



# funk forum

## MARKET EDITION

 TRANSPORT	 VEHICLE	 D&O	 CYBER
 FIDELITY	 CREDIT	 ACCIDENT	 LEGAL PROTECTION
			 M&A
	 PROPERTY	 LIABILITY	 TECHNICAL
			 CONSTRUCTION

PRICE RISES 

## Consequences of inflation

TECHNICAL INSURANCE 

## New risks, new projects

# Staying strong in uncertain times

For centuries, Europe held firmly to the assertion that all swans were white – that is, until the black swan was discovered in Australia. Similarly, many people could not have imagined until recently that there would be war in Europe again. Far fewer would have predicted the wide-sweeping implications of the war in Ukraine and the resulting sanctions; there just was no blueprint for that.

The war in Ukraine is hitting companies unexpectedly – and hard. It is exacerbating the existing supply chain disruptions that arose from the Covid pandemic and the lockdowns in China. Energy prices and the costs of other raw materials have skyrocketed, fuelling inflation. It is a challenging situation for companies that already have their hands full steering their businesses through radical transformation to a climate-neutral, digital economy.

Insurers have thus far assessed the direct consequences of the war to be limited for the industry, because they do not operate in the affected regions to a very wide extent, both in terms of their inherent insurance activities or their investments. That being said, the indirect consequences are of great significance, particularly the

rising inflation. It makes claims even more costly, because rebuilding now requires a much higher investment, for example. Several insurers have already increased their deferred liability because the reserves originally set aside no longer suffice to meet the higher and continuously rising claims.

## No turnaround in industrial property insurance yet

Insurers were able to establish higher prices in previous contract renewal seasons, but have not yet managed a turnaround in industrial property insurance after a long phase of heavy losses. The claims expenditure is simply too high. In 2021, industrial insurers reported a combined ratio of 177 per cent. For every euro received from premiums, 1.77 euros has been spent on claims, resulting in losses for the insurers.

Fire damage and adverse weather events especially plague the balance sheets of insurers. Global trends, such as spreading urbanisation and rising prosperity, exacerbate the climate crisis, which will bring the risks posed by natural disasters into even sharper relief in future.



**Ralf Becker**  
Managing Partner  
of Funk



## Planning certainty is the aim

The contract renewal season is becoming challenging again: the pressure on prices continues, although with a weakening tendency, while the cover capacities offered remain cautious. Both industrial property insurance and cyber insurance are especially affected. Cyber business in particular presents risks for insurers that they struggle to estimate, because there is still no reliable data available on cumulative events such as a wide-reaching attack on cloud providers.

Nevertheless, companies need planning certainty; fluctuating offers from insurers in terms of premiums and cover cannot

continue indefinitely. Companies and insurers should aim to cultivate a long-term partnership in the transfer and assumption of risks. Insurers must do their part here, so that the industrial insurance business model provides reliable protection for companies in managing their risks.

Funk advocates an individual approach for companies. Risk-minimising measures, especially such as an operational risk management strategy with damage prevention elements and increased risk acceptance, must factor heavily into the considerations around premiums.

In volatile times where no one knows for sure what will happen on the markets tomorrow, flexibility is a must. This is why we add to tried-and-tested concepts like the Funk Renewal Agenda with innovative solutions, in order to continue to offer adequate insurance cover. We have entered talks with insurers early and help clients be transparent about their risk and therefore establish a good starting position for dialogue. This keeps you strong and operational. No matter what tomorrow brings, we are on your side.

Ralf Becker

### The implications of war in Ukraine



Russia's war of aggression against Ukraine is a humanitarian disaster with implications for the economy as well. We highlight the consequences of sanctions against Russia and explain what the developments mean for insurance protection in general on our website.



[funk-gruppe.com/ukraine](https://funk-gruppe.com/ukraine)

# Property insurance



## How Funk helps



We help you contextualise insurer requirements. Our fire safety engineers draw up individual concepts and suggest suitable measures. You can use the SMART BI Check to examine the plausibility of insured sums, and when deciding where to place risk, we investigate your options in terms of acceptance strategies, reinsurance markets and international insurance markets.



German info on natural disasters: [funk-gruppe.com/hochwasser](https://www.funk-gruppe.com/hochwasser)



German info on the SMART BI Check: [funk-gruppe.com/blog-smart-bu](https://www.funk-gruppe.com/blog-smart-bu)

Inflation, climate change and supply chain problems: the conditions on the industrial property insurance market remain challenging. In the last four years alone, German property insurers have reported losses of around 7.5 billion euros, according to publications by the German Insurance Association (GDV).

For this reason, property insurers are sticking to their measures to improve profitability: companies should expect reductions in cover and higher premiums this year as well. Underwriting activities remain restrictive, especially where serious risks are concerned, e.g. in the chemical industry. Quality standards for fire protection and risk transparency remain high. For companies with good fire protection and a very good claims history, competition among insurers is slightly increasing again.

The challenging claims environment also means that claims adjustment activities are becoming more restrictive: insurers are investigating more closely whether safety regulations were adhered to and whether insured sums are adequate. A trend in forming claims adjustment committees has also been observed. Claims coordination is becoming drawn out and payouts are being delayed.

Funk offers its support by deploying its own claims coordinators for major claims.

Inflation and supply chain problems have direct implications: prices of commercial products and construction materials have increased. These higher prices affect replacement and rebuilding costs – claims are becoming more expensive. This is especially true for business interruption insurance, as rebuilding timeframes extend and liability periods max out.

Sustainability is a topic that continues to gain importance and insurers do take it into consideration. In the property insurance sector, the focus is currently on environmental protection, which is especially pertinent for companies that depend on coal. In fact, some insurers already stopped offering cover for these clients in 2021. Nevertheless, a number of opportunities to meet sustainability principles are opening up, especially in the area of claims management. Consultancy on repair and renovation measures as well as damage prevention plays a central role here.

## Outlook

A decisive factor in further developments in the market will be the amount of damage caused by natural disasters in 2022.

There have already been several major claims this year: the German Insurance Association (GDV) reports that claims from the February storms in Germany alone have already amounted to around 1.4 billion euros.

We assume that the discussion around sustainability will continue to intensify and sustainability criteria will be added to insurers' underwriting policies. Companies should therefore expect further restrictions in this regard.

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# Liability insurance

The trend of past years continues: in addition to a slight price increase in general, for exposed risks, insurers are also expected to reduce cover and adjust the deductible. This will primarily impact automotive suppliers and the pharmaceuticals and food production industries. For example, the major ongoing claim involving Italian confectionery Ferrero is affecting product protection insurance. Salmonella contamination on its production line in April 2022 resulted in a Europe-wide recall of chocolate products.

Insurers are reducing cover slightly due to the current claim situation. Companies must be more transparent with insurers to continue to receive insurance cover: for example, they have to disclose the quality assurance measures they apply and the claim scenarios used to calculate their total insured sum.

New regulations in sales law have also been in force since 1 January 2022: companies now have a significantly longer liability period for products. This development means that many companies have an increased need for liability insurance cover. In the automotive industry, manufactur-

ers of electric vehicles have to extend the warranty and guarantee periods for their products from eight to ten years in order to set incentives to buy. This affects their suppliers, who themselves are also faced with the extended product liability regulations. Both the automotive brands and their suppliers should therefore check their insurance contracts.

In light of the war in Ukraine, restrictions to terms and conditions concerning Russia, Belarus and Ukraine are expected in the next round of contract renewals. Some insurers are introducing 'territorial exclusions' that can be lifted again on a case-by-case basis. Others are requesting detailed information about risk and deciding on an individual basis.

## Outlook

General inflation will make liability claims generally more expensive. This will be reflected in moderate increases in premiums in the coming years. Likewise, further moderate reductions in cover are also expected.



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## How Funk helps



We are working on introducing new insurers and fresh cover capacity to the liability insurance market through strategic investments. In addition, we check individual adjustments to the cover structure. We evaluate the optimal amounts for deductibles, create risk acceptance strategies and design excess policy solutions. With our Total Cost of Recall Analysis, we help companies calculate appropriate insured sums for recall cost cover. To address increased reputational risks, we also offer support for crisis management and crisis communications.



Simulate recall management with a German serious game from the Funk Foundation:  
[funk-gruppe.com/adventure](https://funk-gruppe.com/adventure)

# Technical insurance

The premiums for technical insurance remain mostly stable, but the market is starting to shift. In the past, insurers only requested cancellation of terms when policies were not going well. Now, some insurers are trying to raise premiums and limit contractual terms and conditions with policies that are going well and even those that include many years of cover. Nevertheless, there remains a high interest in underwriting technical insurance policies, including policies for special risks such as geothermal energy.

The current political situation has meant that prices for electricity, heating, gas and oil have risen tremendously. Manufacturers are mostly not able to adjust product prices to match this scale, causing cost structures and turnover to diverge. As a result, significant gaps in business interruption insurance cover may very quickly appear in the event of a claim. We therefore recommend reviewing insurance contracts within the year and adjusting the insured sum if necessary.

If the war in Ukraine continues and the related sanctions persist, it can be assumed that a change in policy terms and conditions will become necessary in the next contract renewal season.

Where project cover is concerned in particular, but also machine and electronic equipment insurance, the market is also responding more strongly to the latest adverse weather events. Renovations are expected to be carried out under existing policies, while new risks will be investigated with a more critical eye. This also means that insurers will be requesting more information from companies. It can be assumed that higher deductibles will be required for claims arising from natural risks and certain natural risks may even be excluded from cover in individual cases.

## Outlook

With the energy transition in mind, new technologies associated with new risks are coming into focus. One example is hydrogen, which is already integrated in many areas of the economy; the number of hydrogen projects is constantly rising. This trend will continue. The digital transformation will also keep marching on. Analogue machinery providers are evolving into digital solution suppliers that are integrated more closely within their customers' value chains. The results now are not just completely digitised product lines, but rather an extension of the business model by complementing it with data-driven servic-

es. These developments require innovative insurance solutions like 'performance guarantee' solutions.

## Your point of contact:




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## How Funk helps



We accompany the digital transformation by creating innovative insurance solutions. As an insurance broker, we can help execute projects abroad if required. Our team of engineers creates individual risk analyses and walks you through the claims process. We can also advise you in assessing the implications of energy price developments for insured sums.

White paper on digitisation in mechanical engineering:  
 [funk-gruppe.com/  
maschinenbau](https://www.funk-gruppe.com/maschinenbau)



# Project business – construction



Inflation is rising and so are interest rates. Nevertheless construction continues on – the need for housing is great and the industry has lots of orders to fulfil, meaning for example there is also a need for new production facilities or extensions.

Combined contractors all risk and liability insurance is in demand for construction projects in 2022 as well, especially for large-scale projects. Prices, which have already gone up due to the Covid pandemic, have risen further owing to the war in Ukraine. Compared to the previous year, the construction price index has increased by around 14 per cent – construction materials are becoming significantly more expensive again. The skills shortage is also making itself felt and leading to higher labour costs. Delivery bottlenecks are causing delays and therefore extending the construction timeframes. This leads to a rise in the cost of insurance for major projects, because extension premiums become due.

On the contractors' side, a rising number of basic losses has been observed, as well as significant planning losses. Premiums have risen slightly due to these developments.

## Outlook

Insurers are currently reviewing their terms and conditions and underwriting is becoming more restrictive. Cover may only be set up through targeted marketing in future. Technical expertise will become even more important when placing risks in future, in order to ensure these are adequately covered.

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## How Funk helps



We rely on a diverse, interdisciplinary team of engineering, legal and fire protection specialists to assign risks where they best fit.

# Transport insurance



The goods transport insurance market is in flux and is changing at much shorter notice now compared to several years ago. The top challenges facing the market at this time are above all the war in Ukraine and the Covid lockdowns in China, which are causing global shipping bottlenecks.

The goods transport policy insures political risks within the framework of clauses. While war risks can only be insured for transports by sea and air, the risks of strikes, civil unrest and confiscation are also insured for transports by land. These clauses contain a special termination option with a notice period of just two days.

Almost all transport insurers have included and used this special termination option with reference to transports taking place in Ukraine, Belarus or Russia. Furthermore, transport policies contain corresponding sanctions clauses, so that transports to Russia, for example, are now no longer insured. It remains to be seen how transport insurers will position themselves for the upcoming contract renewal season.

The Covid pandemic is the primary factor for how claims are developing. Many countries have ended their lockdowns, which has since led to a boom in shipping by sea. The high demand for ships has meant that

even older ships are staying in operation. The risk of potential claims rises as a result, since older containers and freight ships tend to get damaged.

Another risk of major damage is fire breaking out on container ships and car carriers. These events are happening more and more frequently and lead to heavy losses. Fire often breaks out in containers with undeclared or wrongly declared hazardous goods, such as chemicals and batteries. Around five per cent of shipped containers have undeclared hazardous goods.

In the past five years alone, over 70 fires were reported on container ships. In 2021, fires on board the car carrier, Felicity Ace, and the container ship, X-Press Pearl, led to total losses.

## Outlook

The market remains tense due to the developments stated here. Transport insurers are analysing risks in detail; increased premiums and restrictions to cover are expected for exposed risks in coming years. The cyber, blackout and pandemic exclusion clauses introduced in 2021 are examples of this development, which will continue.

## Your point of contact:



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## How Funk helps

We have extremely high-calibre technical and legal expertise, along with our own major claims coordinators. We provide support for damage and loss prevention. We are in talks with a number of insurers to achieve the optimal clauses and terms. To counteract the dynamic development on the market, this year we are also trying to get offers for multi-year contracts.



 Our German podcast offers further insight into the topic:  
[funk-gruppe.com/funk-laeuft](https://funk-gruppe.com/funk-laeuft)



# Vehicle insurance



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The vehicle insurance sector can be called the winner of the pandemic. Despite significant damage in 2021 due to natural disasters, vehicle insurers made a profit. The claim ratios reduced by 10 to 15 per cent compared to the previous year, which has a positive effect on premiums. The reason for the good result is that there was less traffic on the roads because of the pandemic, which in turn meant fewer claims.

The costs of repairs have gone up, however. There are several reasons for this: the supply chains are still disrupted, making the electronic chips frequently installed in vehicles, for example, short in supply and therefore expensive. The war in Ukraine is negatively impacting the cost of replacement parts. The increasingly technological equipment in vehicles is also more expensive. This trend is amplified by the growing number of electric vehicles, which have repair costs that greatly exceed those of conventional vehicles. As a result, the cost of an individual claim has risen by about five per cent on average both in liability and fully comprehensive insurance. While there were fewer vehicle insurance claims overall, the individual claims which did occur were somewhat bigger than the previous year. For this reason, we expect premiums not to change significantly in contract renewal rounds.

Some vehicle insurers are open to new business, which is why there continues to be sufficient cover capacity on the market.

## Outlook

The effects of the pandemic are already starting to lessen. Traffic and the frequency of claims have both increased noticeably since the last quarter of 2021. Alongside the increased repair costs, this indicates that premiums could rise in future. The insurers will in all likelihood take different positions on this.

Taking a long-term view, we expect cyber risks to rise. On the other hand, risks could reduce if autonomous driving becomes more widespread and the risk of an accident is permanently transferred to the manufacturer.

### Your point of contact:



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## How Funk helps



We use our expertise and network to help you. We can reduce damage costs thanks to our claims management experience. With alternative calculations, we are also able to optimise deductibles for fully comprehensive insurance. We keep processes lean and expenses low with fixed-fee contracts. What's more, when returning vehicles to the lessor, we can significantly reduce costs through our network of strong partners throughout the country.

# D&O insurance



After a two-year phase shaped by premium increases, restrictions to terms and conditions and reductions in cover, the consolidation phase is beginning. The majority of insurers now seem to have more room for manoeuvre as a result of the consistent implementation of their own restructuring measures. Insurers are interested in new business again, and competition among them is picking up speed. A far-reaching easing of the market is not foreseeable, however, and premiums remain high. In particular, those clauses that have always been a thorn in the side of insurers, including non-system clauses such as the continuity

guarantee, will not be included in the terms and conditions again in the foreseeable future.

Insurers are still reluctant to underwrite some risks, particularly in the case of logistics, aviation, travel, automotive supply and retail. Affected companies should also expect premium increases, condition restrictions or cover reductions in 2022. However, we do not expect any further nationwide restructuring wave.

As a result of the consolidation, only D&O insurance sums of up to 15 million euros are generally made available. Since some insurers have also withdrawn from the German market, the amount of cover available has decreased. This particularly affects very large D&O programs with capacities of 100 million euros or more. There is still a significantly increased need for advice and coordination with potential risk carriers in order to ensure that the restructuring of the insurance programmes is technically seamless. Cover can be partially filled by new market players.

The war in Ukraine also leads to considerable uncertainties in the D&O sector. Insurers are trying to comply with the sanctions

imposed and to reflect this in the terms and conditions, for example with very extensive territorial exclusions or adjustments to the financial interest clause. If a company violates sanctions, it can face civil and criminal penalties. The financial consequences of this are excluded from cover.

## Outlook

We do not expect a significant easing of the situation, nor a renewed risk-independent and large-scale restructuring wave. The question of the implications of new laws on the risk situation of the directors' bodies remains open. In addition to the Supply Chain Act and the Whistleblower Protection Act, the Association Sanctions Act and the Corporate Stabilization and Restructuring Act (StaRUG) should be mentioned.

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## How Funk helps



We are in close dialogue with insurers to ensure that your cover remains complete and stays at the usual high level. Our experienced claims team provides support in the event of a claim, especially for communicating with the insurers.



German info on the relationship between D&O and cyber insurance:  
[funk-gruppe.com/spezialdeckung](https://www.funk-gruppe.com/spezialdeckung)



Courses on D&O topics can be found in the German Funk Risk Academy:  
[funk-gruppe.com/risk-academy](https://www.funk-gruppe.com/risk-academy)

# Cyber insurance

In the contract renewal season for 2021/2022, insurers drastically reduced cover and massively increased premiums. Contractual adjustments will remain challenging this year as well. Publication of new critical security vulnerabilities in IT applications and the political situation with its increasing risk of hacker attacks from Russia mean that insurers are continuing to maintain extreme caution. The number of claims remains high as well.

Because of this, insurers are placing great value on companies implementing specific technical and organisational IT security measures. If you do not meet these requirements, you will no longer have insurance cover in future.

The need for information around IT security remains especially high for new placements and contract extensions. Insurers require detailed risk and extension questionnaires. Companies that do not provide sufficient risk information or with risk quality that is inadequate in terms of IT security standards may struggle to gain cover. Alternative solutions are required here.

One current issue concerning the crisis in Ukraine is the related risk of cyber attacks, which could be carried out by state actors

or even loosely coordinated cyber activist groups like 'Anonymous', among others. Against this background, German companies are increasingly asking themselves whether their cyber insurance covers the resulting damage or whether war exclusions prevent this. This is part of a controversial discussion by market players.

Furthermore, insurers are beginning to limit cover. Insurance cover is no longer provided for offices in Russia, Belarus and Ukraine. This will most likely be implemented by insurers across all markets at the latest by the upcoming contract renewal season.

We expect the trend towards premium increases to continue, albeit to a lesser extent. The requirements for IT security measures by companies, on the other hand, will be more stringent than in the previous year.

## Outlook

The cyber insurance market will remain challenging in the coming years. New technologies, cloud solutions and increasing networking (Internet of Things) bring companies many advantages, but can also become a gateway for criminals.



PREMIUMS



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## How Funk helps



We have been conducting talks with all insurers since the start of the year, in order to prepare for negotiations in this contract renewal season as well. We use the information we gain in these talks to inform our clients early of the minimum requirements concerning their technical and organisational IT security, e.g. through webinars. We have also already entered into risk talks with our clients.

German info on cyber and risk acceptance: [funk-gruppe.com/cyber-captive](https://www.funk-gruppe.com/cyber-captive)

# Fidelity insurance

We see no changes where claims involving a company's own employees are concerned, e.g. misappropriation or theft. The situation is different if third parties come into it. Social engineering, the targeted influencing of employees from outside an organisation, is highly relevant at the moment. The topic is becoming even more of a burning issue due to many people working from home. At home, employees tend to share less with the team than in the office. This reduced interaction makes it easier for criminals to trick persons.

In addition to the fake president scams, where the attacker claims to be a manager or director of the company, order and payment fraud is increasingly being used. Here, criminals redirect goods and money by manipulating emails and invoices. Often smaller amounts are stolen, in order to remain undiscovered for as long as possible. Deep fakes are also already being used. Deep fakes are fake content created using artificial intelligence. For example, AI could be used to create a manipulated audio file of the voice of a manager telling employees to do certain actions.

Overall, the rising number of claims leads to higher premiums in the long term. The selection of providers of fidelity insurance

is fundamentally dropping, because the focus is often on D&O business and personnel capacities are lacking. Nevertheless, there is still sufficient cover available on the market.

Due to the rising number of claims in the cyber area, insurers want a clear delineation between cyber and fidelity insurance. This prevents companies with no cyber cover, due to the failure to meet IT security standards, from covering their damage with fidelity insurance.

## Outlook

We expect rising premiums in future and higher requirements for organisational security measures. Similarly to cyber insurance, this is due to a number of claims and critical security gaps in companies that most influence the market.

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PREMIUMS

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## How Funk helps

Since criminals are always trying new tactics, the requirements for internal control systems are also rising. We make our clients aware of security risks, for example with an extensive analysis of the risk situation and phishing tests. We offer help in presenting the available check and control mechanisms to insurers. In the event of a claim, a team is deployed, with IT forensic experts, for example.



 In our German podcast, Funk experts provide insight into current fidelity claim topics: [funk-gruppe.com/funk-laeuft](https://funk-gruppe.com/funk-laeuft)

 Prefer to read? Our German expert interview is here: [funk-gruppe.com/vsv-interview](https://funk-gruppe.com/vsv-interview)

# Credit insurance



Government support measures to overcome the Covid pandemic have contributed to a historically low number of company insolvencies.

This has led credit insurers to relax their temporarily very cautious approach to underwriting – the insurers are still in intensive competition, just as before. Credit insurance policies can be extended under existing terms and conditions multiple times. If there were more significant claims or there is an unfavourable debtor portfolio, premiums may be somewhat higher than the previous year.

The war in Ukraine is affecting the protection of account receivable in multiple ways. The importance

of businesses with Russian customers has strongly declined. Many companies have stopped these activities completely. Businesses that violate sanctions are excluded from insurance cover anyway.

Companies in Ukraine are working under the toughest conditions. Credit insurers are available with credit limits to Ukrainian companies in principle and are following the development of the situation closely.

The prices of many primary products in industry have risen sharply in recent months, partially due to higher fuel prices and supply chain bottlenecks. If negotiated amounts remain unchanged, this leads to cover requirements for suppliers that are higher than the amounts negotiated. The cover provided by individual credit insurers is no longer adequate to fully meet needs in individual cases. Adding to existing cover, through top-up policies, for example, can provide the required flexibility.

With rising prices and warehouse inventories going up in an effort to reduce supply chain risks, company's liquidity needs are also increasing. Many companies opt for bank-independent solutions to diversify

even in the area of finance and avoid dependencies.

## Outlook

The expected development in the credit insurance market depends significantly on the assumed scenario. The prices of important raw materials, especially fuel, and the availability of important components are relevant factors to consider on the demand side. The development of insolvency cases is significantly impacting premiums. What is more important than the frequently cited number of company insolvencies, however, is the amount of payments not made by customers. The most likely development in the coming months in our opinion is a constant to moderate increase in premiums and continued low cover.

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## How Funk helps



We utilise the full market spectrum to achieve cover for failure-to-pay risks that is as comprehensive as possible. When providing liquidity we use bank-independent financing options both on the sale and buying side. Depending on the business model of the client, surety insurance offers another form of relief for bank lines and increased independence. As a result, we increase companies' resilience to negative developments in the economic environment and give them more room to manoeuvre.



More on the implications of war in Ukraine on credit insurance:  
[funk-gruppe.com/ukraine-kredit](https://funk-gruppe.com/ukraine-kredit)



## How Funk helps



Our terms and conditions continue to be very extensive and premiums are staying low. We are keeping an eye on the market and always look for ways to optimise cover further.

# Accident insurance



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Premiums for group accident insurance continue to remain low and cover schemes are very extensive.

Many employers have announced that employees will need to come back to work in person, but with certain days still set aside for working from home. It is still important to note here that not all accidents involving employees are insured. A policy with 24-hour cover closes this gap. Funk is happy to advise you on insurance cover for working from home.

Some employers are organising donation drives at the moment in response to the war in Ukraine. Employees themselves then often drive to Ukraine or neighbouring countries to hand out the donated goods directly. As a result, there is an increasing number of questions concerning insurance cover. The way policies are set up is very individual and differs on a case-by-case basis, however, so we cannot provide any general information. The individual contract has to be reviewed in terms of the scope of cover and terms and conditions.

We will be happy to help you – please get in touch with us if necessary.

## Outlook

The market situation remains stable. There is no new legislation or other factors that could influence underwriting activities.

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# Legal protection insurance



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Cum-Ex deals, customs checks at construction sites, balance sheet scandals, foreign payments, missing trader fraud, Dieselgate – business criminal law continues to be a focus. It reflects the broad spectrum of conflict occurring in the business world at the moment. In addition to the classic fields in criminal law of fraud and breach of trust, more attention is starting to be paid to the areas of tax, competition, corruption and employment law. No company is immune to facing potential allegations. Even if these allegations turn out to be unfounded, the company still suffers reputational damage in many cases. An agreed compliance structure – with the necessary internal investigations if needed – can mitigate damage early in the event of a crisis. The ‘recovery procedure’ in criminal proceedings is also gaining importance. The basic thought process behind this procedure in criminal law is clear from the point of view of the lawmakers: they do not want crime to pay, so proceeds illegally gained from criminal acts are seized.

Current experiences from claims show that clients gain a better picture early of the extent of the alleged crimes through internal investigations and optimise their defence

strategy over the continued course of the proceedings. Overall legal protection insurance claims remain high, which is why the premiums are increasing. Nevertheless, there is sufficient cover available on the market.

Legal protection insurers are offering free telephone advice and help online to Ukrainians and those helping refugees.

## Outlook

The Corporate Sanctioning Act (VerSanG) remains a big topic for discussion. It has the potential to fundamentally change German corporate criminal law. At the moment it is likely that the law will come into force in the near future and bring with it many changes.

## Your point of contact:



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## How Funk helps



We take current developments into account by adjusting insured sums and the sub-limit for forensic services. In the case of business criminal proceedings, this allows you to prepare an effective defence right from the start, clarify the facts through internal research and optimise your defence strategy.

# M&A insurance



PREMIUMS



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The market was tense in the last year, which became a challenge due to the number of transactions to be insured. For more complex and high-risk transactions in particular, it was difficult to obtain adequate insurance cover, as some insurers were being very cautious about underwriting transaction risks – some had stopped accepting requests. This led to an increase in premiums and minimum premiums. At the same time, there was stronger competition for insuring identified tax risks or other contingency risks. Many insurers have taken on more staff for 2022 in order to improve availability of services to meet what continues to be very high demand. Overall the market is offering better cover than at the end of 2021.

The war in Ukraine and the policy of sanctions arising from it have severely disrupted the progress of some transactions. Some companies have been forced to absorb significant losses and write-offs in the affected regions, which has impacted their value. Furthermore, many insurers have implemented risk exclusions, for example for Russia, Belarus and Ukraine. Insurers' appetite for risk concerning target companies in these regions was low even before the war. Now, however, companies should also expect specific exclusions of cover for

guarantee statements concerning a target company's subsidiaries, suppliers or client interactions based in these regions.

## Outlook

Despite a slight slowdown in spring 2022, we expect a high amount of M&A activity in the coming months. Premiums are only increasing slightly where the market is under more stress, but there are already signs that the more complex configurations on the market will be more difficult to insure.

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## How Funk helps



Especially with more complex transactions or carve-outs (the sale of parts of companies), it is critical to present a risk quickly and clearly. Insurers do not always accept internal due diligence checks performed by the buyer. We know the market players well and can find the right solutions for even the most time-sensitive transactions.



More on M&A transactions:  
[funk-gruppe.com/ma-services](https://www.funk-gruppe.com/ma-services)





## GOODS SHORTAGES & PRICE RISES

# The consequences of inflation

Purchases are becoming more expensive. This is true for private trips to the supermarket as well as for the purchase of raw materials in industry or construction materials. In April 2022 producer prices were about 34 per cent higher than the previous year. This trend will get worse still. The high inflation rate is primarily due to the fact that the Covid pandemic continues to cause bottlenecks in the global supply chain and the war in Ukraine is causing energy and producer prices to rise.

### Replacement is more expensive

'Adjusting a claim, such as when a factory hall has burnt down, costs significantly more today than one year ago, because replacement and rebuilding costs have increased,' explains Nadine Benkel, Head of the Market Management Team at Funk.

'The repercussions of this are especially noticeable in the property, transport and technical insurance sectors.' As an example to illustrate the problem: current markups for construction steel are making typical steel structures for industrial halls about 50 per cent more expensive at the moment. Insured inventory or warehouse goods are often even 100 per cent more expensive or even higher, compared to the cost in 2021. What's more, imports of steel and iron are lacking due to sanctions against Russia. And many companies underestimated the importance of Ukraine as a supply country for the German economy.

### Check insured sums

These additional costs in claims adjustment now put numerous companies at risk of being underinsured. 'In addition to higher

costs for stored inventory or raw materials such as metals, oil and gas, it may be that the assessments of the value of buildings and contents are too low given the higher restoration costs, and these assessments should be adjusted,' recommends Dr Alexander Skorna, Managing Partner of Funk Consulting. Both the pure material costs and the higher labour costs – due to the current skills shortage – should be considered, along with the insured values for business interruption, which are rising as a result of problems in the supply chain.

Skorna says, 'The business interruption often goes beyond the predicted scope of the claim. Companies should additionally check the agreed liability periods and extend them if necessary.' Underinsurance can have critical consequences for affected companies in the event of a claim, if no waiver of underinsurance is agreed. Insur-

ers may proportionally reduce the adjusted sum in an insurance claim if the insured sum is significantly lower than the actual restoration costs.

### Estimate risks correctly

Funk offers support in this challenging market situation. For example, companies can use the SMART BI Check to investigate the plausibility of insured sums, limits of indemnity and limits in the context of interruption insurance.

German info on inflation, raw material shortages & the climate crisis:



[funk-gruppe.com/inflation](https://www.funk-gruppe.com/inflation)

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**Publisher:** Funk Group, Valentinskamp 20, 20354 Hamburg, Germany; tel. +49 40 35914-0

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