

GAREAT

The French Terrorism Reinsurance Scheme

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OVERVIEW

- **GAREAT is a pool set up in 2002 to find coverage for Property Damage (PD) and Consequential Loss arising out of Terrorism on French territory or in the Overseas Departments, even when the cause originates outside France.**
- **GAREAT is composed of two sections in 2010:**
 - Large Risks section (LR). Risks \geq 20 million euros
 - Small and Medium-sized Risks section (SMR). Risks $<$ 20 million euros
- **The Reinsurance structure is similar for both sections: Annual Aggregate Excess of Loss program**
 - A Co-reinsurance layer mutualised between all the Members
 - Several reinsurance layers placed with reinsurers (including some GAREAT Members)
 - An unlimited layer: 100 % reinsured by Caisse Centrale de Réassurance (CCR)
- **The Unlimited reinsurance layer is:**
 - Guaranteed by the French State for 3 years. Just renewed at January 1st 2010 until 2013
 - Global for LR , in excess of 2 billion euros
 - Specific by company for SMR with an individual threshold

MEMBERS IN 2010

GAREAT's Members are insurance companies licensed to operate in France and in the Overseas Departments.

➤ **Large Risks section:**

- **Obligatory section for members of the *FFSA and of the *GEMA**
- **185 Members, including 18 direct membership Captives, 54 Lloyds' Syndicates**
- **Groups in 14 countries: Germany, Belgium, Spain, France, Great Britain, Italy, the Netherlands, Portugal, Sweden, Switzerland, the USA, Bermuda, Australia, and Japan.**
- **Frequent entry of new members and captives, no resignations so far.**

➤ **Small and Medium-size Risks section:**

- **Optional section. Market share roughly 10%**
- **60 Members, including 38 who participate on both sections**
- **Groups in 9 countries: Germany, France, Great Britain, Ireland, Japan, the Netherlands, Portugal, Switzerland, and the USA.**

**FFSA Fédération Française des Sociétés d'Assurances*

**GEMA Groupement des Entreprises Mutuelles d'Assurances*

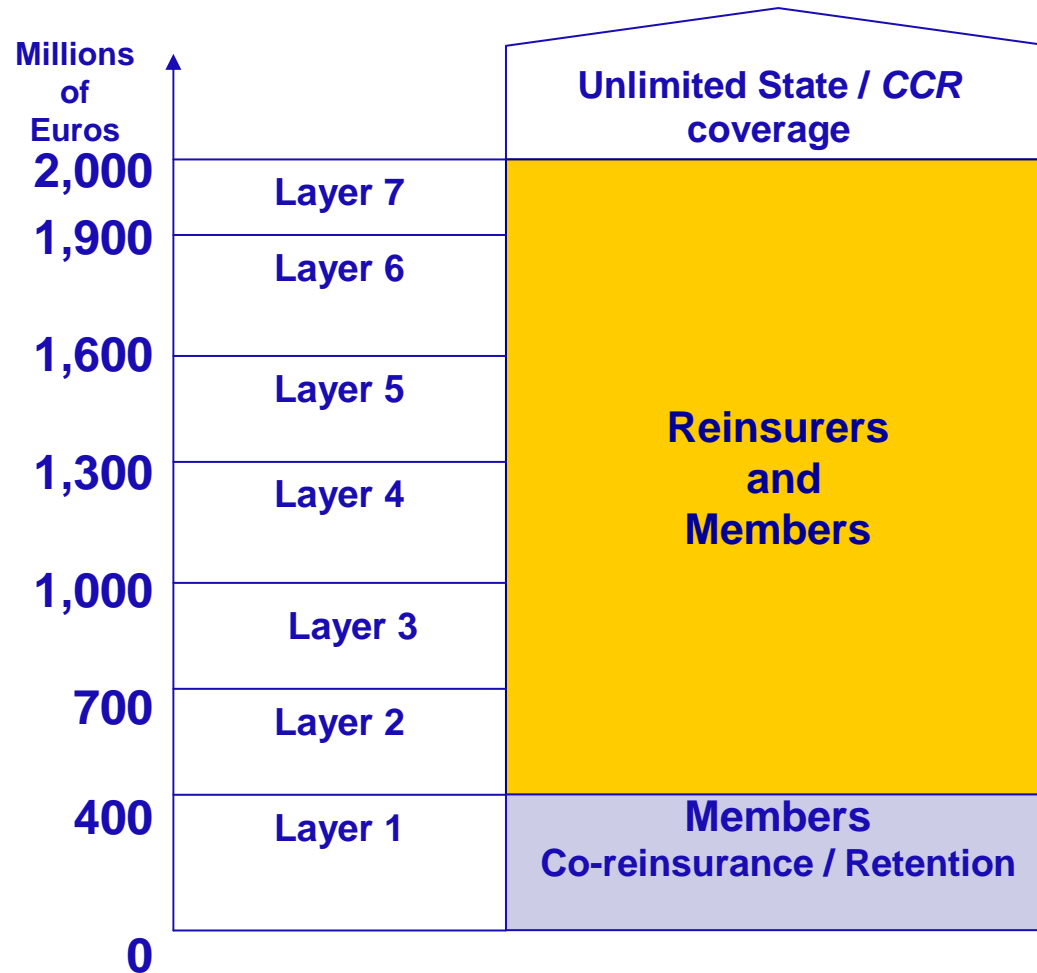
KEY POINTS

- **Mutualisation of retentions under the co-reinsurance layer.**
Limit : 400 million euros
- **Joint liability between Members of a same section.**
- **Unlimited coverage:**
 - **Large Risks Section: to benefit from this unlimited coverage, subscription to GAREAT is obligatory.**
 - **Small and Medium-size Risks: to benefit from this unlimited coverage, individual decision, no obligation to subscribe to GAREAT.**
 - **Coverage is based on the underlying reinsurance programme.**
 - **CCR's protection is granted under policies whose insurance coverage is obligatory by virtue of the law of 2006**
- **The Waiver of Subrogation Clause signed in Motor between GAREAT's Members limits the exposure under the Members' Motor treaties.**
- **Retrocession is not allowed, except for Members who may retrocede amongst companies within their own insurance group.**
- **Return of residual premiums to Members upon the close of the year.**

“LARGE RISKS” SECTION. GAREAT’S 2010 PREMIUM RATES

- Original Terrorism insurance rates may be different to the Terrorism premium rates charged by *GAREAT* (which are *reinsurance* rates).
- *GAREAT*’s premium rates apply to the Property Damage premium under the original policy and vary depending on the total sums insured (TSI).
 - TSI \geq € 20 - <€ 50 million. *GAREAT* rate : 12% x Property Damage premium
 - TSI \geq € 50 million. *GAREAT* rate: 18% x Property Damage premium
 - Exceptional rates (discounts, captives, or others)
 - Nuclear Risks: *GAREAT* rate: 24% x Property Damage premium
- Scale based on rates on sums insured of roughly 0.10 / 0.15 per mille
- Possibility of reducing the premium by 20% when the Terrorism coverage is limited to 20% of the sums insured (not less than €20 million). Not recommended for insureds.
- Retention: Members’ shares in the Co-reinsurance layer (these shares depend on the premiums ceded to *GAREAT*).

“LARGE RISKS” SECTION. 2010 REINSURANCE STRUCTURE



Members' retention:
Layer 1: €400 million
Original premium for 100%:
€1.2 billion (est.)
Estimated GAREAT premium:
€ 185 million
 (€ = euros)

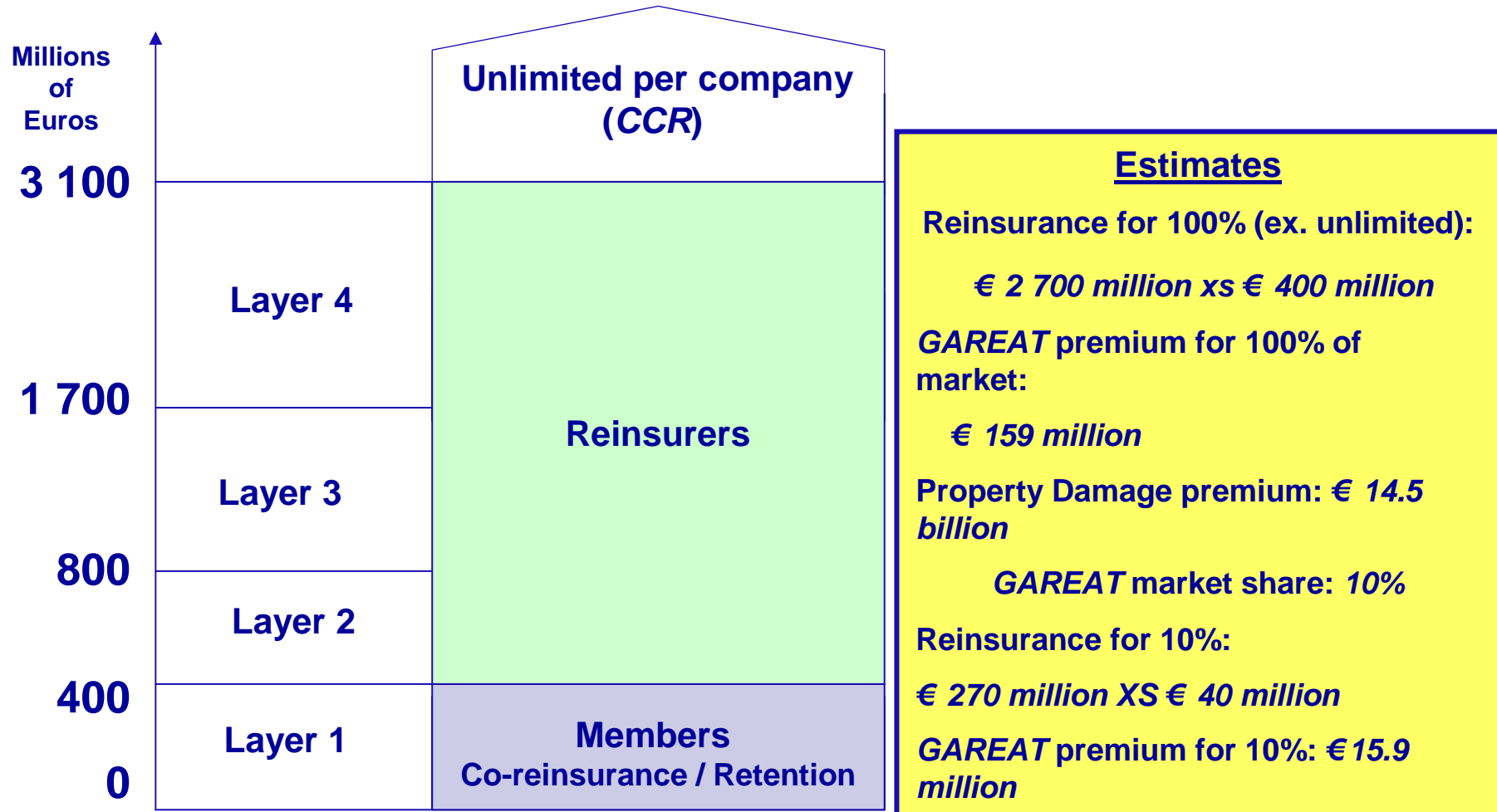
Type of treaty: Annual Aggregate XL
Period: 12 months at 1st January 2010
Basis: Losses occurring during the year

SMALL AND MEDIUM SIZE RISKS. GENERAL POINTS

- The coverage, which was created in 2005, reposes on the law of 2006 and concerns all PD and *BI, Motor (excluding Liability) and Transport risks.
- Optional section. Cession threshold: risks with coverage < 20 million euros.
- For Members: obligation to cede all risks with coverage < 20 million euros, with the exception of Aircraft Hull and Marine Hull risks for which cession is optional.
- Efficacious mutualisation of risks, with a good geographical spread of the risks (notably in urban zones).
- GAREAT offers a programme which is adapted to its Members' needs and which, globally, is comparable with the Large Risks programme. One difference however: the unlimited coverage is specific to each company and is negotiated by each company with CCR. It is not necessary to be a Member of GAREAT in order to have access to this coverage.
- GAREAT's 2010 market share estimated at 10%.

* *BI Business Interruption*

“SMALL AND MEDIUM-SIZED RISKS” SECTION. 2010 REINSURANCE STRUCTURE



Type of treaty: Annual Aggregate Excess of Loss
 Period: 12 months at 1st January 2010
 Basis: Losses occurring during the year

GAREAT'S CHALLENGES AHEAD

- **Cover: harmonization of GAREAT and the French State's cover, in particular CBI (*Contigent Business Interruption*)**
- **Exposures: Geo- codification and modeling of the exposures**
- **Losses- Crisis management structure to:**
 - Register, follow up, quantify the claims, measure in real time the impact on the retention of the members, trigger the reinsurance protection, pay the claims to the members as soon as possible.
 - To do: coordinate the action with GAREAT's claim contacts in the companies and test a crisis scenario caused by an NBCR terrorism act
- **The Insurance Block Exemption Regulation:**
 - EC is of the opinion that *GAREAT* does not fall within the scope of application of Article 81.
 - Follow up of developments

OUTLOOK

GAREAT

- One of the few “unlimited” Terrorism Pool, damage all causes, including *NBCR damage with the guarantee of the French State.
- A 3-year State guarantee (until 2013, which offers continuity and visibility to Insureds, to Insurers and to Reinsurers.
- A market structure with the State, French and foreign Members (all types of insurance and captive companies), and Reinsurers.
- Respect of the rules relating to competition.
- Pro-active governance, with supervision by Directors on market matters concerning Terrorism.
- A public website providing information about GAREAT’s modus operandi (see www.gareat.com).

* *NBCR Nuclear Biological Chemical Radiological.*