Insurers Worry About Cyber-Policy Hitch though such attacks had been groups that work for them. withal to launch them, while has been a booming business, vigilante hackers on both sides But a judge in New Jersey rising for years.

but Russia's invasion of Ukraine has insurers sweating about the possibility of big losses. They

> By Alice Uribe, Leslie Scism and David Uberti

are rushing to plug a possible loophole that leaves them vulnerable.

Sales of cyber insurance more than doubled last year to about \$15 billion as companies sought to protect themselves from the costs of ransomware and computer viruses that could cripple their operations.

Like most insurance policies, these have exclusions for acts of war. The aim is to protect insurers from claims tied to cyberattacks by governments, their militaries or poked a hole in that exclusion last year in a ruling that essentially said a common actsof-war exclusion doesn't cover cvberattacks.

Now, insurers are exploring ways to toughen up that language in future contracts, amid concerns that they could get hit by cyberattack claims under existing policies stemming from Russia's invasion. Fitch Ratings cautioned in a

March 1 note that the invasion "has increased the risk of cyberattacks and potential claim costs" for insurers that may "further test the effectiveness of 'war exclusion' and 'hostile act exclusion' language," already under scrutiny since the ruling.

So far, there have been no major cyberattacks in the war. But the Kremlin has the whereof the conflict have added confusion to the digital front.

In the New Jersey case, drugmaker Merck & Co. alleged it suffered \$1.4 billion in losses from a 2017 cyberattack. Its nearly three dozen property insurers rejected Merck's claim, citing war exclusions. The incident stemmed from a cyberattack known as NotPetya, which targeted a Ukrainian accounting firm and jumped indiscriminately to other organizations' computer networks around the world. The White House attributed the incident to Russian military hackers, calling it the most costly and destructive cyberattack ever.

In ruling against the insurers, the judge said that their exclusions addressed war and hostile acts, but not cyberattacks,

"Merck had every right to anticipate that the exclusions applied only to traditional forms of warfare," the judge wrote.

Some insurers settled with

insurance last year

Merck and others have appealed the ruling.

Insurers are going down two paths to protect themselves from wartime cyberattacks. In their appeal, trade group American Property Casualty Insurance Association said the ruling "un-

ability to underwrite cyber risk" by burdening insurers with "farreaching liability from hostile nation-state cyberattacks they never accepted."

With the risk higher, insurers are being more selective than ever about the clients they will take on or renew, looking for robust network security. "It's a very onerous process for an insured today to buy cyber insurance," said Henry Clark, head of professional and executive risks at Australian broker Honan Insurance Group. The second path is an effort

by some in the insurance industry to reword the longstanding war exclusions. But they need to be careful because if they are too broad, businesses won't buy the coverage.

Lloyd's Market Association, a trade group, in November profew Lloyd's syndicates have adopted it to date, said Thomas Reagan, cyber practice leader at the Marsh brokerage unit of Marsh McLennan Cos. Brokers and policyholders are concerned about "excessively broad and unacceptably ambiguous exclusions," he said.

Representatives for the association and Lloyd's didn't respond to emails seeking comment on the wording.

Cyber insurance can be a stand-alone policy or part of a wider coverage package, addressing such things as costs to fix a breach, restore data, notify customers and monitor their credit. Terms can vary widely. Chubb Ltd., American International Group Inc., and Travelers Cos. are among the biggest sellers by market share. They declined to comment.

Musk Says Tesla, SpaceX Face Inflation Pressure

By Allison Prang

Elon Musk said his two companies Tesla Inc. and SpaceX are facing substantial inflationary pressure and that he has no plans to sell his cryptocurrency holdings.

Mr. Musk, the world's richest person by net worth, said in a tweet Sunday that both the electrical-vehicle maker and the space-exploration company "are seeing significant recent inflation pressure in raw materials & logistics."

His comments come after government data released last week showed consumer prices jumped at a 7.9% annual rate last month, the highest in four

And a poll by The Wall Street Journal showed nonwhite voters were more likely to say the recent inflation is causing a big financial strain on their lives.

"As a general principle, for those looking for advice from this thread, it is generally better to own physical things like a home or stock in companies

you think make good products, than dollars when inflation is high," Mr. Musk said on Twit-

"I still own & won't sell my Bitcoin, Ethereum or Doge fwiw," he added. The price of bitcoin was re-

cently trading at around \$39,000, according to Coin-Desk. It is down by roughly half from its all-time high in Mr. Musk's net worth is

\$206 billion, according to the Bloomberg Billionaires Index.

In one of his tweets, Mr. Musk asked his 77.7 million followers what their thoughts were about the probable inflation rate over the next few

Inflation expectations are important because how people perceive future price moves can play a role in actual inflation and determining how and when the Federal Reserve raises interest rates.

A report released Monday showed households in February expect 6% inflation a year from now, a new record and



The SpaceX Starbase facility under construction in Brownsville, Texas.

up from 5.8% in January, according to the Federal Reserve Bank of New York.

"The increase was widespread across age, education, and income groups, but largest for the respondents without a high-school diploma," the bank said.

Inflation is being felt from consumers to businesses. More than 350 companies in the S&P 500 cited inflation during their earnings calls for the latest quarter, according to financial-data provider Fact-Set, the most since at least

Mr. Musk's comments echoed Tesla's recent results as well. The company said higher logistics costs and materials prices weighed on profit last year.

Other companies have been feeling similar pressures, from soda maker Coca-Cola Co. to consumer products company Procter & Gamble Co.

"Inflationary and supply chain pressures continue to impact costs across several fronts in the business, including input costs, transportation, marketing and operating expenses," Coca-Cola Chief Financial Officer John Murphy told analysts on the company's fourth-quarter earnings call last month.

P&G, the maker of Pampers diapers and Tide laundry detergent, said it expected inflationary pressure to continue.

"Availability of materials remain stretched in some categories and in some markets, inflationary pressures are broad-based with little sign of near term relief," Andre Schulten, chief financial officer at P&G, said on the company's second-quarter earnings call in January.

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Wells Fargo Chief Scharf Received 20% Raise for 2021

Wells Fargo & Co. Chief Executive Charles Scharf earned \$24.5 million last year, receiving a 20% raise as the bank recovered from its pandemic

The compensation, like in 2020, included \$2.5 million of base pay, according to a regula- $\frac{1}{2}$ tory filing on Monday. He also received a \$5.4 million cash bonus. The remainder, \$16.6 million, is long-term incentive compensation that vests over time and is paid in common

Mr. Scharf earned \$20.3 million for 2020, a 12% pay cut from the prior year, as the coronavirus shut down the economy, weighing on the bank's profit and share price. Both rebounded last year, with Wells Fargo's share price surging

The bank is still recovering from its fake-accounts scandal that tarnished its reputation and put it in hot water with



Charles Scharf's compensation lags behind some of his peers.

regulators. Mr. Scharf was brought in about 2½ years ago to clean up the messes and has focused on resolving outstanding regulatory issues and cutting costs. The Federal Reserve has capped the size of its balance sheet for more than four

Mr. Scharf's pay lags behind that of the chiefs of Morgan Stanley, Goldman Sachs Group Inc., JPMorgan Chase & Co. and Bank of America Corp., all of whom earned more than \$30 million. He was paid more than Citigroup Inc.'s new CEO, who started last year and earned \$22.5 million.

Still, Mr. Scharf's total annualized compensation was 290 times the \$73,578 that the median Wells Fargo employee took home last year, the bank said.

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Alzheimer's Drug Pact Is Amended

Japan's **Eisai** Co. is giving up its right to share in profits from Aduhelm, the new Alzheimer's disease drug it helped develop with Biogen Inc., the latest sign of the drug's diminished prospects.

Biogen and Eisai said Monday that they amended their collaboration agreement to give Biogen full authority to make regulatory and sales decisions regarding Aduhelm, which was approved last year in the U.S. in a decision by the Food and Drug Administration.

Under the new terms, Eisai starting next year will surrender its right to share in profit and losses related to Aduhelm.

Beginning in 2023, Eisai will receive royalties starting at 2% of Aduhelm's global sales, increasing as sales rise, reaching 8% when Aduhelm's sales exceed \$1 billion annually, the companies said.

sales outlook for Aduhelm has diminished since the drug was first approved last June. Health-insurers have balked at paying for it, and many doctors have declined to prescribe it.

Medicare, the federal health insurance program for people over 65, has proposed to pay for Aduhelm only in narrow circumstances where patients are enrolled in randomized clinical trials. In December, health regulators in Japan and the European Union declined

to approve Aduhelm. Analysts project 2022 Aduhelm sales of \$33.8 million, according to FactSet.

The companies said the financial terms of their partnership to develop a different Alzheimer's drug, lecanemab, would remain unchanged. Eisai is responsible for leading the regulatory approval process for lecanemab globally, and Biogen is entitled to 50% of profit and losses related to the drug.

Eisai began submitting data to the FDA last year to support an early approval for lecanemab. The companies extended their agreement for Biogen to manufacture the drug from five years to 10 vears.

The revised agreement will give Biogen greater flexibility to react to market dynamics related to Aduhelm, including the pending Medicare coverage decision, Biogen Chief Financial Officer Michael Mc-Donnell said. The revised deal terms won't affect Biogen's financial outlook for 2022, he

"It gives Biogen increased operational efficiency and the ability to be a bit more agile to address market conditions.' Mr. McDonnell said. "It gives Eisai the ability to increase its focus on lecanemab, and in-

crease its efforts there."