

# MARKET BULLETIN

<b>From</b>	Julian James
<b>Date</b>	21 December 2005
<b>Reference</b>	Y3710
<b>Subject</b>	<b>GAREAT - FRENCH TERRORISM REINSURANCE POOL</b>
<b>Subject areas</b>	1. To inform syndicates of the procedures for 2006, including the ability to opt-out of the pool. 2. To provide information on the final data collection for 2005.
<b>Attachments</b>	None
<b>Action points</b>	<b>Managing Agents and Underwriters to note and action opt-out procedure if required.</b>
<b>Deadlines</b>	<b>14 January 2006 for the opt-out and 17 March 2006 for final 2005 data collection.</b>

## 1. Opting out of the pool for 2006

GAREAT participation is compulsory for all members of the French Insurers' Association (FFSA) including Lloyd's. However, individual syndicates were given the option to opt out of the pool for 2005. This option will also be allowed for 2006.

*All syndicates are opted-in for 2006 unless they specifically opt out. Opt-outs from 2005 will not be carried over.*

*Syndicates opting out of the pool for 2006 must still include terrorism cover in their policies as required under French law.*

Syndicates wishing to opt out of the pool for 2006 must contact Worldwide Markets (WWM) and return a signed copy of the letter that WWM will issue to them. The deadline for opting out will be 14.01.2006 and after that date, no changes will be allowed. Please note this deadline is earlier than the deadline of previous years and was set centrally by Gareat. All syndicates who have not opted out must make a quarterly return to the French office, including nil returns where applicable. Please contact WWM for a copy of the opt-out letter

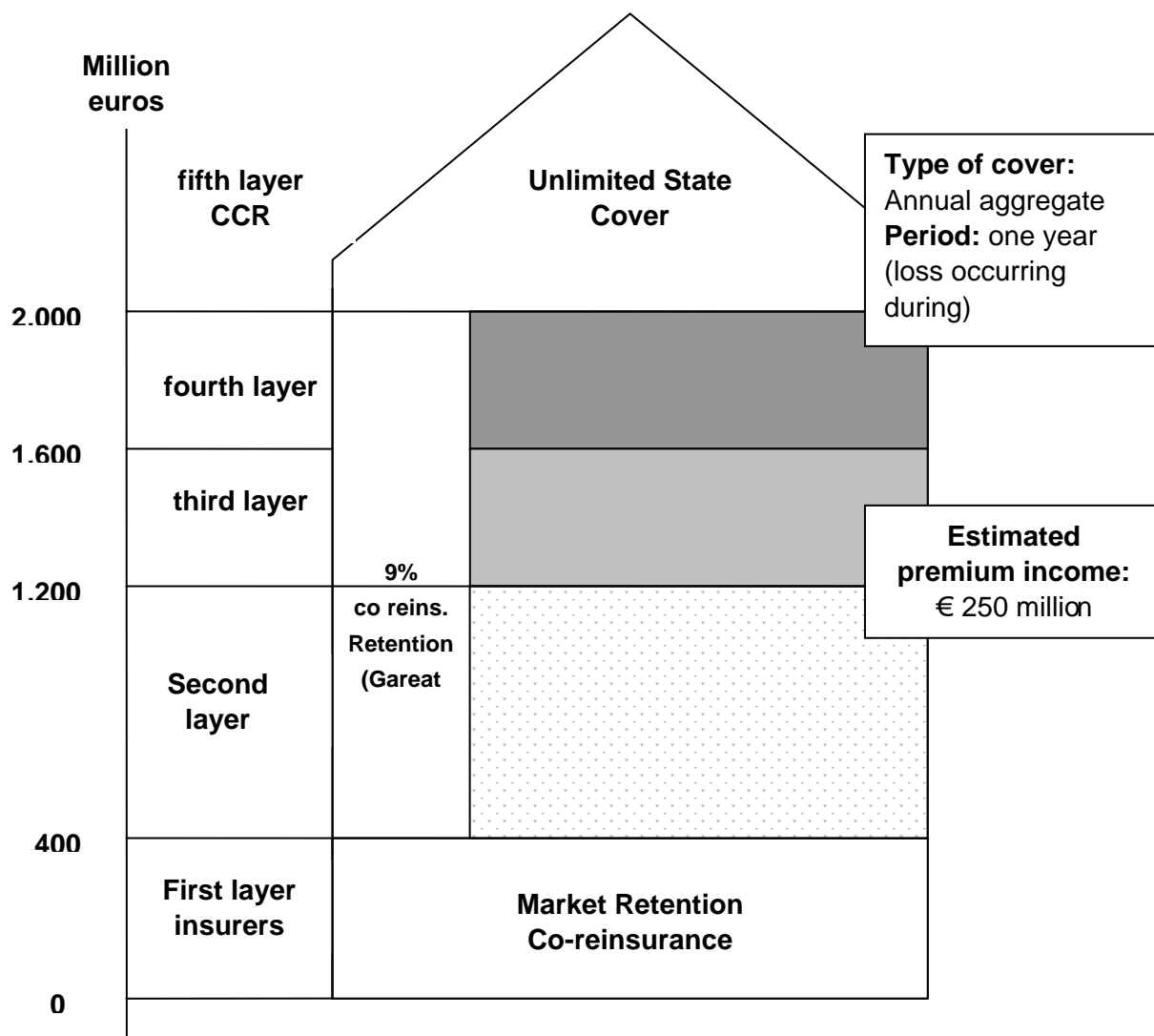
template for 2006. This must be printed out on each syndicate's headed paper and returned to Zoë Kilminster in WWM.

## **2. Structure of the pool for 2006**

The GAREAT pool will be continuing for 2006 with some changes.

In 2005, GAREAT was structured on a four-layer basis, the co-reinsurance pool being involved up to a limit of €400 million. A second layer was purchased in the commercial insurance and reinsurance market above this up to the limit of €1,600 million, which was led by Swiss Re. A third layer of reinsurance up to the limit €2,000 million was led by Hannover Re. Unlimited cover via the CCR (a French State-owned reinsurer) guaranteed by the French State was provided above this layer.

For 2006, the second layer of this structure will be split into two different layers in order to facilitate the placement with reinsurers, from € 400 million to € 1,200 million and then from € 1,200 million to € 1,600 million.



This structure should remain in place until the end of 2006, as per the agreement signed between GAREAT and the French Government.

For the reinsurance layers, the security rating (based on S&P ratings) of reinsurers will determine the extent of a reinsurer's participation in the programme. Reinsurers will have their involvement limited according to their security rating, and must have at least a rating of BBB-, subject to the following conditions:

- Maximum capacity as % of capital from 3 to 7% and as per ratings from €25 to € 250 million with:
  - aggregation of program capacity
  - except if the amount as % of capital is lower (then is the maximum)
- Maximum line for layers : from 2% to 20%
- Minimum written line: 0.5% (second layer) – 0.75% (third and fourth layer)

Please note that the main reinsurers (70% of the capacity) of Gareat are:

- Swiss Re

- Hannover Re
- Lloyd's
- Axis
- Partner Re
- Munich Re
- Odyssey Re
- AXA Re
- Scor
- Transatlantic Re

### 3. Updates and Reminders:

- **NBCR risks :**

Gareat covers all acts of terrorism, based on the French Criminal Code, including NBCR (nuclear 'dirty', biological, chemical, radiological) and decontamination.

- **Definition of an act of terrorism :**

The French Insurers' Association (FFSA) is currently negotiating with the French government a draft text to replace the existing definition of an act of terrorism in French law. The FFSA considers that the current definition is not precise enough and could lead to legal uncertainty should a loss occur.

- **Equalisation reserves:**

The French State has authorised all Gareat members (this will include all opted-in Lloyd's syndicates) to pay money into equalisation reserves in respect of Attacks and Acts of Terrorism coverage. Therefore if no significant claims occur, Gareat will refund its members every year with the unused portion of their reinsurance premiums.

Considering that UK accounting methods are different from the French ones, the money refunded by Gareat to Lloyd's annually will be repaid to the Premiums Trust Funds where they should be kept as reserves in order to settle future losses relating to acts of terrorism in France. In addition to that, the portion of Gareat premiums not called by the pool (about 30%) and therefore kept by Syndicates should also be considered as reserves.

**According to the latest Gareat co-reinsurance convention, in return of this right to constitute equalisation reserves, the French State requests that all Gareat members retain 9% of the second, third and fourth layer of reinsurance.**

- **Gareat scheme for small risks – Gareat 2:**

A second Gareat pool named Gareat 2 has been designed for companies wishing to mutualise their property mass risks portfolio. Those risks are: All damage policies outside the scope of "industrial risks" (i.e. those ceded to Gareat), individual, professional, commercial or business risks (of less than 6 million Euros), Private lines, Agricultural risks, Motor except Liability.

Please note that:

- Membership to this second scheme is optional. To date, only 15% of the French market participates to Gareat 2 (mainly small insurers).
- The structure of the reinsurance is based on percentages: the limits of the layers are expressed as percentages of the premiums ceded and not as flat amounts. The members' exposure cannot be calculated until Gareat 2 knows the number of participants and the amount of premiums ceded.
- Syndicates willing to opt-in must advise us before 14.01.2005 and this decision is irrevocable for one year.
- Further information can be obtained from the Lloyd's Paris office.

#### **4. Final data return for 2005**

The fourth quarter return for 2005 covered risks incepting up to the 10 December 2005. GAREAT will require a further return from syndicates for risks incepting from 11 December to 31 December 2005. The French office will email syndicates the forms to be completed together with the forms for the first quarter 2006. The deadline for this return, together with the first return for 2006 will be 17 March 2006.

#### **5. Further information**

Further information regarding GAREAT can be obtained as follows:

In France, from Lloyd's Paris office:

Cécile Peyrade                      Tel: +33 1 42 60 43 43  
Email: [cecile.peyrade@lloyds.fr](mailto:cecile.peyrade@lloyds.fr)

Lloyd's General Representative in France:

Anne-Gaëlle Leillard              Tel: +33 1 42 60 43 43  
Email: [annegaelle.leillard@lloyds.fr](mailto:annegaelle.leillard@lloyds.fr)

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