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FERMA NEWSLETTER N°37 March 2010

FERMA 2010 risk management benchmarking survey launched

Initiatives will make it the most useful ever

FERMA has created several initiatives to attract the maximum possible number of responses to the 2010 risk management benchmarking survey, which has just been launched. The aim is to enhance the value of the findings for FERMA members by making the data more representative.

- The questions are available in French, Spanish, Italian, German and Polish as well as English.
- FERMA is promoting involvement by all the member associations.
- Each member association has a liaison officer whose role is to promote the survey at national level and encourage members to respond.
- AXA Corporate Solutions and Ernst & Young, FERMA's partners in the survey, will also distribute the questions to their mailing lists.
- The survey will be distributed by a third party and be available online.
- It is possible to complete the online version in more than one session and by section.

A committee under the leadership of FERMA board members Paul Taylor and Cristina Martinez, including four other risk managers and representatives from Ernst & Young and Axa Corporate Solutions, prepared the new version.

The questions fall into three categories: risk governance, risk management practices and insurance management. The responses will be entirely confidential. An independent market research company receives the replies and compiles the report. FERMA sees the only collated information.

The results will:

- Show the status and evolution of risk management in Europe.
- Analyse current job responsibilities in Europe.
- Benchmark internal risk management policies and implementation.
- Help insurers adjust products and services to the needs of their customers.
- Set up a country-based benchmark analysis.

The deadline for replies is 18 May. Reminders will be issued! The results will be announced at the 2010 FERMA seminar on 29 and 30 September at the Hotel Hilton Metropole in London. Respondents will also receive a copy of the results.

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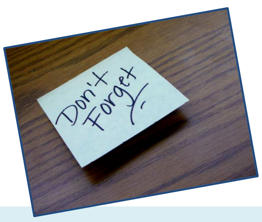
Insights from the benchmarking survey

For Ernst & Young (E&Y), the FERMA benchmarking survey is a valuable source of information about trends in risk management across Europe. Through its Paris office, E&Y has been closely involved with the survey from the start in 2002. The leaders this year are Jean-Michel Paris, who has worked on previous surveys, and Matthieu Leroy, a senior manager in the advisory practice.

In 2010, E&Y is looking to explore three important issues: the relationship between risk and governance, the maturity of risk management across Europe in general and comparatively, and the approach that companies are taking in terms of the relationship between strategic objectives and risk management.

On the first question, Matthieu Leroy explains that especially now that the 8th Directive on Company Law is in effect in member countries, many public companies are required to have audit committees that monitor the effectiveness of the company's internal controls and risk management systems. ➡



Welcome to SWERMA from the President of FERMA

SWERMA

Dear Members,

I am delighted to be attending the annual SWERMA conference. SWERMA members make a great contribution to the activities of FERMA in promoting risk management in Europe.

You also help spread the word throughout Scandinavia through cooperation with your colleagues in Denmark, Norway and Finland. Best wishes for your conference!

Peter den Dekker

Benchmarking Survey : Launch on 17 March!

Quality In Everything We Do

"We are eager to assess better how this link between risk and governance has evolved, bearing in mind that risk issues have clearly become a subject of attention for executive and audit committees in public companies," he says.

Second, the maturity of the risk management process is a key aspect to assess because it highlights its importance and underpins the descriptive disclosures on the subject that companies make in their annual reports. Matthieu Leroy comments, "We want to understand how mature the risk management process is, where it is going and what the main drivers are."

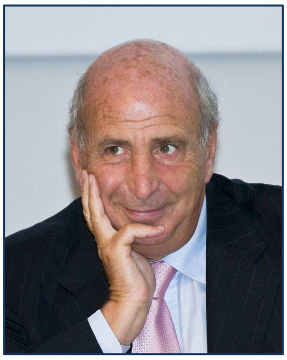
Finally, E&Y is interested to know how companies today are aligning their strategic objectives and risk management policies. This relationship lies at the heart of enterprise risk management and constitutes a key issue in anticipating and understanding the role for the enterprise risk management in the coming years.

Registration opens soon for London seminar

Registration will open in April for the 2010 FERMA seminar which will take place for the first time ever in London. It's a free event for risk manager members of FERMA associations. The venue is the Hotel Hilton Metropole and the dates are 29 and 30 September. The highlight of the programme will be the release of the results of the 2010 FERMA risk management benchmarking survey. Other items for the event are being planned.
http://www.ferma.eu/Events/Seminar/tabid/109/Default.aspx

A level playing field

By Pierre Sonigo, FERMA General Secretary



European technocrats are magical with words. They like to use images to get their message across. One of the expressions "à la mode" in Brussels is that establishing a "level playing field" is important in any new legislation so that all parties are treated equally and remain competitive. Solvency II is no exception. It is widely accepted that under the new directive all insurers should be treated equally.

In the background there is the spectre of the proportionality principle, dear to the European Constitution, but no one knows how to apply it practically. A principle is a concept difficult to translate into action; rules and regulations are much easier to make concrete.

In the responses to CEIOPS consultation papers on captives, I was surprised to see the unfriendly position of the representatives of large insurers, such as the French FFSA and the European CEA, taking the position that captives should be granted no special treatment . The reason: "the level playing field". In the name of captives' owners that I am proud to represent for FERMA when I meet them, that expression turns me on immediately. I tell them: "Hey guys, you don't know much about captives. First, we don't play on the same field and second, we don't even play the same game as the AXAs, Allianzes and Zurichs of this world."

Captives are different. For one thing, the shareholder and the insured belong to a same economic entity. Second, captives don't compete for market share; they cooperate with insurers by funding large deductibles, insuring non-insurable risks, providing additional capacity and improving risk quality by sharing the risk with them. Finally captives are not managed to provide short term returns on investments on their capital.

This is why we fight for a special treatment for captives in Solvency II. Their specific nature, size, complexity and need for protection of their consumers are different and need to be recognized.

As an avid golfer, I don't like level playing fields. I like the bumps, the holes and the traps, where everyone can play his own game and enjoy himself.

Captives, Solvency II and FERMA

FERMA, the European Association of Captive Insurance and Reinsurance Owners (ECIROA) and captive managers Marsh and Aon have agreed a common position on the proposed technical specifications for the application of the Solvency II Directive to captive insurance companies.

The group has scheduled a meeting with the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) on to present its views. CEIOPS is due to complete a final draft on the quantitative impact of Solvency II together with a comprehensive technical calibration by the end of March. The European Commission should then publish final technical specifications by the end of June 2010.

As representatives of captive owners and managers, FERMA and the other group members argue that:

1. The proportionality principle set out in the directive should apply to captives.
2. Simplification measures should take into consideration the nature, the size, the complexity of the captives and apply different calculations of the capital requirements.

On the basis of CEIOPS' current proposals, the owners and managers fear that most captives will be excluded from access to these simplification measures. FERMA plans to bring these technical issues to the attention of the European Commission.

The group also says that in terms of governance, simplified methods should apply for committees, risk management and audits of captives. Captives, it points out, are not independent enterprises. They are under the control of a parent company which applies standards and governance rules to all its subsidiaries, including the captives. Therefore, captives already come under the surveillance of an audit committee.

For more information on recent meetings with the CEIOPS and the Commission please refer to minutes of meetings on FERMA website's members only section at: http://www.ferma.eu/RiskManagersOnly/RiskManagement hottopics/tabid/131/Default.aspx

FERMA and ECIROA have drafted a letter that member associations can use as the basis for discussion with their own finance ministries about the future of captive insurance companies under Solvency II. It is available from the FERMA website under hot topics or at http://www.ferma.eu/AboutFERMA/HotTopics/SolvencyIICaptives/tabid/268/Default.aspx .

No fog in London Presidents' summit

Heads of all the FERMA member associations will be invited to take part in a roundtable discussion with Peter den Dekker during the 2010 seminar being held in London on 29 and 30 September.

This second such gathering is part of FERMA's development of regular channel of communication with and between the associations. Den Dekker also hosts regular conference calls with the association presidents, and FERMA believes the exchange of ideas and information is very valuable.

Confusion and misconceptions about environmental liability

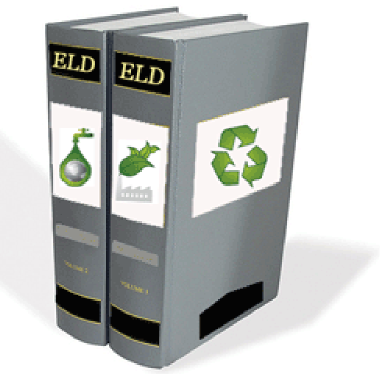
Although the Environmental Liability Directive has now been implemented in nearly all European Union member countries, companies and their risk managers remain unsure how it will work, and many are simply waiting for something to happen, according to FERMA board member Pierre Sonigo, who has spearheaded FERMA's work on the directive. He warns that this is a dangerous attitude that leaves businesses exposed to the possibility of substantial uninsured costs and reputational damage.

FERMA is continuing to participate in a working group of the European Insurance Committee (CEA) which is, in turn, advising the European Commission on the availability of insurance for liabilities under the directive. This gives risk managers an ability to influence the final decision of the European Parliament on financial provision for environmental impairment. The Commission has welcomed FERMA's comments to date and may ask for another survey of members ahead of completing its report for Parliament, scheduled for 30 April.

On the basis of the limited response to a survey among FERMA members earlier this year, Sonigo is concerned that many companies have not yet assessed their risks under the directive, let alone considered how to make financial provision for them. Even among the 43 replies, there was confusion about the objective of the directive to prevent and remedy environmental damage to species and habitats, as well as water and soil.

Only 10 respondents said they had bought some form of standalone insurance cover that gave them wide protection against environmental impairment liabilities. By far the largest number relied on coverage that was part of or an endorsement to their general third party liability cover, and it is questionable whether such wordings will respond to the remediation requirements of the directive.

The real problem, thinks Sonigo, is lack of sufficient practical experience for all parties involved. So far, there has only been a handful of inconclusive cases, and businesses may believe insurers are asking them to pay too much for too little. Building up data is essential for the development of a deep insurance market for environmental impairment insurance, and Sonigo urges FERMA members to express their views actively so that they have an influence.



ELD Survey results available for download, see: http://www.ferma.eu/portals/2/documents/2010-FERMA-ELDSurvey-v2.pdf

Broker remuneration

The broker remuneration question has been under discussion for nearly six years but has never been quite resolved. Progress, however, is being made. FERMA President Peter den Dekker believes that there will be an agreement in place before the end of September this year following direct contact between FERMA and the European intermediaries' association BIPAR.

Den Dekker made a presentation to a BIPAR meeting in February, followed up with several phone calls and a further meeting. He says the discussions are taking place in a positive atmosphere, and that both organisations are committed to reaching an agreement soon.

Impact of Solvency II on the Insurance Market

Although FERMA supports the goal of the Solvency II European insurance regulatory regime which is to enhance policyholder protection, its members are concerned by the impact that the recommendations of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) to the European Commission will have on the insurance market.

"The main goal of Solvency II is to protect policyholders' interests" says Peter den Dekker, President of FERMA, "and we represent the largest policyholders in Europe. We have serious concerns that excessive levels of capital requirements as they are currently stated by CEIOPS will affect the availability of insurance cover for medium and large European businesses.

"The fact that insurance companies are concerned that they will have to raise premiums by 20% for non-life insurance is a notable development. However, our main concern is the potential reduction in the number of insurers capable of covering our risks. This could force us to retain more risks on our balance sheet, impacting our ability to invest and remain competitive in a global economy."

FERMA shares the views expressed in the recent report published by the European Insurance Association (CEA) entitled *"Why excessive capital requirements can harm consumers and the economy".* We believe, as stated in the report, that the lessons of the financial crisis which impacted the banking sector cannot be translated to the insurance sector. Insolvencies are much less frequent and well handled by market regulators. More follows in the press release on:

http://www.ferma.eu/Portals/2/documents/press_releases/2010.03.12-FERMA_PR_on_SII(final).pdf

Testing the ice in Stockholm

Peter den Dekker, President of FERMA, plans to test the ice ahead of the 2011 FERMA Forum in Stockholm by taking part in the 2011 run of the Vikingarannet, an 80km race on skates that is held every year in Sweden at Mälaren between Uppsala and Stockholm.

Den Dekker says he is doing this to promote the Forum and to demonstrate that risk management is a healthy job.

More conventionally, he is attending the annual SWERMA conference taking place in Stockholm on the 25 and 26 March and says the association makes a great contribution to FERMA's work.

Join Me!

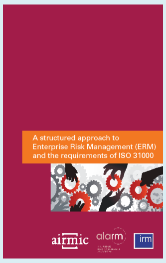
ERM in focus

The FERMA working group on enterprise risk management (ERM) is producing a joint position paper with the European Confederation of Institutes of Internal Auditing on the role of the audit committee and its oversight of internal control and risk management, following the adoption into national laws of the 8th European Company Law Directive.

The working group, which consists of board members Marie-Gemma Dequae, Paul Taylor and Michel Dennery, expects the paper to be presented the boards of both associations in June 2010. It will look at article 41 to the directive which sets out the responsibilities of the audit committee to include the monitoring and effectiveness of the company's internal control and risk management systems.

Dequae explains that in many countries, there is so far little guidance on the application of the directive. FERMA and the internal auditors want to show how the internal audit and risk management functions can work together while guidelines are still under discussion.

Meanwhile, the UK risk management association AIRMIC has published updated guidance on enterprise risk management (ERM), including ISO 31000. The document is the work of a team from AIRMIC, the UK public sector risk management association Alarm and the educational body, the Institute of Risk Management.



A structured approach to Enterprise Risk Management (ERM) & the requirements of ISO 31000 is available for download free from the AIRMIC website at www.airmic.co.uk

The guide provides a commentary on risk and risk management, together with a brief overview of ISO 31000. It offers guidance on the design and implementation of an ERM programme.

Appendix A gives a checklist of risk management actions to ensure that a comprehensive ERM structure has been introduced and Appendix B sets out the steps necessary to implement ERM.

FERMA's ERM working group is currently reviewing the document.

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FERMA Risk Management Forum 2011
See you in Stockholm
Waterfront Congres Center
2-5 October 2011

FEDERATION OF EUROPEAN RISK MANAGEMENT ASSOCIATIONS - FERMA AISBL.

This Newsletter is produced by FERMA. If you have any questions concerning this Newsletter, please contact Florence Bindelle at FERMA on +32 2 761 94 32 – email: info@ferma.eu