

July 2007

APREF letter

A new administration is now in place to govern France, which most certainly should have an impact on the Insurance market. APREF was careful not to intervene in the debate or approach the candidates on certain subjects, this being the Insurance professional organizations' role to play. Nevertheless APREF reserves its right to intervene to question the public authorities on proposals to do with reinsurance.

Panel on Insurance and on the Paris market place

APREF has noticed the public authorities' interest in opening talks at the highest level and seeking the professionals' advice on a number of subjects such as firms financing, savings scheme future, social security financing, elderly dependants and pensions.

The subject of the Paris market place competitiveness for financial services is particularly important for reinsurers, the reinsurance market being globalized and the companies quite easy to relocate. In this context, any favorable social, regulatory or tax measure would be beneficial and we wish to list the reinsurance industry' (as well as the different players') wishes and skills with an aim to put forward proposals to the insurers and the Treasury.

Furthermore, we speak in favor of a quick adaptation of the Reinsurance Directive to French law, in normal conditions of competition with other markets, which would be beneficial as it would lift the market's legal and regulatory uncertainty.

AFA

APREF is delighted at the French Insurance Association creation, thus showing the will to work together of the major professional organizations and the necessity to propose a common front on some of the issues, which should reinforce the professional lobbying.

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We share the objective of this creation for a further step to become the “shared home” of all organizations representing all professionals in all risks underwriting business in France.

Professional topics

Quite a number of technical topics are regularly discussed in the market – we will briefly mention those strongly involving reinsurers.

▪ **Severe bodily injuries**

For a number of years, APREF has engaged into an awareness campaign with the insurers on the drifting of the severe bodily injuries, leading to an additional cost for insurers, a lack of foresight, a costly reinsurance cover without the possibility to limit the negative effects, particularly in Motor. APREF supports any approach to harmonize compensations within a framework by building up appropriate reference systems.

Based on work done by the Motor Commission, APREF is finalizing a follow up document “severe bodily injury”, summarizing the loss and integrating the main parameters allowing to evaluate from the victims consolidation. An update of the annuity clauses main versions for reinsurance treaties is also under way.

We plan to present these proposals to the professional organizations for discussion, in view of finding points of agreement. A standardized information should help convergence among all the players, to improve professional data bases and transparency, to have a better comparison and foresight of all the related losses.

▪ **Natural catastrophes**

The possible natural catastrophes system reform is still being discussed by the insurers. For the Reinsurers, it has to go through the covered perils being objective, the cover having to be in named perils to avoid any unforeseeable losses. It is also necessary for the system to be balanced to have a minimum base of solidarity between all types and locations of risks. Furthermore, a better more data transparency, a flexibility in the tariffs as well as developing prevention should help modernizing the system and make it more competitive for the insureds.

According to the chosen options and the CCR reinsurance positioning, the market reinsurance will develop accordingly and contribute to the risks development and modeling.

▪ **Terrorism**

In France, the Property cover was clarified by the 2006 legislation, but at the same time worsened. Any kind of nuclear cover is compulsory for damages on the territory (dirty bomb, tactical weapon, consequences of an attack on a French or foreign nuclear site) as well as chemical, bacteriological, or radiological making this cover the most extended in the world. It is an excellent protection for the insureds but has serious implications for the insurers and reinsurers. APREF considers that those successive developments of the compulsory terrorism cover on damages introduce a new paradigm in France.

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On the one hand, we have to consider catastrophe scenarios of an extreme scale and severity, which have nothing in common with the natural perils scenarios, correlating within all classes (including Casualty and Life) and potential significant retentions for French insurers, despite the State protection for Property. On the other hand, in the case of a major disaster, there could be a possible correlation with the assets and a risk of a stock market and bonds crash. To us the then following crisis would be one of the only scenarios of a potential major default of the French or European insurance: this means a real systemic risk, probably even unbearable at a single State level.

This new situation calls for an awareness of all the market elements and a development of the various types of cover. Despite a situation reaching its insurable limit, the market, thanks to its discipline, to the risks being mutualized and the State guarantee, has been able to develop within the existing schemes, one of the most important NBCR Property reinsurance capacity in the world and a significant NBCR capacity in Life.

APREF current thinking is that it would be useful for the market to:

- Within the Solvency 2 framework, produce scenarios of normalized major losses (all branches) together with the concerned authorities such as the ACAM (French Control Authority).
- Evaluate the different schemes and their interlinks in case of a nuclear attack: BCAC (Group Insurance), FGTI (State fund for Bodily Injuries), GAREAT (Industrial risks), GAREAT and individual covers (Small risks), Assuratome (Nuclear operators Civil liability), war covers (Transport)

In the short term, APREF wishes to maintain the current solutions, which comply with the 2001 agreement basics on industrial risks and a separate cover for the small risks.

We will then in the future have to consider solutions able to handle multi-classes retentions.

Whatever the chosen solutions, the market will need solidarity within mutualized schemes, visibility and reliability to keep the improved schemes at a competitive price for all the insureds.