UPDATE

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funk forum
MARKET EDITION

'The contracts have been renewed.' What sounds like such a simple thing was actually quite a challenge. As we reported in the Funk Forum market edition in August, insurers have recently been reducing cover or increasing premiums in many industry sectors. Major claim events, like Storm Bernd, and sweeping cyber attacks wreaked havoc on balances and prompted insurers to adapt their contracts. The reduction in cover also leads to a greater need for coordination and increasing underwriting syndicate business. This means that several insurers are involved in one insurance contract. And increasingly, reinsurance capacities are being claimed.

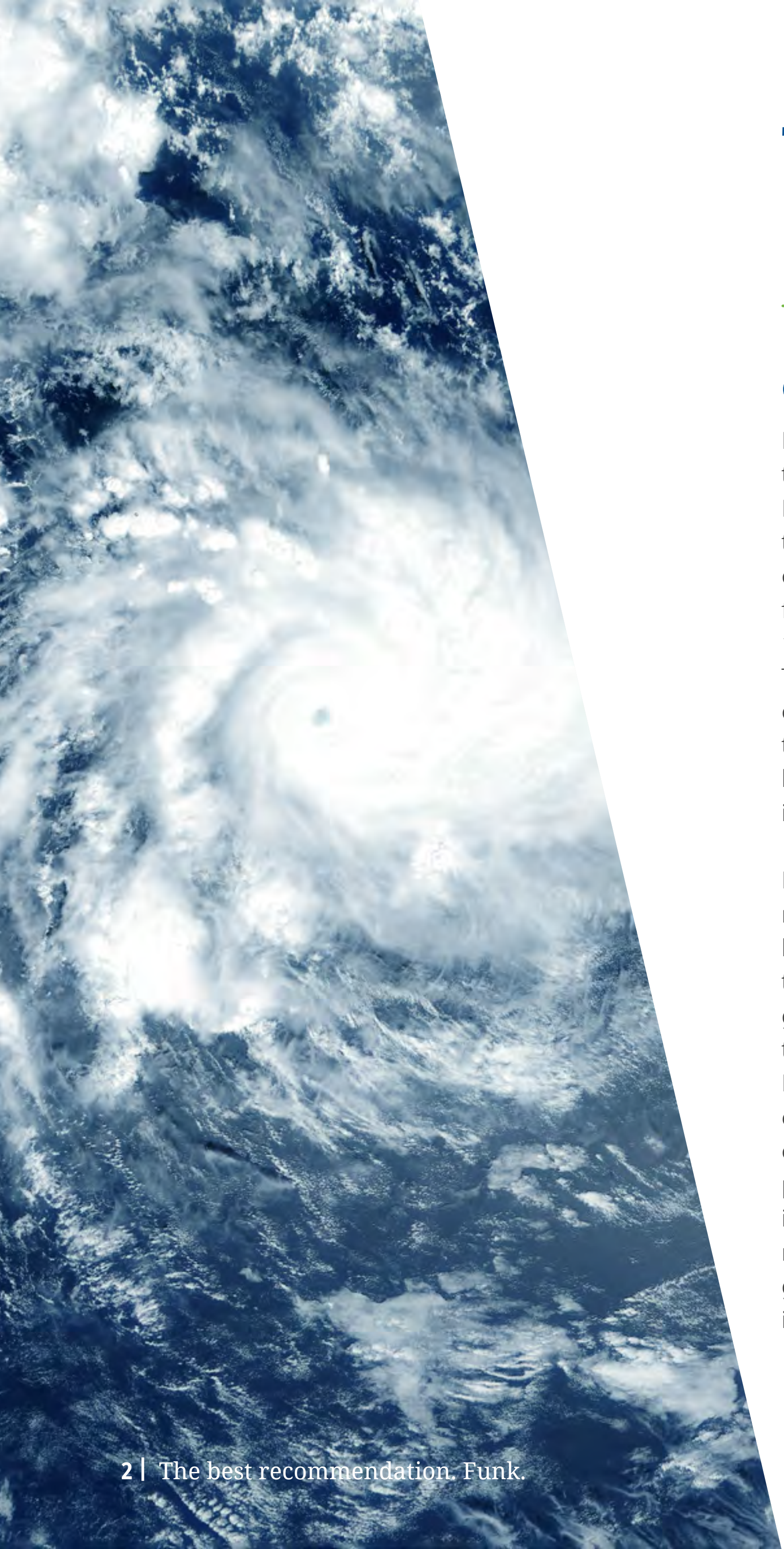
Intensive dialogue

In light of this, we are proud to have completed the contract renewal season with success. The key to this success is our 'Renewal Agenda': a roadmap based on good experiences from previous years. We started the conversation with the insurers early, which gave us time to analyse the cover structures and review changes to contracts individually. This is important because risks are becoming increasingly complex and demand alternative concepts for protecting against them.

Top risks in 2022

This year once again we are providing transparency: we present the big risks you should have in mind. No matter the topic, we can help with special solutions and services (see p. 5). Risk management plays a key role in this: insurers' requirements for fire protection and IT security continue to increase, as does the need for up-to-date risk information. In future, good data processing will be the basis for purchasing adequate insurance cover and achieving optimal negotiation results. Risk information is also increasingly asked for in English, in order to take advantage of international cover.

No matter what changes, one thing remains the same: we will always be a strong partner at your side.



The risks you should have on your agenda for 2022

Climate crisis: here to stay

Natural disasters led to significantly higher claims in 2021 than in the previous year. According to reinsurer Munich Re, the total claims worldwide rose by 70 billion US dollars to 280 billion US dollars. This was primarily due to Hurricane Ida in the USA and Storm Bernd, which caused flash flooding in Europe. It was not just material damage: around 10,000 people lost their lives to natural disasters in 2021. The climate crisis has arrived – and it's here to stay. On the one hand, companies must prepare for rising damage due to natural disasters. On the other hand, they should also be tackling the issue of sustainability, which the insurance industry has already started looking at intensively.

For example, insurers are setting up their capital investments to be more sustainable and withdrawing from business with companies which are contributing negatively to the climate crisis. Coal-intensive companies are getting harder and harder to insure and are having to take on parts of their risk themselves in the medium term. Legal requirements for companies are also increasing, for example due to new legislation on supply chains. Violations of the new standards can lead to liability, D&O and legal protection claims, not to mention damage to reputation. It is better to be a good example and actively promote environmental protection, social commitment and responsible governance. Companies should also be thinking of their insurance cover in this. For example, if a company wants to produce green electricity itself in future and installs a photovoltaic system for this purpose, the existing technical insurance policies need to be adapted.

Good to know: when a company lives its sustainability values in a credible way, this has a positive effect on profit and employee retention. This is a consideration that is becoming increasingly important, especially in light of the current skills shortage.

Cyber: high IT standards required

The cyber insurance market will also pose great challenges to all market players in 2022. In many risk reports, cyber attacks are listed as one of the greatest risk factors in the coming five to ten years, immediately after the climate crisis. The economy faced an increasing number of attacks in the past year. The frequency and also the intensity of the attacks is rising dramatically. These are ransomware attacks in a majority of cases – a form of digital extortion. According to a study conducted by IT association Bitkom, cyber attacks account for a total of around 220 billion euros annually – and that's just what the German economy is experiencing. A majority of attacks starts by manipulating employees (an approach known as 'social engineering'), for example by email.

For insurers, cyber attacks are an incalculable risk. Cyber attacks that affect lots of companies at the same time represent an accumulated risk in underwriting, comparable to a natural disaster. A cyber incident can also become a claim in several insurance policies held by a company. Insurers have looked more closely at this 'silent cyber' risk – hidden cyber risks in property and transport insurance, for example. In response to their findings, they have reduced insurance cover and drawn up exclusions for cyber risks. Despite these limitations in cover and increases in premiums, the demand for cyber policies continues to be very high. High IT security standards and good risk management, such as contingency plans, will be required in order to purchase insurance in the future.

Raw material prices: risk and opportunity

The cost of raw materials for important commodities has only gone in one direction in the last year, and that is up. Many companies are reporting the current supply situation to be poor or very poor for plastics or pellets, metals like aluminium, copper, iron ore and tin, and wood and paper. In some cases even the primary materials are lacking; energy prices have also shot up drastically. Dependencies on individual suppliers or entire supplier countries, like China, can develop as a result. The consequence of this is that the price increases and volatile procurement markets are making it more difficult to manage purchasing. More capital is now needed to protect the supply chain so that warehouse management can meet needs. Furthermore, the lack of certainty in planning increases the need for liquidity.

But the changes in the procurement market also offer opportunities: German industry can decouple itself from international trends by regionalising. This approach would make it more resilient and can also secure a crucial place in new value creation chains for the German industry.

Supply chains: many disruptive factors

The supply chains of many companies have gone downhill in past months. There are many different reasons for this. In industries with especially tight production cycles and a high distribution of work – like the automotive supplier industry – supply shortages of raw materials as well as low sea freight and container capacities pose real challenges. The global semiconductor crisis, for example, has forced several automotive manufacturers already to slow their own production, leading to sharp falls in turnover.

Another risk is the dependency on IT systems for supply chain control. Cases where cyber criminals have gained access to these systems and blocked them have jumped up. These incidents disrupted logistics and production processes over the long term and stopped operations. Political risks, such as sanctions or trade restrictions, can also affect supply chains. It is crucial for companies to analyse the individual risks in their own supply chains and protect themselves accordingly. Alternative solutions should also be considered. Currently, the insurance sector is not offering transfer of risk through conventional insurance solutions for these market price and supply chain risks. Companies can use separate alternative risk transfer solutions, such as captives, to protect their core balances from such risks. This approach can see the overall costs of risk reduce and the volatility of the balance sheet drop significantly – with positive implications for ratings and key performance indicators.

Liquidity: factoring provides security

Covid-19 has had a long-lasting effect on the business world. In addition to the risk that even financially sound businesses with lots of customer orders could be threatened by non-payment, which would then put their own liquidity at risk, many companies are fighting other direct and indirect consequences of the Covid-19 pandemic. These include, among others, inflation, the energy crisis, interruptions to supply chains and the tightening of transport capacities. All of these phenomena lead to rising purchase prices and therefore a fundamentally greater need for liquidity.

Companies can protect themselves from the risk of customers becoming insolvent through conventional commercial credit insurance. But there is no insurance solution to the other Covid consequences described above. This is where factoring comes in: the supplier sells its receivables to a factoring company, which pays the supplier the purchase price minus a deduction (usually ten per cent). This solution significantly improves a company's own liquidity. The additional liquidity can be used in many different ways: for example, to pay the company's own suppliers and take advantage of cash discounts, to finance the company's own growth, to facilitate a change in shareholders (as reimbursement for the previous shareholder loan) or to optimise the balance figures. Factoring can supplement conventional banking methods and therefore reduce dependency on banks. Diversifying in this way also helps secure financing for the company. If a commercial credit insurance policy is already in place, factoring can be used in addition to this insurance solution.

Skills shortage: baby boomers in retirement

By 2030, so many workers from the baby boomer generation will retire in Germany that there will be a shortage of around three million full-time workers. This exodus will make the fight for skilled workers and up-and-coming talent even harder. Companies have to put together a package that is as attractive as possible. This package not only includes a fair wage, but also benefits like a workplace pension and company health insurance. Working conditions must also be favourable: many employees prefer flexible working models to the standard nine-to-five, working from home to needing to be in the office, and agile teams to fixed hierarchies. According to the StepStone recruitment platform, 76 per cent of workers in Germany also think it is important for their employer to place high value on sustainability. More than just ideas for addressing the climate crisis, sustainability also includes, for example, promoting diversity in the workplace. The era of 'boys will be boys' is over: today the focus should be on eliminating discrimination in the workplace and supporting equal opportunities at all levels.

We're gearing up for a strong 2022 with you

We provide transparency about risk

Good decisions come from being well informed. That's why Funk is keeping you up to date with a professional information delivery system: everything you need to know about the situation in the industrial insurance lines is presented in our Funk Forum market edition. Read about current affairs – like legislative changes – in our newsletters and on our social media channels (see p. 6). And naturally our customer consultants are committed to your insurance cover and will provide personal, individual advice in their annual reviews and other strategic meetings with you.

Funk Forum market edition:
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We offer individual solutions

Part of our mission is to constantly optimise your insurance cover. We identify, analyse, evaluate and manage your risk in ways that are completely individual to you. That way you can be certain that you are still well protected even when you change your business or if new risks arise. Funk works with its own engineers, stress tests, benchmarks, risk management analyses and digital tools to get a picture of your risk profile and manage your risks and contracts. If necessary, we work with our clients to develop appropriate risk acceptance strategies. And when finding suitable insurers and vehicles for risk placement, we leverage our market power – even internationally: we search both domestic and international insurance markets as well as the reinsurance market to find the most suitable solution for our clients. Plus, Funk is your partner when it comes to workplace pensions and private employee benefits – to keep you attractive as an employer!

Find out more about risk acceptance strategies that utilise captives:
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We create innovations

Sensors, artificial intelligence (AI) and drones are now well developed and highly versatile tools. Funk Beyond Insurance links the commercial added value of digitisation with the risk management and insurance management benefits for clients in a targeted way. We collaborate intensively with RWTH Aachen University, developing innovations on the university campus. The results of these innovations can be seen on our website, where you can discover how AI reduces the risk of fire and how blockchain technology helps maintain compliance with important guidelines, for example.

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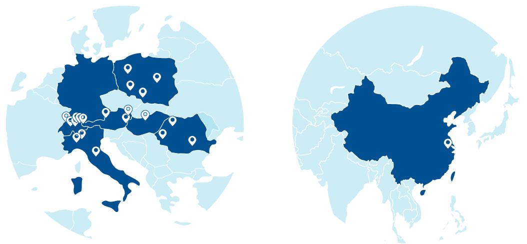
We leverage our global network

Our one-of-a-kind partner network, the Funk Alliance, has allowed us to serve our international clients quickly and efficiently for over 50 years. High-calibre partners all around the globe provide professional on-site support and understand local challenges. The network is managed centrally from Germany and is one way we combine our powers to better serve you.

Always where you need us



Get in touch with us!

We provide more security throughout the world. Funk has 36 international offices. With our Funk Alliance network, we are also represented at 300 offices in 100 countries.

You can conveniently find your regional contact online:

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About Funk

Funk is the largest family-run insurance broker and risk consultant in Germany and a leading broker firm in Europe. Founded in Berlin in 1879, the company today has 1,460 employees. As a system provider for risk solutions, Funk supports companies from all industries in insurance and risk management as well as pensions. Funk develops individual schemes for these companies and optimises their protection against all operational risks in a way that consistently matches their needs.

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