

Title	2018 compulsory GAREAT large risk pool: opt out process 2018 optional GAREAT small and medium-sized risk pool: opt in process
Purpose	(1) GAREAT large risk pool - to inform syndicates of the GAREAT procedures including the ability to opt out of the pool for 2018 (2) GAREAT small and medium-sized risk pool - to inform syndicates of the option to participate in the pool for 2018
Type	Event
From	Stephen Yates, Senior Manager, International Regulatory Affairs.
Date	20 November 2017
Deadline	11 December 2017 for the optional GAREAT small and medium-sized risk pool opt-ins 15 January 2018 for the compulsory GAREAT large risk pool opt-outs
Attachments	Appendix 1a – compulsory GAREAT large risk pool Appendix 1b – compulsory GAREAT large risk pool - opt out letter for 2018 Appendix 2 – optional GAREAT small and medium-sized risk pool

Executive summary

This market bulletin provides information in relation to the French GAREAT reinsurance pools and outlines the process to opt out of the GAREAT large risk pool and to opt in to the small and medium-sized risk pool for 2018.

Terrorism non-exclusion clause

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 Nuclear, Chemical, Biological and Radiological, "NCBR", coverage) 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.

Renewal of French state warranty

The French state guarantee provided through the French state reinsurer, “Caisse Centrale de Réassurance” (CCR) which will lapse on 31 December 2017 **has been renewed** for both pools for a period of four years from 1 January 2018.

1. **2018 GAREAT large risk pool (for risks with a sum insured of EUR 20m or more)**

For 2018, there will be a single reinsurance layer (as in 2017). Furthermore, the unlimited protection layer provided by the French state will attach at EUR 2.6bn (instead of EUR 2.54bn in 2017). The threshold of the unlimited guarantee will increase by EUR 60m each year from 1 January 2018. Details of the structure of the GAREAT large risk pool for 2018 can be found at Appendix 1a.

Participation in the GAREAT large risk pool continues to be compulsory for all members of the French Insurers' Association (FFA) including Lloyd's. 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 2018. After this date, no changes will be allowed.** Please note that a syndicate can opt out of the GAREAT large risk pool only if it does not write or does not intend to write any French business where the terrorism cover applies regardless of the sum insured of the policy.

Managing agents should consider whether motor syndicates and special purpose syndicates will be writing French property business in 2018 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. **2018 GAREAT small and medium-sized risk pool (for risks with a sum insured below EUR 20m)**

Syndicates writing relevant French property business for risks under EUR 20m have the option to participate in the GAREAT optional co-reinsurance pool for protection against terrorism (including NCBR) for their small and medium-sized risks portfolio. 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.

Participating syndicates must cede all eligible risks less than EUR 20m to the pool. This includes all relevant French open market risks, French risks written by Lloyd's brokers holding lineslips, and 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](#) (see Terrorism (property damage and business interruption)).

Syndicates wishing to participate in the GAREAT small and medium-sized risk pool for 2018 should contact Lloyd's office in France directly no later than **11 December 2017** (this does not apply to those syndicates that have already renewed their participation for 2018.)

Please note that a syndicate can now join the GAREAT small and medium-sized risk pool in the course of the year but under certain conditions and upon approval from GAREAT and CCR.

Action Required

Syndicates wishing to opt in to the small and medium-sized risk pool must complete the table as stipulated at Appendix 2 and send to Stéphanie Le Ninivin (details below) by **11 December 2017**.

Syndicates wishing to opt out of the large risk pool must complete the letter at Appendix 1b and return to lita@lloyds.com by **15 January 2018**.

Further Information

The GAREAT Procedure Manuals are available on [Crystal](#) (see Terrorism (property damage and business interruption)).

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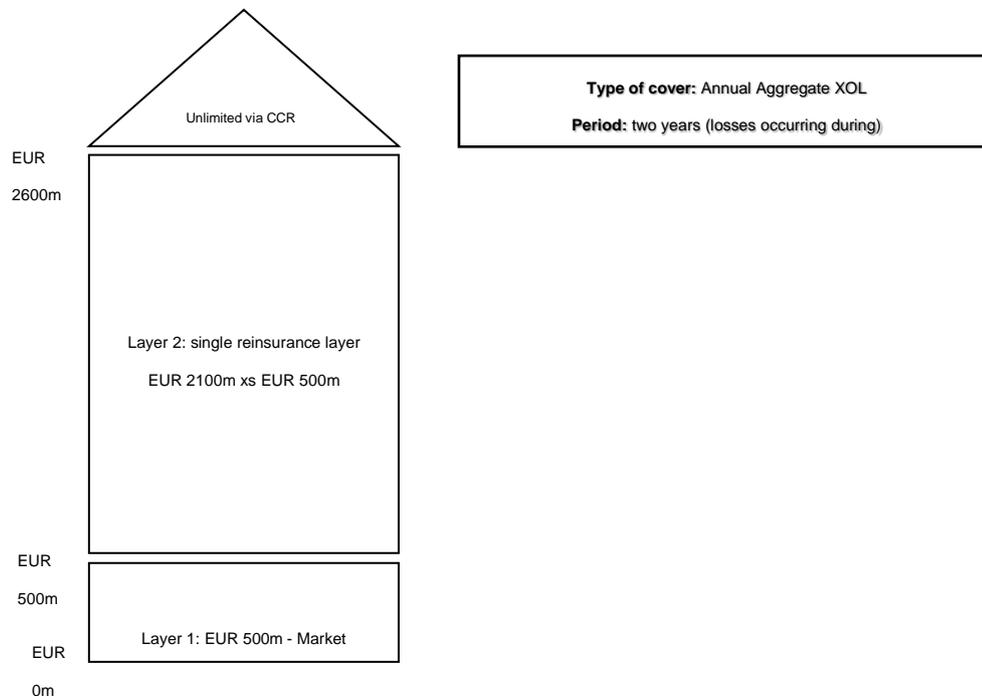
Email: LITA@lloyds.com

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 2018

The illustration below describes the 2018 large pool reinsurance structure for any acts of terrorism, **including NCBR attacks**.



Structure

For 2018, the pool structure has three layers:

- The first layer of EUR 500m is mutualised among 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 reinsurance layer. This reinsurance layer protects against losses up to EUR 2.6bn.
- Over EUR 2.6bn, the French state provides unlimited coverage through CCR
- Between EUR 500m and EUR 2.6bn: terrorism is covered by GAREAT and there will be no additional vertical retention for members (*to be confirmed in 2018*).
- Therefore, the maximum exposure is EUR 500m shared among GAREAT members according to the premiums they cede to the pool.
- Losses which do not fall within the scope of the risks covered by CCR fall back to the pool (please see page 7).
- Please note that the programme is a multi-year programme covering the years 2018 and 2019.

Example application

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

- Total market loss over EUR 2.6bn.

- 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: EUR 500m x 3% = EUR 15m.

Losses are mutualised between Lloyd's syndicates according to the share of the Lloyd's global premium ceded to GAREAT.

Syndicate XXX maximum exposure: EUR 15m x 5%= EUR 0.75m

Reminders

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 took effect from 1 January 2016 for "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 should contact the Lloyd's office in France.

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 natural catastrophe calculation exceed EUR 20,000. GAREAT, the FFA and CCR have decided to reduce the natural catastrophe subject premium income to EUR 12,000 (corresponding to the threshold of EUR 20m of sums insured of the large risk pool). Then for those contracts where annual premiums subject to natural catastrophe calculation exceed EUR 50,000, the natural catastrophe subject premium income has also been reduced, from EUR 50,000 to EUR 30,000 (corresponding to the threshold of EUR 50m of sums insured of the large risk pool). This applies to:

- New business incepting 1 January 2016 onwards.
- Existing business renewed from 1 January 2017.

Nuclear risks and Terrorism Act

In 2018, 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 NCBR). 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 2018, GAREAT will only accept risks with a sum insured or contract limit of indemnity (CLI) of EUR 20m and above. Syndicates must not cede policies with a sum insured or CLI below EUR 20m in their 2018 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 to or greater than EUR 150m.

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 stock (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 EUR 2.6bn 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 **EUR 150m** 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 EUR 20m 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 EUR 1m.
- 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 EUR 1m.

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)

2018 GAREAT territorial scope		
DROM = Overseas Departments and Regions		
COM = Overseas Communities		
CU = Unique Communities		
TC = Territorial collectivity with special status		
Region	Status	In scope ?
French Guiana (La Guyane)	CU	Yes
French Polynesia	COM*	Yes
French Southern and Antarctic Lands, including the Kerguelen Islands (TAAF)	TC	Yes
Guadeloupe	DROM	Yes
Martinique	CU	Yes
Mayotte	CU	Yes
Metropolitan France	France	Yes
New Caledonia	TC	Yes
Reunion Island	DROM	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 via lineslip.
- 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 2018

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

The letter should be completed on syndicate letter headed paper, scanned and sent via email to lita@lloyds.com by **15 January 2018**.

Dear

GAREAT large risk pool 1 January to 31 December 2018

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 2018. 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 2018. I understand that this decision is irrevocable for 2018.

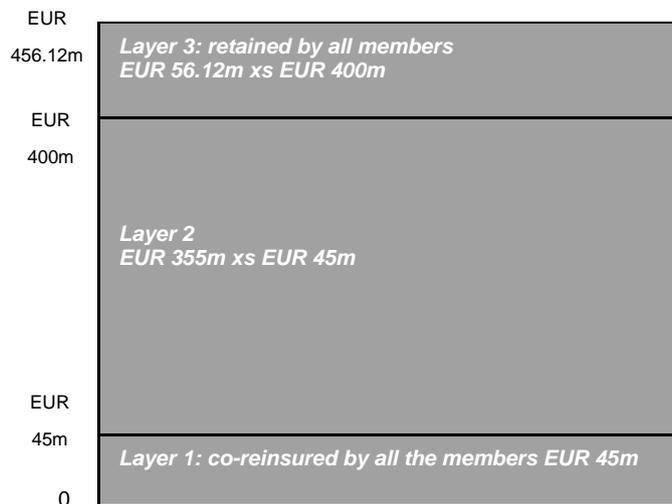
Yours faithfully,

For and on behalf of Syndicate ...

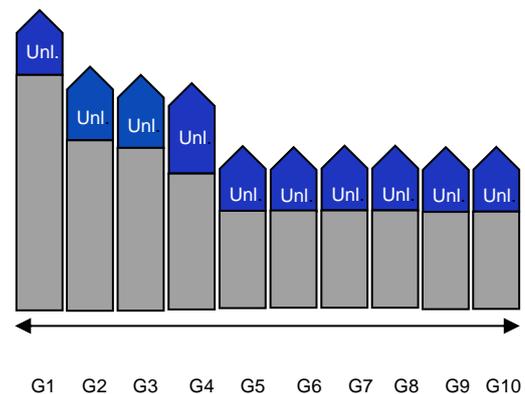
Appendix 2 – optional GAREAT small and medium-sized risk pool

Structure and functioning of the pool in 2018 (provisional, to be confirmed in 2018)

CCR	Type of cover: Annual Aggregate XOL Period: two years (losses occurring during)	Note: the CCR unlimited treaty applies before and in place of GAREAT if losses are above the relevant CCR deductible.
Reinsurers		



Unlimited treaty 100% with CCR



The programme is protected by the CCR treaty. Applies second.

In case of loss (within the scope of Art L126-2 of the French Insurance Code)
 Treaty unlimited trigger: losses above minimum EUR 20m
 The unlimited treaty applies first.
 10 groups have been provisionally set up for 2018.

GAREAT structure

For 2018, the GAREAT pool structure has three layers (also three layers in 2017):

- The first layer consists of the co-reinsurance which is “mutualised” between the GAREAT members and which in 2018 has a provisional limit of EUR 45m. Each member participating in the small and medium-sized pool participates in this “basic” liability up to the amount of their share (which is calculated on the basis of premium volume).
- When the sum of losses occurring during the year exceeds the EUR 45m threshold, the surplus is covered by layer two of the pool. This second layer constitutes the stop loss reinsurance programme taken out by GAREAT in the name and on behalf of the members which allows GAREAT members to be covered for all eligible losses occurring within this layer.
- 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 pool will pay its share of that part of the losses exceeding the lower 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 2018 and 2019.

Unlimited treaty with CCR

Like the GAREAT large risk pool, the GAREAT small and medium-sized pool has the benefit of the French state through the CCR. Under this scheme, members (“joint cedents”) are put into groups and each group has a set deductible (of at least EUR 20m), beyond which the unlimited CCR coverage will respond. There are 10 groups for 2018 and all Lloyd’s syndicates are always together in one group.

In the event of losses equal to or above the set deductible, CCR’s unlimited coverage will respond before, and in place of, GAREAT and covers that part of the losses which exceeds the deductible of the group suffering the losses. If the losses fail to reach the threshold applicable to the group suffering the losses, the CCR unlimited treaty will not be triggered and the losses therefore fall back into the GAREAT small and medium-sized risk pool.

For losses falling within the scope of the CCR coverage, the total amount of the losses covered by the small and medium-sized pool for the year is limited in 2018 for each member to:

1. 20% of the member’s income in respect of personal lines;
2. Plus 2% of the member’s income in respect of motor damage;
3. Plus 20% of the member’s income in respect of agricultural risks;
4. Plus 27.4% of the member’s income in respect of the other risks subject to Article L.126-2 of the French Insurance code.

Example (provided by GAREAT)

This example (in relation to 2017) represents an annual claims aggregate amounting to EUR 410.500m in which 11 groups are impacted. In this example EUR 409.505m falls into the scope of Article L126-2 of the French Insurance Code, of which EUR 141.005m would be covered by the unlimited CCR cover which is activated first (see first table). Then, EUR 269.495m (including the EUR 0.995m outside scope of Article L126-2) is covered by GAREAT.

Groups	Claims	* Claims L126-2	**Claims outside L126-2	CCR threshold L126-2	Unlimited L126-2 with CCR	GAREAT
(Figures in EUR millions)						
Group 1	250	249.5	0.5	150	99.5	150.5
Group 2	55	54.85	0.15	35	19.85	35.15
Group 3	50	49.75	0.25	35	14.75	35.25
Group 4	25	24.925	0.075	21.5	3.425	21.575
Group 5	25	24.98	0.02	21.5	3.48	21.52
Group 6	1.25	1.25	0	21.5	0	1.25
Group 7	0.75	0.75	0	21.5	0	0.75
Group 8	1.25	1.25	0	21.5	0	1.25
Group 9	1.5	1.5	0	21.5	0	1.5
Group 10	0.25	0.25	0	21.5	0	0.25
Group 11	0.5	0.5	0	21.5	0	0.5
TOTAL 2017	410.5	409.505	0.995	392	141.005	269.495

*claims covered by CCR

**claims excluded from CCR coverage (but covered by GAREAT)

EUR millions	GAREAT total	Layer 1 retention layer 45,000,000 <i>Members</i>	Layer 2 reinsurance layer 335,000,000 <i>Reinsurers</i>	Layer 3 retention layer 62,287,066 <i>Members</i>
Claims	269.495	45	224.495	-

Merging of small and medium-sized risk sections

Previously, the GAREAT small and medium-sized risk pool was made up of two bands:

- Small risk section: from 0 to < €6m.
- Medium-sized risk section: from ≥ €6 to < €20m.

As of 1 January 2018, the two bands are merging and there will only be one band for all relevant risks under EUR 20m.

This change in the functioning of the pool has an impact on the GAREAT rates. Please refer to the section "Calculation of the GAREAT premium" to see the new rating structure.

Reminder

Contracts that make no mention of the sums insured

Cession to the small and medium-sized risk pool is compulsory for those contracts where annual premiums subject to natural catastrophe calculation are strictly below EUR 20,000. GAREAT, the FFA and CCR have decided to reduce the natural catastrophe subject premium income to EUR 12,000 (corresponding to the threshold of EUR 20m of sum insured of the small and medium-sized risk pool). Then for those contracts where annual premiums subject to natural catastrophe calculation exceed EUR 6,000, the natural catastrophe subject premium income has also been reduced, from EUR 6,000 to EUR 5,000 (corresponding to the threshold of EUR 6m of sums insured of the small and medium-sized risk pool). 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 below EUR 20m must be ceded by the members to the GAREAT small and medium-sized pool for reinsurance against terrorism.

The entirety of the portfolio must be ceded; risks cannot be partially ceded. For the GAREAT small and medium-sized pool, there is no quarterly cession on a per risk basis as with the GAREAT large risk pool, but by portfolio depending on the category of risks. Syndicates wishing to participate in the GAREAT small and medium-sized risk pool in 2018 must therefore complete the following table with their estimated earned premium for 2018 no later than **11 December 2017** and send it to Lloyd's office in France:

2018 Estimated Property Income

(Euros)

CLASSIFICATION	LINES OF BUSINESS	SUM INSURED			GAREAT PREMIUM
		0 < 20 000 000			
		NUMBER OF CONTRACTS	PREMIUM INCOME	RATES	
C23	MOTOR (excluding liability)			0,07%	
C24	PERSONAL LINES			0,71%	
C25/26	PROFESSIONAL PROPERTY DAMAGE including :				
	PROFESSIONAL (excluding large risks premium)			1,60%	
	AGRICULTURAL - Other contracts (excluding hail)			0,30%	
	OPTIONAL				
	OTHERS PROPERTY *			1,60%	
	SMALL AVIATION HULL (<EUR1m)			1,60%	
	SMALL MARINE HULL (<EUR1m)			1,60%	
TOTAL		0	0		0

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

Returns for the small and medium-sized risk pool

Syndicates declare in their return:

- Open market risks.
- Risks written by Lloyd's brokers holding lineslips on their behalf.
- Risks written by French and non-French coverholders including services companies.

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 2018 provided by the syndicate (please refer to the section "Principle of cession to the optional GAREAT small and medium-sized pool").

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 2018 are as follows:

2018 Estimated Property Income

(Euros)

SUM INSURED		
< 20m		
CLASSIFICATION	LINES OF BUSINESS	2018 RATES
C23	MOTOR (excluding liability)	0,07%
C24	PERSONAL LINES	0,71%
C25/26	PROFESSIONAL PROPERTY DAMAGES including :	
	PROFESSIONAL (excluding large risks premium)	1,60%
	AGRICULTURAL - Other contracts (excluding hail)	0,30%
	OPTIONAL	
	OTHERS PROPERTY *	1,60%
	SMALL AVIATION HULL (<EUR1m)	1,60%
	SMALL MARINE HULL (<EUR1m)	1,60%

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 2017, GAREAT only **called 70%** of the calculated contribution. The percentage will be confirmed in 2018.

Reporting requirements

Syndicates participating in the GAREAT small and medium-sized risk pool in 2018 must submit one annual return 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.