

Press release

How inflation is affecting D&O and cyber insurance claims

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Inflation, energy crisis and supply chain issues are increasing liability risks for managers. At the same time, companies are holding their management bodies personally liable for wrong decisions more than ever. This is why every board member and managing director should review their D&O insurance coverage. With the cost of claims for cyber incidents clearly on the rise, cyber insurance should be checked and adjusted as well.

The inflation rate currently is the highest it has been in decades. In June last year, the German consumer price index was still a moderate +2.3%. According to the German Federal Statistical Office, it rose to 7.6% in June 2022. Major cost factors are price rises in the food sector (11.9%) as well as in housing, water, electricity and gas, each recording increases of more than 10%. The price increase is also felt in large sections of commercial and industrial insurance, not least in D&O and cyber insurance. Managers can expect a significant increase in liability risks, due to inflation. Claims are also likely to become more expensive in the future and cause higher costs. Companies and corporate managers should urgently review their D&O and cyber insurance coverage.

Energy crisis and supply chain issues

The trigger for the sharp rise in inflation is first and foremost Russia's attack on Ukraine. As a result, an energy crisis arose due to a reduced supply of gas, which led to drastic price increases.

This is accompanied by ever-increasing pressure on supply chains around the globe. The knock-on effects of extended delivery times, together with production shortages, a lack of staff and materials as well as a scarcity of and sharp increases in raw material prices are in some cases causing supply chains to break down altogether.

Increased liability risks for managers in D&O insurance

This poses enormous challenges for companies. Their board members and managing directors are exposed to a significantly increased liability risk. "Over the past few months, we have witnessed a noticeable increase in the number of inquiries by companies and corporate managers on issues relating to liability and whether they are covered by their D&O," reports Dr. Marcel Straub, Head of Legal and Head of Claims at Finlex. Because, in times of crisis in particular, business leaders have to identify and manage potential risks. If this fails and if a manager makes a mistake, he will be liable with his private assets, if he did not exercise the care of a prudent and conscientious business manager in making a decision.

One example for this is the current case of a US company that provides technical solutions for critical infrastructure development, construction and maintenance. Its CEO and CFO are being held liable by stockholders for allegedly failing to respond adequately to supply chain issues and inflation.

Similar cases might happen in Germany as well. Dr. Marcel Straub explains: "There are countless conceivable constellations where managers in the current crisis situation may make mistakes that potentially could trigger financial losses for their company. This includes the possible allegation that a board member or a managing director failed to adequately respond to the changed market conditions. For example, managers are accused of purchasing raw materials too late or at too high a price, of failing to develop alternative supply chains, or of not ordering materials on time, causing a shutdown of production. It is not an isolated incident for companies to subsequently hold their managers personally liable. We therefore advise managers more than ever to only act on the basis of sound information, to weigh their decisions and to document processes at all times. To hedge against such risks, each and every manager should be able to fall back on comprehensive D&O insurance coverage."

Increase in the cost of claims for cyber insurance

The insurance industry is feeling the effects already. In property insurance, the rise in the cost of materials as well as raw materials is pushing up the cost of rebuilding and repairing plants, machinery and buildings. On top of that, a lack of materials or supply chain disruptions lead to delays, resulting in lengthy business interruptions.

The situation is similar with cyber insurance. If a cyberattack has impaired a company's operations or brought them to a complete standstill, for example through encryption or by destroying systems, it takes longer than usual to restore systems because of material shortages or supply issues (e.g. of computer chips) and therefore it takes longer to resume operations. The longer the systems are down, the higher the cost of claims for the insured company.

The general increase in prices also will most likely have the effect that the parts and materials required to restore the systems will become more expensive to purchase. Elke Seiz, Claims Counsel at Finlex: "We expect that claims-related services will become more expensive in the near future, in parts even significantly. Right now, we can see that some of the IT service providers and forensic experts who are urgently needed to deal with a cyber attack have raised their hourly rates already."

The individual cyber insurance concept should be critically examined because of the inflation in claims. The focus here should be on whether the insured sum or any sub-limits ought to be increased. Because there is a risk that the increased cost of claims will have the effect that the insured sum will no longer be enough in the event of a claim or that sub-limits will be reached too quickly. As a consequence, insured companies would not be compensated for part of the insured loss.

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Dr. Marcel Straub | (Press photo)

Elke Seiz | (Press photo)

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About Finlex GmbH

Finlex – the online insurance platform for commercial and industrial clients – aims to be the leading digital marketplace for financial lines' business segments throughout Europe. This includes D&O, cyber, legal expenses, fidelity, pecuniary loss liability and capital market transaction insurance. Finlex focuses on digitization and professionalism.

The InsurTech Radar 2021, recently published by Oliver Wyman, considers Finlex one of the few 'scale-ups' with enormous potential. Scale-ups are start-ups that have left the initial phase and are showing rapid growth.

Finlex is headquartered in Frankfurt am Main with offices in Berlin, Barcelona, Düsseldorf, and Vienna.

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Press contact:

Finlex GmbH

Denise Jetzki | Head of Corporate Marketing

E-Mail: marketing@finlex.de

Phone: +49 69 8700 142-0

finlex.io

