

# Market Bulletin

Ref: Y5221

<b>Title</b>	Membership of the 2019 GAREAT Large Risk pool (LR) and GAREAT Small and Medium-sized Risk pool (SMR) for Lloyd's Insurance Company S.A. (Lloyd's Brussels) and Lloyd's Underwriters.
<b>Purpose</b>	<ol style="list-style-type: none"> <li>1. To inform the Market of Lloyd's Brussels membership of the GAREAT pools from 1 January 2019, and Lloyd's Underwriters continued membership for contracts incepting 31 December 2018 and prior.</li> <li>2. GAREAT Large Risk pool - procedures - risks with total sum insured of EUR 20m or more</li> <li>3. GAREAT Small and Medium-sized Risk pool - procedures - risks with total sum insured strictly below EUR 20m</li> </ol>
<b>Type</b>	Event
<b>From</b>	Stephen Yates, Senior Manager, International Regulatory Affairs.
<b>Date</b>	10 December 2018
<b>Deadline</b>	None
<b>Attachments</b>	<p>Appendix 1 – GAREAT Large Risk pool</p> <p>Appendix 2 – GAREAT Small and Medium-sized Risk pool</p>

## **1. GAREAT participation in 2019 - Lloyd's Brussels with effect from 1 January 2019, and Lloyd's Underwriters for risks incepting 31 December 2018 and prior.**

### **Lloyd's Brussels with effect from 1 January 2019**

Following engagement with the market, Lloyd's Insurance Company S.A. (Lloyd's Brussels) applied to join both the GAREAT Large and the GAREAT Small and Medium-sized risk pools, with effect from 1 January 2019. The GAREAT Board has recently approved Lloyd's Brussels' application and therefore Lloyd's Brussels will benefit from reinsurance coverage against terrorism losses including NCBR (Nuclear, Chemical, Biological and Radiological) for attacks sustained on the French national territory, including overseas territories (see Appendix 1), for risks incepting from 1 January 2019 onwards.

As Lloyd's Brussels is a member of the GAREAT pools, it is compulsory for all relevant risks to be ceded to the pools. There is no opt out process for managing agents writing on behalf of Lloyd's Brussels.

**Lloyd's Underwriters for risks incepting 31 December 2018 and prior**

Lloyd's Underwriters (those syndicates who did not opt out of the Large Risk (LR) pool in 2018) continue to be members of GAREAT for 2019 in respect of risks incepting 31 December 2018 and prior only. Lloyd's Underwriters with new or renewal French property and business interruption risks incepting from 1 January 2019 must write these risks under Lloyd's Brussels stamps to ensure that they are able to declare and cede such risks to the GAREAT pools.

**Terrorism non-exclusion clause**

Managing agents are reminded that Article L126-2 of the French Insurance Code states that it is compulsory for any insurance contract covering damage caused by fire to property on French national territory, including overseas territories to also cover material damage to property caused by an act of terrorism (including NCBR) 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.

**French state warranty**

Membership of both GAREAT pools allows both Lloyd's Brussels and Lloyd's Underwriters to benefit from the unlimited reinsurance coverage guaranteed by the French state via the French state reinsurer "Caisse Centrale de Réassurance" (CCR). This also includes protection against NCBR attacks.

**2. 2019 GAREAT Large Risk pool - procedures – risks with total sum insured of EUR 20m or more****Lloyd's Underwriters**

Policies underwritten by Lloyd's Underwriters prior to 1 January 2019, with at least 1 day of coverage in 2019, will need to be declared to GAREAT, with their Lloyd's syndicate number, until such contracts have expired in order to continue to benefit from applicable GAREAT coverage in the event of a loss. This is the case for all syndicates who did **not** opt out of the GAREAT Large Risk pool for 2018.

**Lloyd's Brussels**

All relevant policies underwritten by Lloyd's Brussels from 1 January 2019, will also need to be declared, on a separate basis, by Lloyd's Brussels syndicate number. These returns must be completed on the basis of the insurance policies written by Lloyd's Brussels and not on the basis of the reinsurance policies ceded by Lloyd's Brussels to the syndicate. There is no opt out option for managing agents writing on behalf of Lloyd's Brussels.

**Reporting**

In terms of reporting, this means that **separate** quarterly returns are required for business written by Lloyd's Underwriters and that written by Lloyd's Brussels. Nil returns are required

in respect of Lloyd's Underwriters' business and Lloyd's Brussels business if no relevant business has been written.

French coverholders, including service companies in France, should continue to submit returns to Lloyd's French office for business they have bound. Again, separate returns are required for business bound on behalf of Lloyd's Underwriters and business bound on behalf of Lloyd's Brussels. French coverholders and service companies in France must ensure that the correct Lloyd's Syndicate number or Lloyd's Brussels syndicate number is provided.

The submitted returns are used to calculate the premium charged by GAREAT to Lloyd's Underwriters and Lloyd's Brussels for unlimited protection against terrorism according to their share of the risks and to the number of days covered by the pool. The GAREAT premium will therefore be allocated according to the business declared by Lloyd's Underwriters and Lloyd's Brussels. Care should also be taken not to declare the same policy twice, otherwise managing agents risk being charged twice.

Separate annual returns for risks with total sum insured equal or above EUR150m, for both Lloyd's Underwriters and Lloyd's Brussels, also need to be completed with information available as at 1 February 2019 for policies that are in force at that date.

## Reminders

It should be noted that the following information should be included in the returns for Lloyd's Underwriters' business and Lloyd's Brussels business:

- Open market risks
- Risks written via lineslips
- Risks written by coverholders/service companies other than French coverholders and service companies

Returns must show the correct Lloyd's syndicate number or Lloyd's Brussels syndicate number.

French coverholders and service companies will declare in their returns all risks written through the binders and Coverholder Appointment Agreements they hold. Managing agents should ensure that coverholders and service companies provide timely and accurate returns.

In respect of the return for Lloyd's Brussels business, the risks declared should be the insurance risk written by Lloyd's Brussels not the reinsurance risk ceded by Lloyd's Brussels to the syndicate.

All returns must be submitted on time to Lloyd's French office.

For further information regarding the GAREAT Large Risk pool, please refer to Appendix 1.

### **3. 2019 GAREAT Small and Medium-sized risk pool – procedures – risks with total sum insured strictly below EUR 20m**

#### **Lloyd's Underwriters**

Syndicates, who were members of the GAREAT SMR pool in 2018, continue as members in 2019 for risks incepting 31 December 2018 and prior, in order to continue to benefit from applicable GAREAT SMR coverage in the event of a loss.

#### **Lloyd's Brussels**

Whilst membership of the GAREAT SMR pool had previously been optional for Lloyd's Underwriters, this is not the case for syndicates writing business on behalf of Lloyd's Brussels. There is no optional participation for managing agents writing on behalf of Lloyd's Brussels. Therefore, all relevant business incepting 1 January 2019 onwards by syndicates writing business on behalf of Lloyd's Brussels must be declared to the GAREAT SMR pool in order to benefit from GAREAT coverage in the event of a loss.

#### **Reporting**

Again, **separate** returns will be required for Lloyd's Underwriters and Lloyd's Brussels business. Estimated premium income for 2019 has already been provided by managing agents for Lloyd's Brussels business and was submitted to GAREAT as part of the SMR application.

2018 final premium adjustment return will be due from Lloyd's Underwriters in mid-September 2019. Lloyd's Underwriters will also need to complete the annual information return per French department in August 2019 for their 2018 and prior business. Lloyd's French office will contact Lloyd's Underwriters about this nearer the time.

Managing agents writing on behalf of Lloyd's Brussels will also need to complete the annual information returns per French department for business incepting 1 January 2019 onwards. Estimated premium income and adjustment returns will also be required in due course.

**Nil returns** are required from managing agents writing on behalf of Lloyd's Brussels who do not have any figures to declare that are within the scope of the GAREAT SMR pool.

Premium payable to the GAREAT SMR pool by Lloyd's Underwriters and managing agents writing on behalf of Lloyd's Brussels will be calculated and allocated according to the SMR returns submitted.

#### **Reminders**

Please note that the following information should be included in the returns for Lloyd's Underwriters' business and Lloyd's Brussels business:

- Open market risks
- Risks written via lineslips
- Risks written by French and non-French coverholders including service companies

Returns must show the correct Lloyd's syndicate number or Lloyd's Brussels syndicate number.

In respect of the return for Lloyd's Brussels business, the risks declared should be the insurance risk written by Lloyd's Brussels not the reinsurance risk ceded by Lloyd's Brussels to the syndicate.

All returns must be submitted on time to Lloyd's French office.

For further information regarding the GAREAT SMR pool, please refer to Appendix 2.

#### **4. Further information**

The 2018 GAREAT procedures are available on Crystal (see Terrorism (property damage and business interruption)). The 2019 procedures will be available in due course.

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**Lloyd's International Trading Advice**

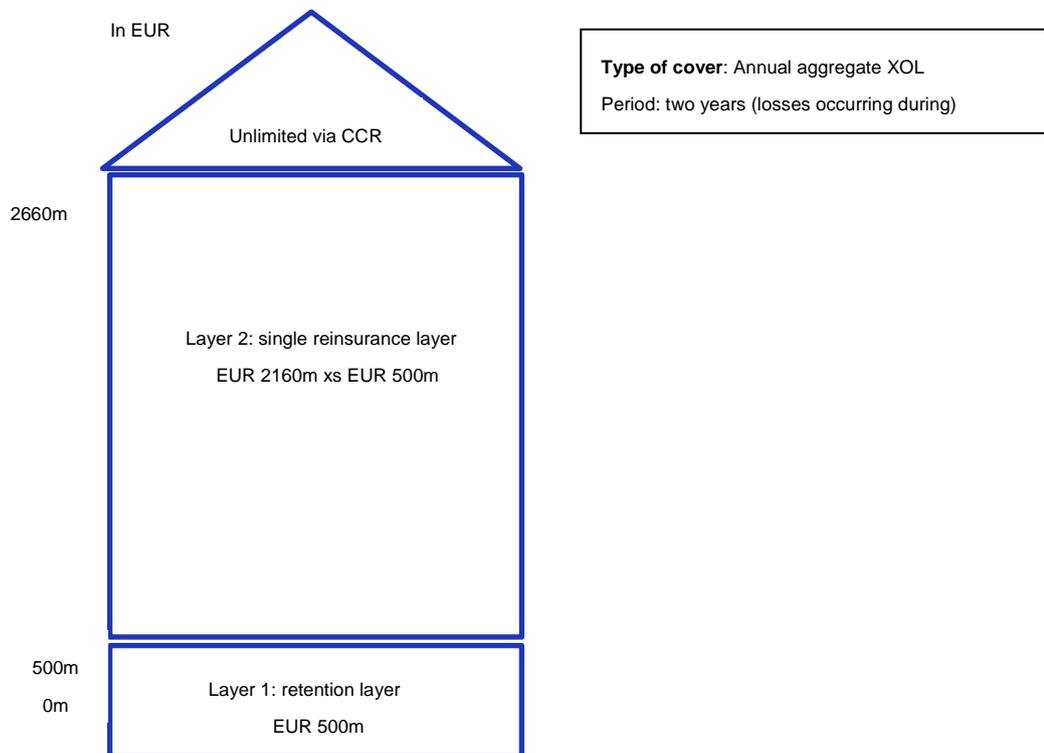
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## Appendix 1 – GAREAT Large Risk pool

### Structure and functioning of the pool in 2019

The illustration below describes the 2019 Large Risk pool reinsurance structure for any acts of terrorism, **including NCBR attacks**.



### Structure

For 2019, the GAREAT LR pool is made up of three layers:

- The first layer of EUR500m corresponds to the retention layer which is mutualised between members of the GAREAT pool. Each member participating in the LR pool participates in this “basic” liability up to the amount of their share (which is calculated based on premium volume).
- The second layer is the reinsurance layer which 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 this unique reinsurance layer. This reinsurance layer protects against losses up to EUR 2.660bn.
- Over EUR 2.660bn, the French state provides unlimited coverage through the state-owned reinsurer CCR

Please note that the programme is a multiyear programme covering the years 2018 and 2019. A separate Difference in Conditions (DIC) treaty, to protect against the CCR’s

difference in coverage, has been purchased by GAREAT for 2019 and 2020 for a capacity of EUR 200m.

### Functioning

- Between EUR 500m and EUR 2.660bn: terrorism is covered by GAREAT and there will be no additional vertical retention for members (*to be confirmed in 2019*).
- 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.

### Example application

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

- Total market loss over EUR 2.660bn
- Lloyd's cedes 3% of the total premium ceded by all members to GAREAT
- Syndicate XXX under Lloyd's stamp cedes 5% of the Lloyd's global premium ceded to GAREAT
- Lloyd's maximum exposure:  $\text{EUR } 500\text{m} \times 3\% = \text{EUR } 15\text{m}$

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

Syndicate XXX maximum exposure:  $\text{EUR } 15\text{m} \times 5\% = \text{EUR } 0.75\text{m}$

The same principle applies for risks ceded by Lloyd's Brussels.

## **Nuclear risks and Terrorism Act**

In 2019, GAREAT (both pools) 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 regarding GAREAT private reinsurers and French state coverage.

## **Principle of cession to the GAREAT Large Risk pool**

Please be reminded that only risks with a sum insured or contract limit of indemnity (CLI) of EUR 20m and above can be ceded for reinsurance to the GAREAT LR pool.

**All** property risks that are eligible to the LR scheme must be ceded, there is no pick and choose.

### Reporting

Every quarter, managing agents and French coverholders/service companies are required to complete an Excel spreadsheet recapping the risks eligible to cession to the GAREAT LR pool. There are six returns for one year of coverage to the GAREAT LR scheme.

Lloyd's Underwriters will continue to report on a quarterly basis for in force policies until these have expired. In addition, syndicates will also need to complete these quarterly declarations for business on behalf of Lloyd's Brussels.

Nil returns are required if no relevant business has been written.

An annual specific return for sites with total sum insured equal or above EUR150m will also be due in April 2019.

#### GAREAT premium collection and refunding

Syndicates will be charged according to the risks ceded by Lloyd's Underwriters and Lloyd's Brussels. The amount charged will take into account their share and the GAREAT period of coverage.

Syndicates are also charged based on the returns completed by French coverholders/French service companies.

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 2018, GAREAT only **called 60%** of the calculated contribution. The percentage will be confirmed in 2019.

In case of surplus (i.e. considering premiums received, investment income, payment of pool's reinsurance, 1st layer co-reinsurance losses and retention shares, other charges...), GAREAT refunds its members according to their share (based on the premiums amount ceded to the pool).

#### **Reminders**

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 Lloyd's French office) 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 2.660bn for the above contracts. This means that losses are retained by members above this threshold. A separate Difference in Conditions (DIC) treaty, to protect against the CCR's difference in coverage, has been purchased by GAREAT for 2019 and 2020 for a capacity of EUR 200m.

### **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, following 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

**Therefore, coverage for these risks can only be available through the GAREAT SMR 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 GAREAT Large Risk pool (same for GAREAT SMR pool)**

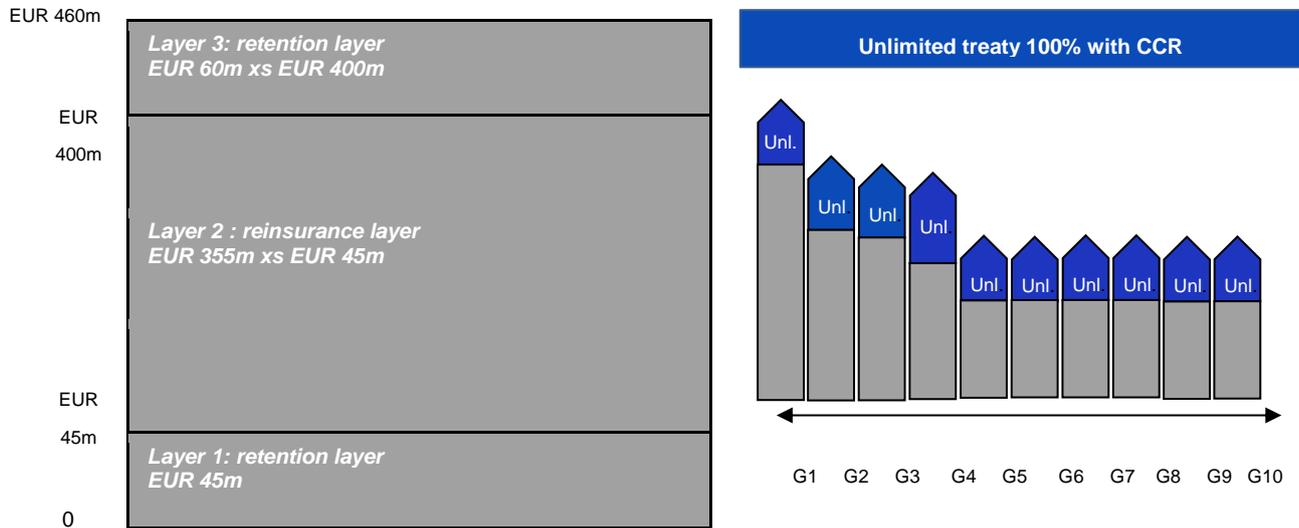
<b>2019 GAREAT territorial scope</b> <b>DROM = Overseas Departments and Regions</b> <b>COM = Overseas Communities</b> <b>TC = Territorial collectivity with special status</b>		
<b>Region^</b>	<b>Status</b>	<b>In scope ?</b>
French Guiana (La Guyane)	DROM	Yes
French Polynesia	COM*	Yes
French Southern and Antarctic Lands, including the Kerguelen Islands (TAAF)	TC	Yes
Guadeloupe	DROM	Yes
Martinique	DROM	Yes
Mayotte	DROM	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

^ Please note Lloyd's Brussels is not authorised in all the territories listed. Please refer to Crystal for specific details.

**Appendix 2 – GAREAT Small and Medium-sized Risk pool**

**Structure and functioning of the pool in 2019 (provisional)**



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 set up for 2019.

**Structure**

For 2019, the GAREAT Small and Medium-sized Risk pool is made up of three layers:

- The first layer of EUR45m corresponds to the retention layer which is mutualised between members of the GAREAT SMR pool. Each member participating in this pool participates in this “basic” liability up to the amount of their share (which is calculated based on premium volume).
- The second layer is the reinsurance layer which 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 this unique reinsurance layer.
- The third layer is also a retention layer. Therefore, each member participating in the GAREAT SMR 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.
- The GAREAT SMR pool also benefits from the French state coverage via the unlimited treaty signed with CCR.

Please note that the programme is a multi-year programme covering the years 2018 and 2019.

## Functioning

- 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 2019 and Lloyd’s Brussels is in one group (for all managing agents writing on behalf of Lloyd’s Brussels).
- 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 SMR pool.
- For losses falling within the scope of the CCR coverage, the total amount of the losses covered by the SMR pool for the year is limited in 2019 for each member to:
  - 20% of the member’s income in respect of personal lines;
  - Plus 2% of the member’s income in respect of motor damage;
  - Plus 20% of the member’s income in respect of agricultural risks;
  - 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 application (mock figures provided by GAREAT for 2017)

The following example 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
<b>(Figures in EUR millions)</b>						
Group 1	250	249.5	0.5	150	<b>99.5</b>	150.5
Group 2	55	54.85	0.15	35	<b>19.85</b>	35.15
Group 3	50	49.75	0.25	35	<b>14.75</b>	35.25
Group 4	25	24.925	0.075	21.5	<b>3.425</b>	21.575
Group 5	25	24.98	0.02	21.5	<b>3.48</b>	21.52
Group 6	1.25	1.25	0	21.5	<b>0</b>	1.25
Group 7	0.75	0.75	0	21.5	<b>0</b>	0.75
Group 8	1.25	1.25	0	21.5	<b>0</b>	1.25
Group 9	1.5	1.5	0	21.5	<b>0</b>	1.5
Group 10	0.25	0.25	0	21.5	<b>0</b>	0.25
Group 11	0.5	0.5	0	21.5	<b>0</b>	0.5
<b>TOTAL 2017</b>	<b>410.5</b>	<b>409.505</b>	<b>0.995</b>	<b>392</b>	<b>141.005</b>	<b>269.495</b>

\*claims covered by CCR

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

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

**Principle of cession to the GAREAT Small and Medium-sized Risk pool**

The members undertake to cede all insurance contracts falling within the scope of application of Article L126-2 of the French Insurance Code. In 2019, the GAREAT SMR pool will only accept risks with a sum insured or contract limit of indemnity strictly below EUR 20m

The entirety of the portfolio must be ceded; risks cannot be partially ceded. For the GAREAT SMR pool, there is no quarterly cession on a per risk basis as with the GAREAT LR pool, but by portfolio depending on the category of risks.

Reporting

The schedule is to be completed once a year by **all** syndicates with the 2019 estimated earned premiums for business to be written on behalf of Lloyd’s Brussels. Please note that this has already been completed by syndicates writing on behalf of Lloyd’s Brussels. Syndicates having no business eligible to the GAREAT SMR pool must make a **nil return**.

The estimated earned premiums schedule is shown below with the GAREAT rates:

**GAREAT SMALL AND MEDIUM-SIZED RISKS SECTION - LLOYD’S BRUSSELS**

Synd n° \_\_\_\_\_

2019 Estimated Property Income

(Euros)

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

\* Please detail which type of risks you include in this category

Lloyd’s Underwriters syndicates having participated to the pool in 2018 will also be required to complete for mid-September 2019, the 2018 final premium adjustment return.

### GAREAT premium collection and refunds

Syndicates will be charged according to the risks ceded by Lloyd's Underwriters and Lloyd's Brussels. The GAREAT premium will be obtained by 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 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 2018, GAREAT only **called 75%** of the calculated contribution. The percentage remain 75% 2019.

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