

MARKET BULLETIN

From	Julian James
Date	10 January 2006
Reference	Y3723
Subject	Update on new French Terrorism Act and impact on Gareat
Subject areas	To provide syndicates with the latest information on changes in French terrorism laws
Attachments	None
Action points	Managing Agents and Underwriters to note and action:
Deadlines	

The information provided in this bulletin is valid as at today and is an update on previous Market Bulletins Y3710 dated 21.12.2005 and Y3716 dated 29.12.2005

Key points:

1. The new French Terrorism Act, adopted on 22 December 2005, includes the use of nuclear weapons in its definition of an act of terrorism.
2. Insurers writing specified classes of French business (set out below) must cover acts of terrorism, including through the use of nuclear weapons.
3. Whilst the Gareat pool continues to cover the use of biological, chemical or radioactive materials and dirty bombs, as at today the use of nuclear weapons is excluded from Gareat reinsurance treaties. The pool is, however, seeking reinsurance to cover this risk.
4. We have received assurances from the French Government that it will provide unlimited cover to the Gareat scheme for industry losses in excess of 2 billion Euros, including those arising from the use of nuclear weapons. This State cover would

therefore be offered to Gareat members only. We understand that final confirmation from the State should be forthcoming at the beginning of February.

5. The French State-owned reinsurer, Caisse Centrale de Réassurance (CCR), is offering unlimited terrorism cover, including nuclear weapons, for risks below 6 million Euros. The deadline for purchasing this reinsurance is 31 January 2006. The scope and conditions of this cover are set out in section 4 of this bulletin.
6. The deadline for opting in or out of the Gareat pool has been extended from 15 January to 28 February 2006.
7. We continue to monitor the situation closely and will issue further guidance as appropriate.

We remind you that this new obligation to cover nuclear bombs applies only to acts of terrorism.

1. Definition of an act of terrorism :

- Insurers must cover any acts of terrorism committed by any means, including the use of biological, chemical or radioactive materials, dirty bombs **and nuclear weapons**.

For the avoidance of doubt, a dirty bomb is a conventional explosive such as dynamite packaged with radioactive material that scatters when the bomb goes off. A dirty bomb kills or injures through the initial blast of the conventional explosive and by airborne radiation and contamination—hence the term “dirty.” A nuclear weapon is a weapon which derives its destructive force from the nuclear reactions of nuclear fission and/or fusion.

- Insurers must cover direct material damages - caused to property damaged by a terrorist attack or an act of terrorism – **incurred** on French soil. Compensation for material damage, including the costs of decontamination, and compensation for consequential non-material damage, is covered within the limits of the deductible and the maximum sum insured set out in the contract for the fire guarantee.

If the insured is covered for loss of profits, this cover is extended to damages caused by a terrorist attack or acts of terrorism, under the conditions provided by the contract.

Insurers must cover losses arising from terrorist attacks or acts of terrorism committed on French soil, but also from terrorist attacks or acts of terrorism committed in another country, causing damages to property located on French soil . This mainly relates to acts of terrorism committed in **border countries**. In addition, there must be a direct damage to the property located on French soil to trigger the loss of profits coverage.

Example: an act of terrorism is committed in Spain with a nuclear bomb:

- If this happens near the frontier and some buildings located in France collapse in the wake of the explosion, insurers must cover the damage to property, the costs of decontamination and, if the insured is covered, the loss of profits.

- If this happens far from the frontier, insurers might have to cover the costs of decontamination, now considered direct material damages.

2. Scope of the new Terrorism Act:

The classes of insurance caught by the new Terrorism Act are the same as before, namely categories 3 to 9 of the French Code of Insurance:

- 3: Land vehicles (other than railway rolling stock): all damage to or loss of land vehicles.
- 4: Railway rolling stock: all damage to or loss of railway rolling stock.
- 5: Aircraft: all damage to or loss of aircraft.
- 6: Ships (sea, lake and river and canal vessels): all damage to or loss of river and canal, lake and sea vessels.
- 7: Goods in transit (including merchandise, baggage and other goods): all damage to or loss of goods in transit or baggage, irrespective of the form of transport.
- 8: Fire and natural forces: all damage to or loss of property (other property included in classes 3,4,5,6 and 7) due to fire, explosion, storm, natural forces other than storm, nuclear energy and land subsidence.
- 9: Other damage to property: all damage to or loss of property (other than property included in classes 3,4,5,6 and 7) due to hail or frost, and any event such as theft, other than those mentioned under number 8.

Of these classes of insurance the following may be ceded to Gareat:

- Contracts covering Property Damage risks for Professionals, Business Interruption: Fire, Multirisks and All Risks.
- Contracts covering stocks of parked vehicles and stocks of goods.
- Contracts covering "Technical" risks: Machinery Breakdown, Contractors All Risks, Construction All Risks, Computer All Risks, Banker's Blanket Bond.
- "Exhibition" risks and Specialty risks.
- Contracts covering property complexes.
- Contracts covering Local Authorities.
- Contracts covering Nuclear Risks.

The following may **not** be ceded to Gareat:

- MAT business (categories 4 to 7 of Article R 321-1 of the Insurance Code).
- Goods in transit.
- Non consecutive immaterial damages including the effects of a computer virus.
- Contracts covering Personal Lines.

3. Risks over Eur 6M – Impact on Gareat:

- Gareat will continue to cover the use of biological, chemical or radioactive materials and dirty bombs.
- We have received assurances from the French Government that it will grant unlimited cover to the Gareat scheme for industry losses in excess of 2 billion Euros, including those arising from the use of nuclear weapons. This means that **the State cover would be offered to Gareat members only. Final confirmation from the State should be granted at the beginning of February.**
- As at today, the use of nuclear weapons is excluded from Gareat's reinsurance treaties. However, the **interpretation of Gareat** is that below the 2 billion Euro threshold where the State would step in, losses would be shared among Gareat members according to the premiums they cede to the pool. **Final confirmation of this interpretation will be obtained subject to Gareat updating its co-reinsurance rules at its next management board at the beginning of February.**

4. Small risks below Eur 6M:

The State-owned reinsurer, Caisse Centrale de Réassurance (CCR), is offering unlimited terrorism cover, including nuclear weapons, for risks below 6 million Euros under the following conditions:

- Type of cover: stop-loss reinsurance (annual aggregate)
- Scope of coverage: professional property damage, private property damage, agricultural property damage and motor damage
- Duration: 12 months with effect from 1st January 2006
- Territorial scope: French Republic
- Commitment of the CCR: 100% of the annual cost of losses in excess of the following deductible.
- Annual deductible: total of the following amounts (1+2):
 1. 20% of premium income in relation to the following categories:
 - Professional property damage (excluding risks transferable to GAREAT: risks over Eur 6M)
 - Private property damage
 - Agricultural property damage (excluding 'hail')
 2. 2% of premium income 'Motor damage'.

Insurers retain the terrorism risk below this deductible.

- Rates: premium calculated by combining the following amounts (1+2+3+4):
 1. 0.30% of premiums issued in the category 'Professional property damage' (excluding risks transferable to GAREAT: over Eur 6M)
 2. 0.20% of premiums issued in the category 'Private property damage'

3. 0.15% of premiums issued in the category 'Agricultural property damage (excluding 'hail')
 4. 0.03% of premiums issued in the category 'Motor damage'
- Minimum provisional premium deposited: 80% of the estimate of the final premium payable quarterly on 1 January, 1 April, 1 July and 1 October, and adjustable 18 months after the date the present cover takes effect, on the basis of statement C4 of the CCAMIP (French regulator).
 - Implementation of Article L 126-2 of the Insurance Code: Should a terrorist attack or an act of terrorism occur during the period from 1st January 2006 until the implementation of amended Article L 126-2, the Cedant undertakes to apply this article in the form adopted by the French Government.
 - Timetable: the deadline for purchasing the CCR reinsurance is 31.01.2006.

5. Change of deadline for Gareat:

Given these new circumstances, Gareat has agreed to extend the deadline for opting into the pool from **15 January to 28 February 2006**.

6. Further information

We will be issuing further market bulletins as soon as we receive new information. In the meantime, enquiries regarding GAREAT and CCR should be directed to:

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