Catastrophe Insurance: Spain vs France

Thomas von Ungern-Sternberg
Faculté des HEC,
University of Lausanne
Both Countries

• 1) Catastrophe Insurance is compulsory
• 2) Premiums are uniform for the whole country
• 3) There exists a wholly state owned reinsurance company:

• Spain CCS (Consorcio de Compensacion de Seguros)
• France CCR (Caisse Centrale de Réassurance)
Major Difference:

- Nature of reinsurance conditions.
Spain

- Reinsurance is compulsory
- Cover is 100%
- Insurers keep 5% of premium income to cover their expenses
- Claims regulation is handled by CCS
France (past)

- Reinsurance was (and is) optional
- Proportional cover could vary between 40% and 90%
- Stop-Loss cover iff. proportional cover > 40%
- Insurers kept 24% of premium income to cover their expenses
- Claims regulation is handled by insurers.
Consequences Spain (1991-1999)

• Spanish system is viable:

• Claims/premium ratio of 70%.

• Reserves of CCS increase steadily
  (316 bio. Ptas = 1.9 bio. Euros in 1999)
Consequences France (1982-1997)

• French system was **not** viable.
• Claims/premium ratio 60%
• The reserves of the CCR never reached a satisfactory level.
• In 1999 the government had to inject 3 bio. FF = 460 mio. Euros) to keep the CCR afloat.
Main reasons for bankruptcy of French system

- Excessively high compensation for (largely imaginary) « administrative costs » (24%)

- Problems of adverse selection:
  The CCR reinsured mainly the bad risks
Changes in the French system

• In the year 2000 the compensation for administrative costs was abolished.

  (at the same time premium rates were increased by about 40%, so the insurers still earned more)

• Only one type of reinsurance cover is still available (50%). The CCR still offers stop-loss cover.
Current situation.

• The CCR still has not managed to accumulate a substantial level of reserves.
• In case of a major catastrophe the taxpayer will have to foot the bill.
Conclusion

• It is widely admitted that the government has to offer some kind of stop-loss cover if disaster insurance is to be widely available.
• Great care has to be taken to protect the state from problems of adverse selection.
• Catastrophe insurance should primarily benefit the population and not the private insurance companies.