

INSURANCE DAY



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Ferma asks for special treatment



ID Captive headlines

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- 'Vermont captive insurers up by 32 in 2007'** ID, Feb 4



Liz Booth

WHEN the Solvency II document was first published in Brussels, alarm bells started ringing in the key European captive centres.

Absolutely no mention of the word "captive" was made throughout the enormous tome, leaving captive centres and managers wondering what the consequences could be.

Led by the Federation of European Risk Management Associations (Ferma), as well as by the governments of Luxembourg and Ireland, there has been a concerted campaign to inform those in the European Commission and European Parliament of the need for special treatment of captives under the Solvency II regime.

Ferma explains: "Captives in general cover risks of companies within their group. These insureds do not need the same level of protection consumers need, as coverage is implemented in the light of guidelines issued by group management.

"Captives generally have a better understanding than a third-party insurer of group risks. Therefore, the solvency margin should be reduced to reflect better risk management.

"Captives are fundamental to their groups' activities and receive strong group support. Significant bankruptcies of captives in Europe or globally are rare. Bankruptcies of parent

companies have occurred without the captives themselves being insolvent."

Ferma has outlined a number of recommendations, including: "Captives and reinsurance companies that do not have pure captive status under the Reinsurance Directive but which primarily write captive risks and risks directly linked to parent company activity should not be included within the Solvency II capital requirement rules. These companies should remain subject to all other requirements of the new framework directive. Ferma proposes that Solvency I rules, or equivalent rules, should continue to apply."

Guy Soussan, a partner at Steptoe & Johnson who has been working closely with Ferma on this, says there are signs that the commission and parliamentarians have recognised the problem. "The market would be happy to have recognition of captives, as under the reinsurance directive and recognition, at least in general principle, that Solvency II should take into account the simplified risk structure of captives," he says.

Soussan is hopeful that recognition will come as part of Level II measures – something that will be essential to keep captive business within the EU.

A spokeswoman at Ferma adds: "Attention is focusing on QIS4 [the fourth quantitative impact study on Solvency II] and how the principle of proportionality will be applied."