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Column

Cyber risks: old wine in new (virtual) bottles?

The insurance industry faces a new challenge: “cyber risks”. But are such risks really new, as often argued? Or do all parties just want to conceal that they have overslept a development?

Weekly, new horror stories of cyber damages allegedly threatening the existence of companies, reach the German insurance market. One time, unknown offenders steal millions of customer data, another time hackers cripple power plants. The tone of these reports is often quite similar. Cyber risks are represented as a dark and elusive power afflicting people and companies from a virtual world inaccessible for us. This is a pure mystification of very real processes.

Actually, the most likely risk of all so-called cyber risks is rather banal. An inexperienced or dissatisfied employee negligently or intentionally causes damage to the company. For the company it is unimportant, whether this is done by wrongfully activating a mechanical lever or by a fatal mouse click. In both cases the damage may be the same.

The enthusiastic car buyer also knows the danger of theft and insures himself against it. It is everyday reality that criminals steal things. Data is also stolen by criminals. It is only that data is not tangible. Have cyber risks therefore never existed before? Or why else did everyone in the past think that data is not worth protecting?

In many cases, cyber risks are only the well-known dangers caused by criminals or inattentive people for thousands of years. These risks are not new. Not even the resources are very new. More than 80 years after Konrad Zuses Z1, the first computer, and 15

years after Boris Becker's first steps through the world wide web (in a famous German commercial), companies should be able to overview their technologies and the associated risks. Similarly, insurers should by now easily be able to calculate and to cover increased hazard potentials arising in individual cases.

Mystification of natural changes to the industry's risk environment is no help at all. Instead, transparent terms and conditions for new "cyber policies", stringent extensions of cover for existing commercial insurance products such as, for example, the business interruption insurance or the fidelity insurance and competent advice by insurers or brokers are needed.

The policy holding companies should know risks arising out of their use of modern technologies as well as their traditional business risks. It is a matter of responsibility for those who are potentially at risk (as this has always been the case). This responsibility includes also the awareness that not all risks are insurable – regardless of whether they seem to be supposedly virtual or real.

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