Market Bulletin

LLOYD'S

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FROM:	Director, Worldwide Markets
LOCATION:	86 / G12
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DATE:	April 19 2004
REFERENCE:	Y3296
SUBJECT:	**FRANCE: NATURAL CATASTROPHE INSURANCE REQUIREMENTS AND REINSURANCE**
SUBJECT AREA(S):	To remind the Lloyd's market of the existence and operation of the French Natural Catastrophe Law and associated reinsurance available from the CCR.
ATTACHMENTS:	None
ACTION POINTS:	**Managing Agents and brokers to note**
DEADLINE:	**None**

1. Introduction

The French Natural Catastrophe Law requires that all property insurances in France (including motor, physical damage and loss of profits) include cover for damage resulting from natural disasters whether such coverage is specifically mentioned in the policy or not. Underwriters can build up reserves to meet claims by charging additional premium. The Law extends to the four French overseas departments (DOMs) and territorial collectivities, but does not cover the French overseas territories (formerly known as TOMs), nor does it apply to insurance of risks located in Monaco. Please see Appendix 1.

A compulsory levy applies to all premiums paid for French property and motor insurance to create a state-controlled fund for the mitigation of losses by natural disaster. This fund was set up by the French government in 1995 following severe flooding in France at the end of 1994 and early 1995.

2. Applicable rates

The rate of additional premium which may be charged by insurers for the natural catastrophe coverage is set by French Governmental Decree and currently are 12% for property and loss of profit business, and 6% for motor fire and theft business. These rates are applied to the gross premium paid by the policyholder, inclusive of commission but before tax.

If a property policy provides wider coverage than simply for property and loss of profits (for example it may also include third party liability), the 12% additional natural catastrophe premium is payable only on that part of the premium that relates to property damage and loss of profit. In such cases the apportionment of the premium between the risks must be realistic.

If a motor policy provides comprehensive coverage, then the additional natural catastrophe premium is 6% of the premium for the fire and theft cover only.

An element of the additional premium raised in this way must then be paid to the compulsory government fund for the mitigation of major natural disasters. This amount is currently 2% of the 12% or 6%, depending on class of business involved. This amount is collected and processed via the Lloyd's Central Taxes System (CTS).

3. Slip and policy notation

Natural Catastrophe coverage and the rate charged must be shown as a separate item on the debit note and slip.

4. Reinsurance of compulsory natural catastrophe cover

A voluntary scheme is operated by the Caisse Centrale de Réassurance (CCR) to enable insurers of French natural catastrophe to obtain reinsurance cover. Insurers may elect to reinsure their natural catastrophe exposure with the CCR and in simple terms the reinsurance is on a quota share and stop loss basis, and is ultimately backed by the French State. In the Lloyd's context, the decision to reinsure with CCR is one made at individual syndicate level. A syndicate opting into the CCR scheme must cede its entire natural catastrophe additional premium on a whole portfolio basis to the CCR. It may not select which individual risks to reinsure and which to retain.

For a natural catastrophe loss to be recoverable from the CCR, there must first be a formal declaration of a natural catastrophe by the appropriate French authorities. Insurers and syndicates who have opted into the scheme may then seek to recover their losses.

Each syndicate must make its own decision about reinsuring their natural catastrophe exposure and will have a separate contractual relationship with the CCR. There is no central administration by Lloyd's on behalf of syndicates who choose to reinsure with the CCR.

Syndicates not reinsuring with the CCR will retain all natural catastrophe exposure for their own account and any natural catastrophe losses they suffer may of course be recoverable from each syndicate's own reinsurance programme.

5. Further Information

Further information about the CCR can be found on the CCR's website, www.ccr.fr.

Information regarding the content of this bulletin or about conducting business in France may also be obtained France from:

Market Services Desk
Email: market.services@lloyds.com
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This bulletin is being sent to all compliance officers, underwriting agents, active underwriters and Lloyd's brokers.

Julian James
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Appendix 1

a) Departements d'Outre-Mer (DOM's)

The Natural Catastrophe law does apply to all four DOM's:

Guadelope
Martinique
Guyane (French Guyana)
Le Reunion

b) Territoires d'Outre-Mer (formerly known as TOM'S)

The Natural Catastrophe law <u>does not</u> apply to the following territories:

Collectivité Territoriale de St Pierre & Miquelon
Collectivité de Mayotte
Polynésie Française (French Polynesia)
Nouvelle Calédonie (New Caledonia)
Wallis & Futuna
TAAF (Terres australes & antarctiques françaises) i.e. the Poles

c) Monaco

The Natural Catastrophe law <u>does not</u> apply to risks located in Monaco.