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# Europe Re: the rise of the European reinsurance polity

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**ABSTRACT**
Which kind of European Union is emerging from the polycrisis? This paper argues that the EU is gradually becoming a 'reinsurance polity'. In this system of transnational public reinsurance, European states remain their citizens' primary insurers against individual and societal risks. As their insurance capacity is repeatedly overstretched by transboundary crises, the EU creates standing resources to provide back-up support. In contrast to federal co-insurance, EU reinsurance is directed towards states, with citizens affected merely indirectly. The paper defines public reinsurance, theorises its emergence and functioning, and provides three illustrative examples from the polycrisis (rescEU, Frontex standing corps, HERA). Reinsurance is a novel path of EU institutional development. Though a compromise among diverging national interests, it moves the EU beyond the regulatory polity without pushing it toward positive state-building. Formulating a pragmatic standard of transnational risk-sharing congruent with demoi-cratic notions of legitimacy, reinsurance could also provide a finalité of integration.

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## Introduction

In the past crisis decade, the European nation state proved at once indispensable and overburdened. On the one hand, the nation witnessed a political resurgence as the central provider of solidarity and security. Nativist, Eurosceptic movements sprung up all over the continent; citizens grew wary of economic and societal opening; the UK chose to leave the EU. On the other hand, the state suffered a visible decline in problem-solving capacity, repeatedly exhausting its capacities in the face of 'transboundary crises' (Christensen *et al.*, 2016). The financial crisis pushed various European

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states toward insolvency; the migration crisis overburdened both 'frontline' and destination states; the pandemic had states run out of intensive care units or money or both. Whether by fiscal, administrative, or technical support, the nation states of Europe recurrently required an outside stabiliser to throw them a lifeline.

Strikingly, in all these crises, it was the ever-unstable EU that came to the nation state's aid by creating novel or activating standing support capacities. Pertinent examples (cf. Table 1) are the European Stability Mechanism (i.e., its 800 billion Euro bailout fund), the European Border and Coast Guard (i.e., its 10,000 strong standing corps of border guards), the rescEU stockpiling scheme (of medical goods, firefighting planes, etc.), and 'Next Generation EU' (i.e., its 750 billion Euro Covid recovery package). Equally strikingly, while a broad literature explains these crisis reactions (among others Bickerton *et al*., 2015; Börzel & Risse, 2018; Genschel & Jachtenfuchs, 2016; Jones *et al*., 2016; Smeets & Beach, 2023), the direction in which they have driven the EU polity is not yet understood (for exceptions see Ferrera *et al*., 2023; Schimmelfennig, 2021). Which kind of EU has emerged from the 'polycrisis'? Answering this question is crucial to understanding the purpose of political authority beyond the nation state in an era of global risks and transboundary crisis.

This paper suggests that the EU has repeatedly stabilised the states of Europe by becoming their provider of 'public reinsurance'. The concept takes inspiration from sociological theories of 'risk society' (Beck, 1992,

**Table 1.** Elements of public reinsurance created in the polycrisis.

| Polycrisis | EU crisis support capacities |
|---|---|
| Financial and Euro crisis | • European Stability Mechanism (ESM)<br>• Outright Monetary Transaction programme (OMT)<br>• European Deposit Insurance Scheme (EDIS, still to be concluded) |
| Migration crisis | • European Border and Coast Guard (Frontex) standing corps<br>• European Union Agency for Asylum (EUAA) operational assistance and 'hotspots' |
| Covid-19 pandemic | • Support to mitigate Unemployment Risks in an Emergency (SURE)<br>• Recovery and Resilience Facility (RRF)<br>• rescEU stockpile of medical equipment<br>• Joint procurement of vaccines<br>• Priority-rated orders of semiconductors (European Chips Act)<br>• European Health Emergency preparedness and Response Authority (HERA) |
| Ukraine war | • Joint procurement of ammunition and missiles (European Defence Agency)<br>• rescEU stockpile for chemical, biological, radiological, and nuclear threats<br>• European Peace Facility |

2007, 2013) and the economic literature on risk management. Private reinsurance is the 'insurer's insurance' (Moss, 2002, pp. 271–275; Pearson, 1995, p. 558) and, by allowing an insurer to cede (part of) a risk to a reinsurer, increases the size and extension of its risk pool and maximises its profits (Borch, 1961, 1992). Importantly, reinsurance works indirectly and remains invisible to the policyholder. What the literature on private reinsurance lacks, however, is an application to the public realm. This is despite the fact that the state has increasingly assumed the function of an insurer of citizens against individual and societal risks (Beck, 1992; Ewald, 1991). An analytical perspective that views the EU through the lens of risk management has been put forth with respect to the Euro area (Schelkle, 2017, 2023). The paper at hand builds on this approach and moves it beyond monetary affairs, analysing the general institutional development of the EU.

The paper defines 'public reinsurance' as indirect risk management through capacity support provided by one public entity to another without a direct link to citizens. In the polycrisis, the EU has gradually established a system of public reinsurance. While the member states remain the primary public insurers, insuring their citizens against individual life threats and societal dangers, the EU provides indirect reinsurance to the member states. In contrast to permanent transfers via, for example, a system of fiscal equalisation, the EU's 'excess of loss reinsurance' solely kicks in when transboundary risks such as pandemics, wars, natural disasters, or economic crises threaten to or indeed overburden individual states. To this end, the EU creates standing administrative, coercive, fiscal, and technical capacities that it can use to support its member states once crisis hits.

Transnational public reinsurance in the EU allows member states to increase the size and spatial extension of their risk pool. Moreover, if constructed well, transnational reinsurance enables member states to take on risks in reinsured domains that they would otherwise be unable to take, and to dedicate scarce public resources to other, more productive ends. The downside of the current system of transnational reinsurance lies in its inability to do away with the structural imbalances engrained in and fostered by sectoral regimes such as the common currency or the Dublin system. Reinsurance has emerged in the context of intense politicisation in national publics and as a compromise among governments with vastly diverging interests that range from permanent transfers to mere 'polity maintenance' (Ferrera *et al*., 2023). As such, it acts as both a pragmatic solidarity mechanism and a stabilising device for an EU in a continuous state of crisis.

The reinsurance polity marks a new stage in EU political development. It transcends the 'regulatory polity' (Caporaso, 1996; Majone, 1996) by requiring a set of standing operational resources to be used in emergencies. If reinsurance must be agreed and organised ad hoc when a crisis hits, as was often the case during the polycrisis, it is likely to get bogged down in politicised redistributive conflict. At the same time, the reinsurance polity stops short of erecting a positive federal state on the EU-level. It does not replace or supersede national capacities, which remain indispensable for purposes of direct insurance. It does not provide direct insurance to citizens and/or co-insurance on par with constituent units, as in federal states. Reinsurance is a reaction to the polycrisis that highlighted the necessity to shore up and consolidate the EU's regulatory polity model with some operational capacities (Freudlsperger & Schimmelfennig, 2022). Rather than replacing, replicating, or rescuing (Milward, 1992) the nation state, the crisis-stricken EU has come to reinsure it. Against the backdrop of the mounting number of global and transboundary risks (Beck, 2007; Helbing, 2013), above all the climate crisis, the EU's recourse to transnational reinsurance will likely increase in the coming decades. The EU, this paper claims, is gradually becoming 'Europe Re'.

## From regulatory to reinsurance polity

In applying theories of risk management to its general institutional development, this paper provides a novel perspective on 'the nature of the beast' (Risse-Kappen, 1996) that is the EU.

After the Treaty of Maastricht (1993), the EU was famously characterised as a 'regulatory state' (Caporaso, 1996; Majone, 1996) whose focus was to reap the economies of scale of a continental market by issuing rules constraining the behaviour of private actors. The core functions of the territorial or 'positive state' (Majone, 1996), by contrast, i.e., resource extraction, redistribution, and coercion, remained near-fully in the hands of national governments (Leibfried & Zürn, 2005). This division of labour was both a function and a cause of the small fiscal, administrative, and coercive resource base of EU institutions. Where the EU ventured into 'core state powers' (Genschel & Jachtenfuchs, 2016) nonetheless, usually due to the negative externalities arising from previous integration in adjacent areas of market integration, it remained wedded to the toolbox of the regulatory state. Although the integration of core state powers differs substantively from the market in that it requires the allocation of scarce resources in a zero-sum fashion, the EU integrated them by issuing rules rather than building capacity. Instead of acquiring independent taxing powers, it circumscribed member states' taxation. Instead of forging an army, it sought to increase national forces' inter-operability. Instead of establishing an EU border guard, it coordinated the actions of national authorities. Instead of mobilising a sizable budget, it constrained states' expenditures. Even in core state domains, the European regulatory state thus persisted (Genschel & Jachtenfuchs, 2016).

The 'polycrisis' (Juncker, 2016; Rhinard, 2019) upended this regulatory equilibrium. In response to the string of crises engulfing the continent, the capacities of individual states proved repeatedly insufficient. In the financial crisis, some states lacked the means to bail out banks deemed 'too big to fail', and resolving cross-border banks such as 'Dexia' or 'Fortis' proved a particularly intractable problem. The fiscal overstretch resulting from the bailouts then fuelled the crisis of the common currency. In the migration crisis, some 'frontline' states such as Greece (Zaun, 2017) lost control over their borders while destination countries exhausted their absorption capacities. In the pandemic, various states lacked much-needed fiscal legroom, while public health systems across Europe reached breaking point. The Ukraine war again brought to the fore immense divergences in dependency and capacity. A sizable literature has sought to explain the politics of the EU's crisis responses: the emergence of a 'constraining dissensus' in mass publics (Hooghe & Marks, 2009) and the resulting agreement on haphazard solutions (Jones *et al*., 2016); the centrality of governments (Bickerton *et al*., 2015) but persisting influence of supranational actors (Smeets & Beach, 2023). What the literature is less occupied with is the EU's general development as a polity: Which kind of EU has emerged from the polycrisis? The paper at hand seeks to correct this omission. Given the various instances of capacity creation that have occurred (cf. Table 1), it seems evident that the EU has moved beyond the regulatory polity in a variety of crucial domains. At the same time, it has not morphed into a positive federal state. Quite the contrary, the more the EU has integrated in reaction to the polycrisis, the less federal it has become (Genschel & Jachtenfuchs, 2016). The post-crisis EU thus represents a third type of polity that seems irreducible to its regulatory or positive nature and is inadequately captured by the label 'sui generis'. This paper suggests a novel conceptualisation of the EU as a 'reinsurance polity'.

The root cause of the EU's transformation lies less in the polycrisis itself, which rather acted as its catalyst. Instead, it can be found in the spreading of transnational risks, which strain and overburden nation-state capacities. Risk is 'the possibility of future occurrences and developments' (Beck, 2007, p. 9) which must be distinguished from mere speculative possibility as well as the actual occurrence of a catastrophe. As a consequence, 'risk society' turns its focus from the present toward the future, which generates the perception of risk in the first place and binds individuals together by a 'commonality of anxiety' (Beck, 1992; Giddens, 1999). It is constitutive of 'reflexive modernity' (Beck, 1992) that the foremost 'successes of civilisation' (Beck, 2007, p. 4) have taken a self-undermining turn, creating risks as their by-product. Industrialisation, for instance, increased the abundance of Western (and later non-Western) societies but caused the climate crisis. Financialisation supported the efficient allocation of capital in the global economy but also exacerbated the risk of systemic breakdowns. Transnationalisation created opportunities for exchange and mutual enrichment but also brought with it the risk of fast-spreading pandemics. While risk always existed, contemporary risks are global in origin, next to impossible to predict, and hard to delimit in time and space (Beck, 2013; Sørensen, 2018). Helbing (2013) distinguishes five such 'hyper-risks': economic (e.g., energy price volatilities), geopolitical (e.g., military conflict), environmental (e.g., climate change), societal (e.g., infectious diseases), and technological (e.g., critical infrastructure breakdown). Importantly, in today's 'hyper-connected world' (Helbing, 2013, p. 51), risks tend to be interconnected, constituting nexuses in which they affect and reinforce one another (e.g., in the so-called 'water-food-energy nexus').

The spreading of transboundary risks and crises has undermined the effectiveness of established systems of private and public risk management. Insurance was used as a private means of risk management already millennia ago. Its emergence as one of the major branches of the capitalist economy, however, was primarily linked to a string of disasters such as the Great Fire of London (1666; Harold, 2014). When private insurance covered ever larger and more complex risks, specialised reinsurers offered protection against catastrophic losses. Reinsurance thus allowed primary insurers to reduce their risk by increasing the size and extension of the risk pool, and to maximise their profits through specialisation. Over time, as luck and unluck in a diverse and dispersed portfolio should be normally distributed, reinsurance should be distributively neutral (Beblavý *et al*., 2015; Gros, 2019; Zettelmeyer *et al*., 2018). If there were infinite members in a reinsurance pool whose risks were evenly and globally drawn out, reinsurance could eliminate all risks of insurance (Schelkle, 2017). This way, reinsurance would allow insurers to protect themselves even from catastrophic losses and bankruptcy caused by disastrous 'acts of God' (Jarzabkowski *et al*., 2015). From the outset, reinsurers such as Munich or Swiss Re relied on larger risk pools, providing their services on a near-global scale (Bähr & Kopper, 2016; Eden & Kahane, 1990). In the wake of the San Francisco earthquake of 1906, for instance, Munich Re, which had been founded in 1880 only, was already the most affected reinsurance company (Bähr & Kopper, 2016).

Due to the limitations of private risk management, however, public insurance has proved crucial for risks that remained otherwise uninsurable and for individuals that remained otherwise uninsured (Beck, 2007; Ericson *et al*., 2003). Over the past two centuries, government has emerged as 'the nation's insurer of last resort' (Moss, 2002: vii). According to the French sociologist François Ewald, the modern state and its institutions can be understood as an all-encompassing insurance (Ewald, 2000, p. 372) and the insurance principle constitutes the core of modern society (Ewald, 1991, p. 288; cf. also Morawetz, 1999). The insurance function of the state flows from its fundamental obligation to ensure the 'Safety of the People' (Hobbes, 1651) and guarantee protection (Ansell, 2019). The risks that public insurance deals with are politically defined, and the priorities of state protection have shifted with time (Moss, 2002, p. 13). Whereas initially, the state was primarily to protect citizens' physical security from foreign invaders and violent neighbours (Tilly, 1990), its activities have increasingly covered more latent and territorially unbounded threats to their well-being such as natural disasters, pandemics, terrorism, and environmental degradation (Moss, 2002). To deal with such risks, 'the maintenance of risk pools large enough to ensure that expected losses are reasonably predictable and thus subject to governance' has become 'a defining role of all government' (Ericson *et al*., 2003, p. 5).

The prime example of public insurance is the modern welfare state which protects its citizens from unemployment, old age, or care dependency (Ferrera, 2006). However, due to its more encompassing institutional nature vis-à-vis private insurers, the state provides more than mere financial risk management. The literature on political development usually distinguishes four types of resources that states possess and can employ in protecting their citizens (Fortin-Rittberger, 2014; Hanson & Sigman, 2021): fiscal (i.e., money), administrative (i.e., people), coercive (i.e., force), and technical (i.e., infrastructure). These hark back to the state's twin monopoly on the extraction of resources and exercise of violence (Tilly, 1990). And while administrative and technical resources can be seen as derivative of a state's fiscal prowess, its coercive capacity is not reducible to this logic. Its command of coercion provides the state with advantages over private insurers that also affect the nature of public insurance: states can spread risks more broadly as they are able to compel current and future generations; states can monitor risks more reliably with the support of their investigative and adjudicatory arms; states can employ a broader range of resources in managing risks and crises (Moss, 2002). An instructive example is provided by the case of disaster management: Throughout the twentieth century, governments around the globe have constructed encompassing systems of risk management that rely on the whole gamut of their fiscal (i.e., disaster relief funds), coercive (i.e., army and police forces), administrative and technical (i.e., specialised agencies) resources (Moss, 2002).

Both private and public forms of risk management have been challenged by the rise of novel risks. Global hyper-risks and their nexuses threaten to overburden private risk managers due to the incalculability of arising costs paired with their obligation to run a profitable business (Ericson *et al*., 2003), and they transcend the institutional limits of the territorial nation state. Consequently, modern 'risk society' hits the limits of both private and public insurability (Beck, 2007; 2013). Resulting 'transboundary crises' (Boin *et al*., 2014; Christensen *et al*., 2016) such as the global financial crisis, the Covid-19 pandemic, or climate change have highlighted both the limits of national capacities for risk management and the scarcity of transnational providers of assistance to territorial states. The polycrisis, and the repeated necessity for the EU to step in and furnish European states with additional resources, provides a case in point.

By way of analogy with private-sector practices, the paper proposes to conceptualise this assistance as ‘public reinsurance’ (cf. definition below). Analogously to its private counterpart, public reinsurance allows primary insurers, in this case the state of Europe, to increase the size and territorial extension of their risk pool through the back-up capacities provided by a reinsurer, that is, the EU. In this transnational system of public risk management, states retain their role as citizens’ primary and direct public insurers. The EU, in turn, provides indirect reinsurance to them rather than direct insurance to citizens, as would be the case in federal systems. As for private-sector reinsurance, public reinsurance by the EU is thus less visible to the individual ‘policyholders’, i.e., citizens, than primary insurance. It also takes effect solely in cases where crises threaten to or effectively overburden individual states or groups of states. As for public risk management in the national realm, the EU relies not only on fiscal but also administrative, technical, and even coercive resources to provide its reinsurance services.

The paper adds to and moves beyond an existing literature that has applied theories of risk-sharing to the workings of the Euro area. First, in the wake of the Euro area crisis, a string of policy papers conceptualised an insurance-based stabilisation function for the common currency, usually as a ‘European unemployment benefit scheme’ and, later on, as an unemployment *re*insurance (Beblavý *et al*., 2015; Gros, 2019; Zettelmeyer *et al*., 2018; for an overview cf. Afscharian, 2022). These efforts provided the intellectual breeding ground for the SURE programme created during the pandemic (cf. Table 1). Second, Schelkle’s (2017) theory of ‘monetary solidarity’ adopts a risk-sharing perspective on the Euro area, arguing that the economic gains from monetary integration increase with the size and diversity of the insurance pool, all while their political realisation becomes ever more difficult. In a recent analysis, Schelkle (2023) applies the conceptual lens of reinsurance to the current institutional setup of the common currency. Further contributions have explored the normative implications of insurance and reinsurance in the Eurozone (Sangiovanni, 2022; Vandenbroucke, 2017). The paper transcends this literature by grounding its analysis in sociological theories of transboundary risks, highlighting the general increase in demand for transnational risk management; by looking beyond monetary and fiscal policy, providing a new perspective on the general development of the EU; and by shifting the analytical focus from insurance to reinsurance, thereby sketching a ‘third way’ for European integration between the regulatory polity and the positive federal state.

## The emergence and functioning of public reinsurance

In private risk management, reinsurance is usually defined as the ‘insurer’s insurance’ (Pearson, 1995, p. 558). When an insurer accepts a risk from a policyholder too large to underwrite exclusively, it can seek protection against arising damages and excess losses by taking out reinsurance (Garven & Lamm-Tennant, 2003). Under reinsurance, the primary or direct insurer cedes a risk to a secondary or indirect reinsurer (Deelstra & Plantin, 2018). Importantly, no contractual relation arises between the individual policyholder and the reinsurer to whom the primary insurer is fully and exclusively responsible. Private reinsurance has thus been described as 'the most "invisible" form of insurance' (Pearson, 1995, p. 558).

In analogy with private reinsurance, the paper defines public reinsurance as

> the indirect provision of the public management of transboundary [economic, geopolitical, environmental, societal, or technological] risks, by means of [fiscal, administrative, technical, or coercive] capacity support provided by one [higher-level] public entity [i.e., the reinsurer] to another [lower-level] public entity [i.e., the insurer] without a direct link to individual policyholders [i.e., the citizens].

Public reinsurance is thus distinct from public *in*surance by its indirect link to the individual policyholder to whom the primary insurer remains exclusively responsible and accountable. Also, public reinsurance is distinct from *private* reinsurance as its 'coverage' is universal (i.e., comprising the entire citizenry) and mandatory (i.e., covering anyone subjected to a risk; Ericson *et al*., 2003).

Based on this definition, public reinsurance in the EU is characterised by three necessary and jointly sufficient conditions: (i) It is directed toward the management of distinct transboundary risks (cf. Helbing, 2013) and especially the situational alleviation of materialised crises and/or disasters; (ii) it requires the ad hoc creation of novel or the mobilisation of existing resources on part of the EU of an either administrative, coercive, fiscal, or technical type (cf. Fortin-Rittberger, 2014); and (iii) these resources are furnished to member states rather than citizens directly. What, in turn, is public reinsurance *not*? Building on the above, reinsurance is not present in case any of the three above conditions remains unfulfilled: First, if an EU policy is not geared toward the situational management of a distinct risk but provides either no or permanently ongoing risk management; second, if an EU policy is regulatory in nature, i.e., when it does not require the build-up of sizable public resources; third, if an EU policy is primarily directed towards either natural or legal persons, that is, citizens or companies, rather than member states. The EU's product safety regime, for instance, cannot be understood as reinsurance in the sense of this definition because it amounts to an ongoing effort that is regulatory in nature and concerns primarily legal persons, that is, companies in the internal market; the policy thus bears the hallmarks of the regulatory state. The Common Agricultural Policy (CAP), in turn, is a resource-based policy that engages in ongoing redistribution and addresses producers directly. The CAP is thus closer to the positive state than to reinsurance.

The usage of the term 'public reinsurance' suggested in this paper works in analogy, meaning it is 'comparable rather than identical' (Bailer-Jones, 2002, p. 110) with private-sector reinsurance. As 'a mapping of knowledge' (Gentner & Jeziorski, 2012, p. 448) from one domain into another, the analogy extends core properties of private reinsurance to the public realm. It conceives of the relationship between a member state and the EU as analogous to that between a cedant and a reinsurer, and it puts emphasis on the indirectness of risk management and its directedness toward the situational alleviation of materialised risks. Simultaneously, the analogy consciously moves beyond definitions of private reinsurance where an adaptation to the logic of public risk management is necessary. In public reinsurance, the contractual details of the relationship between cedant and reinsurer are fixed not in private reinsurance contracts but in international treaties, institutional mandates, and public law; the individual policyholders are citizens; and the state commands also non-financial and coercive resources.

'Public reinsurance' is an insightful analogy nonetheless, revealing more than it obscures (Bailer-Jones, 2002, p. 124). It provides a novel conceptualisation of EU policies whose core properties are not captured by existing concepts. These alternative concepts include 'redistribution', which is ongoing and geared towards alleviating structural imbalances between the member states (violating the first definitional condition); 'burden sharing' or 'pooling and sharing', which is a horizontal arrangement that does not require genuine EU-level resources (second condition); or 'social Europe', which foresees the direct provision of public goods to citizens (third condition). The notion of a 'reinsurance polity', i.e., a polity whose dominant logic of institutional development is the systematic recourse to public reinsurance, also provides added insight into European integration. The reinsurance polity cannot be reduced to existing logics of political development such as the regulatory polity or the positive state, occupying an intermediary yet conceptually distinct position that would have hitherto been occupied by the opaque notion of a polity 'sui generis'.

### *The emergence of public reinsurance*

To understand the emergence of public reinsurance and the reasons why EU actors repeatedly preferred reinsurance over available alternatives, one needs to account for the functioning and effects of possible other arrangements of public risk management. In multilevel systems such as the EU, the two primary alternatives to reinsurance consist in either (national) insurance or (federal) co-insurance (cf. Figure 1).

National *insurance* creates a direct relationship between the policyholder and an insurer that exclusively accepts the public insurance of a given risk. In federal systems, public insurance can be provided by either the federal

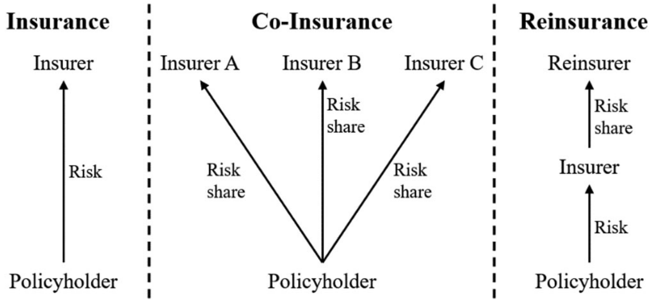


**Figure 1.** Types of possible risk-sharing arrangements.

or the sub-federal level. In the EU, by contrast, insurance is exclusively located at the national level. The welfare state is the most pertinent example, with the member states monopolising resource extraction and allocation, and the EU providing mere flanking regulation to alleviate interface conflicts between different national systems (Ferrera, 2006). In the EU, national insurance is thus consistent with the regulatory polity template.

Federal *co-insurance*, in turn, is a form of direct insurance whereby a policyholder spreads out portions of a risk over multiple direct insurers. Co-insurance is often practiced in systems of fiscal federalism, where both the federal and regional levels provide complimentary insurance directly to citizens (Oates, 2008). One example is the Medicaid programme in the US, which provides health insurance coverage to low-income households and is jointly funded by the federal government and the states. As a permanent scheme of public risk management, co-insurance is also used to alleviate structural imbalances between constituent units in multilevel systems. In the EU, as it would foresee a nucleus of EU-level insurance provided directly to citizens and a concomitant level of resource extraction, co-insurance conforms to the model of positive state-building. The CAP, for instance, which mobilises enormous resources to engage in ongoing redistribution, can be seen as an example of such a federal co-insurance in the EU.

Transnational *reinsurance*, vis-à-vis the alternatives of insurance or co-insurance, provides an intermediary solution that allows for public risk-sharing that is indirect, i.e., without a direct link to individual policyholders, and remains confined to crisis situations. Reinsurance thus exceeds the stabilisation potential of national insurance while falling short of the correction of structural imbalances that is part of federal co-insurance.

During the polycrisis, its positioning as a middle-ground solution has made reinsurance an attractive compromise solution in an EU marred by redistributive conflict and massive 'politicization' in national mass publics (Hooghe & Marks, 2009). Repeatedly, national interests diverged immensely. Governments reaching the limits of their state capacity usually demanded transnational 'solidarity' (Sangiovanni, 2013) and permanent transfers (of public monies, refugees, vaccines, etc.), i.e., European co-insurance. Less affected governments, oftentimes under the impression of politicisation, were torn between their fundamental preference for national insurance and their ultimate dependence on 'polity maintenance' (Ferrera *et al*., 2023). In such situations, reinsurance provided a compromise solution that acts as a targeted and limited transnational risk-sharing mechanism and as a stabilising device for an EU in a continuous state of crisis, all while falling short of the permanent transfers that would necessarily underpin the correction of structural imbalances.

### *The functioning of public reinsurance*

Beyond the fundamental choice for reinsurance over its alternatives, private reinsurance arrangements function according to differing logics. Certain contract types minimise the risks of reinsurance, i.e., primarily moral hazard and adverse selection, both of which arise due to the informational advantage of a direct insurer over an indirect reinsurer (McNeil *et al*., 2015). While moral hazard occurs if cedants begin to accept excessive risks under reinsurance (Doherty & Smetters, 2005; Eden & Kahane, 1990), adverse selection arises when cedants selectively pass on bad risks to a reinsurer (Garven *et al*., 2014; Jean-Baptiste & Santomero, 2000). On the other hand, certain contract types maximise the potential for stabilisation, i.e., the smoothening of loss functions (cf. Outreville, 2002), by effectively avoiding catastrophic losses. These contract types can be applied analogously (cf. definition above) to public reinsurance in the EU. The literature usually distinguishes reinsurance contracts on two primary dimensions, namely the scope and bindingness of their *coverage* and the proportionality of *payouts*.

*Coverage:* Under 'facultative' reinsurance, a primary insurer passes on individual risks. Facultative reinsurance works on a case-by-case basis and thus allows insurers to cede risks selectively to a reinsurer, which also keeps full discretion over offering its reinsurance services. In 'obligatory' or 'treaty' reinsurance, in turn, an insurer takes out reinsurance for an entire book of business, i.e., a category of risks (Jean-Baptiste & Santomero, 2000). As per usual, obligatory reinsurance is binding on both the cedant and the reinsurer and establishes a more formalised, long-term relationship between them. Obligatory reinsurance minimises adverse selection by avoiding the selective cession of bad risks by primary insurers. It also increases the stabilisation potential by diversifying the reinsured risk pool and facilitating reinsurance against nexuses of intertwined risks (Helbing, 2013). Facultative reinsurance, by contrast, holds a lower stabilisation potential but minimises the potential payouts for reinsurers and provides them with better protection against systemic risks in an insurer's portfolio or business model. In the EU, adverse selection occurs either if member states with a low risk vulnerability can opt out and refrain from contributing to a common risk pool, or if vulnerable member states can seek reinsurance for bad risks, both of which decreases the stabilisation potential of a sectoral reinsurance scheme. Some schemes of EU reinsurance are facultative in this sense, leaving it up to member state to decide whether to contribute or not. During the Covid-19 pandemic, for example, some member states opted out from the joint procurement of vaccines. Other schemes such as 'rescEU' are obligatory since all member states are compelled to contribute to the joint capacity through the EU budget (cf. below).

*Payouts:* Under 'proportional' reinsurance, the insurer and reinsurer share risks in a prespecified ratio. Such 'quota share' or 'pro rata' agreements kick in from the first claim onwards. Under 'non-proportional' reinsurance, the reinsurer only accepts claims brought by the insurer that exceed a prespecified threshold level. Such 'excess of loss reinsurance' solely covers claims beyond a certain deductible to be covered by the direct insurer. While proportional schemes cover a pre-fixed proportion of all claims, non-proportional or excess of loss reinsurance kicks in only when large-scale disaster strikes (William, 2021). Non-proportional schemes minimise moral hazard by limiting reinsurance to disasters only. Since the follow-up costs from disastrous events tend to rise exponentially, non-proportional schemes hold considerable ex-post stabilisation potential (Beblavý *et al.*, 2015). Proportional agreements are better equipped to support the prevention of disasters in the first place, lowering ex ante the risk vulnerabilities of insurers. In the EU, non-proportional and proportional schemes coexist. While, for instance, rescEU furnishes member states with additional capacities only after they were struck by disasters, HERA's 'ever-warm' production capacities for vaccines represent a prespecified proportion of the Union's preparedness effort for future pandemics (cf. below).

Based on these considerations, *obligatory proportional reinsurance* should hold the highest stabilisation potential while minimising adverse selection. Yet, what is rational from a risk-sharing perspective need not be politically expedient (Schelkle, 2017). In other words, what is desirable from one member state's perspective is not necessarily so from another's. In EU risk management, member states that lack the necessary capacity to manage certain transboundary crises and settle for reinsurance as an alternative to their preference for federal co-insurance, will seek the highest possible stabilisation. Obligatory proportional reinsurance conforms best with their preferences. For member states, on the other hand, that hold sufficient capacity to deal with a given transboundary risk, have a fundamental preference for national insurance, and accept reinsurance solely for reasons of 'polity maintenance' (Ferrera *et al.*, 2023), *facultative non-proportional reinsurance* is preferable. This type of reinsurance minimises both moral hazard and continued pay-outs, although holding lower stabilisation potential. The eventual functioning of EU reinsurance is subject to hard bargaining among these two groups of states, i.e., those that want to minimise the risk of moral hazard entailed in reinsurance and those that intend to maximise the stabilisation potential of EU risk-sharing, with hybrid solutions likely to arise.

## Examples of public reinsurance in the EU

In the following, three examples will illustrate the emergence and functioning of EU public reinsurance (cf. Table 2). The instruments were chosen as 'diverse cases' (Seawright & Gerring, 2008) that respond to different types of transboundary risks (risk classifications from Helbing [2013]) and corresponding shortages of member state capacities, and were created at different instances during the polycrisis. They also demonstrate that public reinsurance transcends the fiscal domain (as analysed in Schelkle, 2023) and also encompasses the supply of auxiliary administrative, technical, and coercive capacities in crisis situations. All three cases conform with the minimal conditions of 'public reinsurance' defined above, i.e., they are (i) directed toward distinct risks, (ii) rely on genuine EU-level resources, and (iii) supply these primarily to member states rather than citizens. The cases chosen include the rescEU stockpiling scheme, the Frontex standing corps, and HERA's pandemic preparedness efforts.

### *rescEU stockpiling*

*Risk:* Global warming has increased European societies' vulnerability to large-scale natural disasters such as pandemics, flash floods and storms, forest fires, and earthquakes. In addition, a more complex security environment has increased the likelihood of man-made disasters such as terrorist attacks and even war in Europe. In such instances, national resources for disaster

**Table 2.** Overview of empirical cases.

| Case | Polycrisis | Transboundary risk type (based on Helbing, 2013) | Coverage | Payouts |
|---|---|---|---|---|
| rescEU stockpiling | Climate crisis, Covid-19, Ukraine war | Environmental: climate change; societal: infectious diseases; geopolitical: weapons of mass destruction | Obligatory | Non-proportional |
| Frontex standing corps | Migration crisis | Societal: migratory movements | Facultative, partly obligatory | Proportional, partly non-proportional |
| HERA pandemic preparedness | Covid-19 | Societal: infectious diseases | Obligatory | Proportional, partly non-proportional |

management can become depleted, especially among member states with lower fiscal and state capacity (Hanson & Sigman, 2021). Organising a transnational capacity for disaster relief thus holds meaningful potential for public reinsurance. To this end, the EU created and gradually expanded its 'rescEU' stockpiling scheme. In response to a string of devastating wildfires that hit the Mediterranean rim in 2017, the Commission first proposed 'a reserve at European level of civil protection capabilities' (European Commission, 2017) as part of the EU's Civil Protection Mechanism. Initially, the rescEU stockpile was thus geared toward environmental disasters. With the onset of the Covid-19 pandemic, which strained national health systems and cut off some member states from the supply of essential medical goods, rescEU's scope expanded to cover societal risks (European Commission, 2020b). In reaction to the Russian war against Ukraine, which rendered EU member states vulnerable to non-conventional threats such as nuclear contamination or fallout, rescEU was further expanded to cover geopolitical risks.

*Resources:* In 2019, rescEU was created to provide a pooled reserve of currently 24 planes, 6 helicopters, and 450 firefighters (Reuters, 2023) to fight forest fires throughout the Union. In 2022, the EU contracted producers for the supply of an additional 12 planes and 10 helicopters (Weise, 2022). Following its inception, rescEU was rapidly expanded to provide disaster relief well beyond its initial focus on wildfires. When the Covid-19 pandemic hit in early 2020, rescEU could not yet rely on an existing stockpile of essential medical equipment to disseminate to member states in need. While its initial response was thus ineffective, rescEU underwent a quick expansion to the provision of intensive care medical equipment such as ventilators, personal protective equipment such as reusable masks, vaccines and therapeutics, and laboratory supplies (Greer *et al*., 2021). At the same time, the amount of EU funds reserved for rescEU skyrocketed. In June 2020, the instrument received EUR 1.1 billion as part of the current EU budget and EUR 1.9 billion from the Recovery and Resilience Facility. In 2022, another EUR 540 million were allocated to the purchase of an emergency stockpile and a decontamination reserve for chemical, biological, radiological, and nuclear (CBRN) threats (European Commission, 2022). In addition, the rescEU stockpile has been further expanded to mobile emergency shelters for earthquake victims, generators for energy outages, and is planned to include two planes for evacuation missions from crisis theatres (European Commission, 2023).

*Reinsurance:* rescEU conforms to the definition of public reinsurance because it (i) responds to a succinct set of environmental, societal, and geopolitical risks, (ii) creates genuine EU-level resources of a mostly technical nature, and (iii) provides the latter to member states authorities in the wake of disasters. rescEU is an obligatory and non-proportional scheme of public reinsurance. While the member states' situational reliance on the scheme depends on their own assessment of the necessity of additional resources (Greer *et al.*, 2021), all EU member states participate in the Civil Protection Mechanism and rescEU is wholly funded out of the EU budget. The obligatory nature of rescEU reinsurance minimises adverse selection as it keeps individual member states, and especially those with lower vulnerability, from opting out of the common pool. Interestingly, as is usual for obligatory reinsurance, rescEU is geared toward providing relief against a wide gamut of natural and man-made risks. Its stockpile is sufficiently versatile to be employed in different contexts, as during the Covid-19 pandemic and in the Ukraine war, and after the 2023 earthquake in southern Turkey. As a disaster relief mechanism, rescEU is intentionally constructed as a non-proportional excess of loss reinsurance and is only employed when disaster strikes, national capacities are insufficient, and a swift increase in public insurance capacity is required. As a consequence of its obligatory and non-proportional nature, rescEU should reduce both adverse selection and moral hazard and hold a relatively high potential for stabilisation.

### Frontex standing corps

*Risk:* In the early to mid-2010s, migratory movements to the EU from Syria and the Middle East mounted to an extent that some member states' capacities of controlling entries at their external Schengen borders, registering, and accommodating refugees reached their limits. In the summer of 2015, border controls at the external Schengen borders and the Common European Asylum System (CEAS), which is based on the country-of-first entry principle, were de facto suspended. As some countries at the external Schengen borders, especially Greece (Zaun, 2017), were overwhelmed by the influx of persons and began a practice of 'waving through' rather than registering asylum-seekers, other Schengen members reimposed border controls to control migratory flows. To prevent future crisis situations in which sizable migration movements overwhelm the decentralised workings of the Schengen area, and to enable member states to continuously control the influx of people, the Council decided to re-establish the EU border agency Frontex as a 'European Border and Coast Guard' (Regulation (EU) 2016/1624), and especially to create a sizable 'standing corps' of border guards.[1]

*Resources:* Since 2016, Frontex has witnessed a remarkable increase in fiscal, administrative, and coercive capacity. Its budget has grown from EUR 143 million in 2015 to EUR 845 million in 2022. Its staff increased from 309 in 2015 to over 2000 in 2022. By 2027, the Frontex standings corps alone is to consist of 10,000 officers, among them 3000 that are genuine Frontex staff and some 7000 officials in long-term secondment from the member states (Frontex, 2022a). Also, Frontex officers now have coercive powers and, when performing their duties at the external borders of the Schengen area, are allowed to carry and make use of firearms (Frontex, 2022b).

Ultimately, a 10,000 strong standing corps is comparable in size to the national border guards of large member states. The French *Direction Centrale de la Police Aux Frontières*, for instance, had roughly 12,000 employees overall in 2021. In recent years, Frontex began acquiring a fleet of patrol cars and boats; it also leases planes, helicopters, and drones. Nevertheless, the Frontex standing corps is primarily intended to provide an auxiliary level of reinsurance for national capacities, supporting national authorities on the ground in member states in instances in which national capacities alone prove insufficient.

*Reinsurance:* The Frontex standing corps conforms to the definition of public reinsurance as it (i) responds to a discrete set of transboundary societal risks, (ii) disposes of genuine EU-level coercive and technical resources, and (iii) provides these to member state authorities in cases of capacity shortages. Frontex provides a hybrid form of reinsurance. By default, Frontex reinsurance is facultative and proportional. Not all member states contribute to the common risk pool. Ireland, for instance, has an opt-out from the Schengen free-travel area. At the same time, the Frontex standing corps supports member states' ongoing border management activities by assisting with border checks and providing support to migration management such as nationality screening, registration, and fingerprinting (European Border and Coast Guard (Frontex) 2022b) but also returns operations. In exceptional circumstances, however, Frontex reinsurance can take on an obligatory and non-proportional character. In 'situations at the external border requiring urgent action' (Regulation (EU) 2019/1896, Article 42), Frontex can deploy its standing corps upon a decision taken by the Council, that is, potentially without approval of the member state(s) in question. Due to this potential for the situational provision of both proportional and obligatory reinsurance, the Frontex standing corps appears as a case of transnational reinsurance with a high stabilisation potential.

### HERA 'ever-warm' vaccine production

*Risk:* As a result of social and economic integration, European countries are becoming more vulnerable to societal risks (Helbing, 2013), and particularly to health threats such as pandemics. Covid-19, which hit Europe in early 2020, is a case in point. The transboundary nature of the crisis rendered national risk management futile and transnational cooperation essential. Shortages in the supply of essential medical goods, disruptions in global supply chains, and the speed with which the pandemic expanded brought various national health systems on the brink of collapse. In response to the crisis, EU countries adopted ad hoc solidarity measures such as patient mobility and the RRF. Soon, however, the focus shifted to 'reinforcing the EU's resilience for cross-border health threats' (European Commission, 2020a, p. 1) by building a 'European Health Union', as suggested by the European Commission in November 2020. Beyond proposing, among others, the EU-wide procurement of Covid-19 vaccines, the Commission also recommended the creation of a novel 'Health Emergency Preparedness and Response Authority' (HERA) whose main task is to 'strengthen the EU's preparedness and response capability for new and emerging cross-border threats to human health' (European Commission, 2020a, p. 20).

*Resources:* HERA was established in September 2021 and endowed with an initial budget of roughly EUR 6 billion for 2021–2027 (Brooks *et al.*, 2023). HERA's workings distinguish two 'phases'. During the 'preparedness phase', the authority cooperates with other EU-level and national actors to improve the Union's readiness for health emergencies through threat assessments, research and development, and capacity building (Seitz, 2023). In the 'crisis response phase', HERA can activate emergency funding to develop, procure, and purchase medical countermeasures. In such instances, the authority acts under the steer of a Health Crisis Board co-chaired by the European Commission and the Council presidency and empowered by a Council Regulation (2022/2372) of October 2022. In 2023, HERA established 'EU FAB', a network of 'ever-warm' production facilities for vaccines and medicines health emergencies. The network is built on a framework contract with vaccine producers (mRNA-based, vector-based, and protein-based) which jointly guarantee the supply of a total of 325 million doses per year once a crisis hits. During the preparedness phase, HERA reimburses the contractors for ensuring their constant preparedness, by keeping their facilities up to date, ensuring staff training, monitoring supply chains, and stockpiling. During the crisis response phase, HERA can activate EU FAB and purchase the vaccines supplied by the network (HERA, 2023).

*Reinsurance:* HERA's ever-warm vaccine production conforms to the definition of public reinsurance by (i) responding to a discrete societal risk, (ii) mobilising genuine EU-level resources of a fiscal, administrative, and technical nature, and (iii) providing member states with these resources in future pandemics. HERA is an obligatory public reinsurance scheme that provides both proportional and non-proportional risk management. EU vaccine procurement during the Covid-19 pandemic was still facultative as individual member states such as Hungary could decide to 'go it alone' by procuring vaccines independently. HERA, by way of contrast, is wholly funded out of the EU budget and thus supported by all member states. During the preparedness phase, HERA provides proportional reinsurance by actively aiding, coordinating, and complementing member state efforts at improving disaster readiness. In the crisis response phase, its workings switch to non-proportional reinsurance by enabling the joint production and procurement of vaccines. As for Frontex, HERA's situational capacity to offer different kinds of reinsurance should facilitate a considerable potential for stabilisation.

## Conclusion

In response to the polycrisis, this paper claims, the EU is remaking itself as a reinsurance polity. Reinsurance is a novel path of institutional development which moves the EU beyond the regulatory polity without necessarily pushing it toward positive state-building.

In an era of deep societal, political, and economic integration, transboundary risks such as pandemics, wars, and above all climate change are mounting. In the polycrisis, European states have repeatedly required outside stabilisation. Under the emerging model of transnational reinsurance, the member states remain their citizens' primary insurers against individual life threats and societal dangers. The EU neither replicates nor replaces their primary insurance functions. When, however, national resources become depleted, EU reinsurance provides auxiliary capacity support. To this end, the EU has created a series of standing back-up capacities to be used situationally in times of crisis. These span domains as varied as monetary, fiscal, migration, health, energy, and environmental policy. These capacities are primarily directed at states, not citizens. As with private reinsurance, public reinsurance in the EU thus remains less visible to the individual policyholders. It allows the nation state to uphold its primary responsibility for insuring its citizens despite the proliferation of transboundary risks. The downside of the current system consists in its inability to alleviate the structural imbalances fostered by some EU policy regimes such as the Euro or Schengen.

In the polycrisis, reinsurance has provided the EU with a pathway beyond the regulatory polity that is both politically opportune and functionally meaningful. Against the backdrop of the immense and asymmetric politicisation in national publics, and the ensuing conflicts among governments, reinsurance has emerged as the EU's dominant template of crisis reaction. Reinsurance has repeatedly provided a pragmatic solution that allows for the situational alleviation of capacity shortages among individual member states, all while avoiding the ongoing redistribution implied by positive state-building. Consequently, reinsurance is less visible among the public, and less vulnerable to Eurosceptic contestation. The novelty is not so much that the EU had never relied on auxiliary back-up capacities for transboundary challenges pre the polycrisis. One example to the contrary would be the Globalization Adjustment Fund created in 2007. The novelty, this paper claims, lies in the fact that reinsurance has, for reasons of political expediency, become the dominant logic of EU political development in the polycrisis. Since the regulatory polity template has repeatedly proven dysfunctional in domains of core state powers and since the path to positive state-building is politically foreclosed, reinsurance gave the EU an out of its predicament. While pushing it beyond regulation, the rise of the reinsurance polity cements the EU's departure from federalist notions of the past. The more the EU has integrated in the polycrisis and the more it adopted the functioning of a reinsurance polity, the less federal it has become (Genschel & Jachtenfuchs, 2016).

Though a compromise solution among national preferences that range from permanent transfers to purely national risk management, reinsurance can also be seen as a normatively desirable model of European institutional development. As a type of risk-sharing confined to crises and provided to states rather than citizens, reinsurance eclipses a purely national but falls decisively short of a federal notion of public risk management. As such, it formulates a pragmatic approach to risk-sharing in the EU that can be seen as congruent with a 'demoi-cratic' union of sovereign statespeoples (Bellamy, 2019; Cheneval *et al*., 2015; Nicolaïdis, 2004). As reinsurance leaves primary national insurance intact, its legitimacy is based on nationally constituted demoi rather than one emerging European demos. As reinsurance is provided indirectly to states, its standard of social justice is grounded in the equality of states rather than the equality of citizens. As reinsurance leaves to member states the option of self-reliance in crises, it is based on the mutual non-domination among distinct statespeoples. From a demoi-cratic perspective, reinsurance could thus provide a potential finalité of European integration.

Reinsurance also provides a new pathway for European integration research, and this paper could only sketch out some of its foundations and implications. To which transboundary risks does the EU react by institutionalising public reinsurance, to which does it respond by other means of risk management? How does the functioning of reinsurance vary across domains and over time? Under which conditions is reinsurance supported in public opinion and elite preferences? To which extent does reinsurance affect the workings of the European institutions, and what standard of democratic legitimacy do these institutions require to sustain it? Future research should more systematically explore these and further questions raised by the contemporary emergence of public reinsurance in Europe.

## Note

1. Conceptualising Frontex as a means of 'transnational reinsurance' is in no way intended as an endorsement of its dubitable practices in managing the EU's external borders. For recent analyses of the securitisation of the Schengen area in the wake of the 'refugee crisis' see, among others, Lavenex (2018).

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No potential conflict of interest was reported by the author(s).

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