especially affected.

Companies suffering from the effects of the pandemic are asking themselves why insurers now need to raise premiums once again. After all, these companies have already been facing hardship. Due to the Covid pandemic, their financial situation and medium-term business prospects have often not only not improved, but sometimes even gotten worse. Many companies are struggling with business interruptions, for example, because their supply chains have been disrupted.

As a result, finance executives look for ways to reduce costs and find savings. But instead, they are frequently confronted with rising insurance costs. Companies are thus having increasing difficulty on the market finding the insurance cover they require within the budget they have planned for.

On the other hand, insurers' balance sheets have also suffered. Risk assumption and premium amounts have diverged further and further over the past decade, leading many insurers to report combined ratios of more than 100 per cent – even without catastrophic events such as inclement weather and a pandemic. These values show that a large number of insurers in the industrial insurance segment have lost money. The catastrophic flooding in Germany as a result of storm Bernd will also be expensive: according to an initial estimate from direct insurers, the German Federal Financial Supervisory Authority expects the total cost of insured damage to reach up to 5.7 billion euros for the industry.

## Standing firm

Funk is fighting for its clients with a firm stance in favour of individual solutions that strike a balance between premium amounts and risk assumption as well as more efficient processes on the part of the insurers.

In the course of recovery efforts, many insurers are increasingly turning to standard guidelines and tools in underwriting, an action which is shaping negotiations and decisions. But clients need individual solutions. Funk is therefore urging insurers to have more courage and willingness to find solutions that can offer clients real support by meeting their individual needs.
The industrial insurance sector comes with a certain amount of volatility as a matter of

**Ralf Becker**
Managing Partner
of Funk

course. Nevertheless, extreme fluctuations in insurers' offers for premiums and cover cannot go on forever, just as insurers' balance sheets for technical insurance cannot perpetually exist in the red.

The goal must be to strike a balance so that the premium charged fairly reflects the amount of risk assumed, without shocking, disproportionate fluctuations year after year. Companies and insurers should aim to cultivate a long-term partnership in the transfer and assumption of risks, and this is something Funk facilitates as a broker.

Insurers must also do their part by reducing their costs and passing on the savings gained to clients when calculating their premiums. After all, processes in industrial insurance need to become much more streamlined and efficient.

## 'Funk renewal agenda'

Funk is using innovative solutions to keep adequate insurance cover within reach. We have already joined discussions for the upcoming round of policy renewals very early on as we pursue our tried-and-tested 'renewal agenda', an action plan based on good experiences from previous years. In these negotiations, for example, we take into account the policy holder's individual claims history, technical price modelling and aggregate risk factors. Our professional risk management, wide range of placement options – including internationally – and alternative risk assumption models round off our complete package of holistic services.

We'll take care of that policy renewal! We are on your side as your proactive partner.

Ralf Becker

## Current risk studies

Armed with knowledge: risk managers have to stay up to date in order to make the right decisions. Risk studies play a fundamental role in keeping them informed. We have compiled the most important studies for you on our German website, along with the five key takeaways.

**funk-gruppe.com/risikostudien**

# Property insurance

PREMIUMS COVER

The property insurance market is shaped by a constant onslaught of damage and major claims. 2021 has already seen enormous adverse weather events such as storms, flooding, heavy rain and hail. The German Insurance Association (GDV) estimates that 2021 will be the most claims-heavy year since 2002, the year of the river Elbe flood. Commercial and industrial plants are also significantly affected because their operation is interrupted by damaged machinery. Access roads and supply routes are also closed off.

Alongside property damage, the topic of business interruption is another major focus for many insurers. The global supply chains are still fragile because of the Covid pandemic. For example, the fire suffered by the Japanese semiconductor corporation Renesas in March 2021 has led to a shortage of chips. A precise analysis of the supply chain risk is therefore essential for companies which are heavily invested in supplier networks.

Effective fire protection measures also remain an important consideration, as these have direct implications for insurance cover and premiums.

We see the market roughly divided into three parts: below-average cover of risks juxtaposed against high deductibles and high adjustments of premiums, or insurers are increasingly not offering the option of renewing policies. Risks with an average fire protection standard are more moderately affected, depending on the insurer's recovery strategy. Companies with good to very good fire protection should currently expect only minor adjustments to premiums.

In addition to fire protection quality, market capacities also affect premiums. For companies with good fire protection and a very good claims history, competition among insurers is slightly increasing again.

In several industries, insurers are offering less cover or are even issuing blanket bans on underwriting any policy at all. This is true, for example, in the recycling and coal-powered electricity industries, some sectors of the food industry and the electroplating industry (a special type of metalworking). Sustainability aspects partially come into play here (see article on page 17).

The development which began in the previous year of insurers pushing for exclusions for pandemics, communicable diseases and cyber risks continues in this year as well. Funk is negotiating intensively with insurers in order to minimise the implications for clients.

## Outlook

The concrete extent of the damage in 2021 remains to be seen – including reinsurers. Continued increases of premiums, rising deductibles and decreasing payout limits for natural hazards are likely in the coming years.

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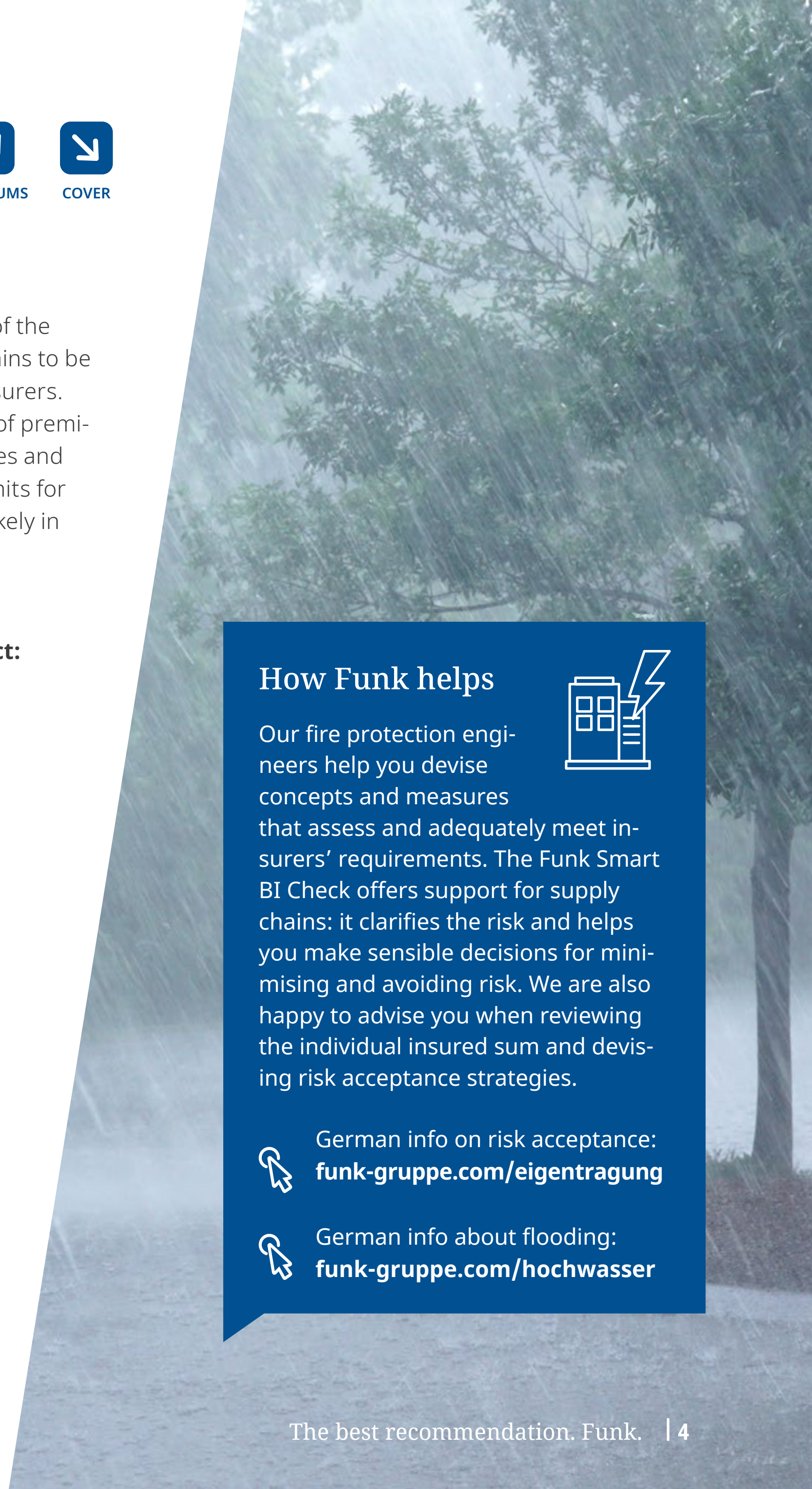

## How Funk helps

Our fire protection engineers help you devise concepts and measures that assess and adequately meet insurers' requirements. The Funk Smart BI Check offers support for supply chains: it clarifies the risk and helps you make sensible decisions for minimising and avoiding risk. We are also happy to advise you when reviewing the individual insured sum and devising risk acceptance strategies.

German info on risk acceptance:
**funk-gruppe.com/eigentragung**

German info about flooding:
**funk-gruppe.com/hochwasser**

# Liability insurance

PREMIUMS COVER

The industrial liability market has somewhat hardened in the past year: insurers have reduced their cover, raised premiums – in some cases even dramatically so – and asked for significantly higher deductibles. As electromobility expands, the market is intensifying, especially where vehicle recall insurance is concerned. In addition to the fact that warranty/guarantee periods are being extended to eight or more years, the technology is also still relatively new, making the risk difficult to calculate for liability insurers.

Prominent examples like the diesel scandal have shown that recall obligations can be triggered not just by the risk of personal injury or property damage, but also by failure to comply with environmental standards. The automotive supplier industry is therefore especially affected by increases of premiums, along with the pharmaceutical industry and companies with heavy US exposure. The reason for this is that liability insurers in these fields have had to pay the highest amounts of damage in past years.

Furthermore, companies are increasingly being faced with demands that are not insured, such as higher testing or sorting costs after delivery of faulty products or the costs of downtime on their customer's end. We recommend that companies check their cover and also consider the prospect of co-insurance of unspecified financial losses.

## Outlook

The trend described here will continue in upcoming policy renewal negotiations. However, the liability insurance market is not currently seeing a general increase in premiums and reduction of cover. The planned introduction of the German Supply Chain Act (LKG) could raise new liability issues. There is good news, however, in that the option of a civil lawsuit in the event that corporate due diligence obligations are breached was struck from the law shortly before its introduction.

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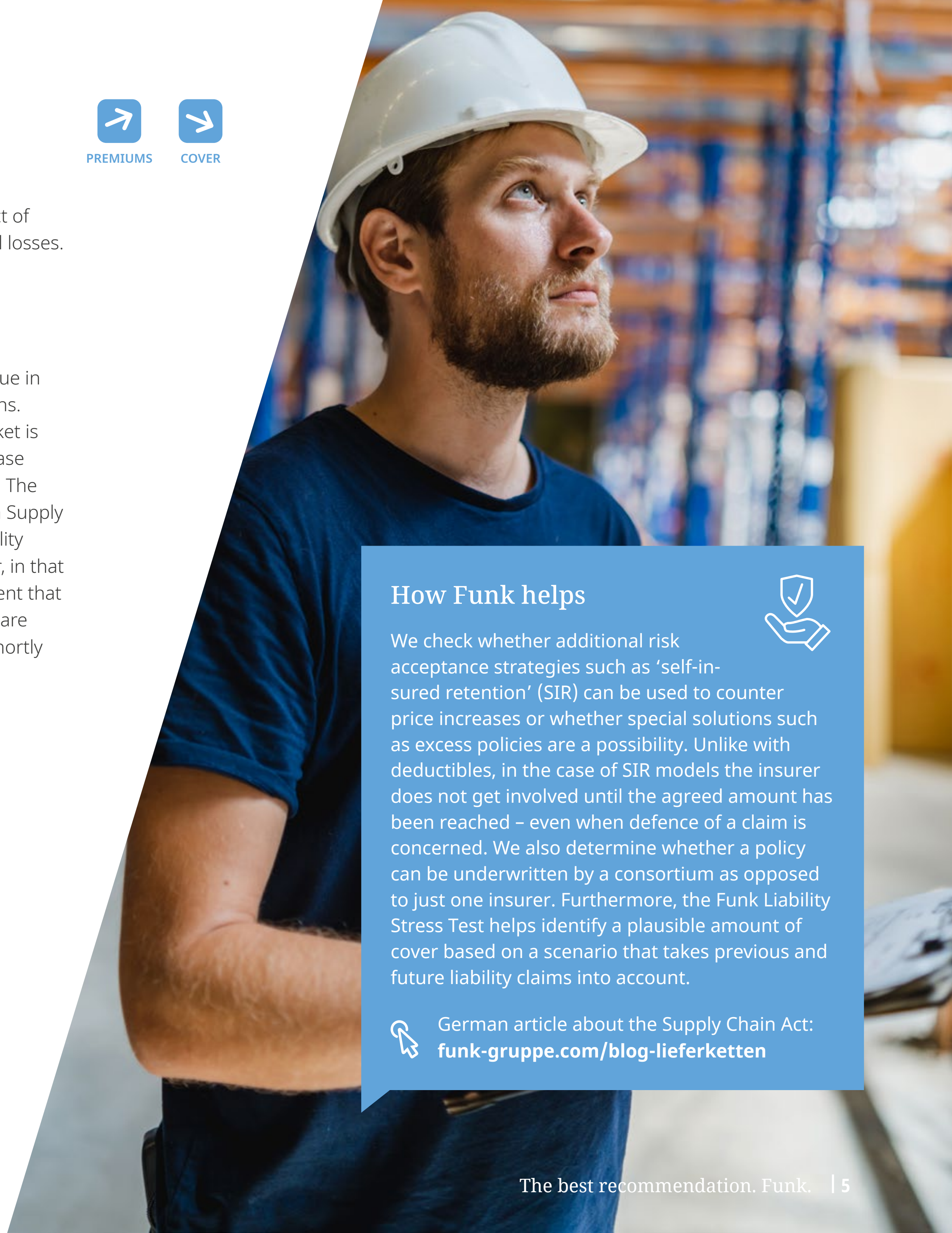


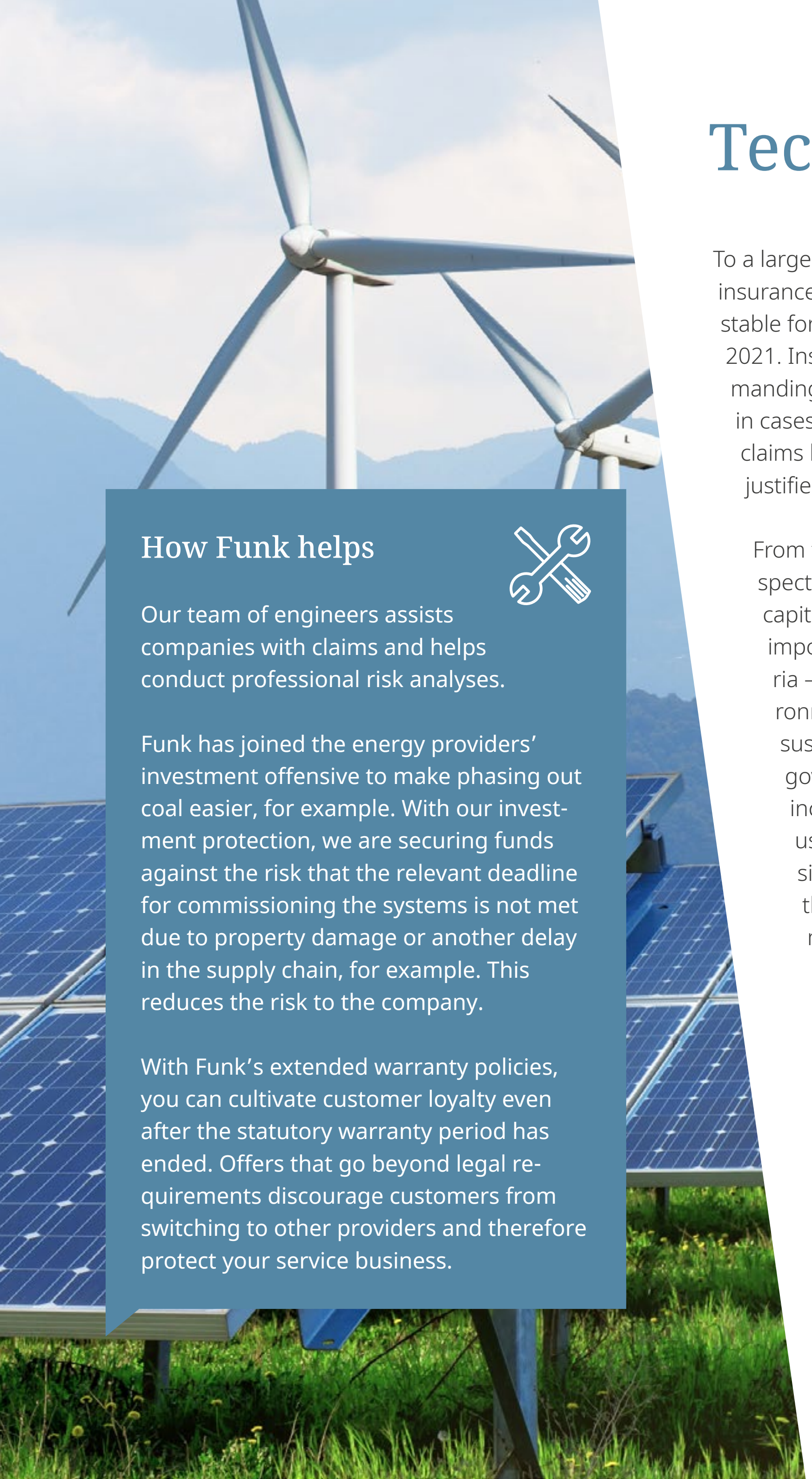
## How Funk helps

We check whether additional risk acceptance strategies such as 'self-insured retention' (SIR) can be used to counter price increases or whether special solutions such as excess policies are a possibility. Unlike with deductibles, in the case of SIR models the insurer does not get involved until the agreed amount has been reached – even when defence of a claim is concerned. We also determine whether a policy can be underwritten by a consortium as opposed to just one insurer. Furthermore, the Funk Liability Stress Test helps identify a plausible amount of cover based on a scenario that takes previous and future liability claims into account.

German article about the Supply Chain Act:
**funk-gruppe.com/blog-lieferketten**

# Technical insurance

PREMIUMS
COVER



To a large extent, the technical insurance market remains stable for traditional risks in 2021. Insurers are only demanding higher premiums in cases where the individual claims history of a company justifies it.

From the insurers' perspective, sustainable capital assets are gaining importance. ESG criteria – aspects of environmental, social and sustainable corporate governance – are increasingly being used to make decisions. Among other things, this is leading many insurers to take a negative view towards underwriting coal-related risks even now, although the German government has set 2038 as the definitive exit date for the coal phase-out. Where fossil fuels – coal, oil and gas – are concerned, there is increasingly less cover offered in technical insurance policies on the German market (see article on page 17). Funk is checking cover on international markets for affected companies and is also investigating the implementation of risk acceptance strategies.

In individual countries such as Russia, existing international sanctions are having a limiting effect on the market this year as well. New policies in the United Kingdom are still only being concluded locally due to Brexit. Nevertheless, Funk is always checking whether financial interest solutions are possible, whereby the German parent company's financial risk abroad is protected. This would come into play, for example, if a machine abroad is damaged and replacement parts procured from Germany are used to repair it.

The Covid pandemic has led and continues to lead to further exclusions. Pandemic exclusions have had to be included in local policies at international level this year as well. Both pandemic and cyber exclusions are anticipated to be required in German insurance policies from 2023 at the latest. Funk is currently negotiating intensively on possible clauses, in order to mitigate the implications for companies.

## Outlook

It is still in the insurers' interest to underwrite risks in the technical insurance sector. Modern technologies such as sensors ('condition monitoring') are having an increasingly positive effect on claims histories and are contributing to a stable market environment.

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### How Funk helps

Our team of engineers assists companies with claims and helps conduct professional risk analyses.

Funk has joined the energy providers' investment offensive to make phasing out coal easier, for example. With our investment protection, we are securing funds against the risk that the relevant deadline for commissioning the systems is not met due to property damage or another delay in the supply chain, for example. This reduces the risk to the company.

With Funk's extended warranty policies, you can cultivate customer loyalty even after the statutory warranty period has ended. Offers that go beyond legal requirements discourage customers from switching to other providers and therefore protect your service business.

# Construction project business

PREMIUMS COVER

The construction boom marches on despite the Covid pandemic. As a result, the demand for combined contractors all risk and liability insurance has sharply increased for construction projects, especially major projects. The pandemic has made its mark where building materials are concerned, however: some manufacturers shut down and deliveries were delayed. This led to an increase in general construction prices and to delays or extensions of construction phases, thus increasing the cost of insurance for major construction projects.

Claims payouts are increasing in the project business, which is causing premiums to rise by ten percent on average. Adding to the complications, some insurers are withdrawing from this sector and there are fewer leading insurers offering their services. Many insurers are also demanding a pandemic exclusion for project policies.

Insurers need a large amount of information in order to assess risk. The demand for business interruption insurance to cover the financial impact of delayed completion of a project has risen especially for major construction and installation projects. The market is very limited here as well.

## Outlook

In the project business, insurers are likely to decline covering complex risks for major construction projects.

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## How Funk helps

Our special interdisciplinary team of experts from the fields of engineering, law and fire protection provides assistance in your project business. For simple construction projects, Funk offers a quick concept solution for which almost no risk information is needed. For more complex projects, Funk creates a combined policy that is precisely tailored to the risk profile of the respective project.

English info about our services:
**funk-gruppe.com/construction**

# Transport insurance



Many transport insurers and syndicates – which act as providers of risk cover on the British insurance market Lloyd's – have significantly reduced or even completely withdrawn their transport insurance cover in past years due to poor financial results. Several insurers have also merged, which has further reduced capacity. Cover with high insured sums and international programme policies have been especially affected.

While the combined ratios of transport insurers in 2020 had improved compared to previous years, several events involving major damage have recently occurred. Transport insurers are responding to current major events, such as the obstruction of the Suez Canal by the container ship *Ever Given* or the temporary shutdown of ports due to the Covid pandemic (most recently Yantian and the Ningbo Maidong terminal in China), by restricting the cover they offer. We are also assuming that insurers are demanding higher premiums in some cases due to the individual risk situation.

Current events demonstrate to market players how prone to disruption global supply chains are and how quickly cumulative risks can arise. Driven by the reinsurance markets, this year's round of policy renewals will include cover exclusions for cyber, blackout and pandemic risks. These exclusions have already been introduced in American and Japanese transport policies and the German market is now set to follow. The GDV has published standard clauses for this and many insurers will adopt these, which should stave off the dreaded escalation of unending exclusions, depending on the insurer.

Due to Brexit, local policies must now be installed for offices and subsidiaries in the UK. Insuring risks through freedom of service cover (FOS policy) from Germany is now no longer possible in many cases.

## Outlook

Current loss events and the digitisation of supply chains mean that the situation for transport insurers remains challenging.

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## How Funk helps

Funk proactively negotiates with insurers on the scope of cover exclusions. We use what are known as 'write-back' clauses for our clients to ensure that a majority of these excluded risks are included once again. Through our international Funk Alliance network, we advise our clients on international matters such as the impact of Brexit.

More German info about exclusions in transport insurance:
**funk-gruppe.com/blog-transportversicherung**

More German info about the impact of the Suez Canal incident:
**funk-gruppe.com/suezkanal**

# Vehicle insurance

PREMIUMS COVER

Significantly fewer vehicles have been out on Germany's roads in the past one and a half years due to the pandemic, meaning that the frequency of claims has also drastically reduced. The cost of an individual claim has risen by about five percent on average both in liability and fully comprehensive insurance. This is due to increasing replacement part prices and not least complications in the supply chains on the one hand, and due to increasing technology in the vehicles on the other. Despite this, claims ratios have trended downwards by 10 to 15 percent, having a positive effect on premiums.

The vehicle insurance market has also been affected by inclement weather in 2021, however. How severe the implications for premiums are remains to be seen. On balance we do not expect premiums to continue to decrease.

The demand of some insurers for new business has improved, so there is sufficient cover on the market.

## Outlook

In the long term, the vehicle line of insurance will also have to deal with cyber risks, because increasing automation will mean that vehicles are more vulnerable to hacking. The accident risk during autonomous driving could also permanently shift to the manufacturer, which would reduce the risk to be covered by vehicle insurance. Nevertheless, we still do not expect entire vehicle fleets to be fully networked in the short to medium term.

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### How Funk helps

Funk checks which solutions apply to the individual situation. For example, with Funk's support companies can take advantage of tax benefits, optimise their deductibles, reduce damages through professional claims management and streamline processes through all-inclusive contracts. Return costs for leased vehicles can be reduced through Funk's network.

# D&O insurance

PREMIUMS COVER

Insurers are not yet able to fully determine the extent of the implications of the pandemic for the D&O line of insurance. Several major claims have had an impact, as have the persistently high costs in cases of executive liability. Insurers therefore continue to be cautious where underwriting D&O policies in industries especially affected by the Covid pandemic is concerned – industries such as logistics, aviation, travel, automotive supply and retail. They occasionally even refuse to underwrite such policies at all.

In general insurers are continuing to reduce individual cover and are tightening up terms and conditions. For example, they are implementing shorter extended reporting periods, no longer offering a guarantee of continuity, no longer offering a reinstatement option when the insured sum is spent, or they are implementing insolvency exclusions.

Premiums are being raised by at least 15 to 25 percent, and in some cases by much more. Even very large D&O programmes with cover of 100 million euros or more are sometimes difficult to renew for 2022 without adjustments to cover. There is a need for much more intensive consultancy and agreement with potential risk carriers here.

International insurance programmes are gaining greater importance in order to meet regulatory and tax law requirements. In this area especially, the number of insurers which can offer global support here is much smaller than what is already a small provider market.

## Outlook

The existing market situation will continue to be challenging. We expect further implications in the next one to two years as a result of new laws that will foreseeably increase the risk to organisations. Such laws primarily include the Supply Chain Act, the Whistle-blower Directive and the Corporate Stabilisation and Restructuring Act (StaRuG). The Corporate Sanctioning Act would also have big implications if it were implemented.

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## How Funk helps

We are conducting intensive, demanding negotiations with our existing insurers to extensively preserve the Funk special conditions that have been significantly higher than the market level for years already. We are also using all available markets.

To assess the increasing compliance requirements for companies, Funk has developed the Compliance Quick Check. Funk provides regular information about new laws and their implications for insurance cover. You are welcome to subscribe to our newsletter (see page 18).

German info about the Compliance Check:
**funk-gruppe.com/compliance**


## How Funk helps

Our cyber team consists of lawyers, risk managers and insurance and IT security experts. Thanks to this interdisciplinary approach we are able to present your individual risk situation to insurers as a much more harmonised case in line with market requirements. We have also partnered with renowned external cyber risk engineering service providers which actively strengthen the risk prevention measures.

Read more about protecting digital processes – and new opportunities – in our German special digital edition: **funk-gruppe.com/digital-spezial**

# Cyber insurance

PREMIUMS COVER

Digitisation made huge progress worldwide due to the Covid pandemic. Many companies rushed to digitise processes, had their employees start working from home or made long-planned digitisation projects a greater priority. IT security was also a focus of companies. Overall this has led to a rising demand for cyber insurance – a demand that currently exceeds insurers' existing offerings and capacities.

There are various reasons for insurers' cautious approach to underwriting cyber risks: on the one hand, increasing claims volumes are resulting in massive restrictions, which are inflicted on insurance companies operating in Germany from abroad. Such restrictions include, for example, significant reductions of cover from what was 10 to 15 million euros per insurer previously to often just five million euros now. On the other hand, insurers only want to take part in higher amounts of cover – even well beyond 20 million euros.

At the same time, premiums and deductibles are sometimes being increased massively in order to reorganise the often very claims-heavy existing policies. Moreover, many insurers are implementing tighter terms and conditions, especially where ransomware incidents are concerned.

Claims related to a corresponding event are sub-limited by many insurers and come with high (separate) deductibles. Cumulative risks, such as the HAFNIUM exploits (attacks on the Microsoft Exchange Server), are also being increasingly considered by the insurance sector.

Ultimately we are seeing rising demands from insurers concerning the IT maturity of the companies to be insured. This is especially true where multi-factor authentication and segmentation are concerned, in order to strike a balance between risk and security level. Individual companies may not be able to implement the required measures quickly, which is why it is possible that in the case of upcoming renewals, not all risks can be placed on the market.

## Outlook

Cyber risk engineering services are gaining importance as companies strive to stay operational and meet the demands of the insurance market. Funk helps bring the existing IT maturity in line with insurance market requirements by taking extensive stock of the technical and organisational IT security measures. The measures to be implemented directly affect the insurer's underwriting. These measures also play a crucial role in the compensation paid in the event of a claim.

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## How Funk helps

Organisational protective measures within the internal control systems are becoming more important. Companies can meet these requirements with phishing campaigns and employee training – and we are happy to help with that. The implementation of appropriate measures will no longer mean savings in premiums in future, as this will be a basic requirement for even purchasing insurance cover to begin with.

# Fidelity insurance

PREMIUMS COVER

The Covid pandemic has drastically changed our day-to-day work and previous workflows and processes. Working from home in particular poses new risks in addition to the opportunities it unleashes.

Social engineering is increasingly becoming the focus. The (physical) distance from the office and from colleagues creates new openings for criminals because internal approval processes and standard channels of communication can only be maintained in a limited way. In addition, claims due to IT attacks are increasingly attracting insurers' attention. Limits in cover for cyber insurance come into greater focus here as well.

Ultimately all of these factors are causing insurers to take a more and more restrictive approach to underwriting fidelity insurance policies. They are taking a much closer look at risks, which is then making the assumption of these risks more expensive. Similarly to cyber insurance, we are also seeing a tendency in the meantime to reduce cover and adjust premiums and deductibles at the same time. The increases are less dramatic than in cyber insurance, but the trend is still going in a similar direction.

## Outlook

We expect to continue to see increasing premiums and decreasing cover, especially with an even more restrictive limit on cyber insurance. Insurers may noticeably reduce the scope of existing cyber modules. Risk assessments will continue to gain importance.

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### How Funk helps

Funk utilises the full market spectrum to achieve cover for failure-to-pay risks that is as comprehensive as possible. Funk helps meet liquidity needs through factoring. Funk also procures cover from surety insurers, where necessary, which takes the pressure off of bank lines of credit. This expansion of financing options increases companies' resilience to negative developments in the economic environment and gives them more room to manoeuvre.

More English info about the developments in credit insurance: **funk-gruppe.com/credit-insurance**

# Credit insurance

PREMIUMS COVER

Once the suspension of the obligation to file for insolvency has ended and support measures for companies have stopped, insurers are expecting a rise in insolvency figures in many countries. They are preparing for this by demanding higher premiums and being more cautious in underwriting credit limits.

In light of the initially low insolvency figures still reported in many key markets and industries, insurers have somewhat loosened their very strict approach in the meantime.

Many markets have seen a significant economic recovery. Among other things, this has led to much higher prices for important raw materials and therefore to a higher need for protection along the value creation chains.

The procurement of sufficient cover is currently one important challenge. In addition, companies are now faced with having to finance the restart of production after months of low turnover due to the pandemic. For many companies, factoring – the sale of their receivables – is a suitable instrument for covering even large fluctuations of financial needs.

At the same time, major insurers have developed new wording. Existing policies need to be revised in line with this. The new wording includes terms and conditions that are sometimes better for clients and sometimes worse.

## Outlook

The German government wants to suspend the obligation to file for insolvency for companies affected by the recent flooding disaster. A corresponding law is still to be discussed in August. This could give some companies a short-term boost.

The availability of credit insurance cover in the coming months also depends significantly on how insolvency figures develop. If these figures stay below insurers' expectations, the availability of cover will continue to improve due to the increasing competition among credit insurers.

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## How Funk helps

We are happy to check your existing cov-er and advise you on insurance cover for working from home and vaccination damage.

More German info on vaccination damage:
**funk-gruppe.com/impfen**

# Accident insurance

PREMIUMS COVER

Market conditions remain stable. The cover schemes provided by group accident insurance are still very extensive and premiums are low.

Many companies have since decided to offer working from home as a permanent option for their employees rather than just as an interim solution necessitated by the Covid pandemic. As a result, accidents in the home workplace environment are becoming a more important consideration. Not all accidents in this context are insured – for example tripping on the way from one's home office to their children's school. Employers can close this gap with 24-hour cover. Funk is happy to advise you on insurance cover for working from home.

Companies are also considering the topic of vaccination. Side effects from vaccines usually pass quickly, but the possible long-term effects of the new vaccine are not yet known. Some employers are wondering whether possible vaccination damage among their employees is covered by company-wide group accident insurance. There is no uniform picture here and above all, no empirical values yet. Existing cover may be extended to cover this, however, by paying an additional premium if necessary.

## Outlook

We do not expect insurers to change their offering.

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## How Funk helps

We take current developments into account in our criminal defence insurance terms and conditions. Extended preventative modules, such as internal research costs prior to launching preliminary proceedings and high upper limits for forensic services, are included.

# Legal protection insurance

PREMIUMS COVER

The market situation remains tense. The reasons for this include, among others, that lawyers’ fees increased on 1 January 2021 and that there has been a significant increase in legal protection cases, especially under employment law.

Claims for criminal law protection in cases concerning financial responsibility, such as criminal insolvency and criminal tax proceedings, are also continuing to increase. Insured sums set out in policies are sometimes completely depleted. For this reason, companies should lean towards agreeing higher insured sums than previously when taking out criminal defence insurance.

Many companies have had to cope with reduced turnover during the Covid pandemic. Insolvencies have not noticeably increased due to the temporary suspension of the obligation to file for insolvency, but this relief measure has now ended with effect on 30 April 2021. Corporate responsibilities in this critical phase are therefore fully applicable once again. D&O insurance is increasingly gaining in importance. Many insurers have reduced their insured sum or scope of services, and are increasingly raising premiums. When in doubt, protection provided by D&O insurance can be enhanced with a financial loss legal protection insurance policy. This financial loss legal protection policy can be taken out as a standalone solution or alongside a D&O policy.

## Outlook

Upcoming considerations on the possible introduction of criminal liability for companies increase pressure on management to consistently implement compliance measures and initiate internal investigations in an emergency. After all, if this law comes into force, it is not only just natural persons who face criminal consequences, but companies as well. This would then have implications for legal protection insurance.

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# M&A insurance

PREMIUMS

COVER

Acquisitions of companies partially came to a standstill during the Covid pandemic. Nevertheless, the insurance market for M&A transactions is constantly growing. Premiums have been at a low and stable level for years. At the same time, there has been a slight increase in available market capacities.

The challenges we find in this sector come in placing transaction insurance where 'loss-making targets' – companies that were not profitable in previous years – are involved. Otherwise insurers have mostly not changed their behaviour. The feared wave of insolvencies and the associated expected rise in policies with synthetic warranties have thus far not materialised and play hardly any role in practice.

## Outlook

Alongside the recovering economy, we expect to see an increasing number of M&A transactions in the German-speaking realm. Cash-rich companies now see a strategic perspective to acquiring struggling companies. At the same time, developments like digitisation, climate chance and new competitors strengthen the need for consolidation of entire industries.

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### How Funk helps

A clean and comprehensive due diligence check is essential in order to take out good warranty and indemnity (W&I) insurance. Funk helps you even in the early stages to define the scope of the due diligence check so that you can secure as comprehensive a W&I policy as possible.

SUSTAINABILITY

# Coal phase-out, questions of liability and new risks

The topic of sustainability has reached the insurance sector – and the industrial sector. Clients, governments and regulatory bodies are demanding that companies accept more responsibility for their capital assets and handle resources in a sustainable way. Many companies do not require external pressure, however, and make ESG a priority themselves, going beyond legal requirements. ESG stands for environmental, social and corporate governance – three aspects that companies voluntarily take into account in their decision-making process.

## Insurers are rejecting coal

In its energy policies, the German government has set the deadline for completely phasing out coal by 2038. Insurers have consequently already started switching their own capital assets to 'green' investments. The core business of risk assumption is also increasingly focused on sustainability. Many insurers are declining to do business with companies that negatively contribute to the climate crisis – which has implications for all lines of insurance. It primarily affects companies that extract fossil fuels such as oil or coal or use these as energy sources.

This political and business decision implemented by many insurers is primarily applied just to new business, but existing clients are also affected. There is a possibility that coal-heavy companies will have to carry some of their risk themselves in the medium term because their insurance cover is not renewed. For this reason, they need well devised risk acceptance strategies or insurance cover on the small remaining insurance market will become more expensive. At the same time, the insurance sector is supporting the change to renewable energy through special insurance schemes, like for storage batteries or for covering government subsidies.

## Emerging risks in industry

Industry also needs to implement several new sustainability guidelines. These primarily affect liability insurance. For example, the diesel scandal showed that recall obligations can be triggered not just by the risk of personal injury or property damage, but also by failure to comply with environmental standards.

The planned Supply Chain Act in turn will protect human rights and have implications for questions of liability. D&O and legal protection insurance are also indirectly affected.

If companies retrofit buildings and systems for sustainability reasons, this could also raise new risks. For example, if they build photovoltaic systems or install charging columns for electric vehicles, property insurance or technical insurance policies may need to be adapted.

Many companies are also increasingly implementing work-from-home policies and using video technology. If, for example, employees take part in meetings digitally instead of flying in or using a company car to attend in person, this saves time, money and $CO_2$. However, it increases the risk of damage in the cyber or fidelity insurance sectors.

Every era has its opportunities and risks. Holistic risk and insurance management is needed to control these emerging risks. And it should also be sustainable – i.e. reviewed on a regular basis. We are happy to help with this.

# Always where you need us


## Get in touch with us!

We provide more security at 35 international offices. We are also represented at 300 offices in 100 countries thanks to our Funk Alliance network.

Find your personal point of contact in your region online:

**funk-gruppe.com/en/offices**

## About Funk

Funk is the largest family-run insurance broker and risk consultant in Germany and is a leading broker firm in Europe. Founded in Berlin in 1879, the company today has 1,360 employees . As a provider of risk management solutions, Funk supports companies from all industries in insurance and risk management as well as employee benefits.

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