

FROM: Director, Worldwide Markets
LOCATION: 86/G12
EXTENSION: 5998
DATE: 23 December 2003
REFERENCE: Y3228
SUBJECT: **GAREAT – FRENCH TERRORISM
REINSURANCE POOL**
SUBJECT AREA(S): 1. To inform syndicates of the procedures for 2004,
including the ability to opt-out of the pool.
2. To provide information on the final data collection
for 2003.
ATTACHMENTS: None
ACTION POINTS: **Managing Agents and Underwriters to note and
action opt-out procedure if required**
DEADLINE: **27 February for the opt-out and 17 March for final
2003 data collection**

1. Opting out of the pool for 2004

GAREAT participation is compulsory for all FFSA members including Lloyd's. However, individual syndicates were given the option to opt out of the pool for 2003. This option will be allowed for 2004 as well.

All syndicates are opted-in for 2004 unless they specifically opt out. Opt-outs from 2003 will not be carried over.

Syndicates opting out of the pool for 2004 must still include terrorism cover as required under French law.

Syndicates wishing to opt out of the pool for 2004 must contact Worldwide Markets and return a signed copy of the letter that Worldwide Markets will issue to them. The deadline for opting out will be 27 February 2004 and after that date, no changes will be allowed. All

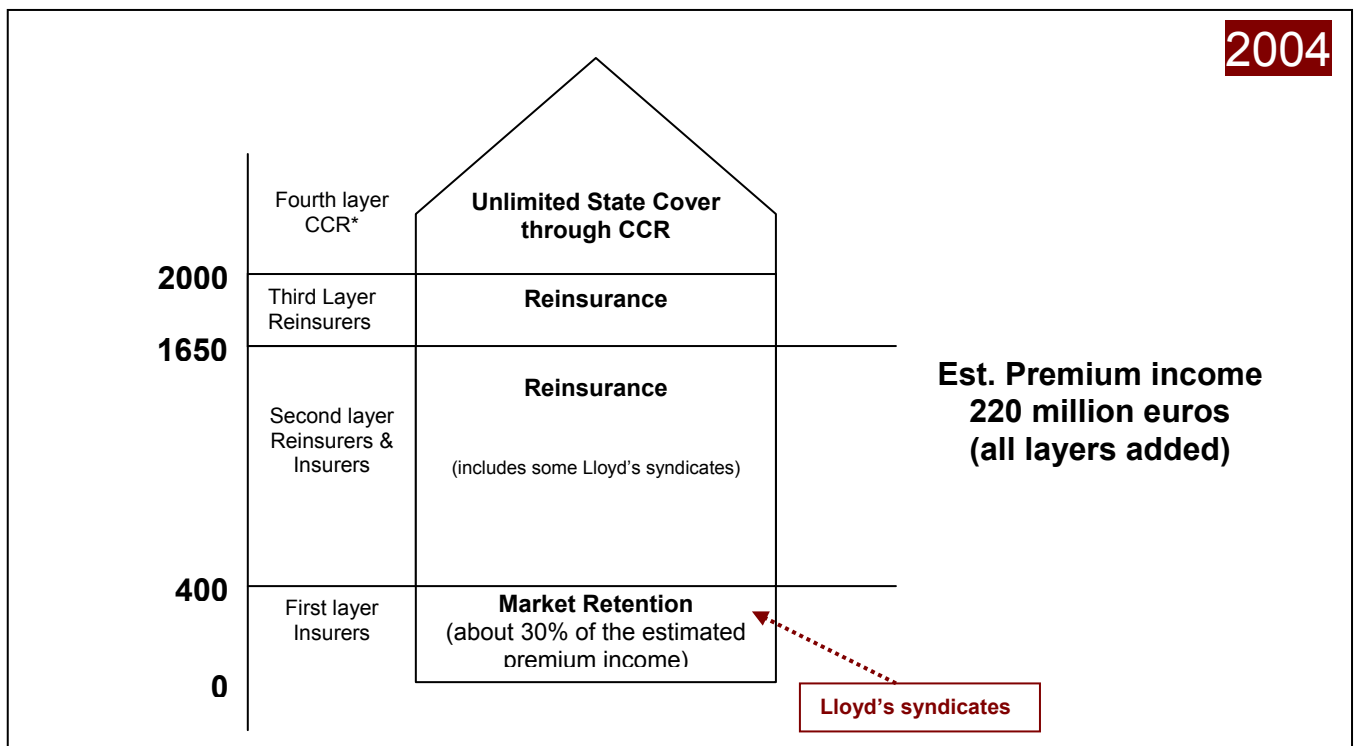
syndicates who have not opted out must make a quarterly return to the French office, including nil returns. Please contact WWM for a copy of the opt-out letter template for 2004. This must be printed out on each syndicate's headed paper and returned to Andrew Smith, Worldwide Markets.

2. Structure of the pool for 2004

The GAREAT pool will be continuing for 2004 with some changes.

During 2003, GAREAT was structured on a four-layer basis, with the co-reinsurance pool being involved up to €400 million, then a layer purchased in the commercial insurance and reinsurance market up to €1,500 million led by Swiss Re, and then a third layer of reinsurers up to €1,750 million also led by Swiss Re. Unlimited cover via the CCR guaranteed by the French State was provided above this layer.

For 2004, GAREAT has secured an increase in the overall scheme capacity from €1,750 million to €2,000 million. This additional €250 million will be split between the two layers and taken up by reinsurers:



This structure will remain in place for 3 years, as per the agreement signed between GAREAT and the French Government.

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, as follows:-

S&P ratings	Max line (main layer)	Max capacity (in M€)	Max % capital
AAA	20%	300	6%
AA+	17.5%	250	6%
AA	15%	200	6%
AA-	10%	150	6%
A+	7.5%	110	5%
A	6%	75	5%
A-	4.5%	50	5%
BBB+	3%	35	4%
BBB	2%	20	4%
BBB- / NR	1%	10	3%

Subject to the following conditions:

- Maximum capacity : aggregation of written lines for both layers, except if the amount as % of capital is lower (then is the maximum)
- Minimum written line : 0.40% (main layer) – 0.8% (2nd layer)

3. Other changes in 2004:

- Corsican risks : the French State asked GAREAT to reinsure public building sites since they cannot be covered by the “Pool des Risques Aggravés” (Pool for Aggravated Risks). GAREAT has confirmed that :
 - Corsican Risks over €6 million may be ceded to the pool, including public building site risks provided these are not already covered by the “Pool des Risques Aggravés”.
 - Corsican risks below €6 million cannot be ceded to the pool under any circumstances, i.e. even an accumulation of risks (located in the same area) with individual sum insured below €6 million cannot be ceded to GAREAT.
- Accumulation of risks : The Terrorism coverage on risks whose sums insured are less than 6 million euros may be ceded to the Pool on an individual basis at a 6% rate for reasons of threshold, accumulation or geographical concentration. No change, **but** : This cannot relate to a group of homogenous risks, either by type or localisation, presenting an over exposure to potential terrorism attack. Any syndicate wishing to cede risks under 6 million euros must contact the French office to confirm with Gareat if this is permissible.
- Nuclear risks : Since neither EDF nor EMANI have entered the pool in 2003, GAREAT has lowered the premium rate for nuclear risks to 24% instead of 35%

4. Final data return for 2003

The fourth quarter return for 2003 covered risks incepting up to the 10 December 2003. GAREAT will require a further return from syndicates opting in to GAREAT for 2003 for risks incepting 11 December to 31 December 2003. As per the collection data for quarter four 2003, the French office will email syndicates the forms to be completed together with the forms for the first quarter 2004. The deadline for this return, together with the first return for 2004 will be 17 March 2004.

5. Further information

Previous market bulletins on GAREAT were released as follows: Y3006 released on 7/3/2003, Y2955 released on 23/12/2002, Y2918 released on 22/11/2002, Y2861 released on 4/9/2002; Y2750 released on 15/3/2002; Y2711 released on 1/2/2002 and Y2696 released on 14/1/2002.

Further information regarding the GAREAT can be obtained as follows:

In France, from Lloyd's Paris office

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In London, from Lloyd's Worldwide Markets

Via the Market Services Desk on the first gallery at box 190, Lloyd's extension 6677,
Or e-mail market.services@lloyds.com

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This bulletin is being sent to all compliance officers, managing agents, active underwriters, and Lloyd's brokers.

Julian James
Director
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