LLOYD'S

MARKET BULLETIN

REF: Y4361

Title	Terrorism Reinsurance: 2010 CCR coverage and GAREAT opt out process
Purpose	1- Reinsurance cover for small risks: CCR To advise managing agents of the central arrangements in place for terrorism reinsurance from French State reinsurer CCR for risks between € 0 and € 20 million and how recoveries and retention will be allocated between syndicates under the reinsurance 2- Gareat - 2010 scheme – opt out possibility and deadline To inform syndicates of the Gareat procedures for 2010, including the ability to opt-out of the pool.
Type	Event
From	Andrew Gurney, Senior Manager, International Licences General Counsel's Division
Date	8 January 2010
Deadline	15 January 2010 for the opt-out
Related links	CCR 2010 Treaty - English Translation held on Crystal CCR 2010 Treaty - Original French language version held on Crystal GAREAT 2010 - Template for the Opt out letter (Microsoft Word Version)

This Market bulletin updates the information given in Market Bulletin Y4342 issued 1st December 2009.

CCR - Reinsurance of Risks between € 0 and 20 million:

In previous years Lloyd's purchased CCR reinsurance coverage for risks under €6 million with additional coverage for specific MAT risks. Lloyd's had secured from CCR agreement to purchase a single stop loss reinsurance policy on behalf of all Lloyd's syndicates writing relevant French property business. This negated the need for syndicates to purchase their own individual policies.

Due to the Gareat cession changes, the treaty has been reviewed by the CCR to include the additional cover for risks with a sum insured between € 6 Million and below €20 million. This new treaty is now called "Terrorism – Small and Medium Risks".

Coverage incepts 1st January 2010.

The principles of cover do not change except for the addition of the risks with a sum insured equal to or in excess of € 6 million and below € 20 million. As a consequence of this additional coverage:

- **An additional deductible** is included to the one already retained by Lloyd's for risks with a SI below €6 million: 50% of premium income relating to commercial property damage, private property damage and agricultural property damage policies with a total sum insured equal to or exceeding € 6 million and below € 20 million (or equivalent)

- **An additional amount to be paid**: 1% of premium income relating to commercial property damage, private property damage and agricultural property damage for risks with a total sum insured equal to or exceeding € 6 million and below € 20 million (or equivalent).

- The CCR is to be provided within the first half of the year with a **listing** of all risks in a syndicates portfolio with a total sum insured equal to or exceeding € 6 million and below € 20 million, showing in particular the location (city name and code) and sum insured.

The provisional minimum, deposited premium remains at 80% of the estimate of the final premium payable in quarters on 1 January, 1 April, 1 July and 1 October and adjustable eighteen months after the date of entry into effect of the coverage. The premium base will be finally adjusted after 18mths. This premium will be paid centrally and Lloyd's will not charge this premium back to the franchisees.

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

Example application

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

A terrorist attack in France gives rise to applicable loss (in respect of risks with SI < €20m). Syndicate 9999 loss is €25m, part of Lloyd's market wide loss of €200m (12.5% of loss)

Allocation:

Deductible = 12.5% x Total Lloyd's deductible
Recovery = 12.5% x (€200m – Total Lloyd's deductible)

A copy of the draft treaty is available online on www.lloyds.com (Crystal tool, "France" & "Terrorism" quick search – see 'related links' box on page 1). A full copy of the treaty will be available online when finalised according to the 2009 premiums figures (first quarter of 2010) and additional information regarding the CCR listing request (who will report, which information, format and deadlines) should be issued by way of Market Bulletin in due course.

Opting out of the GAREAT pool for 2010

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 2009. This option will remain in 2010.

The opting out conditions set in 2009 remain valid for 2010, 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 billion industry losses.
Syndicates will therefore automatically be entered into the GAREAT pool unless they specifically opt out. Opt-outs from 2009 will not be carried over. The deadline for opting out is 15 January 2010; after that date, no changes will be allowed.

N.B. Syndicates wishing to opt out of GAREAT: A Microsoft Word version of the 2010 opt out letter is available to download from via Crystal on Lloyds.com and a link has been included on the first page of this bulletin.

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 2010.

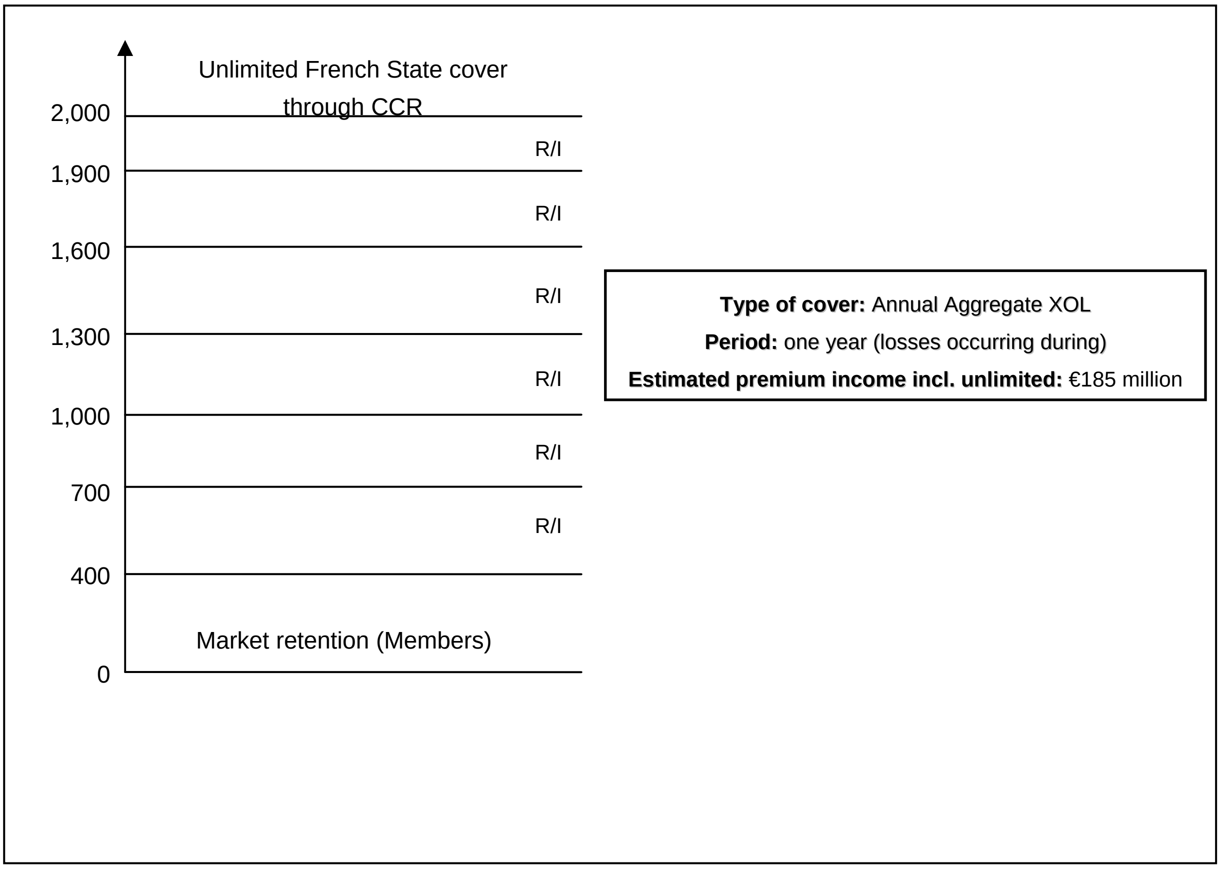
Structure of the pool for 2010

In 2009, the GAREAT pool was structured in 8 layers, with losses up to €400 million retained by the co-reinsurance pool. Above this, six layers of €300 million each 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 2010, the pool will remain unchanged with 8 layers. The CCR cover however will start from €2,000 million.

Again for 2010, 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**.

The illustration below describes the 2010 pool reinsurance structure for any acts of terrorism, **including nuclear attacks**.



Reminders

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

Again, in 2010, 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 €2,000 million, the French State provides unlimited coverage.
- Between €400 million and €2,000 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 bn

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

Maximum exposure: €400m x 3% = €12m

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

For a loss over €2 bn sustained by GAREAT members other than Lloyd's or by a single Lloyd's syndicate:

<u>Rule</u>: 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

***N.B.: 2010 placement for reinsurance layers is not finalised yet.**
Should GAREAT not be able to place 100% of the coverage in the private reinsurance market, it has been agreed that losses will be shared among GAREAT members according to the premiums they cede to the pool, which would increase the above illustrated Lloyd's maximum exposure.

Principle of Cession

In 2010, Gareat will only accept risks with a sum insured or CLI from € 20 million and above.
i.e. Syndicates must not cede the policies with a sum insured or CLI below € 20 million in their 2010 Gareat returns.

The Gareat Procedure Manual will also be updated consequently and available online beginning of 2010.

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 (2006) 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 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 insurer must contact Gareat (via Lloyd's French Office if the leader is a Lloyd's syndicate) **as soon as he is aware of the risk and in any case before the inception date/renewal to obtain formal agreement and potential individual rating**. 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 **€150 million** and nuclear risks must comply with above requirement.

• Personal lines

The cession of personal lines with a sum insured over €20 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 contract 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 contract covering damage to the hulls of marine, land 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 this cases, protection is afforded by the stop loss reinsurance purchased from the CCR by Lloyd's, on behalf of all syndicates.

Gareat Coverage of MAT risks:

- The storage portion of hybrid contracts "Stocks and 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:

2010 Gareat territorial scope	
French Guiana (La Guyane)	Yes
French Polynesia	Yes
French Southern and Antarctic Lands, including the Kerguelen Islands (TAAF)	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 return:

- 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:

In France, from Lloyd's Paris office

Aurore Livet
Telephone: +33 (0)1 42 60 43 43
Direct: +33 (0)1 42 60 85 93 or Lloyd's ext. 7033
Facsimilé: +33 (0)1 42 60 14 41

Or

Guy-Antoine de La Rochefoucauld
Lloyd's France, Country Manager - Directeur Général
Telephone: Lloyd's Extension 7031 / +33 (0) 1 42 60 43 43
Fax:+33 (0) 1 42 60 14 41
Mobile +33 (0) 6 76 40 13 74
Blackberry: +33 (0) 6 25 90 41 10

Or in London:
Lloyd's International Trading Advice, Tel: 020 7327 6677
Email: LITA@lloyds.com