Contribution to the French Presidency agenda
A more sovereign Europe

January 2022

As the single recognised voice of European risk managers

FERMA™
Federation of European Risk Management Associations

45+ YEARS

21 COUNTRIES
22 MEMBER ASSOCIATIONS
5000 RISK MANAGERS IN EUROPE
FERMA STRIVES FOR A WORLD WHERE RISK MANAGEMENT IS EMBEDDED IN THE BUSINESS MODEL AND CULTURE OF ORGANISATIONS.

As the representative body for the risk profession at European level, FERMA takes an active interest in the implications of the sovereignty agenda and looks forward to engaging with the French Presidency at the helm of the Council of the EU during the first half of 2022.

Europe’s strategic autonomy and ability to defend our values and interests rest squarely on the strength of its businesses and communities. As risk managers, our role is to coordinate awareness and action across corporate functions so that organisations are more resilient whatever threats they face.

We wish to support EU policy makers to respond to the future with confidence and support the transformation and resilience of Europe’s economy.
France has put the objective of further enhancing Europe’s strategic autonomy and sovereignty at the heart of its work for the next six months.

Launched in 2017, this agenda for a more sovereign Europe identifies certain policy areas as strategic priorities to help re-assert Europe’s role in global order while defending its values and interests. The thinking in terms of ‘EU strategic autonomy’ has been accelerated by the pandemic and its consequences for the economy and international trade.

In this short paper, FERMA describes the contribution of enterprise risk management to the French EU Presidency agenda for strategic autonomy for the European Union.

FERMA speaks on behalf of an international network of 22 risk management associations in 21 European countries, representing about 5,000 professional risk managers.

**The risk management perspective on the sovereignty agenda**

For risk managers, the agenda of sovereignty directly impacts the risks and opportunities facing their organisations. This means that risk management as a strategic function can help shape the tactical alignment of European enterprises to the goal of sovereignty. It does this in two ways.

1. Risk management helps increase the resilience of businesses to shocks.
2. Risk managers support their enterprises taking risks to innovate, attract talent and build shareholder value.

Risk managers are the eyes and the ears of European enterprise, since they are always scanning the horizon to anticipate ‘megatrends’ that will impact their organisations. This fundamental aspect of risk management informs the priorities for FERMA’s advocacy work by identifying the areas of major strategic importance for European businesses.

**Key issues for enterprise risk managers**

The crisis created by the pandemic has clearly intensified the use of horizon scanning and strategic foresight as ways of building resilience and sustainability as mentioned by the French Presidency in its programme.

**Key issues for European risk managers today include:**

- Economic recovery (systemic risks and risk transfer)
- Digital issues (cyber risks)
- Ecological transition (sustainability and insurability)

**Risk management and resilience**

Resilience reduces vulnerability to uncertainty and change. It allows European organisations to determine their own course, and so contribute to the strategic autonomy and sovereignty of the EU. Enterprise risk management is a proven way of strengthening resilience and enhancing opportunities.
“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’?

- Strongly disagree: 2%
- Disagree: 10%
- Agree: 40%
- Strongly agree: 36%
- Undecided: 14%

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...
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.

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

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

- **NO** 41%
- **YES** 59%

*FERMA’s COVID-19 Survey Report [SOURCE]*

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

- **2018** 15%
- **2020** 43%

*FERMA European Risk Manager Survey 2020 [SOURCE]*
"Enhancing cybersecurity will be a core focus for the French Presidency."

[SOURCE]

**STATE OF PLAY AND CHALLENGES**

The pandemic has speeded the digital transition of Europe. This acceleration has also opened new – and arguably emphasised existing – vulnerabilities. One of these is the concentration of digital power in the hands of a few companies and countries.

Effective cyber risk management is essential for enterprises to develop their digital platforms and reduce the likelihood and severity of damage from cyber-attacks. Risk managers are also aware of the exposure from dependence on single source suppliers.

An important element in managing digital risks is cyber insurance, which beyond providing risk transfer also guides companies in their prevention and security measures. FERMA Members have cybersecurity at the top of their agendas, however they are concerned that there is a shortage of appropriate cyber insurance on the market.

Furthermore, non-European entities determine many of the conventions in the realm of cyber security. This is important for risk managers in terms of their ability to identify, evaluate, mitigate and transfer risks.

Unfortunately for European enterprises, there is very little consistent, official information available on cyber attacks. What is the economic impact? Nobody knows. How many companies suffer attacks? Nobody knows. This puts the corporate buyer of cyber insurance at a disadvantage that the Lucy project intends to redress.

**DIGITAL ISSUES**

**Philippe Cotelle**

Head of Cyber Insurance & Risk Management. Airbus Defence & Space, France

**We ask policy-makers to**

- Promote corporate governance frameworks in cybersecurity matters.
- Work towards common European maturity-levels in terms of organisational cyber risk management, as well as standards or norms in cyber that are security and risk management driven.
- Help to improve European companies access to information about cyber insurance and the impact of cyber attacks on companies, notably in the context of discussions on Open Finance.

**OUR CONTRIBUTION**

FERMA proposes a cyber risk governance model to help organisations manage their exposure to cyber risk
FERMA Perspectives: At the Junction of Corporate Governance and Cybersecurity, written jointly with ECIIA. https://www.ferma.eu/publication/ferma-perspectives-n...

FERMA is helping organisations understand their cyber risks and financially mitigate cyber risk
BIPAR, FERMA and Insurance Europe in association with Aon and Marsh have published the “Preparing for cyber insurance” https://www.ferma.eu/publication/preparing-for-cyber-i...

FERMA is working on a project to shed light upon cyber insurance (Project LUCY) at European-level
AMRAE, Lumière sur la Cyberassurance, édition 2021 https://www.amrae.fr/bibliotheque-de-amrae?ref_id=3214&...
“Accelerating the transition to a decarbonised economy to become climate neutral by 2050 is an important goal of the French Presidency.” [SOURCE]

STATE OF PLAY AND CHALLENGES

For some time now both the frequency and severity of extreme weather events and natural catastrophes has been rising. This trend preoccupies risk managers as they seek risk transfer options to mitigate the impact of such events.

In this area, FERMA draws attention to the growing concern among risk and insurance managers about a protection gap, which is where some enterprises find themselves with insufficient financial protection against climate-related losses.

According to a recent survey conducted by the French risk management association, over 60% of risk managers are concerned that certain business activities or locations will become un-insurable [SOURCE].

The concern about lack of options for risk transfer for risks related to the transition is growing among risk managers. FERMA is very supportive of the work of EIOPA on the natural catastrophe protection gap dashboard. More information in this area is a vital step towards addressing the shortcomings of the market and to working on a possible solution, be it a public private partnership or otherwise.

OUR CONTRIBUTION

• One of the key contributions by risk management in terms of the ecological transition is that it helps prepare businesses for worst-case scenarios by guiding prevention and loss mitigation measures. See FERMA’s Sustainability guide for more information. [SOURCE]
• FERMA is also working with its Members this year to develop a position on the insurance market strategy for the transition, with a view to making recommendations for policy.

Mario Ramirez Ortuzar
Risks and Assets Manager, Exolum, Spain

We ask policy-makers to

Focus on the important issues of the insurance protection gap for natural catastrophes, and the trend in the commercial insurance market of risks being deemed ‘uninsurable’. Otherwise, EU citizens and businesses could be left with no risk transfer mechanism or financial protection for certain substantial losses.

The economic and insured losses from natural catastrophes in 2020 and 2021 (EUR Billion, 2021 prices) [SOURCE]

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<thead>
<tr>
<th></th>
<th>2018</th>
<th>2020</th>
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<tbody>
<tr>
<td>Economic Losses</td>
<td>171</td>
<td>211</td>
</tr>
<tr>
<td>Insured Losses</td>
<td>76</td>
<td>89</td>
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Economic and insured losses from natural catastrophes in 2020 and 2021 (EUR Billion, 2021 prices) [SOURCE]

Right now despite many companies making considerable investments in various sustainability initiatives or decarbonisation efforts, we are not seeing this being reflected in a lower insurance premium. This is important because many big industrial companies are themselves pursuing goals that help the transition away from carbon. We need a lot of support from banks and insurers to smooth this transition.”

Mario Ramirez Ortuzar
Risks and Assets Manager, Exolum, Spain