LLOYD'S

MARKET BULLETIN

From	Cameron Murray
Date	2 March 2007
Reference	Y3970
Subject	**GAREAT - FRENCH TERRORISM REINSURANCE POOL**
Subject areas	To inform syndicates of: - Latest developments on territorial coverage for French Polynesia, New Caledonia, French Southern and Antarctic Lands - The final structure of Gareat 2007 - Terrorism reinsurance cover for small risks: CCR 2007
Attachments	Appendix 1- Diagram of the Gareat structure for 2007. Web links to the CCR reinsurance covernote and translation, and further legal advice included.
Action points	**Managing agents and underwriters to note**
Deadlines	

Gareat territorial limits

Market bulletin Y3940 of 3 January 2007 advised that Gareat would not accept risks located in territories where the new article L126-2 does not apply. Since this bulletin was issued Lloyd's has received legal advice which is available on Lloyds.com:
http://www.lloyds.com/Lloyds_Worldwide/Country_guides/France+%28inc.+Monaco%29/Gareat-+2007.htm?country=France%20(inc.%20Monaco
suggesting that the new article L126-2 will indeed not apply in French Polynesia, New Caledonia and the French Southern and Antartic Islands, and that the original (i.e. pre- 24 January 2006) wording will remain in force in these territories.

However, Gareat has advised us that they *will* in fact now accept risks located in these territories in 2007.
Underwriters are therefore instructed to cede such risks to Gareat, based on the previous wording of the article L126-2, i.e. all property insurance contracts and not only property insurance contracts with a fire guarantee.

The new Gareat territorial scope is as follows:

2007 GAREAT territorial scope	
French Guiana (La Guyane)	Yes
French Polynesia	Yes
French Southern and Antartic 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

Please note however that the French State-owned reinsurer, CCR, is continuing to exclude French Polynesia, New Caledonia and the French Southern and Antartic Islands from its terrorism coverage for small risks.

<u>Final structure of the Gareat pool for 2007</u>

- **Structure for 2007:**

Gareat has now released the final pool reinsurance structure for 2007 for any acts of terrorism, **including nuclear attacks**. This is illustrated in Appendix 1.

Gareat has also advised that the sixth layer will be co-led by Scor and Endurance Specialty.

Finally, Gareat has released a list of the main reinsurers of the pool (the extent of a reinsurer's participation in the programme will depend on its security rating, based on S&P ratings, with a minimum of BBB- required):

- AXA
- Lloyd's Syndicates
- AXIS Specialty Ltd
- PartnerRe
- Hannover Re
- AIG Europe
- Odyssey Re
- Munich Re
- AXA RE

- **Lloyd's exposure for 2007:**

Example scenario: total loss over €2.2bn

1. Lloyd's global maximum exposure in GAREAT: – Lloyd's cedes 4% of the total premium ceded by all members to GAREAT

Maximum exposure = (1) + (2) + (3)

- (1) First layer: €400m x 4% = €16m
- (2) Four upper layers: €1600m x 12.5% x 4% = €8m
- (3) Sixth layer: €200m x 20% x 4% = 1.6m
- Maximum exposure = (1) + (2) + (3) = 16 + 8 + 1.6 = €25.6m

2. Lloyd's exposure Syndicate per Syndicate: – 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 = 5% x €25.6 = €1.28m

CCR 2007 reinsurance cover for small risks

- **Background:**

In 2006, Lloyd's purchased a single stop loss reinsurance policy for risks under €6 million on behalf of all Lloyd's syndicates writing relevant French property business. ***This removed the need for syndicates to purchase their own individual policies.***

This treaty has been renewed for 2007. Cover under the CCR policy became effective on 1 January 2007 and the reinsurance cover note and a free translation into English can be found on Lloyds.com here:
http://www.lloyds.com/Lloyds_Worldwide/Country_guides/France+%28inc.+Monaco%29/Gareat-+2007.htm?country=France%20(inc.%20Monaco)

Further to the French MAT decree dated 29 September 2006, the CCR treaty for 2007 will also cover the following risks:

- 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.

- **CCR premium:**

Lloyd's has centrally negotiated and paid for an aggregate stop loss treaty reinsurance protecting franchisees in respect of French risks covering Fire under €6m. The premium is €102,129 per annum, with M&D €81,703 (80%) payable quarterly in advance, based on subject premium of €35,229,561..

Cover is unlimited in excess of 20% of Gross subject premium => €35,229,561 x 20% = €7,045,912 retained by Lloyd's.

The premium base will be finally adjusted after 18 months. Lloyd's will pay this premium centrally and will not charge it back to the managing agents.

- **Proposed allocation basis:**

In the event of insured loss(es) to the treaty, recoveries and retention would be allocated based on each syndicate's contribution to market loss. In summary:

• syndicates with larger losses would retain a larger share of the retention

• losses by syndicate can be tracked using XCS cat codes

• this works equitably whether many or few syndicates are involved

• only syndicates incurring losses have to 'mutualise' the retention

- **Example application**

Here is an example of how this would work in practice:

A terrorist attack in France gives rise to applicable (in respect of risks < €6m) Syndicate 9999 loss of €25m, part of Lloyd's market wide loss of €200m (12.5% of loss)

Allocation:
Deductible = 12.5% x €7,045,912 = €880,739
Recovery = 12.5% x (€200m – 7,045,912) = €24,119,261

Further information

Further information regarding GAREAT can be obtained as follows:

In France, from Lloyd's Paris office:
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Box 190b
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This bulletin is being sent to all members' agents, direct corporate members, managing agents, recognised accountants, market associations, underwriters and Lloyd's brokers for information.

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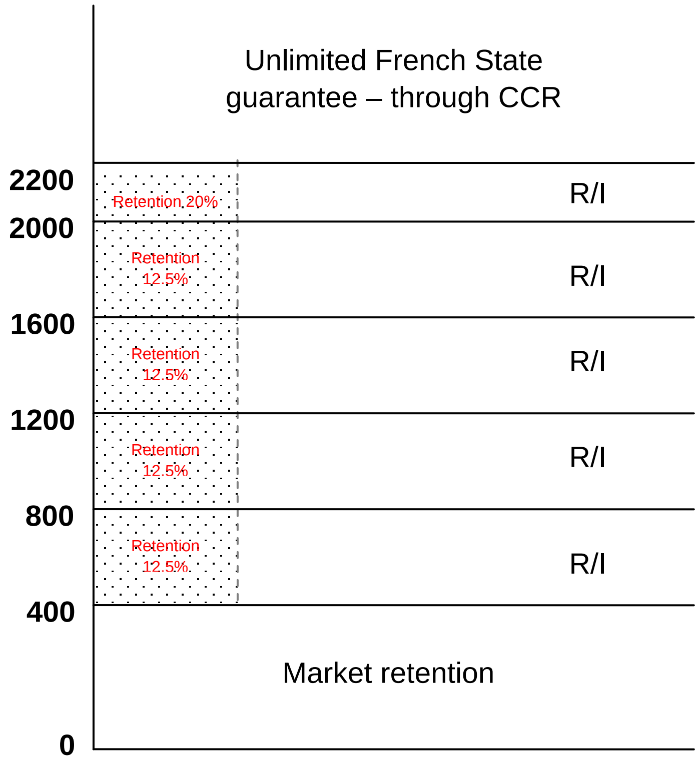
APPENDIX 1: GAREAT STRUCTURE FOR 2007



Type of cover: Annual aggregate
Period: one year (loss occurring during)
Estimated premium income: € 250 million