Public Reinsurance of Terrorism Risk in France

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What the law says

- Fire insurance contracts covering goods in France (i.e. any tangible goods, property, contents, etc.) and Automobile physical damage policies, must also cover damage ensuing a terrorist attack, provided that such damage is incurred in France. NBC is not excluded.

- In case of a terrorist attack, the same deductibles and limits as the Fire cover apply in respect of physical damage together with any decontamination costs and/or direct consequential losses (such as business interruption directly caused by the physical damage incurred by the insured tangible property).

- Specific provisions apply:
  - For goods insured by a “large” company, coverage may be reduced (to a certain extent)
  - Airborne, waterborne or railway vehicles, as well as cargo, are not subject to the mandatory terrorism rider (with a couple of exceptions)

What the law says (Cont'd)

- A terrorist attack is defined as an intentional offence, whether by an individual or an organization, where such offence aims at seriously disturbing public order through intimidation or terror. Offences include:
  - Wilful attack on the life or physical integrity of persons, abduction, hijacking, etc.
  - Theft, extortion, destruction, etc., including IT-related offences
  - The production, purchase, sale, import, export or keeping of weapons or explosive or nuclear devices
  - Money laundering
  - Insider trading
  - The introduction into the atmosphere, soil, water, foodstuff, etc. of dangerous substances
  - Consciously funding or otherwise aiding and abetting any of the above

What the law says (Cont'd)

- CCR may bind the French state's financial guarantee in providing reinsurance coverage for terrorism risk as it relates to the mandatory rider.
- The details of that mechanism, including compensation for the state guarantee, are provided for in a written agreement between CCR and the Finance Minister.
- *Nota bene: CCR is a limited company, fully-owned by the French state. For more see **www.ccr.fr***

Public Reinsurance

- The above is the framework within which CCR reinsures:
  - the French obligatory Terrorism Pool for Large Risks “GAREAT”
    - Unlimited, non-proportional cover attaching at EUR 2 billion (one stop loss treaty for the market, on an occurrence year basis)
  - optionally, individual insurance companies in respect of Small & Medium-Size Risks
    - Unlimited, non-proportional covers attaching at individually determined deductibles (no less than 20% of premium income – individual stop loss treaties on an occurrence year basis)
  - with, in both cases:
    - No counterparty risk
    - Availability secured until Dec. 31st, 2012
    - Regardless of where the terrorist attack has originated
    - NBC fully covered
    - Scope restrictively aligned with that of the mandatory cover

Additional public reinsurance of terrorism risk
(outside of the above scope)

- The law says: CCR may also bind the French state's financial guarantee in providing reinsurance coverage for hull or cargo risks (whether aviation, marine, rail, trucking, etc.) as they relate to extraordinary circumstances comprising war, riots, civil commotion and other cases of serious trouble to public order.

- "Extraordinary circumstances" are construed as including terrorism.

- This provision is unrelated to any kind of mandatory cover in insurance policies.

- In that capacity, CCR provides reinsurance:
    - to GAREAT, by way of a separate stop loss treaty with a capacity of EUR 120 million, in respect of railway hull
    - to individual Marine insurers, usually by way of unlimited proportional and non-proportional treaties (quota share + stop loss)

Financials
(reinsurance of the mandatory terrorism rider only)

- Premium income to CCR in 2010 will be close to EUR 55 million
- Since inception (Jan. 2002 for Large Risks and Jan. 2006 for Small & Medium-Size Risks), CCR has accumulated net reserves at the end of 2009 of EUR 330 million
- The French state's unlimited financial involvement would kick in after market retention and CCR's own reserves have been exhausted, which corresponds to a market loss of approximately:
  - EUR 2.2 billion in respect of Large Risks

    being 2.0 billion GAREAT (including its private reinsurers) + 0.2 billion CCR's own reserves
  - EUR 3.2 billion in respect of Small & Medium-Size Risks

    being 3.1 billion market retention + 0.1 billion CCR's own reserves

Further work

- Improve and collect data on individual risks
- Modeling of exposures
- Pricing
- Funded (market + CCR) vs. non-funded (State financial involvement) cover going forward
- Scope of coverage: bodily injury, contingent business interruption, liability, etc.
- Dealing with cross-border exposures

Thank you for your attention

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