

MARKET BULLETIN

REF: Y4733

Title	GAREAT I compulsory large risk pool 2014 - terrorism reinsurance: opt out process and GAREAT II optional small and medium-sized risk pool: opt in process
Purpose	(1) GAREAT I 2014 scheme for large risks - to inform syndicates of the GAREAT I procedures for 2014, including the ability to opt out of the pool (2) GAREAT II 2014 scheme for small and medium-sized risks - to inform syndicates of the option to participate in the GAREAT II pool
Type	Event
From	Andrew Gurney, Senior Manager, International Licences, International Regulatory Affairs.
Date	24 October 2013
Deadline	25 November 2013 for the GAREAT II optional small and medium-sized risk pool 15 January 2014 for the GAREAT I large risk pool opt-outs
Attachments	Appendix 1.a - GAREAT I large risk compulsory pool Appendix 1.b - GAREAT I opt out letter template for 2014 Appendix 2 - GAREAT II small and medium-sized risk optional pool

GAREAT I 2014 scheme for larger risks

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 the territory of the French Republic to also cover material damage to property caused by an act of terrorism (including NBCR), 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.

For 2014, GAREAT I remains the same apart from the unlimited protection layer provided by the French State which will attach at EUR2.360bn (instead of EUR2.300bn in 2013).

GAREAT II 2014 optional scheme for small and medium-sized risks

Since 1 January 2013, syndicates writing relevant French property business for risks under EUR20m have had the possibility to opt into the GAREAT II optional co-reinsurance pool for protection against terrorism (including NBCR) for their small and medium-sized risks (SMR) portfolio. This option remains valid for 2014.

Unlike GAREAT I, membership of the GAREAT II pool for SMR risks is not compulsory, and therefore each syndicate needs to consider whether to participate in this optional pool.

Please note that syndicates wishing to participate in the GAREAT II co-reinsurance pool for SMR must not have opted out of the GAREAT I compulsory pool.

Once a syndicate has decided to opt into the GAREAT II pool, it must cede all eligible risks between 0 and <EUR20m to the pool. This includes all relevant French open-market risks, French risks written by Lloyd's brokers holding lineslips, French risks written by French and non-French coverholders including service companies.

Please refer to Appendix 2 for information concerning the structure, characteristics and conditions of the scheme. Additional information can also be found in the GAREAT II procedure manual available shortly on Crystal on www.lloyds.com.

Syndicates wishing to participate in the GAREAT II pool for SMR for 2014 should contact Lloyd's office in France directly no later than **25 November 2013** (this does not apply to those syndicates which have already renewed their participation in GAREAT II for 2014).

Opting out of the GAREAT I large risk pool for 2014

GAREAT I participation in the large risk pool is compulsory for all members of the French Insurers' Association (FFSA) including Lloyd's. Details of the structure of the GAREAT I pool for 2014 can be found at Appendix 1.a. However, individual syndicates have the option to opt out of the pool for 2014. Managing agents should also consider the position of any motor syndicates, special purpose syndicates, and those syndicates in runoff and whether those syndicates should be included in the GAREAT I pool. Prior years opting out conditions remain valid for 2014, 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 EUR2.360bn industry losses. **Therefore syndicates will automatically be entered into the GAREAT I pool unless they specifically opt out. Opt outs from 2013 will not be carried over. Syndicates wishing to opt out of GAREAT I must use the template in Appendix 1.b and submit to Lloyd's on their letterhead paper by 15 January 2014. After this date, no changes will be allowed.**

b) Syndicates deciding to opt out of GAREAT I 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), Inception/Expiry date.

This Unexpired Exposure report should be submitted to Trevor Maynard, Head, Exposure Management at Lloyd's by **31 January 2014**.

Further Information:

The GAREAT Procedure Manuals are available on Crystal on www.lloyds.com

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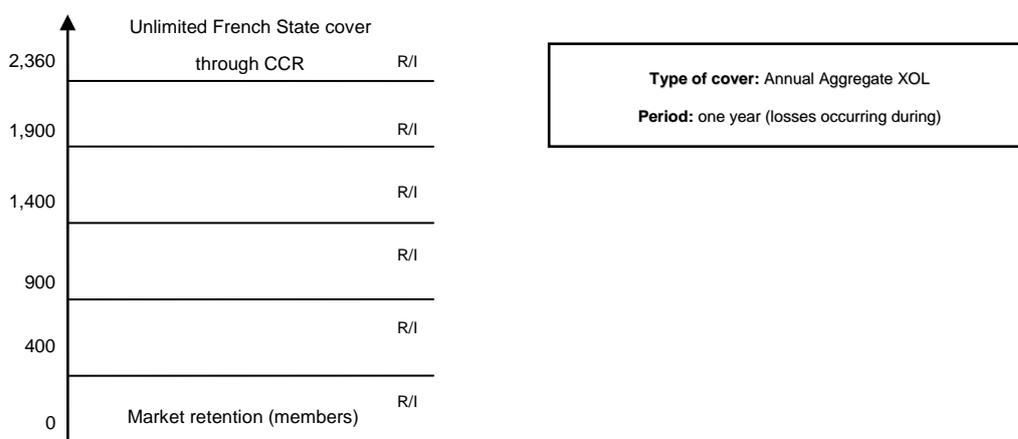
Lloyd's International Trading Advice, Tel: 020 7327 6677 Email: LITA@lloyds.com

As a reminder, the only entity known by GAREAT or any institutions in France to represent Lloyd's syndicates or the Lloyd's market is Lloyd's of London represented by Lloyd's France SAS, therefore GAREAT declarations for both pools will have to be submitted through Lloyd's office in France directly.

Appendix 1.a - GAREAT I large risk compulsory pool

GAREAT I - Structure of the pool for 2014

For 2014, the pool structure remains the same: 5 layers above the EUR400m members' retention by the co-reinsurance pool but for 2014 up to the limit of EUR2.360bn. Above this unlimited protection is provided by the French State. Again for 2014, 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 Insurance Code and French Criminal Code. This means that all acts of terrorism are covered by GAREAT, including those committed through the use of **nuclear devices (including NBCR)**. The illustration below describes the 2014 large pool reinsurance structure for any acts of terrorism, **including nuclear attacks**.



Reminder: Nuclear risks and terrorism Act

In 2014, GAREAT will again cover all acts of terrorism, according to the provisions of article L 126-2, i.e. including those involving the use of nuclear devices (including NBCR). 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 EUR400m is mutualised between members.
- Over EUR2.360bn, the French State provides unlimited coverage.
- Between EUR400m and EUR2.360bn: terrorism is covered by GAREAT and there will be no additional vertical retention for members (*to be confirmed in 2014*).
- Therefore, the maximum exposure is EUR400m 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 EUR2.360bn
- 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: EUR400m x 3% = EUR12m

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: EUR12m x 5%= EUR0.6m

Principle of Cession to the GAREAT I compulsory large risk pool

In 2014, GAREAT will only accept risks with a sum insured or contract limit of indemnity (CLI) from EUR20m and above.

i.e. syndicates must not cede the policies with a sum insured or CLI below EUR20m in their 2014 GAREAT returns for the large risk pool.

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 EUR150m 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 terrorism act (2006) can still be ceded to GAREAT subject to prior request (please contact the Lloyd's office in France) 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 EUR2.360bn for them. This means that losses are retained by members above this threshold.

Large risk as per definition of French Insurance Code - discount for terrorism sub-limit

At 1 January 2014, the discount granted for the introduction of a terrorism sub-limit on large risks as defined in section 2 of article L.111-6 of the French Insurance Code is increased. The maximum discount obtained on the terrorism reinsurance premium will increase from 20% (currently) to 30%.

Syndicates are reminded that the calculation of the GAREAT premium for large risks as per definition of section 2 of article L.111-6 of the French Insurance Code is different from standard risks. Since a specific charging structure applies, syndicates with large risks to include in the GAREAT return should contact Lloyd's office in France.

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 office in France if the leader is a Lloyd's syndicate) **as soon as the lead 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 **EUR150m** and nuclear risks must comply with above requirement.

Personal lines in GAREAT I large risk pool

The cession of personal lines with a sum insured over EUR20m to GAREAT is **optional**. However, should a syndicate choose to cede such a contract, all of the 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 article L.126-2 was published on 30 September 2006, as a result of significant lobbying and negotiation with the French government. The following 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 EUR1m;
- 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 EUR1m.

Please note that coverage for these risks is nonetheless available on an individual basis if participating in the GAREAT II optional pool.

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 GAREAT I (same for GAREAT II)

2014 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 for the large risk scheme GAREAT I

1. Syndicates declare in their return:

- Open-market risks
- Risks written by Lloyd's brokers holding lineslips on their behalf
- Risks written by 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 directly to the Lloyd's office in France. 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 office in France 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 office in France.
- 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 ensure that GAREAT returns are being made to the Lloyd's office in France. 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 - large risk pool

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

Appendix 1.b - GAREAT I opt out letter template for 2014

A Microsoft Word Document of the template is available from lita@lloyds.com

The completed letter should to be sent, on syndicate letter head, to:
Maria McLoughlin, International Licences, Lloyd's International Regulatory Affairs or via
email to maria.mcloughlin@lloyds.com

Dear

GAREAT I French terrorism pool 1 January to 31 December 2014

I am writing on behalf of syndicate ...

I understand that:

1. The French Insurance Code provides that: "where insurance contracts insure against fire damage to property on the national territory and damage to land motor vehicles, the insured is also covered for direct material damage to insured property sustained on the national territory caused by terrorist attacks as defined in articles 421-1 and 421-2 of the French Penal Code. Any clause to the contrary will be without effect." article L.126-2. The Code also prohibits including in any such policy a deductible or coverage limit for terrorist acts or attacks against the State which is different from the deductible or coverage limit set for fire damage. Article R.126-2
2. In order to provide cost-effective re-insurance coverage for this risk, the French insurance market has established a co-reinsurance pool - GAREAT. Ultimately the pool is backed by the French state.
3. Lloyd's is a member of the pool and all syndicates are eligible to cede direct business falling within the scope of the pool.
4. That decision is binding for one calendar year and means that the syndicate gives up the right to benefit from reinsurance for terrorist attacks occurring during 2014. It also means that the syndicate must stop underwriting the business to which the above legislation applies.

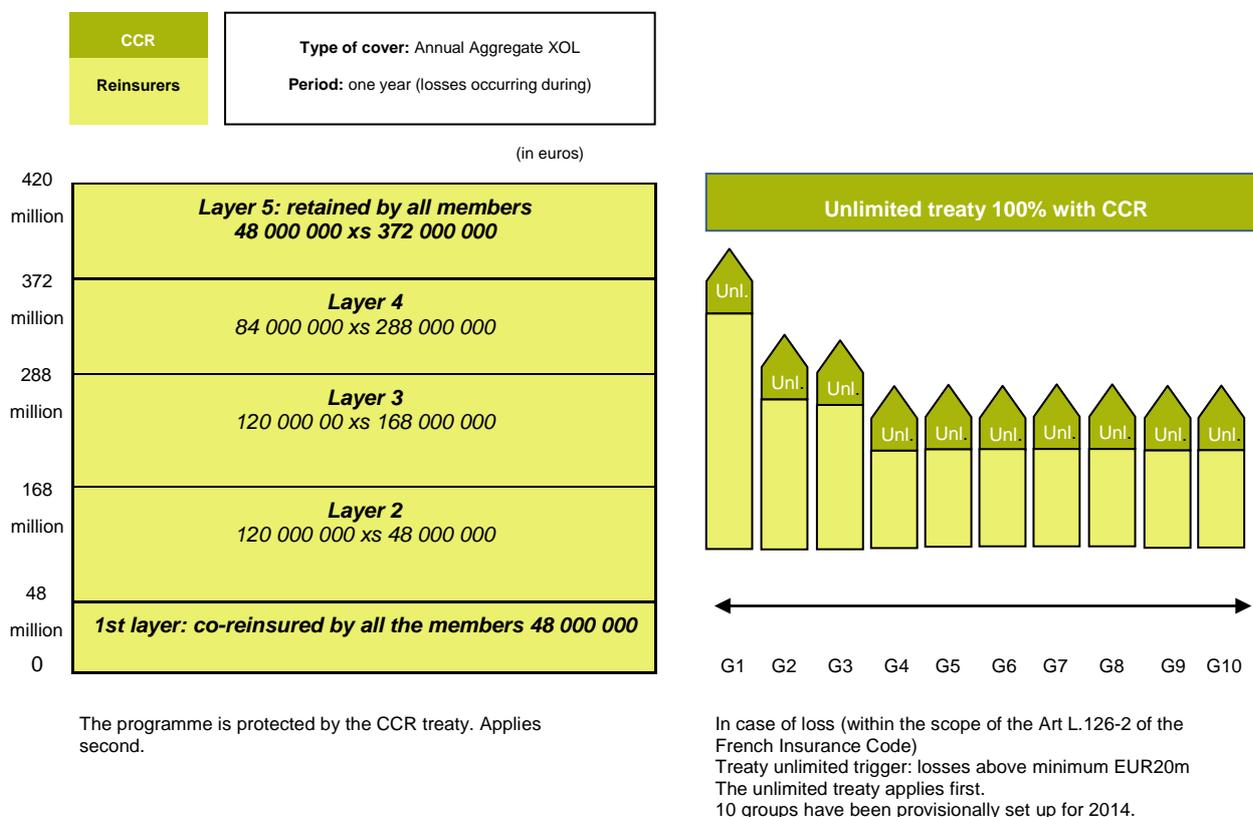
I understand all the above and confirm that syndicate xxxx will not participate in the GAREAT pool in 2014. I understand that this decision is irrevocable for 2014.

Yours faithfully

For and on behalf of syndicate ...

Appendix 2 - GAREAT II small and medium-sized risk optional pool

GAREAT II - Structure and functioning of the pool in 2014 (provisional)



On the basis of a 12% market share, GAREAT’s stop loss reinsurance operates as follows:

For 2014, the pool structure is made up of 5 layers.

- The first layer consists of the co-reinsurance which is “mutualised” between the GAREAT members and which in 2014 has a provisional limit of EUR48m. Each member participating in the SMR section participates in this “basic” liability up to the amount of his share.
- When sum of losses below the deductible occurring during the year exceeds the EUR48m threshold, the surplus is covered by the 3 top layers of the reinsurance scheme.
- The second, third and fourth layers constitute the stop loss reinsurance programme taken out by GAREAT in the name and on behalf of the members.
- The fifth layer which is also a stop loss forms part of the reinsurance programme but is entirely retained by the members. Each member participating in this SMR section will pay his share of that part of the losses exceeding the limit of this fifth layer. In the light of scenarios carried by GAREAT, this layer is unlikely to be reached unless occurrence of major loss.
- Unlimited treaty with CCR and groupings:
Like GAREAT I, the GAREAT II pool has the benefit of the French State through the **CCR**. This unlimited CCR coverage is provided by way of **grouping** for members (“joint

cedants”) and comes into play in excess of a deductible applicable to each group. In 2014, the deductible must be equal, as required by the French State, to at least EUR20m. Each group’s combined “intervention threshold” must exceed the amount of EUR20m which is the minimum “triggering threshold” required by the French State for the operation of the unlimited coverage.

In the event of losses equal or above the trigger with a minimum of EUR20m, CCR coverage is the first to be activated, while amounts below the same threshold will be covered by the GAREAT II programme. If the losses do not reach the EUR20m deductible, they fall back into the GAREAT II programme.

For the losses falling within the scope of application of the CCR coverage, the total amount of the losses covered by the SMR section for the year is limited in 2014 for each member to:

1. 20% of his subject income in respect of his small risks portfolio - risks <EUR6m
2. Plus 50% of his subject income in respect of his medium risks portfolio - risks ≥EUR6m <EUR20m
3. Plus 2% of the amount of the premiums for category 23 (motor damage)

The minimum annual deductible cannot be less than EUR20m.

Principle of cession to the GAREAT II optional SMR pool

The members undertake to cede all insurance contracts falling within the scope of application of article L.126-2 of the French Insurance Code.

All eligible risks between 0 and <EUR20m must be ceded by the members to the GAREAT II pool for reinsurance against terrorism.

We remind you that the syndicate must declare all relevant French open-market risks, French risks written by Lloyd’s brokers holding lineslips, French risks written by French and non-French coverholders including service companies.

The entirety of the portfolio must be ceded, risks cannot be ceded partially only.

For GAREAT II, there is no cession risk by risk on a quarterly basis like for the GAREAT I compulsory pool but by portfolio depending on the category of risks and on the banding. Syndicates wishing to participate in the GAREAT II scheme for 2014 must therefore complete the following table with the syndicate’s estimated earned premium for 2014 no later than 25 November 2013 and send it back to Lloyd’s office in France:

SECTOR OF ACTIVITIES	ESTIMATED EARNED PREMIUM FOR 2014	
	Sum insured < EUR6m	Sum insured ≥ EUR6m < EUR20m
Cat 23 Motor Damage (ex TPL)		
*Cat 24 Personal lines		
**Cat 25 Commercial & industrial risks		
Cat 262 Farm owners (ex hail)		
***Others (ex Contractors all risk...)		
Small aviation hull <1m		
Small marine hull <1m		

Please note:

*Cat 24: Please note that Personal lines can include specie, fine art

**Cat 25: Please note that Commercial & industrial risks can include specie, fine art, Banker's Blanket Bond, machinery breakdown

***Others: Please note that risks which are not in Cat 24 or Cat 25 can be declared here, such as Contractor's all risk (for the property cover)

Calculation of the GAREAT premium

The GAREAT contribution will be carried out by GAREAT and will be based on the estimated earned premium figures for 2014 provided by the syndicate (please refer to section above).

The GAREAT premium is calculated separately for small risks (less than EUR6m) and for medium-sized risks (equal to or exceeding EUR6m but less than EUR20m)

For small or medium-sized risks, the GAREAT premium will be equal to the sum of the amounts obtained multiplying the insurance premiums collected by the member in each of the categories by the GAREAT premium rate applicable to each of the categories.

The GAREAT premium rates in 2014 are as follows:

SECTOR OF ACTIVITIES	GAREAT II pool rates by banding and sector of activity	
	< EUR6m rates	≥ EUR6m < EUR20m rates
Cat 23 Motor Damage (ex TPL)	0,10%	4,00%
*Cat 24 Personal lines	0,80%	4,00%
**Cat 25 Commercial & industrial risks	1,20%	4,00%
Cat 262 Farm owners (ex hail)	0,60%	4,00%
***Others (ex Contractors all risk...)	1,20%	4,00%
Small aviation hull <1m	2,50%	Not applicable
Small marine hull <1m	1,25%	Not applicable

The GAREAT premium collection

The GAREAT premium collection is made on a quarterly basis by GAREAT. The contribution is based on the estimated earned premium figures provided by the members. GAREAT collects a varying amount (about 60-70%) of the premiums declared to the pool by members. The GAREAT Board of Directors determines the % which is called each year. In 2013, GAREAT only **called 70%** of the calculated contribution. The percentage for 2014 will be confirmed in 2014.

Reporting requirements

Syndicates participating in the terrorism GAREAT II pool in 2014 must submit two annual informative returns to Lloyd's office in France.

Termination of membership

Under the provisions of the GAREAT II optional pool, **membership of the SMR section is renewed automatically each year and is thus subject to tacit renewal from one year to the next at the end of each year on a 3 months' notice basis.**

Therefore, each syndicate will be automatically renewed in the GAREAT II pool unless they specifically give notice they do not wish to renew. Please note that this decision is irrevocable for one year.