

ECONOMIC RECOVERY

“ The French Presidency will give high importance to enhancing the EU’s capacity to manage and boost its resilience to crises by improving its preparedness, response capacities and by drawing lessons from the response to the pandemic. ” [SOURCE]

STATE OF PLAY AND CHALLENGES

European businesses face an evolving risk landscape where extreme risks such as the pandemic are growing in frequency and potential severity. When it comes to mitigating such risks, the private insurance market does not provide sufficient financial protection for European enterprises.

The pandemic also hit corporates during a hard insurance market, which is characterised by higher premiums and less coverage. Looking to the mid- and longer- term, European businesses are wary of certain risks being deemed “uninsurable” by the private insurance market.

One favoured alternative to commercial insurance is captive (re)insurance. Captives are an efficient risk management tool for businesses and are also a part of a vibrant and competitive European insurance market. Making the EU more attractive for captives would contribute to reinforcing the resilience of the European economy by giving companies more opportunity to take risk in a structured way, mitigate market cycles and improve approaches to risk.

What is a captive ?

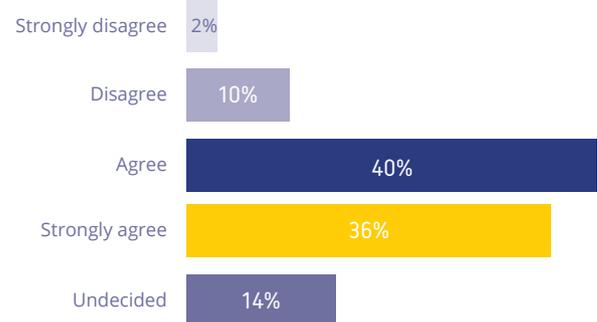
A captive is an entity set up and owned by the corporate group to insure or reinsure certain risks of its risks for which the market does not provide sufficient capacity or the price is not economic.



We ask policy-makers to

Aim for a final text on Solvency 2 that would put the regulatory requirements for captives on a basis that is truly proportional to their risk-profile. Captives should be designated as low-risk profile undertakings by default. This would grant European enterprises more risk management options and so reduce volatility.

To what extent do you agree with ‘there is not an insurance product available that provides me with the needed coverage against pandemic/large risks?’



FERMA’s COVID-19 Survey Report [SOURCE]

OUR CONTRIBUTION



FERMA Perspectives : Captives in a Post-BEPS World
Explains how multinational organisations can use captives effectively for their risk management programme in a modern regulatory environment.

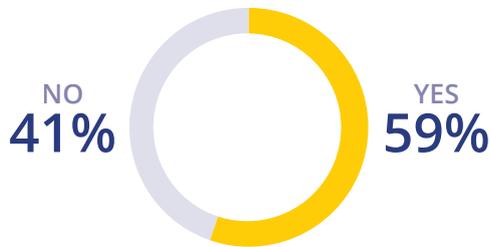
<https://www.ferma.eu/publication/ferma-publishes-guideline...>

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OUR CONTRIBUTION

- While the scale and speed of the pandemic crisis was largely unforeseen, large enterprises generally had preparations and processes in place that helped them respond, thanks in part to work by risk professionals.
- Between one-quarter and one-third of FERMA members use or manage captive (re)insurance entities to cover certain insurable risks of their operations.
- FERMA's European Risk Manager Report in 2020, found that 43% of risk managers were already considering the captive option, compared to 15% in 2018. [\[SOURCE\]](#) We expect this figure to grow in our 2022 survey.

Did your organisation already have preventive measures in place before the outbreak of COVID-19?



FERMA's COVID-19 Survey Report [\[SOURCE\]](#)

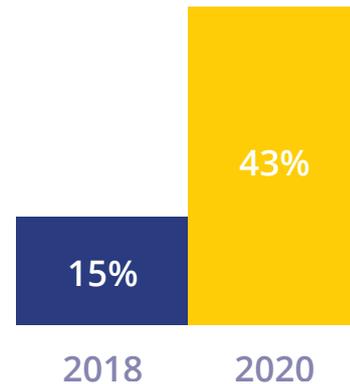
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With the insurance market hardening further, 2022 will be extremely challenging for corporate insurance buyers. A growing number of enterprises might find much less value in transferring some of their exposures to the private insurance market and decide that it's time to self-insure, set up new captives or extend the use of existing captives.

Laurent Nihoul

Head of Group Insurances and Group Operational Risk Management, ArcelorMittal, Luxembourg

Percentage of organisations considering making use of a captive (already existing or creating, 2018-2020)



FERMA European Risk Manager Survey 2020 [\[SOURCE\]](#)