



GAREAT

*Gestion de l'Assurance et de la Réassurance
des risques Attentats et actes de Terrorisme*

French Reinsurance Terrorism Scheme GAREAT. Evolution and questions to address.

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FACTS ABOUT FRANCE A EU MEMBER

General:

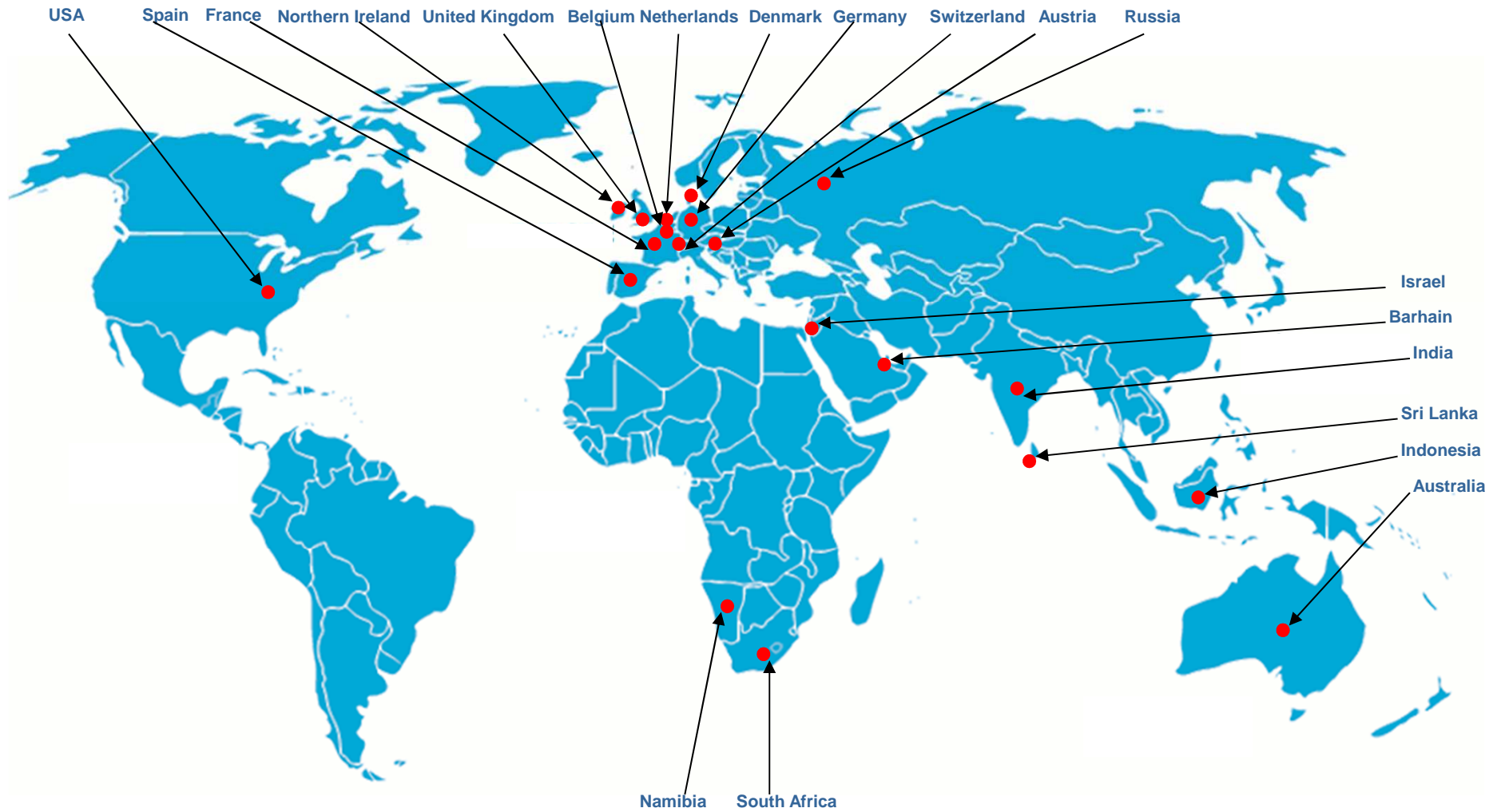
- Area 644,000 KM2; World rank 43rd
- Population 65,3 million; World rank 21th
 - Urban population 85% vs 15 % rural
 - Paris 10,41 million
- France GDP 2,5 trillion; World rank 10th

Insurance sector: France n°2 in Europe

- Paid out to policyholders 171,7 billion
- Insurance revenues all lines of business 206,6 billion
- Assets managed by insurance company 1.6 trillion
- Insurance employees : 220.000



2011 TERRORISM SCHEMES IN THE WORLD



FRANCE LAW EVOLUTION IRO TERRORISM RISKS

- In France, the law of 9th September 1986 has prescribed:
 - The principle of national solidarity so as to guarantee the rapid indemnification of victims.
 - The creation of a specific Guarantee Fund which, following the law of 6th July 1990, was to become the « FGTI » (Fonds de Garantie des Victimes d'actes de Terrorisme et d'autres Infractions = Guarantee Fund for victims of Acts of Terrorism and other Offences).
 - Insurance contracts could not legally exclude damage arising out of Acts of Terrorism or « Attacks » committed on French territory.
- The law of 23rd January 2006 modified Article L. 126-2 of the Insurance Code by laying down an obligatory extension of coverage to « Attacks » and Acts of Terrorism of any sort (incl. NBCR) when the insured was protected by a Property insurance covering the risk of Fire.



GAREAT IS ESTABLISHED IN 2002

- The coverage of terrorism by insurance companies cannot be excluded from policies, mandatory by French law.
- Each Insurance company charges the terrorism price it decides.
- GAREAT set up in 2002 to find coverage for Property Damage (PD) and Consequential Loss arising out of act of Terrorism occurring on the French territory or in the French Overseas Departments, even when the cause originates outside France.
- GAREAT as a market solution is a Partnership consisting of private-sector insurers (companies in the FFSA and the GEMA who are obliged to participate, foreign companies and insurance captives), of international reinsurers, and of public-sector reinsurers (unlimited coverage provided by Caisse Centrale de Réassurance).
- In 2005, an optional « Small Risks » section was created by GAREAT, using the same model as that used for « Large Risks »: the purpose was to reinsure risks whose insured values were less than 6 million euros.



GAREAT MEMBERS

- **GAREAT's Members are French and Foreign insurance companies licensed to operate in France and in the French Overseas Departments.**
- **253 members, including 11 direct membership Captives, 58 Lloyds' Syndicates.**
- **Groups in 15 countries: Belgium, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, Switzerland, Great Britain, USA, Bermuda, Australia, Japan.**
- **Members' shares depend on the GAREAT premiums ceded to GAREAT**



GAREAT RISK SPECTRUM

Two Sections :

- **Large Risks section (LR). Risks \geq 20 million euros sum insured (no PML, MFL limits).**
 - **Mandatory.**
 - **No adverse selection principle**
- **Small and Medium-sized Risks section (SMSR). Risks $<$ 20 million euros sum insured.**
 - **Optional.**
 - **Once a company joins they must cede all their risks corresponding to the coverage scope of GAREAT. They cannot select particular risks.**



GAREAT LARGE RISK SECTION. GAREAT PREMIUM RATES

- Reinsurance rates apply to property premiums.
- Rate vary according to bands of sum insured (except nuclear)
- Average rate on sum insured is around 0.11 per mille
- Potential 20% premium reduction maximum granted for all risks if scope of terror cover limited to 20% SI (not recommended for insured's).
- Insurers participate in GAREAT's retention accordingly to their market share based on premium ceded

Band of Sum Insured	Rates Apply to property premium
€ 20 M - < € 50 M	12%
≥ € 50 M	18%
Nuclear risks	24%
Reinsurance captives. Terrorism SI 20% of total SI if possible.	Specific rates

Average
Rate 15%



GAREAT SMALL & MEDIUM - SIZED RISK SECTION. GAREAT PREMIUM RATES

GAREAT'S RATES APPLICABLE TO PROPERTY PREMIUM		
	Insured Sums	
	< 6 million euros	≥ 6 millions euros to < 20 millions euros
Cat 23: Motor Damage (ex TPL)	0,10%	4,00%
Cat 24: Homeowners	0,80%	4,00%
Cat 25: Commercial & industrial risks	1,20%	4,00%
Cat 262: Farm owners (ex Hail)	0,60%	4,00%
Small aviation hull <1 million euros	2,50%	Not applicable
Small marine hull <1 million euros	1,25%	Not applicable



GAREAT REINSURANCE STRUCTURE

The structure is similar for both sections based on Annual Aggregate Excess of Loss (stop loss) concept:

- A Co-reinsurance layer mutualised at first euro between all the Members of the same section.
- On top several reinsurance layers placed with international reinsurers (including some *GAREAT* Members). Renewed every year.
- An unlimited layer: 100 % reinsured by Caisse Centrale de Réassurance (CCR), the State reinsurer. Conditions negotiated every year.



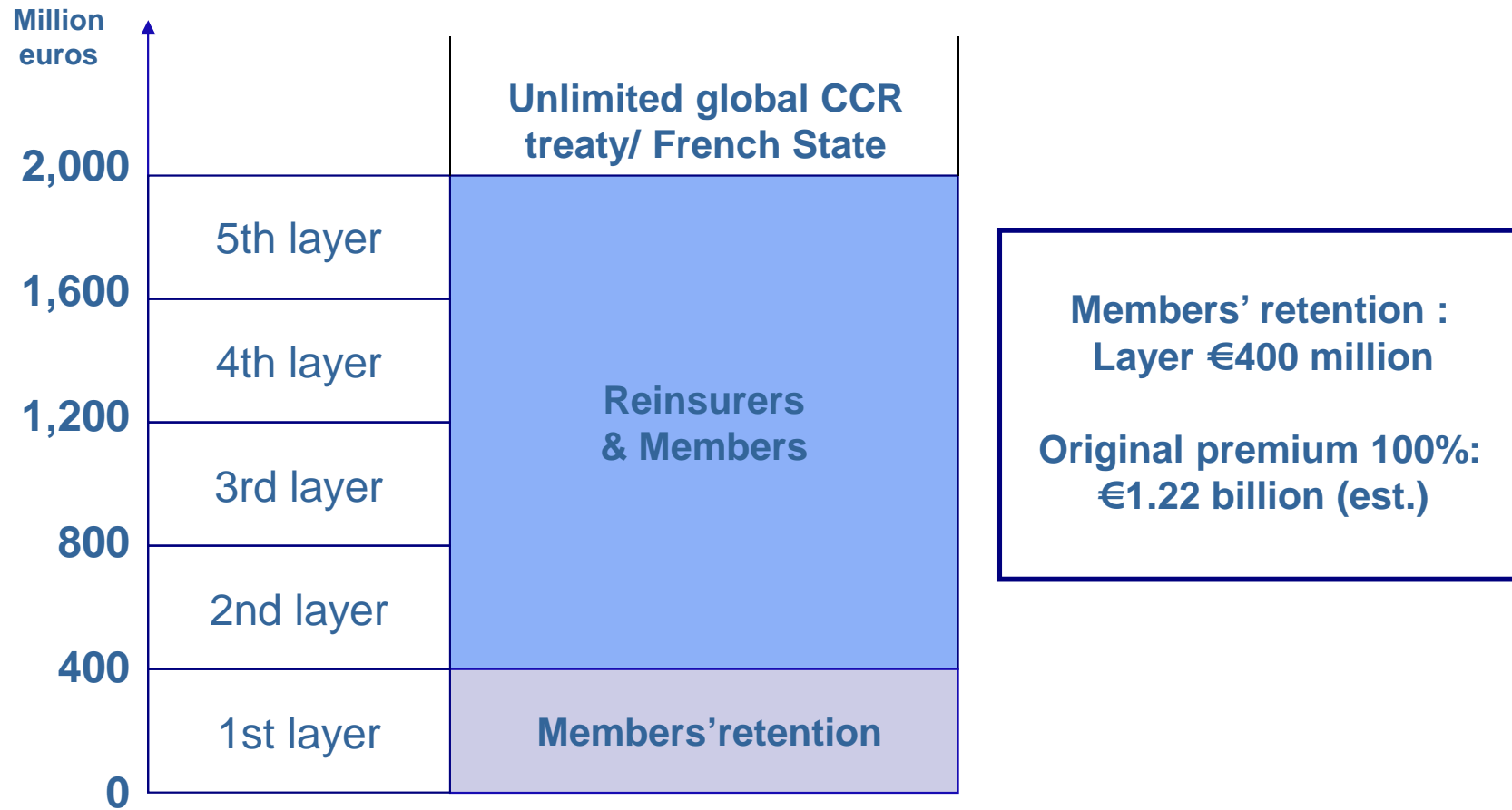
GAREAT FRENCH STATE UNLIMITED WARRANTY

The Unlimited reinsurance layer is:

- **Guaranteed by the French State for 3 years. Next renewal January 1st 2013**
- **Global for the LR section . Trigger 2 billion euros ie: about 0.1% of French GDP, 4% of the French Non Life total premium income, 13% of the French Property premium ,**
- **Specific by company for the SMSR section, individual threshold .**



GAREAT LARGE RISK SECTION 2012 STRUCTURE



Programme : annual aggregate excess of loss
 Duration: 12 month at January 1st, 2012
 Basis: losses occurring between January 1st - December 31st, 2012

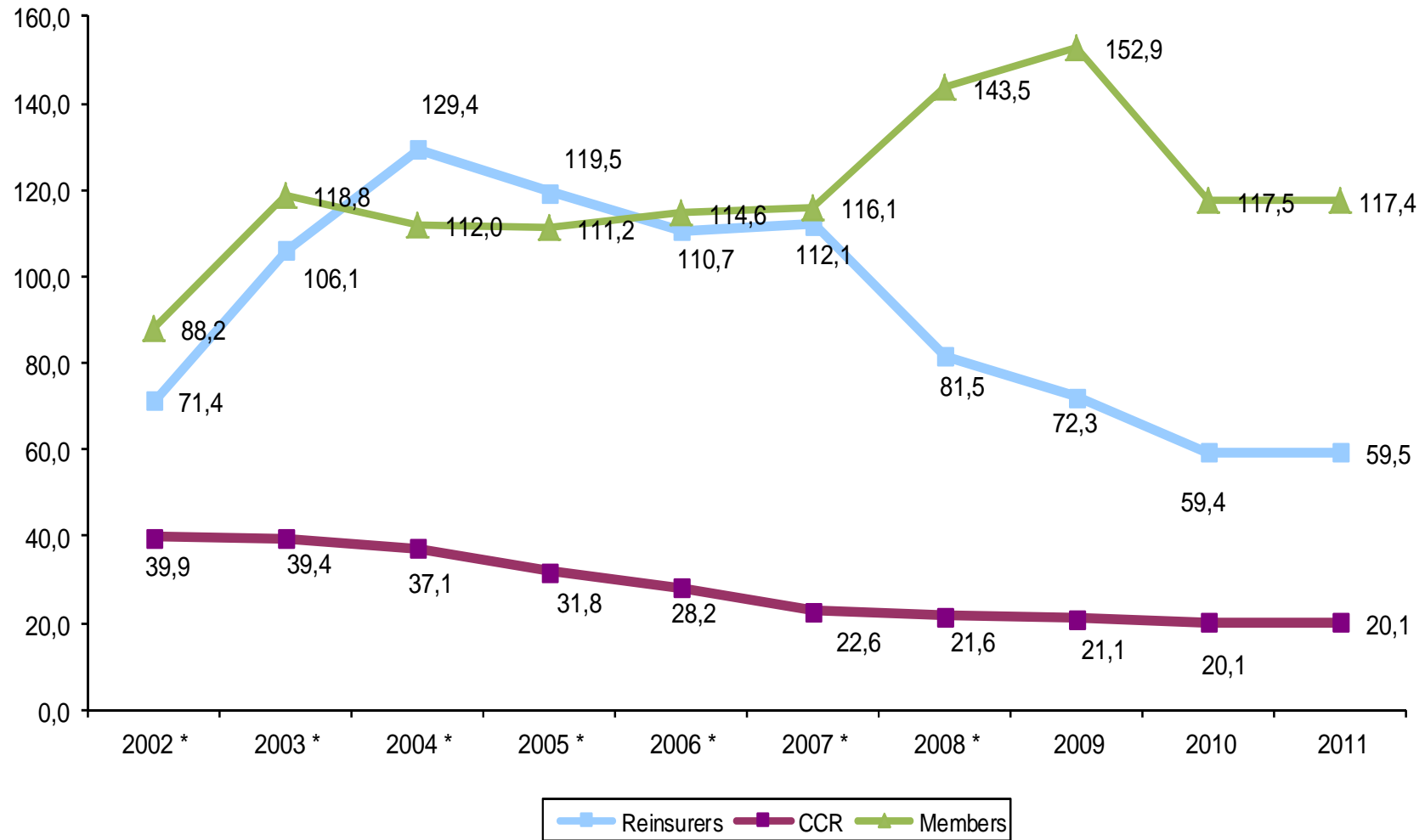


FRANCE . GAREAT LARGE RISK SECTION 2012

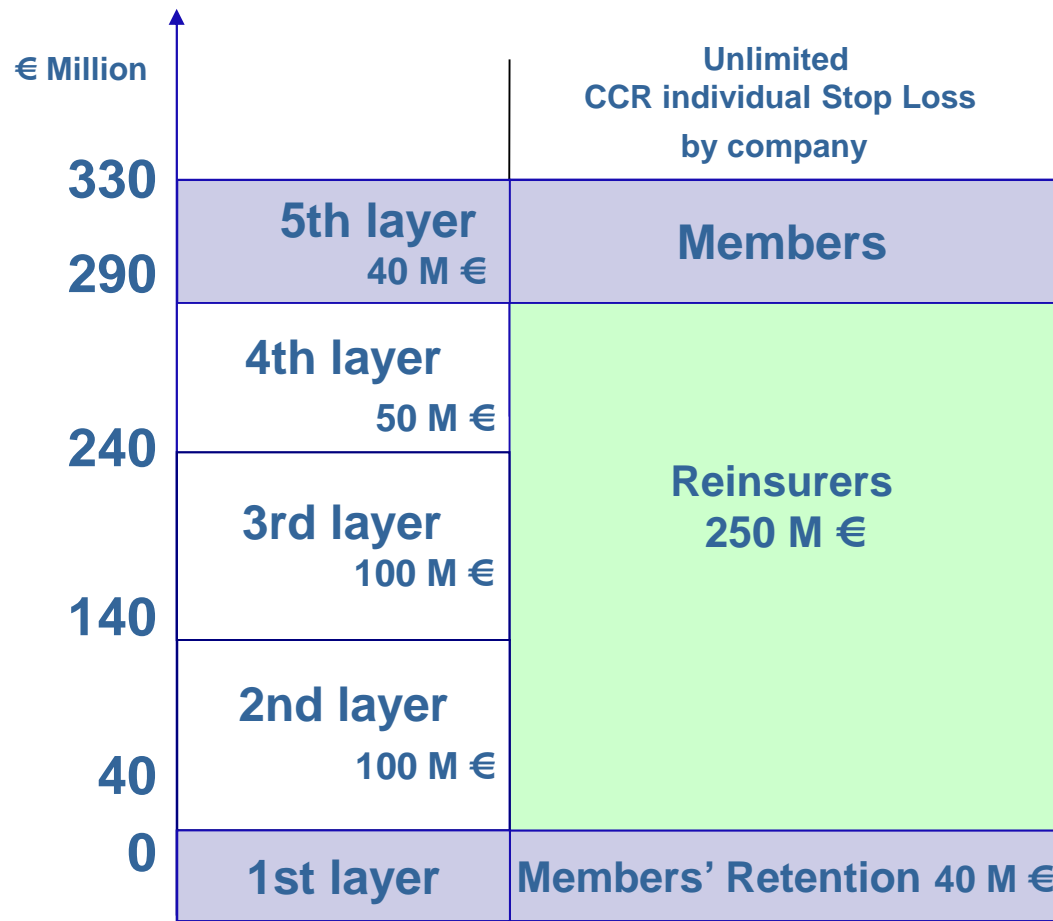
Layers (Mn euros)	ROL %	Reference Reinsurers
L5 : 400 xs 1 600	2,90 %	HANNOVER RE (AA-), MUNICH RE (AA-), SWISS RE (AA-), ODYSSEY RE (A+), LANCASHIRE (A-)
L4 : 400 xs 1 200	3,30 %	HANNOVER RE (AA-), MUNICH RE (AA-), SWISS RE (AA-), ODYSSEY RE (A+), LANCASHIRE (A-)
L3 : 400 xs 800	4,10 %	HANNOVER RE (AA-), MUNICH RE (AA-), SWISS RE (AA-), SCOR (A+), LANCASHIRE (A-)
L 2 : 400 xs 400	5,25 %	HANNOVER RE (AA-), SWISS RE (AA-), CATLIN (A+), SCOR (A+), SIRIUS (A-)
Total :1 600 XS 400	3,89 %	Technical Partners (tba)



GAREAT LARGE RISKS PREMIUM 2002 - 2011



GAREAT SMALL & MEDIUM – SIZED RISK SECTION. 2012 STRUCTURE



Terrorism Capacity 100% (est)

€3 000M xs €400M (e)

9,7% market share cap. (est)

€ 290 Mn XS € 40 Mn

Terrorism Premium (est. at Gareat rates)

EPI 100% : €169 million

Gareat : € 15 million

Type of cover: Annual Aggregate XOL
Basis: losses occurring during
Period of cover: one year



GAREAT- PREMIUM SPLIT

Amounts in euros

	GAREAT premium	Reinsurers	CCR / State	Members
LR Section 2002-2011*	2 394 100 000	38 %	12,0%	50,0%
SMR Section 2005-2011*	84 500 000	72 %	PREMIUM OF UNLIMITED COVERS IS CEDED BY EACH COMPANY TO CCR	28%

* 2011 estimated.

LR: Larges Risks (\geq 20 euros millions)

SMR: Small and Medium Risks (< 20 euros millions)



GAREAT LOSS CRISIS PROCESS

GAREAT has introduced a special process for handling major losses in order to:

- Record, monitor and quantify losses in real time and per section.
- Measure in real time the impact on the Members' retention.
- Trigger the Reinsurance protection.
- Reimburse Members as soon as possible.

In preparation for a major loss, **GAREAT** has arranged to:

- Coordinate measures with the Members' contacts.
- Develop external communication with the parties concerned.
- Implement a crisis test.



FRENCH NATIONAL SOLUTION SPECIFICS

- **Mutuality:** full mutualisation of risks, losses are covered at the first euro.
- **Mandatory :** avoids anti-selection
- **Simplicity:** rates based on Property premium
- **Flexibility:** premiums charged to the insured may be different from GAREAT rates
- **Non profit organization.**
- **Not funded.**
- **Profitability:** all residual premium after losses goes back to members, potential reserves done by members
- **Visibility:** 3 year unlimited warranty of the French State
- **Proactive governance**



POTENTIAL FOR DEVASTATING NUCLEAR TERRORISM LOSS

The Nuclear terrorism loss examples evaluate potential events 5 to 20 times superior to the damages caused to the world Trade Center:

- **An attack on a nuclear plant:**
Conventional attack: 200 billion US dollars (GAO, USA)

- **Dirty Bomb:**
5kg TNT and 1.85 PBQ (cesium 137) on Paris: 100 to 300 billion euros
(Laboratoire Spiez, Switzerland)

- **Nuclear bomb made :**
 - **Bomb on New York : 800 billion US dollars (American Academy of Actuaries, USA)**
 - **Bomb 10kt on a harbour in California: + 1000 billion US dollars (Rand USA)**



GAREAT'S QUESTIONS

In the complex context of Terrorism, the following questions arise:

- How can we better gauge the domino effects of an act of hyper-terrorism, with its inevitable consequences for the economy and for the general public?
- How can the « chain of risks » be managed in such a way that the risks are better defined in spite of this degree of uncertainty?
- How can inadequacies of coverage be avoided?
- How can prevention be improved with the help of the Public Authorities?
- How can we ensure that the Crisis Committees of the different bodies concerned operate in a coordinated way?



GLOBAL UNIVERSE. STATES. COOPERATION

- **Hyper-terrorism corresponds to a « global » universe in which information, technologies and non-conventional weapons are available for use by new organizations operating across borders.**
- **There is a limit to which the risk can be insured by the market alone, and the State must play a part.**
- **Close cooperation between insurers, reinsurers and States is essential, and this must allow the implementation of viable reinsurance schemes which are consistent with existing legislative systems.**



OECD TERRORISM PLATFORM

A Terrorism Platform has been initiated in June 2010 by OECD.

- **The platform attempts to gather the heads of the existing Terrorism national schemes of the world including also those of countries which are not members of the OECD.**
- **The main objective of the steering Committee being to share regulatory and market information on a comparable basis, monitor the evolution of national terrorism insurance programs, assess market trends, and identify and share best practices in order to continuously improve risk financing and (re)insurance solutions in response to the global terrorism threat.**



**CONCLUSION:
IS THERE AN IDEAL TERRORISM COVER?**

**NOT YET,
BUT ALL COUNTRIES SHOULD
COOPERATE FOR THE LARGEST COVER
(LOCAL/REGIONAL/GLOBAL)**



THANK YOU

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