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RISK MANAGEMENT
SEMINAR 2012

Pre-Seminar Debate: The Evolution of Natural Catastrophe Coverage in Europe and France

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The French Natural Catastrophes regime

Legislative and regulatory framework


MINISTÈRE DE L'ÉCONOMIE
ET DES FINANCES

**LIVING AND
WORKING IN A
RISKIER WORLD**

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French Nat-Cat regime: main principles (1)

➤ An insurance scheme...

- An insurance guarantee, not a public fund: all insurance contracts providing coverage against fire or any other type of damages to goods must include an insurance guarantee against Nat Cat risks (floods, droughts, earthquakes, landslides, avalanches)
 - ➔ a very high penetration rate (e.g. about 98% of households in metropolitan France)
- Insurers are in charge of handling the compensation: they are better informed and react faster than the government, especially when thousands of properties are damaged
 - ➔ a user-friendly and transparent procedure for the insured, who only have to file a usual claim



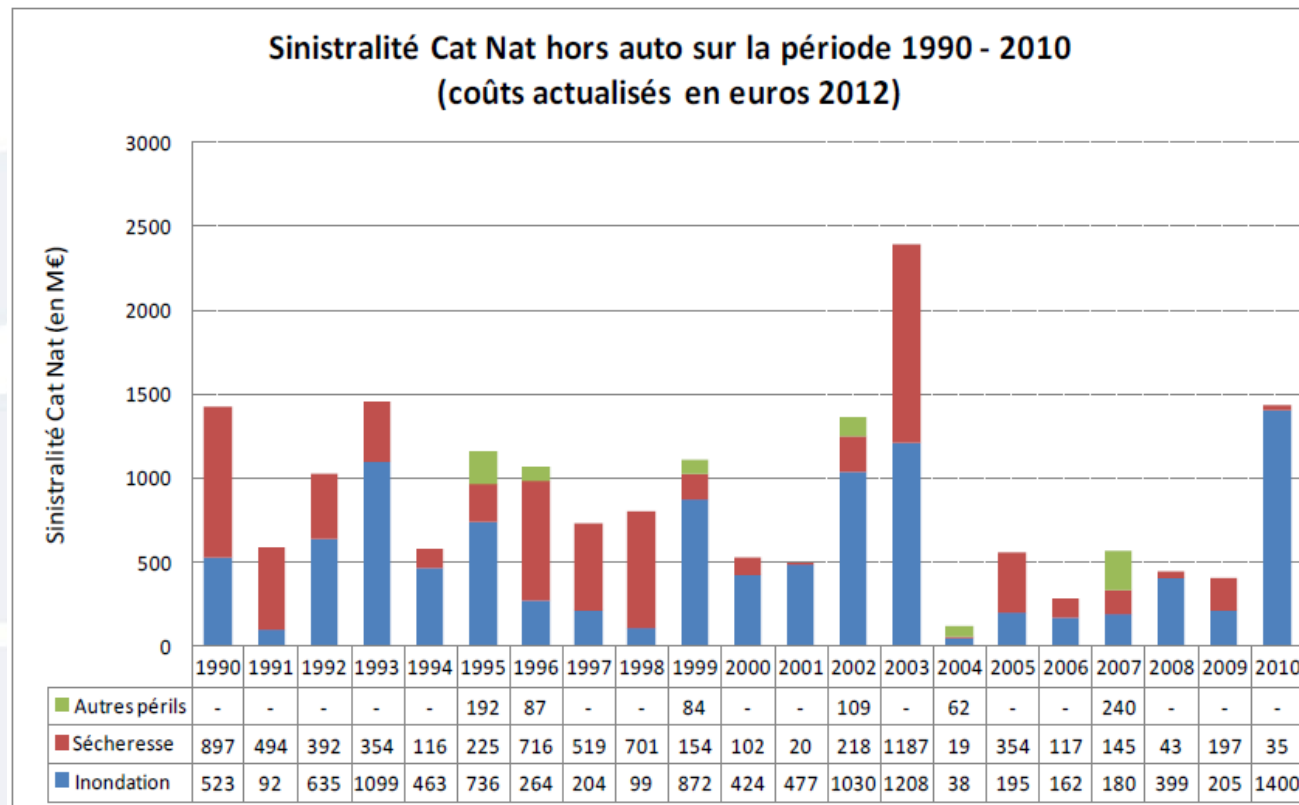
French Nat-Cat regime: main principles (2)

- working hand in hand with the government
 - Compensation is granted if the “state of natural disaster” has been declared by interministerial decree
- ➔ Neighbors, in the same town, are treated the same way, regardless of their insurance company
 - Premiums and deductibles are set up by the Government
- ➔ a flat pricing based on the premium of the basic insurance policy ensures affordability and national solidarity
 - By granting its sovereign guarantee to the Nat-Cat regime, the government provides (re)insurance companies certainty about the maximum potential costs they are exposed to
- ➔ a solvency guarantee for insurers, who face manageable costs



French Nat-Cat regime: main figures (1)

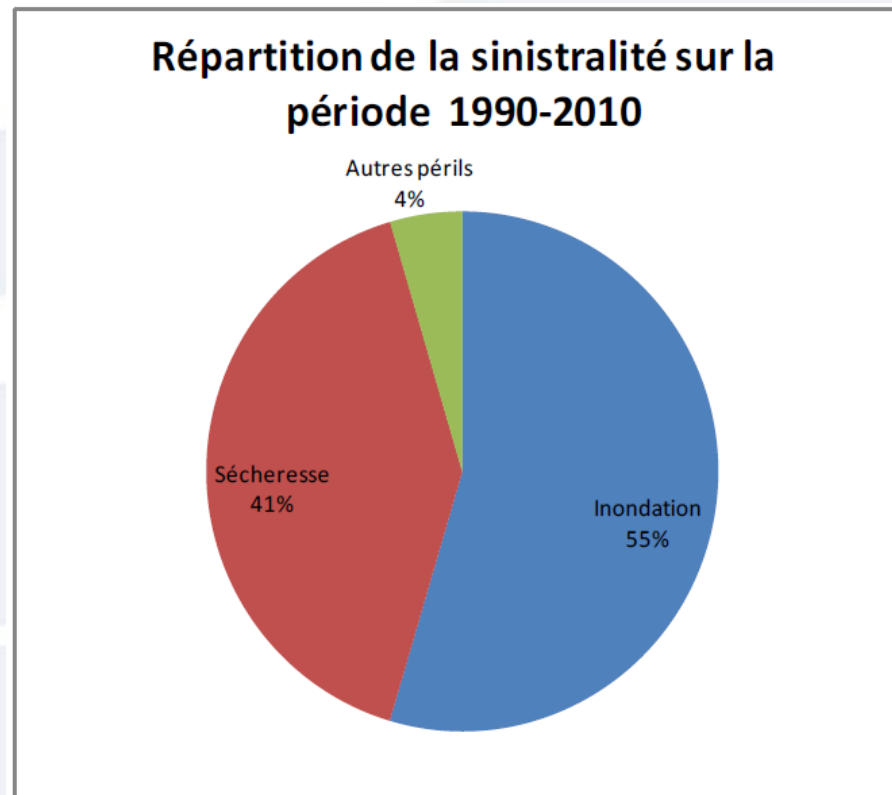
- Constant premiums: € 1,3 billion in 2012
- Variable Claims





French Nat-Cat regime: main figures (2)

- Floods (55% of the amount of claims) and subsidence due to drought (41%) are the main Nat Cat perils in France





French Nat-Cat regime: a way forward (1)

- **A consultation process of all stakeholders has taken place to build a shared vision**

- **Some main feedback :**
 1. **The need to clarify the legal scope of the regime so as to improve transparency and fairness (risks list, methodology for recognition of the abnormal intensity of each hazard...)**

 2. **The need to strengthen incentives for risk prevention**



French Nat-Cat regime: a way forward(2)

- **Building incentives for risk prevention**
 - **Option for a risk-based pricing for large businesses and local authorities**
 - ➔ **those able to implement risk prevention works are incentivized to do so**
 - **Exclusion from the benefits of the Nat-Cat compensation for property built in breach of the law**
 - ➔ **solidarity should not bear the costs induced by irresponsible behaviors**
 - **Introduction of construction standards for new buildings to prevent damage from subsidence on clay soils**
 - ➔ **everyone is better off by paying a little more at the beginning (soil study) than risking to lose everything at the end**



French Nat-Cat regime: Some conclusions

- A regime which has demonstrated its effectiveness and efficiency for the insured, the insurers and the government :
 - Ensuring a rapid delivery of compensation, even with thousands of claims
 - Preserving the integrity of the relationship between insured and insurers: insurers do what they are meant to do, i.e. to insure
 - When well designed, a regime protective of public monies – building financial reserves is as essential a financial precaution as risk prevention
- ➔ Very high penetration rate of coverage, without subsidies to premiums
- ➔ Public financial intervention contained to a few very serious catastrophes (e.g. a flood that would occur every 100 years in the Paris area)



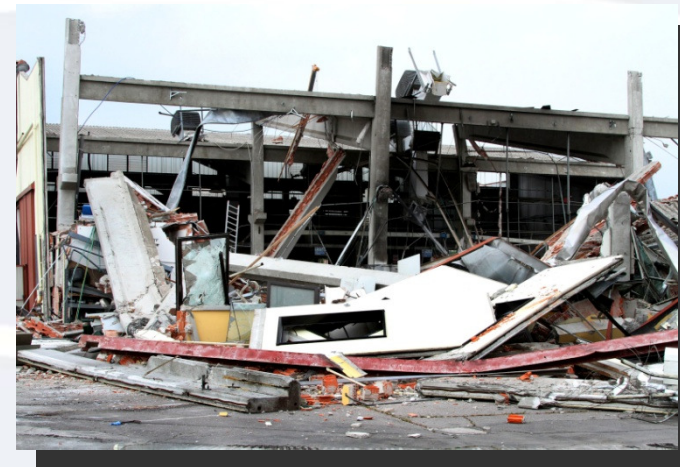
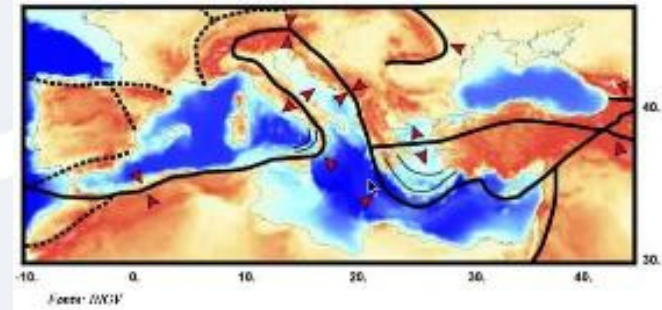
Risk Manager's Point of View

- Prevention actions to be taken into account
- International programmes with some exceptions for a few specific countries: there is a global commercial insurance market!
- Cost of specific state systems: uniform price for all? Based on fire insurance cost? What is the link between fire exposure insurance cost and natural catastrophes insurance cost?
- How are the funds collected through the state systems utilised? State systems collecting pre-tariffed for private markets? What does solidarity mean?



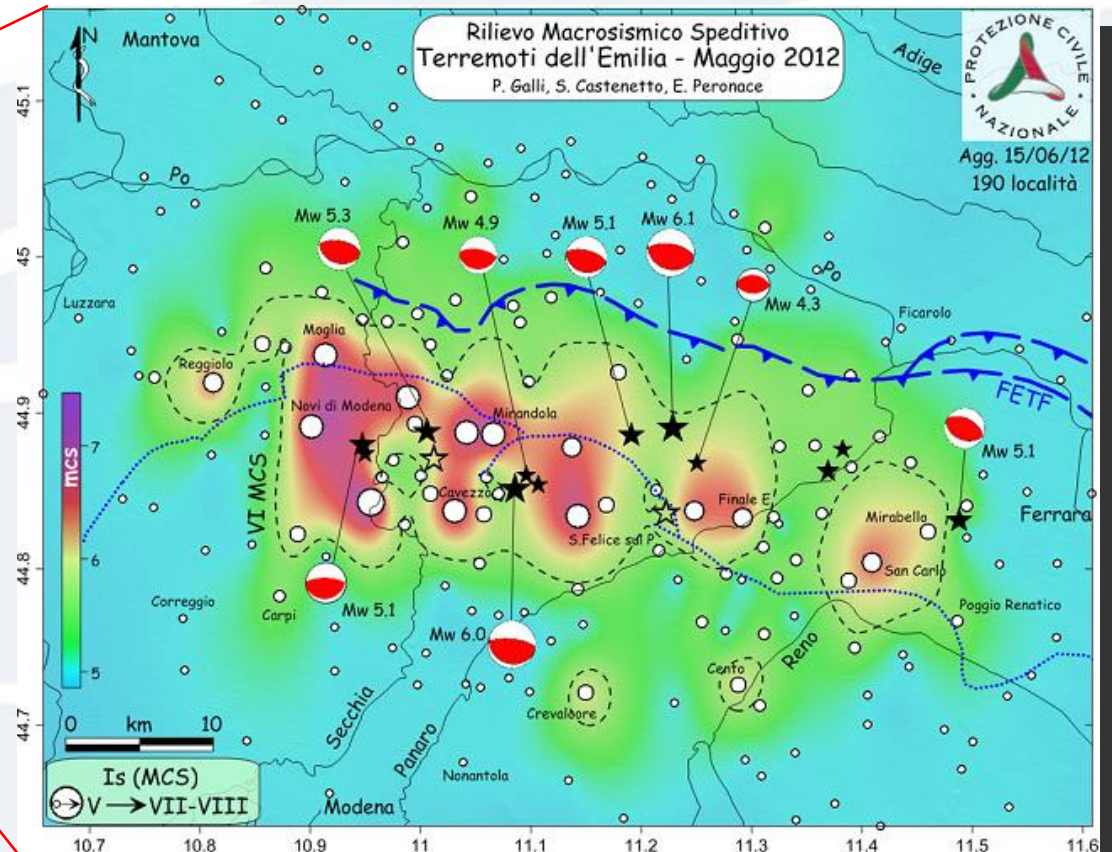
Earthquake Risk in Italy

Italy is one of the countries in the Mediterranean with the highest seismic risk, due to its particular geographic position at the convergence of the African and Eurasian plates. The highest seismicity is concentrated in the central-southern part of the peninsula, along the Apennine ridge (Val di Magra, Mugello, Val Tiberina, Val Nerina, Aquilano, Fucino, Valle del Liri, Beneventano, Irpinia) in Calabria and Sicily and in some northern areas, like Friuli, part of Veneto and western Liguria. Only Sardinia is not particularly affected by seismic events





Emilia Romagna 20 and 29 May 2012







Italy: Proposal of Law on CatNat

- State contribution 1968 – 2010 : >€147,000,000,000 an average of €3.5Bbn. per year (source Italian Civil Protection Department)
- Founding: premium as extension of fire policy with progressive reduction of IPT (now 21.35% to 12.50%)
- Reinsurance Pooling warranted by a private company with public capital
- Exclusion for not authorized constructions
- Indemnify criteria “new for old” with fair assessment made by Loss Adjusters



The ANRA position

Whilst ANRA is strongly in favour of the adoption of a mixed regime private/public, it is necessary to clarify:

- How the State operates as «last resort» insurer;
- What incentives to the voluntary insurance scheme will be adopted with particular reference to IPT reduction (in Italy IPT on Fire policies is one of the highest in Europe at 22,25%)
- Necessity to grant mutuality and avoiding that Insurance Companies would underwrite only policies in low risks areas
trought the compulsory extension of PD policies (currently stop loss are in the region of 50% for private homes but a range of 35%-40% of private homes are covered with a Fire policy!)
- How to grant low income population
- What incentives to loss control adopting



Insurers' view on reform of the natural disaster insurance scheme in France (1)

- Project move things in the right direction on several points.
 - No change to the basic principles that underpin the system
 - Principle of solidarity
 - The State as long stop
 - Universal coverage
- 2 approaches to the natural disaster risk: one which we will call the British one and one that we will call the French one.
- Each system has its pros and cons.
- Defect of the French system is the lack of accountability.



Insurers' view on reform of the natural disaster insurance scheme in France (2)

- But the issue of prevention against the consequences of natural hazards is not at all the same as fire prevention, or theft prevention.
- Individual initiative in prevention has a role to play, for large organisations.
- Modulation of rating for the natural disaster risk only makes sense for large organisations.
- In this sense, we believe that the proposal for tariff modulation coming from the government goes in the right direction.
- But the key for a sustainable insurance regime is public prevention policy.