



FERMA™
Federation of European
Risk Management Associations

Contribution to the Czech Presidency agenda

*“Europe as a task:
rethink, rebuild, repower”*

July 2022

★ ★ ★ ★ ★
45⁺
★ ★ ★ ★ ★
YEARS

As the single
recognised voice
of European
risk managers



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 various implications of the resilience and digital agenda and looks forward to engaging with the Czech Presidency during its tenure at the helm of the Council of the EU across the second half of 2022.

Strategic resilience and the competitiveness of the European economy rest squarely on the strength of its businesses and communities. As risk managers, our role is to coordinate awareness and action across corporate functions to help organisations become more resilient.

We also wish to support EU policy makers to respond to the future with confidence, by supporting the transformation and resilience of Europe's economy.

PROFILE OF THE EUROPEAN RISK MANAGER



Come from a large organisation



make use of innovative technologies such as data visualization, process automation or artificial intelligence in their activities



Are in the industrial sector



Formally present to the Board of Directors or top management several times a year



Are involved in the reviewing process of the strategic risks



INTRODUCTION

The Czech Presidency's motto is "Europe as a task" and has put amongst its priorities the strategic resilience of the European economy as well as strengthening European cyber security. These two priorities have become even more important in light of the Ukrainian war, which recall Jean Monnet's prediction that "Europe will be forged in crises and will be the sum of the solutions adopted for those crises".

In this paper, FERMA describes the contribution of enterprise risk management to the Czech Presidency agenda for both strategic resilience of the European economy and enhancing cyber security. FERMA speaks on behalf of an international network of 22 risk management associations in 21 European countries to influence European institutions, business, finance and other services. Together they represent about 5000 risk professionals.

The risk management perspective on resilience and cyber security

For risk managers, the resilience and cyber security agenda directly impact 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 these objectives. It does this in two ways.

1. Risk management is fundamentally about helping to increase the resilience of businesses to shocks and risks.
2. One of these risks is cyber threats. According to our [2022 European Risk Manager survey](#), it is the top risk that companies are facing.

Risk managers are the eyes and the ears of European enterprises, anticipating '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.

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Risks are becoming more and more critical as we are entering a new phase of uncertainty. In times of crisis, risk management is a terrific tool as we have seen during the pandemic.

Dirk Wegener

President of FERMA

In a world of increasing uncertainty, complexity and change, the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests, uphold its values and way of life, and help shape the global future.

A New Strategic Agenda

2019 – 2024, European Council, 20 June 2019 [SOURCE](#)

Key issues for enterprise risk managers

The Coronavirus pandemic and the war in Ukraine have sharpened focus on strengthening the resilience of the EU economy in order to better face systemic risks. For instance, the increasing likelihood of severe cyber-attacks originating from all corners.

Key issues for enterprise risk managers today include:

- **Strategic resilience of the EU economy (systemic risks and risk transfer)**
- **Cyber security and digital issues (cyber risks)**



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 resilience of the EU. Enterprise risk management is a proven way of strengthening resilience and enhancing opportunities. [SOURCE](#)

STRATEGIC RESILIENCE OF THE EU ECONOMY

“ The overall objective of the Czech Presidency is to contribute as much as possible to creating the conditions for EU security and prosperity...The EU must focus on...ensuring the strategic resilience and competitiveness of the European economy. ” (SOURCE)

STATE OF PLAY AND CHALLENGES

European businesses face an evolving risk landscape where extreme risks such as geopolitics, digital or climate ones are growing in frequency and potential severity. When it comes to mitigating such risks, the private insurance market might not provide sufficient financial protection for European enterprises. For instance, FERMA's 2022 European [Risk Manager report](#) found that 41% of risk managers assess that some business activities or locations may become uninsurable in the future.

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. Public-private partnerships (PPPs) can also be built in order to provide protection to companies and strengthen their resilience when the insurance market fails to do so.

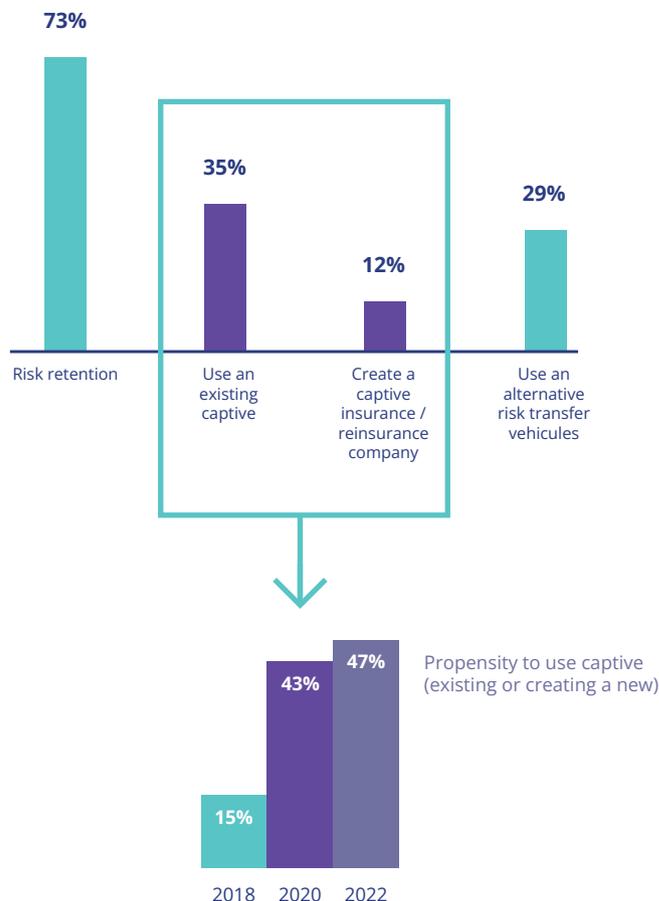
What is a captive ?

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

ORGANISATIONS OWNING, USING OR RENTING A CAPTIVE

THE RISE OF CAPTIVES CONFIRMED

Over the next 2 years, what will be the strategy with regard to risks which are difficult to place on the insurance market ?



FERMA European Risk Manager Report 2022 (SOURCE)

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 2022 found that the interest in captives has gone up significantly over the past four years from 15% in 2018 to 47% today. (SOURCE)

FERMA welcomes the Czech Presidency's priorities aiming at "ensuring the resilience of critical value chains" and "strengthening industrial capacities in the EU". The Corporate Sustainability Due Diligence (CSDD) proposal of the European Commission could contribute to achieving this goal provided that a risk-based approach regarding its implementation is taken in order to avoid weakening the resilience of EU companies' value chain, especially vis-à-vis non-EU companies.



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 proportionate 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.
- Ensure that a risk-based approach is applied to the CSDD proposal in order to avoid value chain disruptions.

OUR CONTRIBUTION



FERMA position paper on Solvency II review
FERMA called for more proportionality in the Solvency II framework, and for captives to be treated as low-risk profile undertakings by default. ([SOURCE](#))



FERMA position paper on CSDD
FERMA calls for a risk-based approach for companies implementing the due diligence process through their value chains. ([SOURCE](#))



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. ([SOURCE](#))

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This hard market continues to be tough for insurance buyers. It is therefore little wonder that companies focus on more accurate management of their total cost of risk and decide that it's time to self-insure, set up new captives or extend the use of existing captives.

Laurent Nihoul

Group head of insurance, ArcelorMittal, Luxembourg

CYBERSECURITY AND DIGITAL ISSUES

STATE OF PLAY AND CHALLENGES

“The Czech Presidency will also address cyber threats and the geopolitical context of new technologies.”

“It is essential to accelerate the digitalization and automation of the European industry, which will enable the expansion of competitive manufacturing in the EU...and to further deepen the internal market, especially in the services and the digital economy.” [\[SOURCE\]](#)

The war in Ukraine and its consequences have highlighted the need for the EU to better account for cyber security and digital issues in general.

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.

FERMA encourages the Czech Presidency to focus on two pressing issues:

- **The need for an overall cyber resilience strategy at the EU level.**
- **The cyber insurance protection gap, where cyber threats are assessed as the top risk in 2022 by European risk managers.**

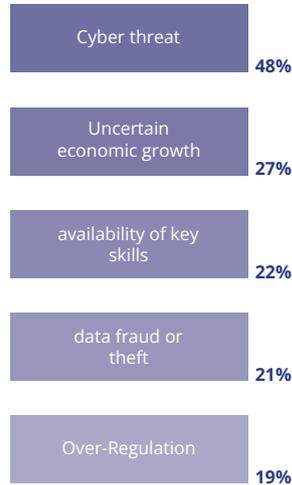
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Unfortunately for European enterprises, there is very little consistent, official information available on cyber attacks. What is the economic impact? Nobody knows. How many companies suffer attacks? Nobody knows. This puts the corporate buyer of cyber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

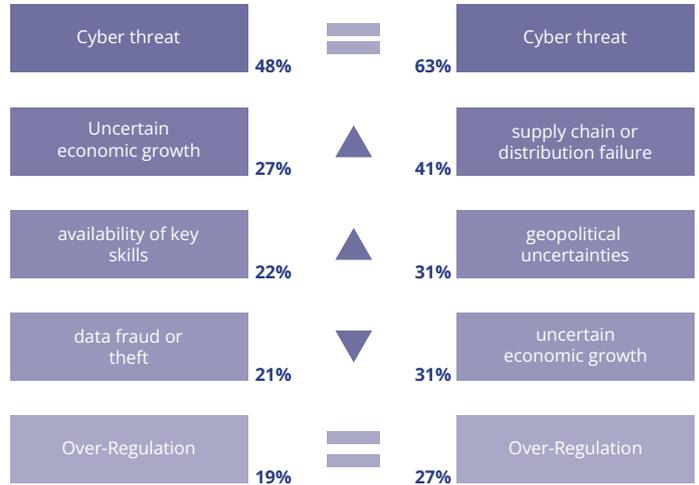
Philippe Cotelle

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

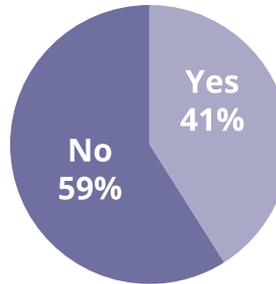
Top risks 2020



Top risks 2022



BUSINESS ACTIVITIES OR LOCATION



41 % of risk managers think that some locations / business activities will become uninsurable in the future.

FERMA European Risk Manager Report 2022 [\[SOURCE\]](#)

A key area of European resilience in managing digital risks is cyber insurance. More than 80% of the cyber insurance market is based in the US. [\[SOURCE\]](#) Therefore, corporate decisions there affect the extent of cyber coverage in Europe – less than optimum for companies operating in Europe. Project LUCY found that, in France, the volume of premiums paid (regarding cyber risks) by all companies increased by 44.4% between 2021 and 2022, while the underwritten capacities fell by 32%. As a result, many large companies did not renew their cyber insurance policies. This situation is even starker for SMEs where insurance penetration is much lower, and SMEs also make up the majority of actors in value chains.

The growing insurance protection gap also weakens cyber resilience of businesses in Europe because the assessment and monitoring of cyber security and loss mitigation measures provided by insurers as part of insurance coverage also disappear. The EU could explore a PPP to support the private insurance market to better financially manage the potential systemic element of accumulated cyber losses by means of governmental back stop, for example.

FERMA stresses the need for a holistic cyber security approach at EU level to make it a cyber security player. In this regard, FERMA welcomes the recent Cyber Resilience Act (CRA) initiative from the Commission. It is a good step in the right direction but its focus on products and services is only one element of an overall cyber resilience plan—which we still lack.



We ask policy-makers to

- Promote corporate governance frameworks in cybersecurity matters.
- Work towards common and holistic European standards or norms in cyber security that are risk management driven. In other words, the EU must broaden the scope of its cyber security legislation within the New EU Cybersecurity Strategy framework launched in 2020.
- Help European companies access more 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.

[\(SOURCE\)](#)



- » FERMA's views on the EU's Cyber Resilience Act initiative

FERMA's position paper: FERMA's views on the EU's Cyber Resilience Act initiative: the need for a risk-based global approach.

[\(SOURCE\)](#)



- » FERMA is working on a project to shed light upon cyber insurance (Project LUCY) at European-level.

This project is based on a successful pilot launched in France by FERMA member AMRAE. The aim is to produce, for the first time, representative, comparable data on the cyber insurance market in 11 European countries.

[\(SOURCE\)](#)





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Management Associations**

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