FRENCH NATURAL CATASTROPHE INSURANCE AND REINSURANCE REGIME

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Bogdan J. Dumitrescu,
Principal Consultant, Founder & Owner
BJD Reinsurance Consulting Co.

Government in Insurance

- Why a State/Government Involvement?
  - Ideological
  - Political
  - Sociological & Economical
  - Strategic
- What reasons for a State/Government Natural Catastrophe Plan?
  - Uninsurable risks
  - Correlated risks
  - Keep the cost of coverage manageable
  - Anti-selection
- How the Government can react?
  - As an insurer or reinsurer
  - A mix of both
  - Credit or guarantee

National Solidarity

- Constitutional Rights
  - The preamble to the 1946 Constitution quoted in the preamble to the 1958 Constitution expressly refers to “the solidarity and equality of all French people as to the charge resulting from national calamities”.
- The solidarity principle has been retained for the French Nat. Cat. Scheme.

Before the law, before1982

- Natural perils such as flood, earthquake, volcanic eruption, drought/subsidence, tidal wave etc. were traditionally excluded from insurance policies.
- Three main reasons:
  - Absence of reliable statistics
  - Serious accumulation risk
  - Anti selection risk

Origin of Law in 1982

- 70's : Initial considerations
  - Projects for implementation of a program covering losses caused by natural phenomena. Abandoned.
- 80's : Mixed system adopted in 1982
  - End of 1981 serious floods occurred in the valleys of the Saone and Rhône and in the South-West of France.
  - The project for a public fund which was being considered became a mixed system relying on the insurance Industry and the State.

Direct Insurance, Mandatory Cover + Territorial Scope

- A property damage insurance policy
  - Insurance contracts issued to any natural or legal persons other than the State in order to insure against damage caused by fire or any other damage to property located in France as well as damage to hulls of motor vehicles, must also cover against the effects of natural disasters on properties covered by the insurance contracts. In addition, when the insured is covered for business interruption, the cover must be extended to the effects of natural disasters in accordance with the terms of the corresponding contract.
- Declaration of the state of natural disaster by inter-ministerial decree

State of Natural Catastrophe

- A state of natural disaster must be declared in a decree following an inter-ministerial commission.
- This procedure is based on and originated from a proceeding opened by the Prefect of the Department/Region concerned based on the information received from mayors of the municipalities affected by the catastrophe.

Inter-ministerial Commission

- An Inter-ministerial commission is the body entrusted with the issue of the declaration of the state of natural disaster after examination of the files from the Prefects.
- The commission is made up of representatives of the Ministry of Interior (Directorate of Defense and Civil Security), from the Ministry of Economy and Finance (treasury and Budget Directorates), from the Ministry of Ecology and Sustainable Development (Directorate for Prevention of Pollution and Risks), from Overseas Ministry when the overseas Dominions and Territories are affected.
- The Inter-ministerial commission's Secretariat is held by CCR.

Perils covered : the law…

- The regime does not refer to an exhaustive list of natural perils covered, nor does it contain a complete list of exclusions.
- The 1982 law merely refers to the notion of "uninsurable damage"; in particular, the Insurance Code states that uninsurable direct material damage, caused by "the abnormal intensity of a natural agent", when normal measures have been taken to avoid such damage have been unable to prevent the occurrence thereof or could not be taken, shall be deemed to be a natural disaster.
- The existence of natural disaster must be expressly declared by inter-ministerial decree which shall determine the areas and the periods of the occurrence of the disaster and the nature of the damage.
- The decree shall state for each municipality that has requested the recognition of the existence of a natural disaster, then decision of the Ministries and their represented departments.

Perils covered : … an opened list!

- Flood, Mudslide, Earthquake, Volcanic Eruption, tsunami, earth movement, subsidence (geotechnical drying), drought, mass of ice or snow in movement, lava…
- Compulsory coverage was extended in 1990 to damage caused by wind during storms, hurricanes and cyclones. This additional coverage applies when no declaration of natural disaster has been issued. However in the case of wind attributable to a cyclone in respect of which the maximum surface winds recorded or estimated on the damaged area have reached or exceeded 145 kilometers an hour on average over ten minutes or 215 kilometers an hour in gusts.

Properties protected and exclusions

- Protected properties as per the damage direct policy
  - Structure and contents for homes, industrial and commercial installations, buildings belonging to local communities, , and farm buildings (including harvests, machinery or animals in those buildings)
  - Land motor vehicles, greenhouses (contents excluded), fencing, walls, and forests (when insured under a property damage policy)
- Exclusions
  - Damage to crops and harvests outside buildings (or those inside a greenhouse), livestock outdoors, land and plantations (excepted for forests)
  - Damage from wind as a result of storm, hurricane or cyclone, and from ice, hail or the weight of snow
  - Damage to aircrafts, boats and carried goods

Tariffs and Cover

- In return of the guarantee, the insured pays an additional premium set by the State at a flat rate without regional differentiation, for all risks covered and any degree of risk exposure.
- This additional premium is set in a Ministerial Order for each type of base contract and is applied to the premium or contribution in respect of various types of contracts (basic policies).

The Rates

- Currently, and following a number of revisions, the rates are distributed as follows:
  - Property damage : 12%
  - Damage to vehicles: 6% (fire and theft), 0.5% (other damage)
  - Business interruption:12%
- Private insurers collect and manage the additional premiums, administer and manage the policy, adjust and assess the damage and, in general, process the claims (always in accordance with the base contract), and they also pay the related indemnifications (with the limits and conditions defined in the direct policy).

Claims process and deductibles

- The payment of compensation is subject to:
  - An official declaration of the state of natural disaster must be issued by inter-ministerial decree
  - The damaged property must be covered by a insurance policy against fire or any other type of damage (theft, water damage, etc.)
- The natural disaster cover follows the terms and conditions of the underlying first party insurance policy, with the exception of the premium rates and deductibles.
- Policyholders must retain a portion of the damage, deductible that cannot be bought back even by means of another policy.
- Deductibles are compulsory and they apply even when the basic policy does not include them.
- The amount of the deductibles is determined and updated by means of decrees issued by the State.
- Since 2001, a sliding scale has been introduced to vary these deductibles so as to encourage loss prevention measures. The scale applies to those districts which do not yet have a prevention plan for foreseeable natural risks (PPR). A multiplicative coefficient is applied to eligible natural disaster claims located in districts without PPR for the given peril.

State intervention

- Set the additional premium rates
- Establish the deductibles
- Declare the state of natural catastrophe
- Backs the CCR (Caisse Centrale de Réassurance)
- Define and applies the risk prevention plans

The Central Tariffs Office (CTO)

- Independent Administrative Office created in 1982
- Entrusted with several regulatory powers with respect to the governance of the Nat. Cat. Scheme.
- Procedure for referring certain controversial matters to the bureau, such as the refusal to grant coverage by at least two insurance companies and the failure of the insured to conform to the provisions of a disaster prevention plan.
- Eight members appointed for a three year term by Ministerial decree: a chairman, three representatives of the insurers, two insured representing their group, the chairman of CCR and a commissioner appointed by the Government

Reinsurance. CCR

- CCR created in 1946 as a public entity of commercial nature, financially autonomous and attached to the Ministry of Finance
- It has since then run a long historical course until reaching its latest fundamental change, the conversion since 1993 into a Limited Company, 100% State owned, and pursuing its activity as one more reinsurer on the market, parallel to its traditional role as reinsurer of natural catastrophe risks with unlimited State guarantee

Reinsurance programs structures

- Proportional program : quota-share
  - Ensures that the reinsurer follows the fortunes of the insurer (cession of a percentage of each account in portfolio to the reinsurer)
  - The risk of anti selection is avoided
- Non-proportional program : Stop loss
  - Protects ceding company's retention
  - Protection against frequency or accumulation risk

Originality of the French system

- Four different compensation schemes provide the country with a system of protection against all material damage caused by natural phenomena:
  - Damage considered to be insurable (storm, hail, weight of snow, frost) come under policy covers, whether facultative or obligatory
  - The National Guarantee Fund for Agricultural Disasters, covers the uninsurable damage resulting from agricultural activities (crops not harvested and livestock not kept in buildings)
  - Other uninsurable damage resulting from natural disasters is covered under the Nat. Cat. Scheme set up in 1982
  - The Fund for the Prevention of Major Natural Risks created in 1995, provides compensation for people when a serious threat of landslide, avalanche or heavy flooding causes the Government to impose purchase of the land

Solidarity for all?

	Freedom	Equality	Fraternity
Policyholders	Insured or self insured	Additional premium of 12% of the direct policy premium (property damage) or nil if self-insured	Same additional rate applied uniformly on the whole territory, but with different deductibles depending on locations! (Pressure on local authorities for PPR…)
Insurers	Mandatory insurance	Same additional rate, but different terms and conditions for reinsurance contracts (prop. QS & and non-prop. SL)!	Follows the risk selection and cumulative exposure, actuarial price adequacy… Free market vs Nat. Cat.?
Reinsurers & CCR	Offer reinsurance programs (structures, price, terms and conditions)	In or Out : Agreement with the State for an unlimited protection on their book of business for nat. cat. risks	An independent parallel market with appropriate reinsurance and retrocession cover (market share, financial markets…)?
CCR/State	Program structure, offer terms and conditions, pricing the contracts	National level? European level?	European Level? European subsidies!

Interests of parties

- Policyholders
- Insurance Brokers and Agents
- Insurance Companies
- Reinsurance Brokers, Consultants, Modeling firms…
- Reinsurance Companies
- CCR
- Retrocession, Financial Markets…
- The State (from local management to Government)
- European Union

Open list of opinions

- List of perils covered
- Nat. Cat. as an inter-ministerial decision
- Light connection with the prevention policy
- Increased additional premium: 5.5%, 9.0%,12.0%...
- Hidden public transfer to a minority of districts
- Risk exposure of each contract not considered
- State exposure to risks beard by taxpayers
- No participation of others private reinsurers
- No commission
- No specific scheme covering bodily injuries
- Disconnected from ILS
- …

Conclusion : Projects for reforms

- Promote an efficient loss prevention system
  - Increased additional premium rate (from 12% up to ?)
  - Reduced premium rate to a minimum and the insurers would apply for each contract and on a competitive basis an additional premium depending of the risk exposure (up to a maximum?)
- Maintain and reinforce the long term stability of the scheme
- An increased participation of private reinsurers
  - Increase of reinsurance program deductibles in order to make the development of additional reinsurance covers easier (underlying covers)
  - The State Guarantee would be maintained, but the State Reinsurer could purchase a retrocession layer on the international reinsurance market in order to increase the level of State intervention