

MARKET BULLETIN

From	Director Franchise Performance (extn 6743)
Date	13 January 2006
Reference	Y3726
Subject	Implications of new French Terrorism Act
Subject areas	To advise managing agents on the available options pursuant to the recent legislation
Attachments	None
Action points	Managing Agents to advise Franchise Performance Directorate of decisions in relation to writing direct French Property risks
Deadlines	For immediate attention Confirmation of elected course of action to be provided to FPD as soon as practicable, but not later than 20 January 2006

Purpose of the Bulletin

To notify Managing Agents of the implications of writing French risks subject to the recent French Terrorism Act.

As agents are aware (refer Y3723 dated 10.1.06, Y3710 dated 21.12.06 and Y3716 dated 29.12.06), the new French Terrorism Act extends the definition of an act of terrorism to include the use of nuclear weapons, and thus the obligation of insurers writing property insurance covering risks in France, specifically categories 3 to 9 of the French Code of Insurance, to cover those losses. Unmitigated, this would result in unacceptable levels of correlated catastrophe risk to members and the potential for there to be a serious adverse impact on the New Central Fund.

Set out below are the acceptable courses of action that Franchisees should follow to ensure that the additional risk arising from the extended obligation imposed by the new French Terrorism Act is contained and managed so far as practicable:

1 Risks over EUR 6m

a) Syndicates intending to write direct risks subject to the legislation must be members of Gareat (deadline 28 Feb 2006) to qualify for French Government backstop protection in excess of EUR 2 billion industry losses. Syndicates will therefore automatically be entered into the Gareat pool unless they choose to opt out by contacting Worldwide Markets (Zoë Kilminster – ext 5772).

b) However, syndicates should be aware that if they do decide to opt out of Gareat, they must stop underwriting the business to which the legislation applies. These non-Gareat member syndicates may nonetheless have unexpired exposures and managing agents must therefore submit full details of each syndicate's unexpired risks to include as a minimum:

Assured Name, Premium (EUR), Location (minimum resolution = Departement) , Policy Limit (EUR), Policy Attachment Point (EUR), Syndicate Share of Limit (EUR), Incept/Expire date.

This Unexpired Exposure report should be submitted to Lloyd's by 28 February 2006.

2 Risks under EUR 6m

a) Syndicates intending to write direct risks subject to the legislation should purchase the reinsurance protection offered by Caisse Centrale de Réassurance (CCR) (for terms see bulletin Y3723). The deadline for purchasing this cover is 31 January 2006 and details on the procedure to follow will be issued in due course.

b) Syndicates that do not purchase reinsurance protection from CCR must stop underwriting the business to which the legislation applies. Those syndicates may nonetheless have unexpired exposures and managing agents must therefore submit full details of each syndicate's unexpired risks to include as a minimum:

Assured Name, Premium (EUR), Location (minimum resolution = Departement) , Policy Limit (EUR), Policy Attachment Point (EUR), Syndicate Share of Limit (EUR), Incept/Expire date.

This Unexpired Exposure report should be submitted to Lloyd's by 28 February 2006.

3 Reinsurance

Syndicates may continue to write French Treaty and Facultative reinsurance business not subject to the new French Terrorism Act subject to the application of the appropriate Nuclear Exclusion clause. Any exceptions should be notified to Franchise Performance Directorate.

Managing agents should provide confirmation of the elected course of action to FPD as soon as possible but in any event not later than 20 January 2006.

Further Information

If you have any queries about this market bulletin, please contact Lloyd's Franchise Performance:

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A handwritten signature in black ink, appearing to read 'Rolf Tolle', is positioned above the printed name and title.

Rolf Tolle
Director
Franchise Performance