Risk managers must lobby on Solvency II: Panel

By Sarah Veysey and Richard Miller
Dec. 15, 2008

[PARIS]—The European Captive Insurance and Reinsurance Owners' Association hopes to forge closer cooperation with the Federation of European Risk Management Associations and other groups to show a united front to regulators on the treatment of captives under Solvency II.

Günther Dröse, global head of corporate insurance at Deutsche Bank A.G. and chairman of ECIROA said he hoped that Brussels, Belgium-based FERMA would in future be open to further cooperation in lobbying efforts.

Safety in numbers

ECIROA, formed in August and based in Luxembourg, believes any suggestions to the Committee of European Insurance and Occupational Pensions Supervisors, which is in charge of developing implementation measures for Solvency II, will carry more weight if they come from a number of organizations representing captives.

Up to now, FERMA, which has previously lobbied on behalf of captives on Solvency II, has not worked with ECIROA. The two groups, at times, signaled that they did not fully represent each others' interests.

Thierry van Santen, head of European Affairs at FERMA, said that the association was happy to engage with other organizations on the topic of Solvency II.

He said that he was sure that FERMA would welcome the fact that ECIROA, many of whose members are themselves also FERMA members, was keen to align itself with the larger association's efforts.

The two risk managers shared a stage at this month's *Business Insurance Europe* Executive Forum-Risk Perspectives in Paris.

Both emphasized that risk managers should become involved in the Solvency II process to ensure that their needs are recognized when the proposed risk-based capital regime is enacted.

There are now serious doubts about whether the directive will be ready for implementation in 2012 as planned, panelists said, but risk managers and captive owners should use this time to attempt to influence regulators to ensure they are not disadvantaged by the regime.

Risk managers and captive owners should engage with regulators, both at the European and national level, in order to make their voices heard, said Mr. Dröse in his remarks.

ECIROA will produce, with the help of actuaries, a business model for captives under Solvency II, he told delegates, and it will continue to lobby regulators to try to ensure that captives are not overly burdened by the costs of compliance with the regime.

ECIROA has also gathered information from a survey of its 25 captive owner members. The data will be compared with results from CEIOPS' fourth quantitative impact study on Solvency II, and it will be provided to CEIOPS, Mr. Dröse explained later. Like FERMA, Mr. Dröse is also concerned with the treatment of catastrophe risk in the implementation measures.

FERMA plans to submit a position paper to CEIOPS shortly to recommend calculation methodologies for captives in certain key areas, such as for catastrophe risks, and requirements for start-up captives. (*BIE*, Dec. 1, page 1)

Risk managers that operate captives, but did not take part in CEIOPS' fourth quantative impact study, can still test their captives against the study, noted Mr. Van Santen in his remarks. Mr. Van Santen, who is also the executive vice president of the business risk management department at Groupe DANONE S.A. in Paris, announced during the Forum he will be leaving risk management and FERMA by the end of the year.

One unfortunate consequence of Solvency II is it may make it more difficult for small or monoline insurers to offer certain lines of cover and this might make certain types of insurance unaffordable for buyers, panelists said.

"Monolines and long-tail risk will be more expensive and cat risk will be more and more expensive," said Mr. Van Santen. One solution to the problem may be between captives to pool cat risks, Mr. Van Santen said.

Little change

Marisa Attard, director of insurance at the Malta Financial Services Authority, said in response to a question that she did not believe Solvency II would lead to fewer captives.

"I don't agree with the conclusion that we will see captives disappearing from the market or industrial buyers looking at self insurance," she said. "We could see perhaps some small ones, but not necessarily all captives disappearing from the market."

"I think the framework directive gives us a message that all the parties need to work together," she added.