CAPTIVE AND ALTERNATIVE RISK TRANSFER SOLUTIONS

Market status and capacity

Captives continued to play a necessary role in clients' insurance placements in 2022. We can confirm that self-insurance remains one of the ways for policyholders to adapt in a market that certainly remains hard, but with a tendency to stabilize on a high plateau. The trend of the past two years has continued this year with captive-owning groups utilizing this tool as an essential negotiating lever in the placement of their insurance programs.

Underwriting Policy

In terms of feasibility studies, it is the Damage and General Liability lines that are seeing the highest number of requests for captive creation studies. However, in 2022, cyber risk is involved to a greater degree in captive thinking. This is because the insurance market is being confronted with the difficulty of measuring this relatively recent and evolving risk, with exposure to high-intensity claims and a limited history that makes statistical or actuarial modelling impossible.

In a context where insurance companies that write lead lines are increasingly selective, the captive can provide a partial response to the current problem of underwriting cyber risk and plays a role in financing these lines that are considered expensive and too limited.

The latest report on cyber risk by the French Treasury suggests that captives can even provide an appropriate solution in the pooling of claims and that a provisioning mechanism would allow for the smoothing of high-impact claims over time, making captives the most suitable risk financing tool for exceptional risks.

Unsurprisingly, 2RS has remained in high demand in 2022 to implement new programs, including in cyber risk, and conducts feasibility studies for groups that do not have a captive tool.

The relevance of Captive and Alternative - Risk Transfer Solutions

Placement difficulties and pricing are encouraging companies to think of new ways of managing their risks. In 2021, the effects of the health crisis encouraged captives to offer coverage of communicable diseases and the resulting business interruption. In 2022, market restrictions on cyber risks are pushing them to offer alternative solutions.

Against this backdrop, alternative risk transfer via a captive is more relevant than ever and is proving to be advantageous compared to so-called traditional solutions. The market now deems the pandemic risk difficult to insure and there is reduced capacity on cyber risks.

The main difference between a captive and ART solutions (parametric insurance and structured reinsurance) is that a captive uses its own capital rather than that of a third party.

Registration of captives in France

The ACPR – the French Prudential Supervision and Resolution Authority - approved two additional captives in 2021, bringing the total number to eight in France, three of which are managed by 2RS, following an almost 20-year drought in the creation of captives in the country.

2RS is the leading manager in mainland Europe in terms of the number of captives and the only independent captive manager in France.

Over these two decades, while nothing prevented companies from creating a captive in France, market, tax and regulatory conditions did not encourage their registration in the country.

In France, the equalization reserve (a mechanism whereby a technical reserve is set aside and is tax-deductible) remains strictly limited to natural catastrophe risks and credit insurance.

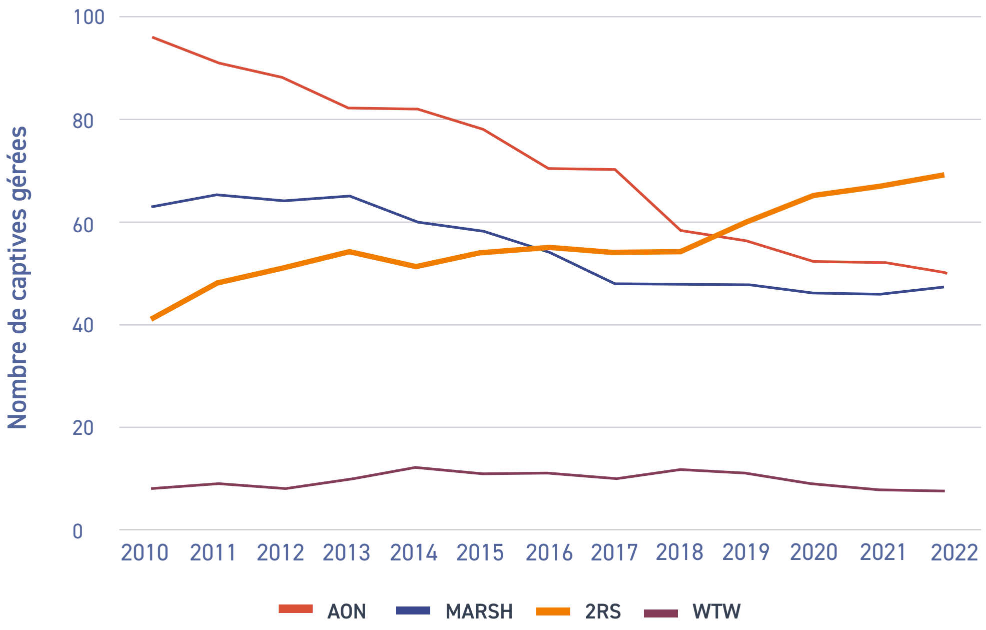
The amendment to the French Finance Act aims to extend this equalization reserve to all risks, including cyber, as is the case in Luxembourg. This long-awaited mechanism would encourage the development of captives in France; however, this amendment did not see the light of day in the 2021 Finance Act. The eyes of all market players are fixed on 2023 or, if fortune smiles on them, before the end of 2022.

As for the equalization reserve, the French Finance Ministry, has announced that the reference point was the Luxembourg provisioning mechanism and that it intends to introduce a similar or even better mechanism if the bill is passed.

However the bill evolves, France must be considered as a potential captive location and is mentioned as an option in several feasibility studies where economic players are not waiting for the amendment to set up their captive there. All indications are that the will is there as, since 2021, the ACPR has exempted captives from submitting certain regulatory reports to facilitate their management. To date, we have not received any formal requests to repatriate a captive to France, but some options are being explored.

Luxembourg has 196 captives, with one third of them originating in France.

Captives managed in Luxembourg
Main captive management companies



Captives:
a long-term solution?

A captive is part of a short, medium and long-term risk management plan. The subsidiary requires significant capitalization to ensure the structure's solvency under Solvency II regulations and high-level capitalization ensures the durability of captive tools.

The hard market will undoubtedly soften at some point. However, the management of retentions will remain a strategic and tactical means of continuing to influence the insurance market over the long-term and accessing the reinsurance market.

The captive provides the Risk Manager with a real risk management tool, broadens their field of action and gives them control over prevention.

About 2RS

Risk And Reinsurance Solutions (2RS), a subsidiary of DIOT-SIACI in the field of consulting and management services for captives and Alternative Risk Transfer programs, is the leading captive management company in mainland Europe.

Located in Luxembourg, 2RS also has offices in France, Malta, Zurich and is represented in Ireland.

2RS is the first and only independent captive management company operating in France.

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