

## Pan-European captive owners body planned

By Adrian Ladbury  
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[BRUSSELS, Belgium] A group of leading German risk managers are to form a pan-European association to protect the interests of captive insurance company owners particularly in relation to Solvency II, Europe's planned new capital adequacy regime for the insurance industry.

The group plans to lobby the European Commission and Parliament to make sure that the Solvency II Directive, slated for introduction in 2012, sufficiently recognizes the fundamental differences between a single parent captive insurance company, a captive that writes third party risks and standard insurance companies.

The German risk managers say they will create the European Insurance and Reinsurance Captive Owners Association to try and prevent captives being subject to overly complex or onerous rules that are designed for standard insurance companies.

Günter Dröse, global head of corporate insurance at Frankfurt-based Deutsche Bank Group, is leading the initiative. He and a group of risk manager peers in Germany have prepared a position paper that explains why captives need to be treated differently to standard insurance companies.

The draft directive for Solvency II currently is being debated by the European Parliament and a vote is expected in November. The extent to which Solvency II will impact captive insurance companies is still uncertain, sources say.

Many experts, and members of the soon to be formed captive group, fear that the new regime will penalize captives if it imposes on them the same or similar capital and reporting requirements as standard insurance companies that write third-party business.

The position paper also says that it fears that onshore captives in domiciles within the European Union could find themselves at a competitive disadvantage compared with captives offshore in domiciles that are not subject to the same rules.

A number of captive experts have suggested that one solution could be a so-called carve-out by which captives are excluded from the new regime or receive less onerous treatment. Mr. Dröse said, however, that he and his colleagues are worried that captive owners may not have the level of representation and influence within the key bodies driving the Solvency II process to achieve a carve-out or differential treatment.

### *Federal structure*

Mr. Dröse and his group will set up the association in Luxembourg shortly. He said that the association would need a federal structure with two or three key representatives in each of the main member states. This is because national supervisors will retain a high level of control over the supervision of captives and the implementation of Solvency II, he explained.

Mr. Dröse said that his main concern about Solvency II for captives was not the financial burden but the added workload and complexity the regime may mean for captive owners. "This could lead to unbelievably high costs, it would explode if it is not managed proportionally," he said.

The Federation of European Risk Management Associations welcomed the news of ECIORA's pending formation. Thierry Van Santen, group risk manager at Paris-based food products company Groupe Danone and the committee member at FERMA responsible for European affairs said that any support in its lobbying efforts was to be welcomed.

But Mr. Van Santen added that captive owners must appreciate that the lobbying phase with the Commission and Parliament is complete and that efforts now need to be focused on the implementation phase of the directive at national level.

Mr. Van Santen said that FERMA has been very active on the Solvency II project for the last year and that it had even persuaded the European Council, supported by the European Commission, to issue an amendment to the draft Directive that seeks special treatment for captives.

He also said that FERMA, with the support of the Comité Européen des Assurances, had successfully lobbied for the adoption of the principle of proportionality, by which the solvency rules are matched to the size and complexity of the entity that is regulated.

The opportunity to impact the basic framework of the directive has now passed, said Mr. Van Santen. "The text is now in the hands of the European Parliament and not anymore in the hands of the Commission. From what I understand the deadline to present amendments is over," he said.

Mr. Van Santen said, however, that much lobbying work remains to be done during the coming implementation stage because some member states, in particular Germany, do not seem to be very interested in captives.

### ***Hurdles***

"The validation process by the 27 states is still a challenge and the implementation by the supervisors is another one. Many are not at all interested in captives and do not see why a special regime is needed. Some are specifically against captives and, from what people say, Germany is probably the most difficult one," he said.

This, he said, is why captive owners, are urged to take part in QIS4, the fourth quantitative impact study being carried out by the Frankfurt, Germany-based Committee of European Insurance and Occupational Pensions Supervisors, the committee charged by the Commission to draft the directive and advise on the detail.

QIS4 specifically addresses captive issues.

Insurance and risk managers interested in the new association and the position paper should contact [Jeanette.Roedbro@db.com](mailto:Jeanette.Roedbro@db.com) with reference to ECIROA.