

July 2023

"Europe, closer": what does this mean for Risk Managers

KEY POINTS

THE GREEN TRANSITION:

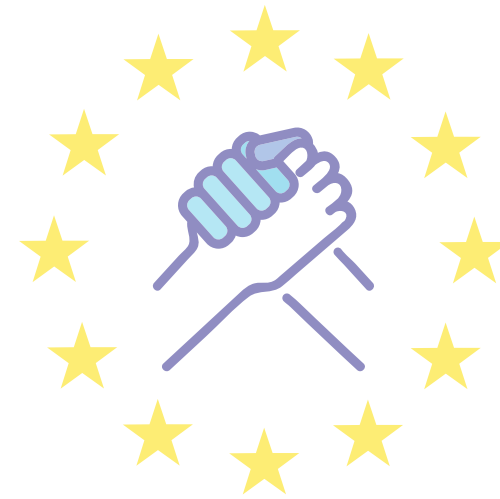
- FERMA calls on the Spanish Presidency to ensure continued progress towards the C3SD and CRMA;
- A risk-based approach in the C3SD will be vital to enable businesses to focus on their biggest supply-chain risk priorities and remain competitive;
- Affordable, relevant insurance coverage will be necessary to help support businesses as they make the transition.

EU OPEN STRATEGIC AUTONOMY:

- Cyber threats are the top risks facing EU businesses. Reducing those risks and improving resilience, across the EU economy, must be a top priority;
- FERMA will contribute risk expertise to discussions on the Cyber Resilience Act;
- Achieving political consensus on the CRA is also vital during this term;
- FERMA calls for an annual summit to draw together the (re)insurance industry, business and policymakers to address effective cyber resilience.

INSURANCE SUPPORTS THE TRANSITION:

- Insurance will play a vital role in supporting the transition. The Solvency II review provides an opportunity to build a more competitive (re) insurance marketplace in the EU;
- Proportionality is a key area of the Solvency II review. A more proportionate framework would give EU businesses more options for risk transfer via captive undertakings;
- The EU must also address the 'protection gap' and take steps to ensure that affordable, relevant insurance coverage is available to support the EU economy to transition.



Introduction

The Spanish Presidency began on 1 July and will run to the end of 2023. Only three weeks into the six-month rotation there was a national general election in Spain. Despite this, FERMA is hoping to see the Spanish Presidency push some key EU policy files over the finishing line in the coming months.

The Spanish Presidency takes place during an important period for EU policymaking, since from the beginning of next year the focus will quickly shift to the 2024 EU elections.

For the risk management profession, it is crucial that the Spanish Presidency can make progress on the green and digital transitions with the aim of fostering European competitiveness and strategic autonomy, as well as supporting companies by ensuring the continuation of a dynamic and affordable private (re)insurance marketplace in the EU.

In this short paper, FERMA outlines the contribution of risk managers to the Spanish Presidency's priorities. FERMA speaks on behalf of an international network of 22 risk management associations in 21 European countries representing about 5000 risk professionals.



1) Advancing the green transition



Spain intends to ‘make progress in the green transition and in environmental adaptation’. FERMA fully supports this goal and believes that an important step towards this will be ensuring progress on two major pieces of legislation: the corporate sustainability due diligence directive (CS3D) and the critical raw materials act (the CRMA).

The proposed CS3D would require companies to identify, prevent, mitigate and remedy their (potential and actual) environmental and human rights' impacts. Overall, this is positive. FERMA believes, however, that the proposal does not sufficiently allow for a risk-based approach that enables prioritisation in order to focus on the most likely problems and not miss them in the noise. This prioritisation will be essential to ensure that the EU continues to play a leadership role on the international stage while enabling companies to remain competitive and dynamic. To support the green transition, and to meaningfully combat the effects of climate change, FERMA advocates a more risk-based approach to value-chain due diligence aligned with international standards.

Risk managers are also generally positive about the proposed CRMA. EU enterprises source critical raw materials from around the world, some of which are only available from a small number of countries. It is therefore essential that the associated supply-chain risks are understood and managed. EU leadership in this area is vital for industry, and FERMA is therefore appreciative of any special attention paid to this file by the Spanish Presidency. Our community of risk managers from large multinational organisations with complex supply chains stand ready to provide valuable insights in this respect.

In businesses' transition to a low-carbon economy a number of risks will arise in the execution of their strategies. Moving away from fossil fuel and towards sustainable chemicals, fuels, and clean energy, brings a range of risks beyond those in current supply chains. If those risks are well managed, businesses will be able to seize the opportunities of the transition.

For enterprises to be able to innovate, invest in more sustainable products, and enhance circularity, they need to have the ability to continue to obtain affordable and adequate insurance coverage. This must be on policymakers' radar too.



2) Ensuring the EU's open strategic autonomy - with a digital focus

FERMA views positively the orientation of the Spanish Presidency towards open strategic autonomy, notably in the context of the digital transition. According to FERMA's research, cyber threats are the top risk for European enterprises [1]. FERMA is pleased, therefore, that the Spanish Presidency will place particular emphasis on reducing risks and attaining higher resilience levels.

The EU's resilience in the face of hybrid and cyber threats should certainly be a priority. FERMA will contribute its risk management expertise to discussions on the Cyber Solidarity Act, and look to the Spanish Presidency to achieve political consensus on the CRA. For risk managers, the ethos of 'cybersecurity by design' in legislation is a positive and necessary development. However, we are mindful of the possible ramifications such a piece of legislation might have on the insurance coverage options for enterprises.

In the area of risk transfer, FERMA would like to draw to the attention of the Spanish Presidency a pressing issue in the cyber insurance marketplace, namely the ability of the product to meet the needs of buyers in stress scenarios.

FERMA recently worked on a joint project with the cyber (re)insurance marketplace that led to the publication of a joint report entitled "*Cyber Insurance Dialogue: How Europe can lead the way to cyber resilience*" [2]. One of our core calls to action is the establishment of an annual summit bringing together the (re)insurance industry, enterprises and policymakers to develop more effective cyber resilience strategies. FERMA calls on the Spanish Presidency to consider spearheading such an initiative.

[1] FERMA (2022), 'FERMA European Risk Manager Survey Report: 2022'

[2] FERMA et al. (2023) 'Cyber Insurance Dialogue – How Europe can lead the way to cyber resilience'



3) The key role of insurance in supporting the transition



In the Economic and Financial Affairs Council configuration section of the Spanish Presidency's Programme, FERMA was surprised to see no reference to insurance-a key element in the resilience of the EU economy.

In particular, FERMA believes the Solvency II review should be a file the Spanish Presidency seeks to finalise during its tenure. In the UK, the prudential regulator has set out to reform its prudential regime to build a more competitive and dynamic insurance sector in the UK. The EU should bear this in mind when getting Solvency II over the finishing line.

An important element of the EU Solvency II review that could contribute to making the EU insurance market more competitive is in the area of proportionality. In particular, FERMA takes the view that a more proportionate Solvency II framework would ultimately give captive (re)insurance undertakings a status of low-risk profile, which would help enterprises in the EU have more options available for their risk transfer strategies. For us this should be a priority, as well as being a quick-win for the Spanish Presidency.

Another (re)insurance market topic we believe deserves some attention is the so-called 'protection gap'. FERMA has highlighted this in some key areas as have the European Commission [3], EIOPA and the ECB [4]. In terms of insuring the transition, or transition activities, FERMA is concerned that the private (re)insurance market is not offering sufficiently innovative, affordable or competitive risk transfer solutions. We outlined our views in FERMA's "Insuring the transition White Paper" [5].

FERMA is also actively contributing to the EU Climate Resilience Dialogue, where a multi-stakeholder group is working on some recommendations for narrowing the climate protection gap [6]. A key focus in this group is investment in adaptation. FERMA is a strong advocate for more concerted work from the EU in this area and welcomes it being a title item of the Spanish Presidency's priorities.

FERMA looks forward to engaging with the Spanish Presidency during its tenure at the helm of the Council of the EU.

[3] European Commission (2021) 'closing the climate protection gap – Commission Staff Working Document'

[4] EIOPA and ECB (2023) 'EIOPA and ECB call for increased uptake of climate catastrophe insurance'

[5] FERMA (2022) 'Insuring the transition: The issues confronting risk managers White paper'

[6] European Commission (2023), Climate Action, 'Climate Resilience Dialogue'

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ABOUT FERMA

- [FERMA network booklet](#)
- [FERMA 2022 European Risk Manager survey report](#)

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