

# Catastrophe Insurance: Spain vs France

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# 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.