

# MARKET BULLETIN

REF: Y4632

<b>Title</b>	GAREAT 2013 - terrorism reinsurance: opt out process for 2013 and non-renewal of CCR 2013 coverage
<b>Purpose</b>	(1) GAREAT 2013 scheme for large risks – to inform syndicates of the GAREAT procedures for 2013, including the ability to opt out of the pool (2) To inform syndicates that the CCR reinsurance treaty for risks between €0 and €20 million will not be renewed for 2013.
<b>Type</b>	Event
<b>From</b>	Andrew Gurney, Senior Manager, International Licences, International Regulatory Affairs.
<b>Date</b>	2 November 2012
<b>Deadline</b>	15 January 2013 for the GAREAT opt-out
<b>Related links</b>	<a href="#">GAREAT 2013 - Template for the Opt out letter</a>

## GAREAT 2013 scheme for larger risks

The GAREAT terrorism reinsurance scheme, which was due to expire at the end of 2012, **has been extended from 1 January 2013 for a further 5 years**. 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 (including business interruption following property damage) caused by an act of terrorism, as defined by articles 421-1 and 421-2 of the French Penal Code. It includes nuclear 'dirty', biological, chemical and radiological (NBCR). It also applies to all primary and excess layers of the insurance policy.

For 2013, GAREAT remains the same apart from the unlimited protection layer provided by the French State which will attach at €2.3 billion instead of €2 billion. This attachment point will be increased by €60 million every year for the next 5 years.

## Non-renewal of CCR 2013 treaty

In previous years Lloyd's purchased a single stop loss reinsurance policy on behalf of syndicates writing relevant French property business for risks with a sum insured under €20

million. Lloyd's has recently conducted a review of the coverage against those syndicates writing relevant business and has determined that as of 1 January 2013 it is no longer commercially attractive to organise the purchase of this coverage on behalf of the Market. **Therefore, from 1 January 2013, syndicates writing relevant business will need to purchase their own reinsurance protection for risks between €0 and €20 million** for terrorism, including NBCR.

### **Opting out of the GAREAT pool for 2013**

GAREAT participation is compulsory for all members of the French Insurers' Association (FFSA) including Lloyd's. Details of the structure of the GAREAT pool for 2013 can be found at Appendix A. However, individual syndicates have the option to opt out of the pool for 2013. Prior years opting out conditions remain valid for 2013, 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 €2.3 billion industry losses. **Syndicates will therefore automatically be entered into the GAREAT pool unless they specifically opt out. Opt-outs from 2012 will not be carried over. Syndicates wishing to opt out of GAREAT must use the template in the link attached: [GAREAT 2013 - Template for the Opt out letter](#) and submit to Lloyd's on their letterhead paper by 15 January 2013: 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 2013.**

### **Further Information:**

The GAREAT Procedure Manual is available on Crystal on [www.lloyds.com](http://www.lloyds.com).  
Contacts: In France, from Lloyd's Paris office

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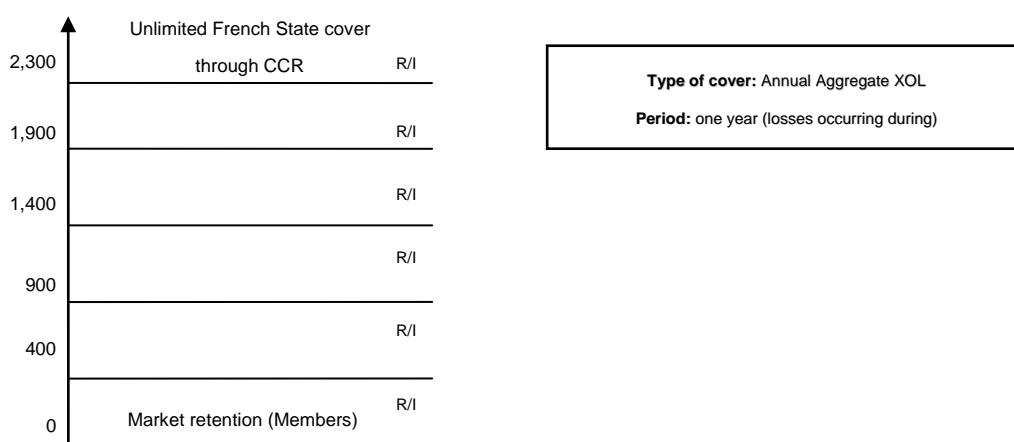
Or in London:

**Lloyd's International Trading Advice**, Tel: 020 7327 6677 Email: [LITA@lloyds.com](mailto:LITA@lloyds.com)

## Appendix A

### GAREAT - Structure of the pool for 2013

For 2013, the pool structure remains the same: 5 layers above the €400 million members' retention by the co-reinsurance pool but for 2013 up to the limit of €2,300 million. Above this unlimited protection is provided by the French State. Again for 2013, 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 2013 pool reinsurance structure for any acts of terrorism, **including nuclear attacks**.



### Reminder : Nuclear risks and new terrorism Act

In 2013, 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 €2,300 million, the French State provides unlimited coverage.
- Between €400 million and €2,300 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 €2.3 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 2013, 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 2013 GAREAT returns**

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 state unlimited coverage will not provide unlimited reinsurance cover above €2.3 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.

**However, please note that as 1 January 2013, no stop loss reinsurance policy will be purchased by Lloyd’s, so no protection will be afforded for reinsurance of the MAT risks as defined above.**

GAREAT coverage of MAT risks:

MAT business as defined by the French Insurance code is excluded from the pool reinsurance. Merchandise in transit is not included, however:

- 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 (Note that the unlimited state cover from €2.3 bn through CCR does not include the COMs)**

2013 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	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	Not France	No
Monaco	Not France	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** or French service companies 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/French service companies 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/French service companies submit timely and accurate data to the Lloyd's French office.
- Syndicates are charged on the basis of these returns made by French coverholders/French service companies

For these reasons, syndicates should contact their French coverholders/French service companies 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/French service companies, 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.