

MARKET BULLETIN

REF: Y4108

Title	GAREAT - FRENCH TERRORISM REINSURANCE POOL
Purpose	To inform syndicates of the procedures for 2008, including the ability to opt-out of the pool.
Type	Annual
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Date	20 December 2007
Deadline	15 January 2008 for the opt-out
Related links	Crystal link to CCR treaty 2008

Opting out of the pool for 2008

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 2007. This option will remain in 2008.

The opting out conditions set in 2007 remain valid for 2008, i.e.:

- a) Syndicates intending to write direct risks subject to the non-exclusion of terrorism legislation must be members of GAREAT to qualify for French Government backstop protection in excess of €2.2 billion industry losses. ***Syndicates will therefore automatically be entered into the GAREAT pool unless they specifically opt out. Opt-outs from 2007 will not be carried over. The deadline for opting out is 15 January 2008; after that date, no changes will be allowed.***

(Syndicates wishing to opt out of GAREAT should contact Richard Ruffell in International Licences for an opt-out letter template, ext. 0207 327 5406, or richard.ruffell@lloyds.com),

b) Syndicates deciding to opt out of GAREAT 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 = Department), Policy Limit (EUR), Policy Attachment Point (EUR), Syndicate Share of Limit (EUR), Incept/Expire date.

This Unexpired Exposure report should be submitted to Paul Nunn, Head, Exposure Management (ext 6402) at Lloyd's by 31 January 2008

Structure of the pool for 2008

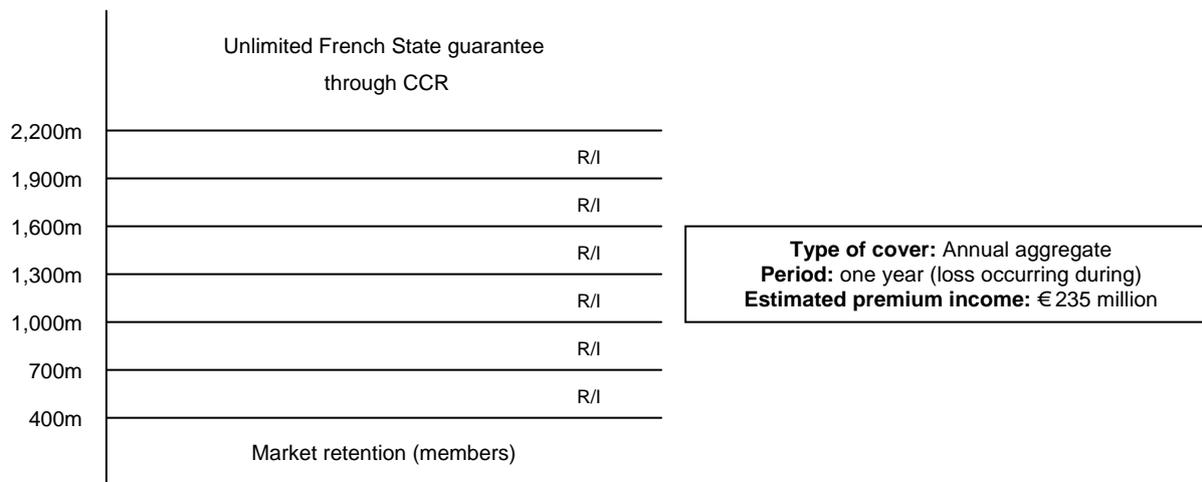
In 2007, the GAREAT pool was structured in 7 layers, with losses up to €400 million retained by the co-reinsurance pool. Above this, five layers of reinsurance were purchased in the commercial reinsurance market protecting against losses up to €2,200 million in the aggregate. Unlimited cover via the CCR (a French State-owned reinsurer) guaranteed by the French State was provided above this level.

For 2008, the pool will be structured in 8 layers. Above the first layer of €400 million retained by the co-reinsurance pool, six layers of reinsurance of €300 million each will be purchased in the commercial reinsurance market. The unlimited cover via the CCR will remain in place above €2,200 million.

Again for 2008, private reinsurers willing to participate in the GAREAT layers have been asked to provide reinsurance cover for *any* acts of terrorism, as described by the French Code of Insurance and French Criminal Code. This means that all acts of terrorism are covered by GAREAT, including those committed through the use of **nuclear weapons**.

In addition, for 2008 and for the first time, the reinsurance placement has been made via a tender offer. This means that there will be no lead underwriters on the reinsurance layers.

The illustration below describes the 2008 pool reinsurance structure for any acts of terrorism, **including nuclear attacks**.



Updates and Reminders:

- **Nuclear risks and new terrorism Act:**

Again, in 2008, GAREAT will cover all acts of terrorism, according to the provisions of new Article L 126-2, i.e. including those involving the use of nuclear weapons. No distinction will be made between nuclear and non-nuclear attacks with regard to GAREAT private reinsurers and French State coverage.

The first layer of €400 million is mutualised between members.

Over €2,200 million, the French State provides unlimited coverage.

Between €400 million and €2,200 million: terrorism is covered by GAREAT and **there will be no additional vertical retention for members.**

Therefore, the maximum exposure is €400 million shared among GAREAT members according to the premiums they cede to the pool.

- **Lloyd’s exposure:**

Hypothesis: total loss over €2.2bn

1. Lloyd’s global maximum exposure in GAREAT: hypothesis – Lloyd’s cedes 3% of the total premium ceded by all members to GAREAT

- Maximum exposure: €400m x 3% = €12m

2. Lloyd's exposure Syndicate per Syndicate: hypothesis – Syndicate XXX cedes 5% of the Lloyd's global premium ceded to GAREAT

For a loss over €2.2bn sustained by GAREAT members other than Lloyd's or by a single Lloyd's syndicate:

Rule: losses are mutualised between Lloyd's Syndicates according to the share of the Lloyd's global premium ceded to GAREAT

- Syndicate XXX maximum exposure : €12m x 5%= €0.6m

Principles of cession:

Insurance contracts covering damage caused by fire to property must be ceded to GAREAT.

Other property damage contracts ceded prior to the new terrorism act can still be ceded to GAREAT subject to prior request (please contact the Lloyd's French office) and provided all the risks falling within the same risk category are ceded to the pool, i.e. no 'pick and choose'.

In particular, the following contracts can still be ceded to GAREAT:

- "Shortage from suppliers" contracts
- Contracts covering railway rolling material (but not the goods carried by such means)
- Insurance contracts written in the Construction Liability branch, if they include the Fire damage coverage
- The storage portion of hybrid contracts "Stocks & Transit"

However, the CCR will not provide unlimited reinsurance cover above €2.2 billion for them. This means that losses are retained by members above this threshold.

• **Other specific risks:**

Some contracts continue to be subject to prior agreement from GAREAT and to specific ratings. The lead underwriter is responsible for contacting GAREAT (or the French office if Lloyd's is the leader) at least one month before the inception date/renewal to obtain formal agreement from the pool.

The lead underwriter must then advise all followers of the applicable GAREAT rate and any other specificity for this risk.

In particular, risks with a sum insured over €750 million and nuclear risks must comply with above requirement.

- **Personal lines:**

The cession of personal lines with a sum insured over €6 million to GAREAT is **optional**. However, should a Syndicate choose to cede such a contract, all of his risks falling within the same risk category must be ceded to the pool, i.e. no 'pick and choose'.

- **MAT risks:**

The decree excluding MAT risks from the scope of the new article L 126-2 was published on 30 September 2006, as a result of significant lobbying and negotiation with the French government.

The following will, however, remain subject to the provisions of article L.126-2:

- insurance contracts covering damage to the hulls of aircraft used for non commercial activities or for non-lucrative purposes, where the unit value of each hull declared in the contract is less than €1 million;
- insurance contracts covering damage to the hulls of marine, lake and inland waterway vessels used for pleasure sailing / yachting, where the unit value of each hull declared in the contract is less than €1 million.

In both of these cases, protection is afforded by the stop loss reinsurance purchased from CCR by Lloyd's, on behalf of all syndicates. **The CCR treaty has been renewed for 2008.**

For more detailed information on this topic, please refer to Market Bulletins Y3882 and Y3921.

GAREAT coverage of MAT risks:

- The storage portion of hybrid contracts "Stocks & Transit" can be ceded to GAREAT.
- Non-MAT contracts covering satellites can be ceded to GAREAT. Such contracts must be submitted to GAREAT on a case by case basis prior to cession to the pool.
- Contracts covering the construction of aviation hulls can be ceded to GAREAT, since they are not regarded as MAT risks in France.

• **GAREAT territorial limits:**

2008 GAREAT territorial scope	
French Guiana (La Guyane)	Yes
French Polynesia	Yes
French Southern and Antarctic Lands, including the Kerguelen Islands	Yes
Guadeloupe	Yes
Martinique	Yes
Mayotte	Yes
Metropolitan France	Yes
New Caledonia	Yes
Reunion Island	Yes
Saint Barthelemy	Yes
Saint Martin	Yes
Saint-Pierre & Miquelon	Yes
Wallis & Futuna	Yes
Andorra	No
Monaco	No

• **French coverholders' GAREAT returns:**

Syndicates declare in their returns:

- Open-market risks
- Risks written by their Lloyd's Brokers holding lineslips on their behalf
- Risks written by their coverholders **other than French coverholders.**

French coverholders holding binders on behalf of Lloyd's Syndicates also submit separate GAREAT returns direct to the Lloyd's French office. These returns include all risks written through the binders they hold.

However, please note that:

- The onus is on the Syndicates to ensure that French coverholders make a return to the Lloyd's French office if they write risks falling under GAREAT
- The onus is on the Syndicates to ensure that French coverholders submit timely and accurate data to the Lloyd's French office.
- Syndicates are charged on the basis of these returns made by French coverholders

For these reasons, Syndicates should contact their French coverholders regularly to check they do make GAREAT returns to the Lloyd's French office. Syndicates should also set up procedures to control the data submitted by their coverholders, if such procedures are not already in place.

Further information

Further information regarding GAREAT can be obtained as follows:

In France, from Lloyd's Paris office:

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Email: annegaelle.leillard@lloyds.fr

In London,

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