

MARKET BULLETIN

From	Director, Worldwide Markets
Date	October 31 2006
Reference	Y3899
Subject	FRANCE: Change to Natural Catastrophe Levy Rate
Subject areas	Natural Catastrophe levy
Attachments	None
Action points	Underwriters and Brokers to note
Deadlines	1 November 2006

The French authorities have increased the Natural Catastrophe levy from 2% to 4%, effective from 1st November 2006. The levy is only applicable to the Natural Catastrophe additional premium.

Background

Articles 125-1 to L125-6 of the French Insurance Code state that all insurances on property located in France must include cover for damage resulting from natural disasters whether specifically mentioned in the policy or not. Underwriters can build up reserves to meet claims by charging additional premium.

A compulsory levy applies to all premiums paid for French property and motor insurance to pay for a state-controlled entity "the Fund for the prevention of major natural risks". This mitigates for losses by natural disaster.

Applicable rates- Premium

Specific additional premium is charged for natural catastrophe cover, (Article L125-2 of the French Insurance Code), and the rate is fixed by Law (Article A125-2 of the French Insurance Code). At present it is an additional 12% of the gross premium, chargeable in addition to the premium for the rest of the risk. If the policy covers property damage, loss of profit and 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 division of premium between property – loss of profit and liability cover must be realistic. For motor insurance, the additional natural catastrophe premium is 6% of the premium for the fire and theft cover, or if these covers do not exist, 0.5% of the damage cover.

The Natural Catastrophe Levy

A percentage of the additional premium raised must then be paid to the compulsory state controlled government fund for the mitigation of losses by major natural disasters (Article L561-3 of the French Environment Code). This amount is collected and processed via Lloyd's Central Taxes System (CTS) for open market business.

This amount was 2% of the 12% or 6%, depending on class of business involved. By "Arrêté" of 29th September 2006 issued in the "Journal officiel" of the 14th October 2006, the French authorities have increased the Natural Catastrophe levy from 2% to 4% (the maximum possible rate, as stated in the 30th July 2003 law, no. 2003-699) of the Natural Catastrophe additional premium.

The new Natural Catastrophe levy rate of 4% will be effective from 1st November 2006.

This levy cannot be charged to the insured but should be taken as a deduction from the Natural Catastrophe Premium received by insurers.

Slip and policy notation

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

French areas covered by the Natural Catastrophe Law

The natural catastrophe law extends to the four main French overseas departments (DOMs) and territorial collectivities, but does not cover French overseas territories (TOMs). The requirement does not apply to risks situated in Monaco.

Background and further information

Details on Natural Catastrophe and Lloyd's guidance to the market were last issued in market bulletin Y3296, (19.04.04).

Full details of the Natural Catastrophes Cover are listed in article L125-1 to L125-6 of the French Insurance Code. The calculation of the Natural Catastrophe Premium that is fixed by Law is available in article A125-2 of the French Insurance Code. These can be found at: www.legifrance.gouv.fr

Further information can also be obtained as follows:
In London

Lloyd's Worldwide Market Services

