

Catastrophe Insurance in France

The Natural Disaster Compensation Scheme

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Patrick Bidan

Created in 1946, Caisse Centrale de Réassurance is a French state-owned company. CCR is ranked among the top 20 reinsurers in the world and is involved in most international reinsurance lines of business and markets. An agreement entered into with the authorities also allows it to offer reinsurance cover with a government guarantee for some specific categories of insurance, notably in the field of natural disasters.

This state-run cover does not, however, give CCR a monopoly in natural disaster reinsurance. In fact any insurer may seek cover for itself from the reinsurer of its choice, and may even take the risk of not underwriting reinsurance.

Nevertheless, CCR remains the only company within its sector of activity to offer a whole range of reinsurance solutions with unlimited cover. This is an advantage for insurers, since it gives them absolute security in the event of a major loss, be it a large-scale event such as a flood occurring every hundred years or a geological problem such as subsidence, which causes all kinds of damage.

CCR thus provides a guarantee of solvency and security for insureds within the natural disaster compensation scheme.

Prior to the law of 1982

In the past, natural phenomena (flood, earthquake, tidal wave, volcanic eruption, etc.) were traditionally excluded from insurance policies.

There were three main reasons for this lack of cover:

- lack of reliable statistics regarding this type of phenomenon
- serious accumulation risk (a single event could affect large numbers of insureds, insurers' exposure is hard to assess)
- anti-selection risk (only those exposed purchase insurance).

Origin of the law of 13 July 1982

Initial considerations on the implementation of a programme covering losses caused by natural phenomena were put forward in the seventies. CCR took part in this but the project was abandoned.

Deliberations started again in the early eighties in the form of a project aimed at creating

a public fund (several bills were submitted to parliament to this effect).

At the end of 1981 serious floods occurred in the valleys of the Saône and Rhône and in the south-west of France.

The project for a public fund which was being considered at this time, became a mixed system, relying on both the State and insurance.

This project resulted in the law of 13 July 1982.

How the Compensation Scheme works

Conditions for the Law to operate

All compensation under the 1982 Law is subject to two prior conditions being met:

- A state of natural disaster must have been declared by interministerial decree.
- The damaged property must be covered by a “property damage” insurance policy.

Clearly, a causal link must exist between the catastrophe declared in the decree and the damage suffered by the insured.

Property insured

Buildings and moveable property (including motor vehicles) that is insured against fire or any other type of damage (theft, water damage etc.).

Apart from the premium rate and deductibles, natural disaster cover does not have its own specific conditions. It follows those of the main insurance (in most cases fire insurance), and therefore normally covers :

- domestic property and the contents thereof
- industrial and commercial installations and the contents thereof
- buildings owned by local authorities and the contents thereof
- agricultural buildings (including crops, machinery or animals inside such buildings)

- greenhouses deemed to be buildings or equipment (but excluding crops inside them)
- vehicles
- car accessories and equipment if covered by the basic insurance
- fences, supporting walls or foundations if they are covered by the policy
- any forests which are covered under a “property damage” policy
- the cost of debris removal, demolition, pumping and cleaning.

Perils insured

The legislators did not want to limit the 1982 Law by creating a list of the natural phenomena covered. Nor did they want to create a list of exclusions. They limited themselves, therefore, to the idea of “uninsurable damages” (this idea was then clarified by the Laws of 25 June 1990 and 16 July 1992, see below). The following list is not, therefore, exhaustive:

- floods and/or mudslides
- earthquakes
- landslides
- subsidence (collapse of land due to a sudden fall in the ground water level, after a drought for example)
- tidal waves
- flows of water, mud or lava
- moving masses of ice or snow.

The damage must be “direct”, in other words arising solely as a result of the action of a natural element of abnormal intensity to the property insured (e.g.: the loss of goods in a freezer will only be included if the machine itself was damaged, thus excluding a simple power cut).

Extent of cover

“The policy covers the cost of direct material damage suffered by the property up to the value stated in the policy and subject to the

terms and conditions of the said policy at the time the risk first occurs” (decree of 10 August 1982 – standard clauses).

The “natural disaster” extension is also included in all “business interruption” policies. In this case, it covers loss of gross profit and additional operating costs during the indemnity period specified in the policy.

Claims are settled on the basis of the “damage” cover under the policy with the widest scope (e.g. fire cover in “multiline” policies).

Indemnity is provided in the same way as under the basic cover (e.g. settlement of on new-for-old basis if this extension is included in the basic cover).

Deductibles

The deductibles, which are not index-linked, were specified by the decree of 10 August 1982. They have subsequently undergone several changes (Decrees of 7 and 19 September 1983) and have been increased once again recently (Decree of 5 September 2000).

With effect from 1 January 2001, the deductibles are structured as follows:

- Property for domestic use, motor vehicles and other objects not intended for professional use: FRF 2,500, except in the case of damage attributable to differential movements of the earth as a result of drought and/or the rehydration of the soil (subsidence), where the deductible is FRF 10,000.
- Property for professional use: 10% of the direct property damage loss for each and every location and each and every loss occurrence, subject to a minimum of FRF 7,500, except in the case of damage attributable to subsidence, where the deductible is FRF 20,000. If, however, the basic cover contains a higher deductible, then this higher deductible shall apply.
- Business interruption: 3 working days subject to a minimum of FRF 7,500, unless the basic cover contains a higher deductible.

Deductibles as function of Prevention Plan

A new Decree will soon specify the amounts of deductibles in Euros.

Furthermore, since 1 January 2001, a sliding scale has been introduced to vary these deductibles so as to encourage loss prevention measures. This scale applies to those districts which do not yet have a prevention plan for foreseeable natural risks (P.P.R.).

Specifically, when a state of natural disaster is declared in such a district, by means of an interministerial decree, as the result of a given peril (e.g. flood), a coefficient is applied to the deductible based on the number of decrees already issued in respect of this same peril since 2 February 1995 (creation date of P.P.R.’s). These coefficients are as follows:

- *1 to 2 decrees*: normal application of the deductibles set out above
- *3 decrees*: doubling of these deductibles
- *4 decrees*: tripling of these deductibles
- *5 or more decrees*: quadrupling of these deductibles

This sliding scale ceases to apply as soon as a P.P.R. is set up for the peril in question, but is reapplied if this P.P.R. has not been approved within five years.

These deductibles apply in respect of each and every occurrence and each and every policy. In the case of motor vehicles, they apply to each and every vehicle, even if several vehicles are covered under the same policy.

The deductibles are compulsory, i.e. they apply even when the basic policy does not include them. They cannot be “bought back”, even by means of another policy (here again to encourage risk prevention).

Rates of premium

As with the deductibles, the rates of additional premium are set by the Government, in the form of a decree. They are as follows:

Property other than motor vehicles:

- from 1982 to 1983: 5.50 % of premium or contribution in respect of basic policies
- from 1/10/83 to 31/8/99: 9 % of premium or contribution in respect of basic policies
- since 1/9/99: 12 % of premium or contribution in respect of basic policies.

Since January 1st, 2001, this rate of additional premium no longer applies to premiums or contributions in respect of general liability, legal expenses, assistance and bodily injury cover. It continues to apply, however, to cover in respect of the insured's contractual liability as the owner, tenant or occupier of the property specified in the policy, and to cover in respect of liability incurred by the insured in this capacity with regard to third parties, arising out of fire, explosion or water damage (Decree of 5 September 2000).

We should also remember that this rate of premium does not apply to the types of cover mentioned in Article L. 125-5 of the Insurance Code (damage to crops not harvested, live-stock not kept in buildings, soil, hulls of aircraft, marine, lake- and river-going vessels, goods in transit and "damage to works" policies).

Motor vehicles:

- from 1982 to 1985: 9 % of fire and theft premiums or contributions or, failing this, 0.80 % of the own damage premium or contribution
- since 1986: 6 % of fire and theft premiums or contributions or, failing this, 0.50 % of the own damage premium or contribution.

The role of the Bureau Central de Tarification (Central Rating Bureau)

What is the B.C.T.?

The Bureau Central de Tarification is a regulatory body for certain types of compulsory insurance or cover. B.C.T.'s currently exist

for the following four types of insurance or cover.

- third party motor insurance
- mechanical lift equipment insurance
- builders' public liability insurance
- statutory natural disaster cover

All B.C.T.'s may be called upon by the insured. Only the Natural disasters B.C.T. may also be called upon by the insurer. Since 1992, the four offices have been amalgamated and have the same Chairman and the same secretariat.

Legislative and regulatory basis of the Natural Disasters B.C.T.

- Set up under article 5 of the Law of 13 July 1982 (Art. L 125-6 of the Insurance Code).
- Constitutional and operational rules laid down by articles R 250-1 to R 250-6 and A 250-1 and A 250-2 of the Insurance Code.
- Reformed under the decree of 27. November 1992 which amalgamated the various B.C.T.'s.

Composition

Eight members appointed by a decree from the Minister for Economic Affairs and Finance, for a renewable period of three years:

- The Chairman (who may be a Senior Member of the Council of State, a Senior member of the Auditor General's Department, a Judge at the Court of Cassation or a university Professor in one of the legal disciplines).
- Members representing the insurance companies, appointed at the proposal of the professional bodies.
- Members representing the insureds, appointed at the proposal of the board of consumers of the National Consumer Council.
- The Chairman of CCR or his representative (ex officio).
- A Government Representative appointed by the Minister for Economic Affairs and Finance.

The Chairman and the members all have deputies who are appointed subject to the same conditions.

Procedures for referring a matter to the “Natural Disasters” B.C.T.

Referral by the insured (Art. R 250-2 of the Insurance Code)

- Refusal of insurance by at least two companies (either explicit, or else implicit through failure to respond within 15 days)
- Referral by registered letter with confirmation of receipt within a maximum period of 15 days from notification of the last refusal.
- Examination of the file and a decision by the Bureau, which is binding upon the insurer designated by the insured, subject otherwise to the Insurer’s licence being withdrawn.

By the insurer (Art. R 250-3 of the Insurance Code)

- Existence of a Risk Prevention Plan (P.P.R.) specifying protective measures
- Property located in an area classified as at risk or in an area classified as unsuitable for building (but in this case existing before publication of the plan)
- Insured having failed to conform to the provisions of the P.P.R. within a period of 5 years following publication of the P.P.R.
- Notification by the insurer to the insured by registered letter with confirmation of receipt of its request to refer the matter to the B.C.T.
- Referral to the Bureau within a maximum period of 21 days following notification to the insured.
- Examination of the file and decision by the Bureau, which may either increase the deductibles (within the limits imposed by article A 250-1) or exclude a property mentioned in the policy, or combine both these measures.

Reminder of instances where the insurer is not required to provide cover

Only two cases exist in which the insurer may, without referring to the B.C.T., issue a “property damage” policy which does not contain Natural disaster cover:

- when goods or activities have been located in areas which are unsuitable for building, after publication of a P.P.R.
- when goods or activities have been located in breach of the administrative rules in force when they were set up aimed at preventing damage caused by a natural disasters (e.g. plans of areas liable to flooding, areas of risk, zoning regulations, etc.).

Compensation procedure

Settlement of loss

The petition to declare a state of natural disaster is filed by the mayors who forward it to the Prefect of the “department”. The latter then has one month to put together a departmental dossier comprising:

- a detailed report on the nature and intensity of the disaster.
- a technical report drawn up by the relevant services depending on of the nature of the disaster (e.g.: National Meteorological Office for floods, B.R.G.M. for landslides, etc.), indicating in particular the frequency of the phenomenon.
- the list of districts affected with, if possible, a map to locate them.
- police, gendarmerie or fire brigade reports.
- generally speaking, all documents showing the abnormal intensity of the event (press cuttings, photographs, etc.).

This file, which may, therefore, relate to a highly variable number of districts, is examined by an Interministerial Commission which expresses an opinion on the presence or absence of a natural disaster as defined by the law.

This Commission is composed of representatives of the following Ministries:

- Ministry of the Interior (Civil Defence and National Security Authority)
- Ministry for Economic Affairs and Finance (Treasury and Budget Authority)
- Ministry of the Environment (Pollution and Risk Prevention Authority)
- Secretary of State for Overseas Territories and Departments (D.O.M.-T.O.M.), where these are involved

Caisse Centrale de Réassurance acts as a secretariat.

When the view of the Commission is positive, it is confirmed by publication of an interministerial decree in the Official Journal.

Duties of the Insured

To declare to the Insurer all losses liable to give rise to a claim, as soon as the insured becomes aware thereof and within no more than 10 days (direct property damage) or 30 days (business interruption) after publication of the interministerial decree.

Insurer's obligation

To pay the compensation within 3 months following the date of production by the Insured of a schedule of the damaged property or the date of publication of the decree, whichever is the latter.

Growth of the Scheme

At Interministerial Commission level

The two graphs (Figure 1 & 2, next page) on the one hand illustrate the number of departmental files submitted to the Commission and, on the other, show the distribution of files accepted according to type of phenomenon.

It should be emphasised that these files have nothing to do with the insurers' claim

files. They are simply files drawn up by the Prefects. A file may, therefore, relate to just a single district (or even a single loss occurrence) and very little damage, or contain several dozen districts and, therefore, represent millions' worth of damage.

At the insurance market level

As the graph in Figure 3 shows, overall the results of the natural disaster scheme are well balanced. Nevertheless, it is important not to lose sight of the fact that this balance is vulnerable to a major occurrence. Today, for example, we estimate the cost of a flood that occurs every hundred years in the Paris area at over 5 billion Euros. An earthquake occurring on the Côte d'Azur could exceed 15 billion Euros. Reserving is just as essential a financial precaution as risk prevention. This is why the natural disaster branch has a special reserve known as an "equalisation reserve", in addition to the ordinary underwriting reserves. The insurance and reinsurance companies are allowed to place up to 75% of the profits for each year into this reserve, provided that the total amount of the reserve does not exceed 300% of their annual income. The funds for each year are released after ten years.

The financial soundness of the natural disaster scheme has been shattered in recent years by a stark deterioration in the loss record. On top of the constant increase in the cost of drought claims which we have seen since 1989, there has also been an increase in serious flood claims. Thus it was, for example, that claims in the 1999 year, having been affected by floods in the south of the country in November, floods following the two storms in December and by Hurricanes José and Lenny in the French Antilles, hit record highs (almost 1 billion Euros).

If this trend had continued, it would eventually have threatened the long-term stability of the scheme. This is why the public autho-

Figure 1: Evolution of accepted files from 1982 to 1999

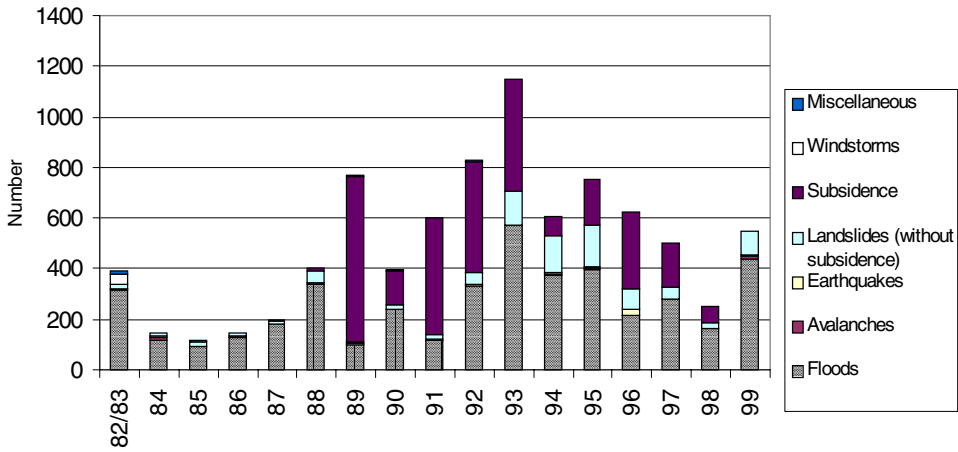
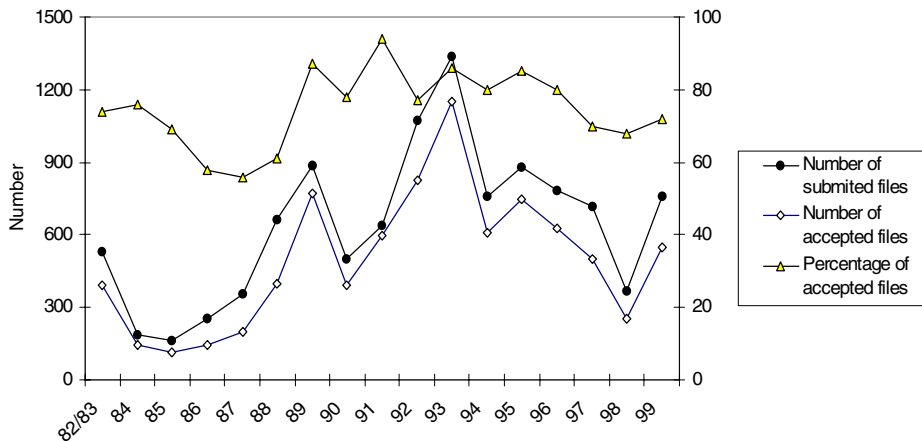


Figure 2: Evolution of the number of departemental files from 1982 to 1999

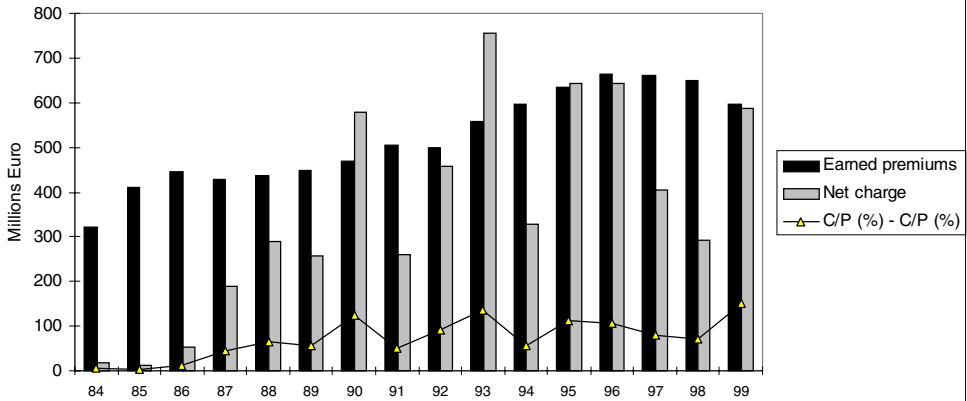


rities, professional bodies and CCR have worked together to come up with a platform of measures aimed at putting things back on track. These consist of a wide range of provisions intended both to restore the financial equilibrium of the scheme and to contain costs or encourage risk prevention. Their gradual implementation is now finished and the first effects are beginning to appear, such as

the increase of the CCR equalisation reserve or the increase of the number of Risk Prevention Plans following the implementation of deductible adjustment.

To conclude this brief analysis of the results of the insurance scheme, we include a graph (Figure 4), which plots trends in the number of “claims” against their average cost of such claims. As you will see, this has risen

Figure 3: Premium and losses evolution without motor for the whole market



Important: The figures in this table should be interpreted with caution.

Firstly, since they involve amounts per year of occurrence, they are liable to change. Thus years affected by drought become progressively worse, to the point in some cases of going into the red. This deterioration is mainly due to delays in declaring a state of natural disaster, which are in turn due to the slow nature of the phenomenon.

Secondly, it would be wrong to believe that simply subtracting the claims cost from the total premiums collected indicated the profit/loss on natural disaster insurance. In fact, in order to obtain the true result, general expenses, the cost of reinsurance and the total equalisation reserves must be added to the "claims" costs.

Finally, we can see the extreme variability of the cost/premium curve. The points on the curve correspond, for the most part, to the major events illustrated in the table shown next page.

considerably over the past few years, partly as a result of the drought. It should be noted, however, that the differences in the average cost per claim may be considerable, since these files relate to both individuals and companies.

**At legislative level
Amendments made to
the Law of 25 June 1990**

Law n° 90-509 of 25 June 1990, which came into force on 1 August 1990, changed the scope of the natural disaster scheme at two levels: the type of risks covered and its geographical limits.

The first part of this Law made it compulsory to cover wind damage due to storm, hurricane and cyclone. From now on, anyone who

has purchased insurance covering fire damage or business interruption consequent upon fire damage in respect of property located in France, automatically benefits from this cover. These measures are the result of a process which began in 1984 with the promise of a "windstorm" cover by Insurers, a measure which proved insufficient, however, because a large number of Insureds and, particularly, industries, refused to purchase this cover.

This generalisation of windstorm cover was an important advance because by definitively separating damage caused by wind from the scope of the 1982 Law, it contributed to better separating it from coverage in respect of risks considered as insurable (storm, hail, weight of snow, frost).

The second part of the Law of 25 June 1990

Table of main events (Main events in million)

<i>Years of occurrence</i>	<i>Type</i>	<i>Market Cost</i>
82, 83	Storm/Floods (1)	534 M Euro
87	Storm October (1)	107 M Euro
88	Floods October (Nîmes)	290 M Euro
90	Floods February	183 M Euro
89–98	Subsidence (2)	2 287 – 3 049 M Euro*
92	Floods September (Vaison)	244 M Euro*
93	Floods September/October	305 M Euro*
93, 94	Floods December/January	259 M Euro*
94	Floods November (Nice)	122 M Euro*
95	Floods January/February	396 M Euro*
95	Floods August/September (hurricanes in Carribeans) (3)	122M Euro*
96	Earthquake July (Annecy)	61 M Euro*
96	Floods December (South-West)	76 M Euro*
97	Floods June (Normandy)	61 M Euro*
98	Floods June (North/Pas-de-Calais)	30 M Euro *
99	Floods November (Grand Sud)	305 M Euro *
99	Hurricanes José and Lenny (DOM) (3)	53 M Euro *
99	Storm December (3)	305 M Euro*

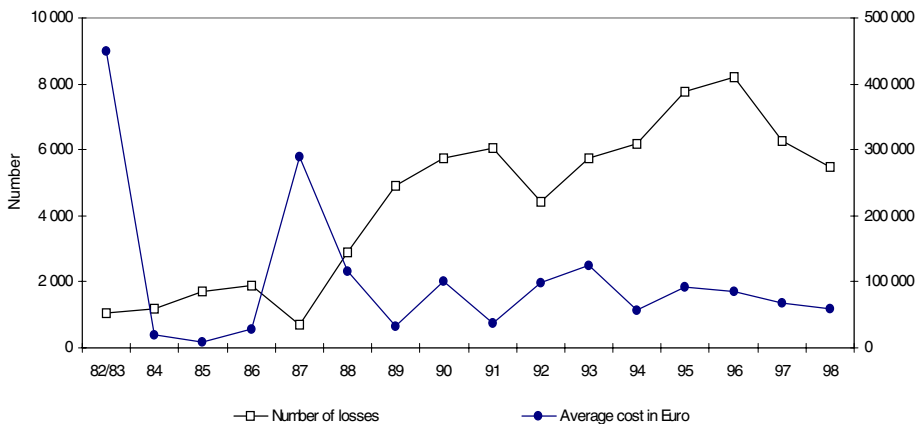
* estimates

(1) "Nat Cat" or natural disaster compensation was paid in addition to or in the absence of storm cover under the policies.

(2) This relates to damage caused to buildings by the dryness of the subsoil

(3) This relates to water damage only. Indemnity for damage caused by wind is provided by the storm, tempest, hurricane cover under the policy.

Figure 4: Evolution of losses from 1982 to 1998



extended the territorial limits of the 1982 Law to the four overseas Departments, i.e. Martinique, Guadeloupe, Réunion and Guyana, as well as to the two territorial municipalities of Saint-Pierre-et-Miquelon and Mayotte.

Since then a government ruling of 19 April 2000, which has been applicable since 1 July 2000, further extended the scope of application of the 1982 Law to the Wallis and Futuna islands. However, the overseas territories (New Caledonia, French Polynesia...etc.) still remain outside the scope of the Law.

Moreover, article 13 of the orientation Law for Overseas Territories of 13 December 2000, published in the Official Journal on 14 December, extended the cover of the natural disaster scheme to include the effects of wind caused by hurricanes for which maximal recorded surface winds reached or exceeded an average 145 km/hr during ten minutes or 215 km/hr in gusts. However, the split between the statutory scheme and the storm and hurricane coverage under the policy must be maintained in the case of more minor events, as well as in the case of those occurring in mainland France.

The effects of law n° 92-665 of 16 July 1992

As part of Law n° 92-665 of 16 July 1992 adapting the insurance and credit legislation to the single European market, a number of adjustments were made to the Law of 13 July 1992 with the aim of defining its limits even more clearly and improving its efficiency.

On the one hand, the idea of “uninsurable” damage, which had been implicit up until then, was introduced in the first article in order to prevent the Natural disaster scheme from being forced to cover risks which are insurable in the normal way.

In addition, the last paragraph of this same article was amended in order to define the role of the interministerial decree which is in future no longer restricted to simply declaring

a state of natural disaster, but must also determine the areas and periods of the disaster, as well as the nature of the damage resulting from it. Since 1 January 2001, it also specifies the number of decrees issued in respect of the same risk since 2 February 1995, in the case of districts which do not have a P.P.R.

Finally, the cost of geotechnical studies required to repair buildings affected by the effects of a natural disaster (particularly a drought) can, in the future, be assumed by the statutory scheme.

Reinsurance of Natural Disasters by “Caisse Centrale de Reassurance”

CCR’s reinsurance scheme Principle

Since 1982, the reinsurance scheme offered by CCR to insurers has undergone numerous changes. However, its basic structure has remained largely unchanged. It consists of original cover based on two reinsurance solutions which are combined to provide “two-fold” cover.

Under the first solution, known as “quota-share”, the Insurer cedes a certain proportion of the premiums collected to the reinsurer and the latter, in return, undertakes to pay the same proportion of losses. This proportion is called the “cession”. Conversely, the part of the premium which is kept by the Insurer is called the “retention”. Quota-share reinsurance ensures that the reinsurer truly follows the fortunes of the insurer, since the latter has to cede a percentage of each of the accounts in its portfolio to the reinsurer. Thus the risk of anti-selection is avoided.

The second solution, known as “stop-loss”, covers the portion not ceded on a quota-share basis by the Insurer, in other words the Insurer’s “retention”. This is a so called “non-proportional” form of reinsurance because,

Example

Insurer's premium income	Euros 1,000,000
Percentage quota-share cession	50 %
Insurer's retention	50 % i.e. Euros 500,000
Stop-loss deductible	200 % of Euros 500,000, i.e. Euros 1,000,000

1st scenario: claims cost = Euros 50,000 (in 1 or n losses).

Breakdown under the quota-share:

- Insurer 50 %= Euros 25,000
- CCR 50 %= Euros 25,000

As the proportion for the Insurer's account (Euros 25,000) is less than the stop-loss deductible, the latter does not intervene.

2nd scenario: claims cost = Euros 10,000,000 (in 1 or n losses).

Breakdown under the quota-share:

- Insurer 50 %= Euros 5,000,000
- CCR 50 %= Euros 5,000,000

Breakdown under the stop-loss:

- Insurer = Euros 1,000,000 (amount of the deductible)
- CCR = Euros 5,000,000 - Euros 1,000,000 = Euros 4,000,000

Overall, therefore, CCR's share amounts to Euros 9,000,000, whilst the Insurer's share remains at Euros 1,000,000.

contrary to the "quota-share" system, the reinsurer only intervenes if the total annual losses exceed an agreed figure, expressed as a percentage of the premiums retained. In particular, this type of reinsurance enables the insurer to protect itself against the frequency risk, i.e. the risk of many claims occurring (as in the case of drought, for example).

Although most "stop-loss" reinsurance treaties contain a limit of indemnity, CCR's cover in the field of natural disasters is unlimited thanks to the State guarantee from which it benefits. The deductible under the CCR treaty therefore represents the maximum amount which an Insurer will have to bear in the course of a single underwriting year, however many losses occur. See example above.

The various amendments to the CCR reinsurance scheme

Over the first fifteen years of operation of the natural disaster compensation scheme, there have been very few changes to the reinsurance scheme offered by CCR. The latter was designed to meet the needs of an extremely heterogeneous market, made up of companies of different sizes, with differing legal forms and various types of portfolio. It was thus a market reinsurance scheme which, after being negotiated with the professional bodies, was offered on identical terms to all ceding companies.

Having been designed with the dual purpose of offering insurance companies solid, durable cover adapted to the field of application of the 1982 Law, whilst at the same time enabling regular allocations to be made to the CCR equalisation reserve, this reinsurance scheme has, for a number of years, its inten-

ded purpose perfectly. However, the combined effects of changes in the market (mergers, freedom of services within Europe etc.) and the deterioration of the claims figures, made it increasingly unsuitable for just a single scheme to be offered.

Thus it was that with effect from 1 January 1997, CCR introduced new reinsurance conditions which paid greater attention to the nature of each ceding company’s portfolio and enabled insurers to retain a larger proportion of the risks. In particular, these conditions:

- increased the ceding companies’ retentions by reducing the maximum rate of cession on a quota-share basis and increasing the minimum deductibles in the case of stop-loss.
- made a distinction between cessions according to type, geographical location and size of portfolio reinsured.
- replaced the fixed reinsurance commission by a sliding scale based on the ceding company’s results.
- introduced individual rating for all non-proportional covers.
- in certain cases (small portfolios of industrial risks), stop-loss cover was replaced by another form of reinsurance, operating on a per loss and per risk basis (per risk XL)

Thus 1997 saw the beginning of a new approach to the reinsurance of natural disasters for CCR, with the advent of more personalised conditions. Other amendments were subsequently made, always with the aim of better adapting them to the market situation and loss record.

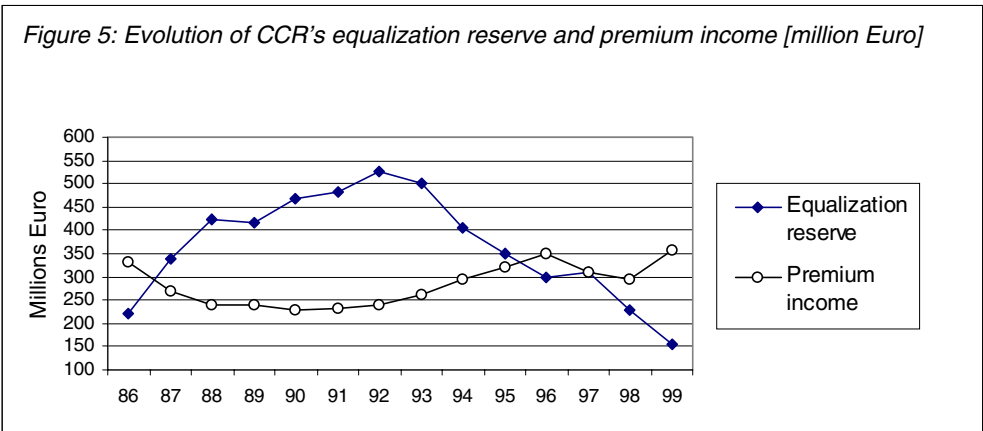
Reinsurance in 2000

As at 1 January 2000, as part of a platform of measures introduced to restore the scheme’s balance, the underwriting conditions for the reinsurance treaty offered by CCR, were modified. These new provisions are intended to enable the equalisation reserve to be reconstituted quickly, as the level of this reserve has fallen consistently in recent years because of the deterioration in the claims figures. As shown in the graph above, the effects of this new scheme are beginning to show up, as in 2000 CCR was able to allocate 106 M Euros to its equalisation reserve. (See diagram below.)

The main characteristics of the 2000 reinsurance scheme are as follows:

- 50% quota share cession across all natural disaster risks.
- no reinsurance commission.

This scheme, planed for five years, was renewed in 2001.



Changes in cessions to CCR

The level of cessions to CCR has fallen consistently from the outset. This tendency on the part of Insurers towards increased retentions is mainly due to improved knowledge of the “Natural Disasters” branch, bringing with it a corresponding adjustment in the reinsurance programmes. However, the trend has reversed over the last few years because of the increase in claims.

The successive changes to the reinsurance terms introduced since 1 January 1997, have resulted in insurers’ average cession rate moving to a satisfactory level, neither too high, in order to avoid all losses being transferred to CCR, nor too low, so as to enable it to increase its equalisation reserve, which constitutes the last line of defence before the cover provided by the State takes effect.

The scheme introduced with effect from 1 January 2000 involved a considerable increase in this average rate, as well as in CCR’s turnover. This increase is due to the standard cession of 50% across all business including motor risks for which, until now, there was very little reinsurance.

Conclusion: The originality of the French System

According to the popular adage, “our ancestors the Gauls were only afraid of one thing: that the sky would fall on their heads”. There is no doubt that, some twenty centuries later, the whims of nature remain a source of major concern for French people. In fact, no fewer than four different compensation schemes

today provide France with a system of protection against all material damage caused by natural phenomena.

The originality of this system lies in the combination of these four schemes which, by their complementary nature, provide an answer for all types of damage, whether insurable or not :

- 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, set up by the Law of 10 July 1964, covers the uninsurable damages resulting from agricultural operations (crops not harvested and livestock not kept in buildings).
- other uninsurable damage resulting from natural disasters is covered under the scheme set up by the Law of 13 July 1982.
- finally, the Fund for the Prevention of Major Natural Risks, created by the Law of 2 February 1995, provides compensation for people when a serious threat of landslide, avalanche, or heavy flooding causes the Government to compulsorily purchase the land.

These various compensation schemes, which must of course be accompanied by an efficient loss prevention system, give French citizens very complete protection of a kind so far without equal in any other country. Thus the principle of equality in the face of natural disasters proclaimed in the preamble to the French Constitution is enforced.