

# MARKET BULLETIN

REF: Y4939

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|--------------------|--|
| <b>Title</b>       | <b>2016 compulsory GAREAT large risk pool:</b> opt out process<br><b>2016 optional GAREAT small and medium-sized risk pool:</b> opt in process   |
| <b>Purpose</b>     | (1) GAREAT large risk pool - to inform syndicates of the GAREAT procedures including the ability to opt out of the pool for 2016<br>(2) GAREAT small and medium-sized risk pool - to inform syndicates of the option to participate in the pool for 2016 |
| <b>Type</b>        | Event  |
| <b>From</b>        | Andrew Gurney, Senior Manager, International Licences, International Regulatory Affairs.   |
| <b>Date</b>        | 9 November 2015  |
| <b>Deadline</b>    | <b>20 November 2015</b> for the optional GAREAT small and medium-sized risk pool opt-ins<br><b>15 January 2016</b> for the compulsory GAREAT large risk pool opt-outs  |
| <b>Attachments</b> | Appendix 1a – compulsory GAREAT large risk pool<br>Appendix 1b - compulsory GAREAT large risk pool - opt out letter for 2016<br>Appendix 2 - optional GAREAT small and medium-sized risk pool  |

Managing agents are reminded that in accordance with Article L126-2 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.

## **1. 2016 GAREAT large risk pool (for risks with a sum insured of EUR20m or more).**

Please note that for 2016, there will be a single reinsurance layer (instead of four in 2015). Furthermore, the unlimited protection layer provided by the French State will attach at EUR2.480bn (instead of EUR2.420bn in 2015). Please also note that in 2016, some changes will be made to the structure of the GAREAT quarterly returns (please refer to Appendix 1a).

### **1.1. Process for opting out**

Participation in the GAREAT large risk pool continues to be compulsory for all members of the French Insurers' Association (FFSA) including Lloyd's. Details of the structure of the GAREAT large risk pool for 2016 can be found at Appendix 1a. As participation is compulsory **all** syndicates will automatically be included in the GAREAT large risk pool unless they specifically opt out.

Managing agents are required to provide confirmation as per Appendix 1b detailing which syndicates will be opting out. Appendix 1b must be submitted on letter headed paper by **15 January 2016. After this date, no changes will be allowed.**

Managing agents should consider whether motor syndicates and special purpose syndicates will be writing French property business in 2016 and therefore their participation in the GAREAT large risk pool. Syndicates participating in the GAREAT large risk pool but with no relevant business will be required to submit nil returns.

### **2. 2016 GAREAT small and medium-sized risk pool (for risks with a sum insured below EUR20m).**

Syndicates writing relevant French property business for risks under EUR20m have the option to participate in the GAREAT optional co-reinsurance pool for protection against terrorism (including NBCR) for their small and medium-sized risks portfolio.

Unlike the compulsory GAREAT large risk pool, membership of the GAREAT small and medium-sized risk pool is not compulsory (please note that a syndicate can only participate in the GAREAT small and medium-sized pool if they are also a member of the GAREAT large risk pool).

Once a syndicate has decided to opt into the GAREAT small and medium-sized risk pool, it must cede all eligible risks between 0 and less than 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 small and medium-sized risk pool procedure manual on Crystal on [www.lloyds.com](http://www.lloyds.com).

Syndicates wishing to participate in the GAREAT small and medium-sized risk pool for 2016 should contact Lloyd's office in France directly no later than **20 November 2015** (this does not apply to those syndicates that have already renewed their participation for 2016.)

### 3. **Further Information**

The GAREAT Procedure Manuals are available on Crystal on [www.lloyds.com](http://www.lloyds.com).

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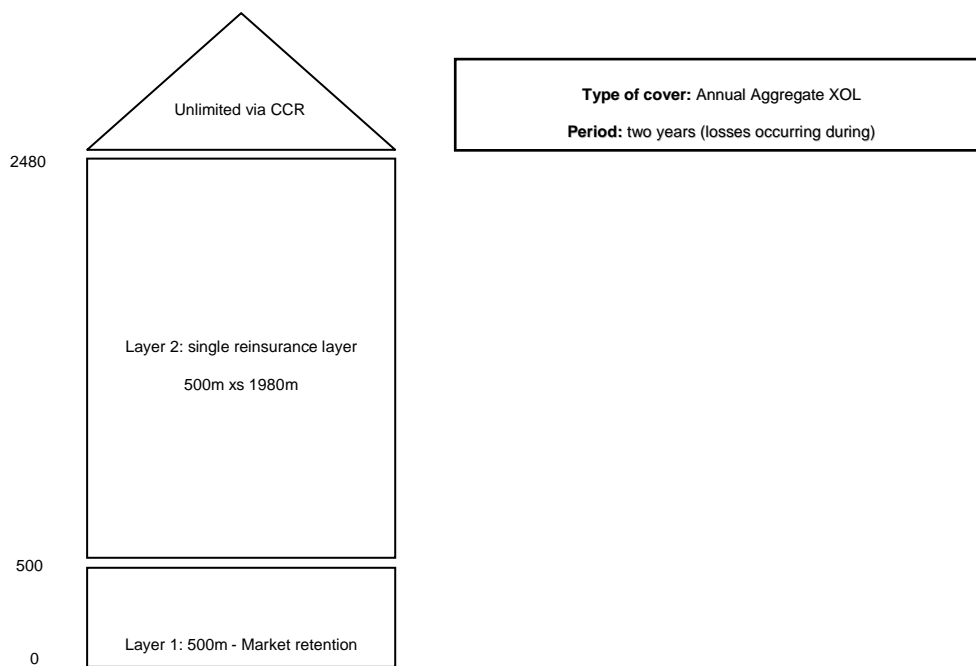
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**Please note, the only entity known by GAREAT in France to represent Lloyd's syndicates or the Lloyd's market is Lloyd's of London represented by Lloyd's France SAS, therefore GAREAT declarations for both pools can only be submitted by Lloyd's office in France.**

## **Appendix 1a – compulsory GAREAT large risk pool**

### **Structure and functioning of the pool in 2016**

The illustration below describes the 2016 large pool reinsurance structure for any acts of terrorism, **including nuclear and NBCR attacks**.



### **Structure**

For 2016, the pool structure has three layers.

- The first layer of EUR500m is mutualised between members.
- The single reinsurance layer is taken out by private reinsurers which have a minimum level of security financial rating based on S&P rating and which are willing to participate in the GAREAT layer. This reinsurance layer protects against losses up to EUR2.480bn.
- Over EUR2.480bn, the French State provides unlimited coverage through CCR
- Between EUR500m and EUR2.480bn: terrorism is covered by GAREAT and there will be no additional vertical retention for members (*to be confirmed in 2016*).
- Therefore, the maximum exposure is EUR500m shared among GAREAT members according to the premiums they cede to the pool.
- For losses which do not fall within the scope of the risks covered by CCR, they fall back to the pool (please see [page 5](#)).
- Please note that the programme is a multi-year programme covering the years 2016 and 2017.

### **Example application**

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

- Total market loss over EUR2.480bn.

- 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: EUR500m x 3% = EUR15m.

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: EUR15m x 5%= EUR0.75m

## Specific changes in 2016

**1. Changes in the GAREAT quarterly returns Q1 2016:** GAREAT, in order to improve the quality and amount of data reported, is revising some of the fields of the quarterly GAREAT returns.

- A new compulsory field will be added to the quarterly return template. This new field will be called "Type of risk" and will be selected from a drop down box. There will be seven options:
  - Real estate
  - Industrial and commercial
  - Erection all risks
  - Nuclear
  - Local authorities
  - Policy without sum insured
  - Miscellaneous
- Column P of the quarterly return – "Terrorism cover as % of total sum insured for "Large risks": This existing field is completed whenever a syndicate declares "D" or "E" category risks. In respect of GAREAT and "D" category risks, a specific charging structure applies for Large risks as defined in section 2 of article L.111-6 of the French Insurance Code. A discount can be granted for the introduction of a terrorism sub-limit on Large risks. GAREAT has provided a specific rate schedule that will take effect from 1 January 2016 for these "D" category Large risks. This schedule can be obtained from Lloyd's office in France.

These provisions may give rise to a risk of under-insurance. Any syndicates wishing to declare some policies as Large risks as per the definition of the French Insurance Code should contact the Lloyd's office in France.

**2. Contracts that make no mention of the sums insured:** Since 2002, cession to the pool is compulsory for those contracts where annual premiums subject to nat cat calculation exceed EUR20,000. GAREAT, the FFSA and CCR have decided to reduce the nat cat subject premium income to EUR12,000. Therefore from 1 January 2016, when the contract makes no mention of the sums insured, cession to the pool will be obligatory for those contracts whose annual premiums subject to nat cat calculation will equal or exceed EUR12,000. This applies to:

- new business incepting 1 January 2016 onwards;
- existing business renewed from 1 January 2017

## Nuclear risks and Terrorism Act

In 2016, GAREAT will continue to cover all acts of terrorism, according to the provisions of Article L126-2, 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.

## Principle of Cession to the GAREAT large risk pool

In 2016, GAREAT will only accept risks with a sum insured or contract limit of indemnity (CLI) of EUR20m and above. Syndicates must not cede policies with a sum insured or CLI below EUR20m in their 2016 returns for the GAREAT large risk pool. All property risks that are eligible to the large risks scheme must be ceded.

There is a specific annual return for risks equal or greater than EUR150m.

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. 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 fire damage coverage.
- The storage portion of hybrid contracts "Stocks & Transit".

However, the CCR state unlimited coverage will not provide unlimited reinsurance cover above EUR2.480bn for the above contracts. 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 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 the above requirement.

## Personal lines in the GAREAT 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, then all risks falling within the same risk category must be ceded to the pool.

## **MAT risks**

The decree excluding MAT risks from the scope of Article L126-2 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 L126-2:

- 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 optional GAREAT small and medium-sized risk 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 for large risk pool (same for GAREAT small and medium-sized risk pool)

| 2016 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  |

\*Please note that the coverage from the French state-owned reinsurer CCR does not include all the COMs.

### Returns for the GAREAT large risk pool

#### 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 three years. All residual premiums on previous years after losses and charges are refunded to members.

**Appendix 1b – compulsory GAREAT large risk pool - opt out letter for 2016**

A Microsoft Word Document of the current template is available from [lita@lloyds.com](mailto:lita@lloyds.com)

The letter should be completed on syndicate letter headed paper, scanned and sent via email to [lita@lloyds.com](mailto:lita@lloyds.com)

Dear

GAREAT large risk pool 1 January to 31 December 2016

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 L126-2. 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 R126-2.
2. In order to provide cost-effective reinsurance coverage for this risk, the French insurance market has established a co-reinsurance pool – GAREAT large risk pool. 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 2016. It also means that the Syndicate must stop underwriting the business to which the above legislation applies.

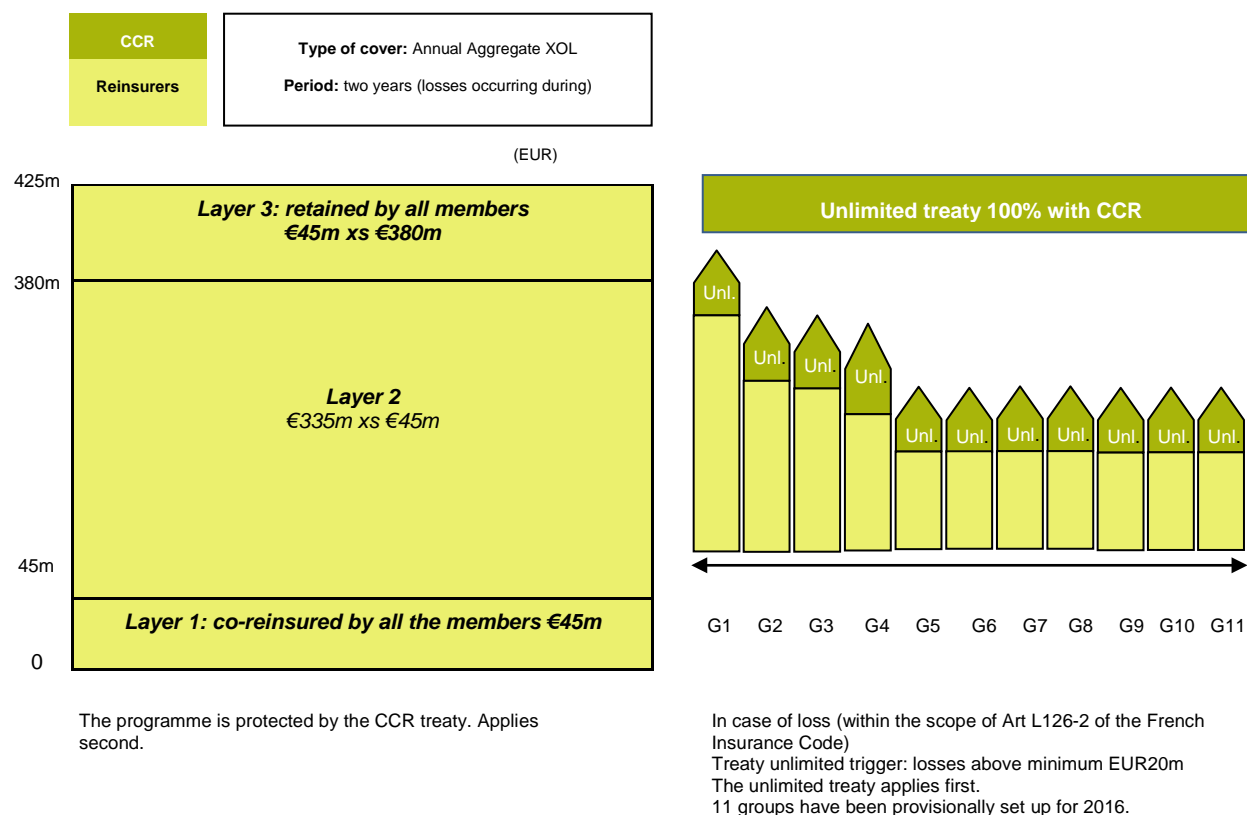
I understand all the above and confirm that Syndicate xxxx will not participate in the GAREAT large risk pool in 2016. I understand that this decision is irrevocable for 2016.

Yours faithfully

For and on behalf of Syndicate ...

**Appendix 2 – optional GAREAT small and medium-sized risk pool**

**Structure and functioning of the pool in 2016 (provisional, to be confirmed in 2016)**



With an approximate 11% market share, GAREAT’s stop loss reinsurance operates as follows:

For 2016, the pool structure has three layers (five layers in 2015).

- The first layer consists of the co-reinsurance which is “mutualised” between the GAREAT members and which in 2016 has a provisional limit of EUR45m. Each member participating in the small and medium-sized section participates in this “basic” liability up to the amount of their share.
- When the sum of losses below the deductible occurring during the year exceeds the EUR45m threshold, the surplus is covered by the top layer of the reinsurance scheme.
- The second layer constitutes the stop loss reinsurance programme taken out by GAREAT in the name and on behalf of the members.
- The third layer which is also a stop loss forms part of the reinsurance programme but is entirely retained by the members. Each member participating in the small and medium-sized section will pay his share of that part of the losses exceeding the limit of this third layer. In the light of scenarios covered by GAREAT, this layer is unlikely to be reached unless there is a major loss.
- Please note that the programme is a multi-year programme covering the years 2016 and 2017.

Unlimited treaty with CCR and groupings:

Like the GAREAT large risk pool, the GAREAT small and medium-sized 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 2016, 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 small and medium-sized pool. If the losses do not reach the EUR20m deductible, they fall back into the GAREAT small and medium-sized programme.

For the losses falling within the scope of application of the CCR coverage, the total amount of the losses covered by the small and medium-sized pool for the year is limited in 2016 for each member to:

1. 20% of the member’s subject income in respect of their small risks portfolio - risks less than EUR6m.
2. Plus 50% of the subject income in respect of their medium risks portfolio - risks equal to or greater than EUR6m and less than EUR20m.
3. Plus 2% of the amount of the premiums for category 23 (motor damage).

The minimum annual deductible cannot be less than EUR20m.

### Specific change in 2016

**Contracts that make no mention of the sums insured:** Cession to the small and medium-sized pool is compulsory for those contracts where annual premiums subject to nat cat calculation are strictly below EUR20,000. GAREAT, the FFSA and CCR have decided to reduce the nat cat subject premium income to EUR12,000. Therefore from 1 January 2016, where the contract makes no mention of the sums insured, cession to the pool will be obligatory for those contracts whose annual premiums subject to nat cat calculation will be strictly below EUR12,000. This applies to:

- new business incepting 1 January 2016 onwards;
- existing business renewed from 1 January 2017

### Principle of cession to the optional GAREAT small and medium-sized pool

The members undertake to cede all insurance contracts falling within the scope of application of Article L126-2 of the French Insurance Code. All eligible risks between 0 and less than EUR20m must be ceded by the members to the GAREAT small and medium-sized pool for reinsurance against terrorism. 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 partially ceded. For the GAREAT small and medium-sized pool, there is no cession risk by risk on a quarterly basis like the GAREAT large risk pool, but by portfolio depending on the category of risks and on the banding. Syndicates wishing to participate in the GAREAT small and medium-sized risk

pool 2016 must complete the following table with the syndicate’s estimated earned premium for 2016 no later than **20 November 2015** and send it back to Lloyd’s office in France:

| SECTOR OF ACTIVITIES                   | ESTIMATED EARNED PREMIUM FOR 2016 |                              |
|--|-----------------------------------|------------------------------|
|  | 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)

This schedule is available in Excel format from Lloyd’s office in France upon request to Stéphanie Le Ninivin by email: [stephanie.leninivin@lloyds.com](mailto:stephanie.leninivin@lloyds.com)

**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 2016 provided by the syndicate (please refer to the 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 2016 are as follows:

| SECTOR OF ACTIVITIES                   | GAREAT small and medium-sized risk 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 percentage which is called each year. In 2015, GAREAT only **called 70%** of the calculated contribution. The percentage for 2016 will be confirmed in 2016.

### Reporting requirements

Syndicates participating in the terrorism GAREAT small and medium-sized risk pool in 2016 must submit two annual informative returns to Lloyd's office in France.

### Termination of membership

Under the provisions of the GAREAT small and medium-sized risk optional pool, **membership of the small and medium-sized risk pool is renewed automatically each year. It is subject to tacit renewal from one year to the next at the end of each year on a three months' notice basis.** Therefore, each syndicate will be automatically renewed in the GAREAT small and medium-sized risk pool unless they specifically give notice they do not wish to renew. Please note that this decision is irrevocable for one year.