LLOYD'S

MARKET BULLETIN

REF: Y4552

Title	Terrorism Reinsurance: 2012 CCR coverage and GAREAT opt out process
Purpose	1- CCR 2012 reinsurance cover for small and medium risks 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 2012 scheme for large risks – opt out possibility and deadline To inform syndicates of the GAREAT procedures for 2012, including the ability to opt out of the pool.
Type	Event
From	Andrew Gurney, Senior Manager, International Licences General Counsel's Division
Date	4 January 2012
Deadline	15 January 2012 for the GAREAT opt-out
Related links	CCR 2011 treaty – English version (provided as English version of 2012 treaty not yet available and 2012 treaty has been renewed on exactly same terms) GAREAT 2012 - Template for the Opt out letter

Managing agents are reminded that in accordance with article L.126-2 of the French insurance code, it is compulsory for any insurance contract covering damage caused by fire to property located on territory of the French Republic to also cover material damage to property caused by an act of terrorism, as defined by articles 421-1 and 421-2 of the French Penal Code. This includes all primary and excess layers of the insurance policy.

1. CCR Terrorism Small and Medium Risks Treaty - Reinsurance of Risks between € 0 and € 20 million:

In previous years Lloyd's purchased reinsurance risk coverage for the small and medium risks below the GAREAT main programme's coverage, with additional coverage for specific MAT risks. As for previous years, Lloyd's has secured from CCR agreement to purchase a single stop loss reinsurance policy on behalf of all Lloyd's syndicates writing relevant French property business for risks under €20 million. Syndicates should look to the calculation of the CCR deductible below before assessing whether they need to purchase further protection for risks between € 0 and € 20 million

Following the change last year to align the collection of the CCR premium with that of the payment for Gareat coverage, the cost of this CCR protection will be collected from the syndicates on a user pays basis. This ensures that only those writing eligible French business pay for the treaty. Due to the potential exposure to a terrorist act where nuclear weapons are used, inclusion in this small and medium risks treaty will be automatic and compulsory if the syndicate does not opt out of the main GAREAT programme.

Key aspects of this coverage:

- Type: annual stop loss
- Term: 12 months effective 1 January 2012
- Territorial scope: territory of the French Republic
- Reinsurer commitment: 100% of the net annual claim charge exceeding the excess below:
- Annual excess: the annual excess is calculated on the basis of the total of the amounts stipulated below (a+b+c). Please note each syndicates' individual retention is calculated from the entire Lloyd's market premium collection:
  - **a)** 20% of income from 'property damage' policies in which the total sum insured amounts (direct risks and business interruption excluding guarantee amounts for rental risks for professional property) are below €6 million;
  - **b)** 50% of income from 'property damage' policies in which the total sum insured amounts are equal to or exceed €6 million and are below €20 million;
  - **c)** 2% of the income from 'motor' insurance policies.
- Pricing: the CCR premium is calculated at 1% of premiums of 'property damage' policies where the total sum insured amounts are equal to or exceed €6 million and are below €20 million. For policies in which the total sum insured amounts are less than €6 million, the CCR premium rate is reduced (see the CCR 2011 treaty – English version).

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. The premium will be finally adjusted 18 months after the effective date of coverage.

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 sum insured below €20 million). Syndicate 9999 accumulated loss is €25 million, part of Lloyd's market wide loss of €200 million (12.5% of loss).

Syndicate 9999 recovery = 12.5% x (€200 million – Total Lloyd's deductible)

Where Lloyd's annual excess is calculated to be €16m:

Allocation:

Lloyd's recovery = €200m - €16m = €184m
Syndicate 9999 recovery = 12.5% x €184 = €23m

Reporting

Within the first half of the year the CCR is to be provided with a listing of all risks in syndicates portfolio with a total sum insured below €20 million, showing in particular the location (city name and code) and sum insured. A spreadsheet will be issued by Lloyd's to collect and collate details of these risks from each participating syndicate in June 2012. A Market Bulletin providing further details on the content of the spreadsheet and relevant deadlines will be issued in due course.

Further information

A full copy of the CCR 2012 treaty in English will be made available online once finalised.

In the meantime, for further details please refer to the CCR 2011 treaty – English version, as the CCR treaty for 2012 is on exactly the same terms

2. GAREAT

Opting out of the GAREAT pool for 2012

GAREAT participation is compulsory for all members of the French Insurers' Association (FFSA) including Lloyd's. However, individual syndicates have the option to opt out of the pool for 2012. Prior years opting out conditions remain valid for 2012, 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 2011 will not be carried over. Syndicates wishing to opt out of GAREAT must use template in the link attached: GAREAT 2012 - Template for the Opt out letter and submit to Lloyd's on their letterhead paper by 15 January 2012: After this date, no changes will be allowed.

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.

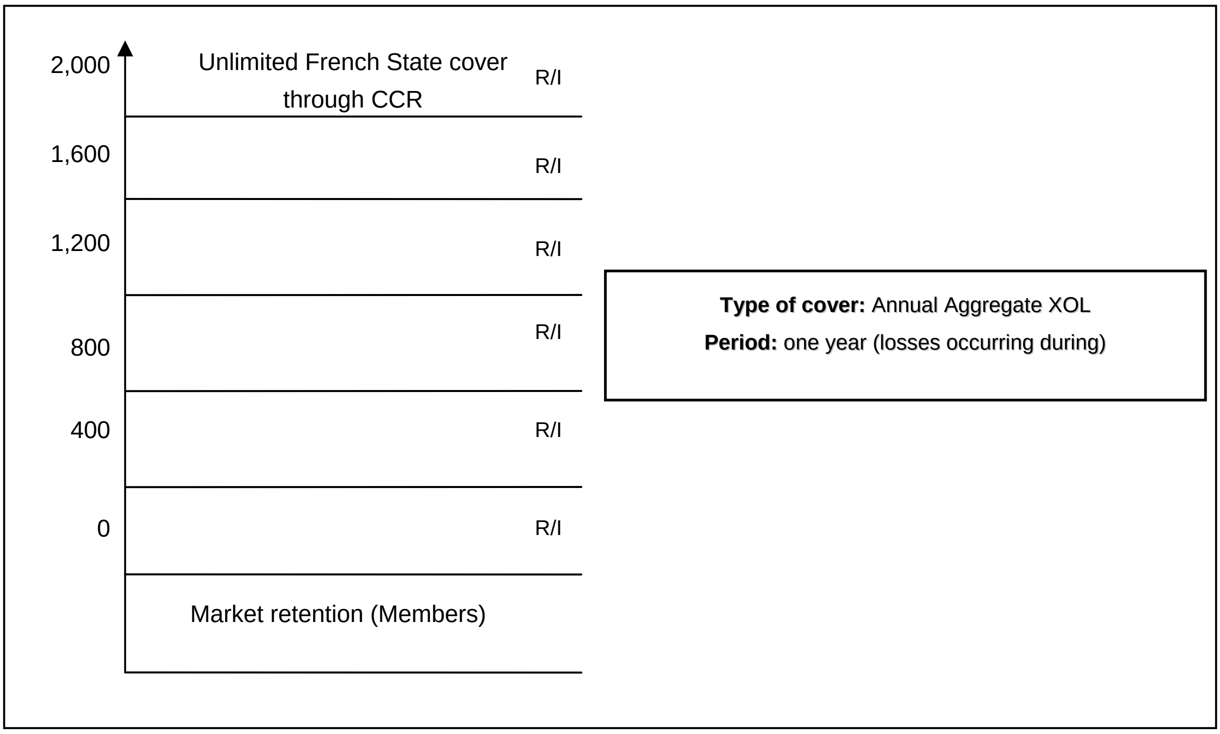
This Unexpired Exposure report should be submitted to Trevor Maynard, Head, Exposure Management (ext 6402) at Lloyd's by 31 January 2012.

GAREAT - Structure of the pool for 2012

For 2012, the pool structure remains the same: 5 layers above the €400 million members' retention by the co-reinsurance pool up to the limit of €2,000 million. Above this unlimited protection is provided by the French State.

Again for 2012, 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 2012 pool reinsurance structure for any acts of terrorism, **including nuclear attacks**.



Reminder : Nuclear risks and new terrorism Act

In 2012, GAREAT will again 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.

Example application

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

Hypothesis:

- Total market loss over €2 billion
- Lloyd's cedes 3% of the total premium ceded by all members to GAREAT
- Syndicate XXX cedes 5% of the Lloyd's global premium ceded to GAREAT

Lloyd's maximum exposure: €400 million x 3% = €12 million

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: €12 million x 5%= €0.6 million

Principle of Cession

In 2012, GAREAT will only accept risks with a sum insured or contract limit of indemnity (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 2012 GAREAT returns, as this is covered by the CCR Treaty (See above) and has a specific declaration.

All property risks that are eligible to the large risks scheme must be ceded.

There is a specific listing for risks equal or greater than €150 million requested on an annual basis.

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 cases, protection is afforded by the stop loss reinsurance purchased from the CCR by Lloyd’s.

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 (please note that CCR whether treaty for risk below €20 or Gareat pool French state coverage from €2 billion does not cover risks situated in the Dom/Com)

2012 GAREAT territorial scope		
French Guiana (La Guyane)	**DOM**	Yes
French Polynesia	**COM**	Yes
French Southern and Antarctic Lands, including the Kerguelen Islands (TAAF)	**COM**	Yes
Guadeloupe	**DOM**	Yes
Martinique	**DOM**	Yes
Mayotte	**DOM**	Yes
Metropolitan France		Yes
New Caledonia	**COM**	Yes
Reunion Island	**DOM**	Yes
Saint Barthelemy	**COM**	Yes
Saint Martin	**COM**	Yes
Saint-Pierre & Miquelon	**COM**	Yes
Wallis & Futuna	**COM**	Yes
Andorra		No
Monaco		No

GAREAT returns

1. 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.**

2. 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.

Profitability
GAREAT years are open for 3 years. All residual premiums on previous years after losses and charges are refunded to members.

Further Information:

The GAREAT Procedure Manual is available on Crystal on www.lloyds.com.

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