

The Effects of *Lothar* and *Martin* on the French Insurance Market

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«What will be the reinsurers' attitude for the next campaign? It is clear that they will try to impose the highest rates possible, but with the proviso that they are reasonably easily borne by the cedants. In other words attempts are being made to find agreements by which the recovery of the considerable losses which reinsurers have suffered may be spread out over time.»

In a previous edition of *TREBOL* one of my colleagues from MAPFRE RE, Maite Piserra, presented a full overview of the latest climatic data which are available on these events of exceptional magnitude. In this article I will therefore concentrate on the consequences which they had for the French insurance and reinsurance market.

Results for 1999

This is where the first consequences were felt, although the impact of **Lothar** and **Martin** on company accounts can be very different depending on various factors, for example:

- The size of the insurance company.
- The geographical distribution of the portfolio.
- Portfolio composition by type of risk: homeowners' multi-line, agricultural risks or commercial risks.

Although the results of all the companies are still not known at the time of writing this article, it is however possible to say that in general terms the French insurance market will withstand the weight of these two events relatively well; and although there may be a few problems on closing the accounts, the majority have been able to record positive results thanks to:

- The generally favourable results in 1999 before December 26.
- The important role taken by reinsurance: although in the majority of cases there was insuffi-

cient cover provided by the excess of loss programs, reinsurance played its part fully, and those insurers which still had proportional contracts were at a considerable advantage as the insufficiencies of the XL programs affecting the retentions were absorbed by the quota share and excess of limit contracts.

- The catastrophe reserves which had been re-provisioned after the storms of 1990, free of taxes in accordance with legal regulations.
- The free reserves which had been provisioned in order to deal with these types of situations.
- An exceptional year on the Paris stock market, which allowed substantial capital gains to be realised.

Insurance Company Policy in the Year 2000 and Subsequent Years

If, as it would seem, the 1999 results for the market are generally balanced, then it is clear that the companies must go back to re-establishing the major economic balances based on improving underwriting results, the provisioning of reserves and portfolio development. Insurers are aware of the fact that the year 2000 will see the consequences of any possible insufficiencies in the reserves for **Lothar** and **Martin**, they also know that reinsurance will represent a considerable burden on

their accounts in the next renewal in 2001.

There are two routes to these objectives:

1. The first is based on a portfolio diversification policy with the aim of reducing the weight of lines of business with catastrophe exposure: the intense competition which already exists in motor, life and personal accident insurance will become even greater – which is not necessarily good news in terms of rates. Insurers will continue to search for new distribution channels: the Internet, which is very fashionable these days; the sale, through car dealers, of complete packages including the vehicle, the loan and the insurance.

More and more new covers related to assistance are offered, both in the more traditional line of motor insurance and in homeowners' multi-line, and although the premiums which are generated are not substantial, these forms of insurance are a contribution to the globalisation of the insurance offering.

A new product has been introduced which conveniently supports this policy of development and diversification, this new cover is called «La Garantie des Accidents de la Vie-Gav», in other words a cover against accidents in everyday life, which had not been covered until now except in relation to health by the social security system. Examples of these might be domestic accidents, sporting activities or the consequences of natural catastrophes. According to French Federation of Insurance (FFSA) estimates, within a few years this new product could generate a premium income of EUR 1.5 billion.

Various companies and mutuals have launched this cover in the last few weeks.

2. The second way is through a rates policy: we here find very different situations depending on the results which were recorded by the companies in 1999 and their legal constitution:

- Some increased their fire (non-industrial) and motor rates at the beginning of April by between 3 and 5 percent.

- Others have not done anything, due to having obtained adequate results.

- Certain mutuals have imposed a premium surcharge on the premiums for 1999, arguing that these two exceptional events should be borne by the mutual members of 1999 and should not have repercussions on succeeding years.

- Other mutuals have made a premium return due to their good results.

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- One large mutual which has recorded positive results has launched an aggressive sales campaign for homeowners' multi-line insurance with a 3 percent rate reduction in order to gain market share.

- Although not a direct consequence of the two events in 1999, it is important to stress that the renewals negotiations for the big industrial risks policies which are taking place in these last few weeks have shown a marked toughening of conditions.

Reinsurance Policy for 2000 and 2001

As has already been mentioned, the catastrophe programs have, as a general rule, been insufficient for the following reasons:

- The frankly unpredictable nature of the magnitude and «frequency» of **Lothar** and **Martin**, with an interval of two days.

- In many cases a policy of under-reinsurance which did not sufficiently take into consideration this exceptional aspect.

- The lack of knowledge many reinsurers have as to the real exposure of their portfolios to the perils of wind and flooding. It must be acknowledged that French policies referred to «square meters», «the number of rooms» to just «the value of the contents», or «the hectare» in agricultural risks, in other words without insurable values, this does not make it easy to monitor accumulations by area.

All this led a large number of insurers in the first few weeks of the year 2000 to buy additional capacity to that which they had renewed at 1-01-2000. At this moment some are buying extra cover now that they have received confirmation of the impact of **Lothar** and **Martin**. The reinsurers have imposed strict conditions, but they have also offered their clients high capacities for these new layers of cover. Prices have reached two or three times more than the immediately underlying layers.

After these first reactions, the market is preparing itself for the 2001 renewals, and the first stage of this is to determine its needs. In order to do this many companies enlist the help of companies which are specialised in analysing catastrophe exposures. They are thus able to ascertain where they have exposure with regard to various catastrophe scenarios.

It might be thought that the majority will buy more cover than in the past and that they

will maintain their retentions at stable levels in order to protect themselves from high frequency events. It had been thought that they would turn to ART (alternative risk transfer) products, but —as far as we know— the market still has no plans for this type of product and, given its complexity, it is already too late for the year 2001.

What will be the reinsurers' attitude for the next campaign? It is clear that they will try to impose the highest rates possible, but with the proviso that they are reasonably easily borne by the cedants. In other words attempts are being made to find agreements by which the recovery of the considerable losses which reinsurers have suffered may be spread out over time. It may also be thought that the

market leaders will wish to achieve a good balance between rates and capacities offered to the markets, not forgetting the fact that the reinsurers themselves also have to renew their catastrophe reserves — which in 1999 were severely tested throughout the whole world.

What catastrophe capacity will the French market have available for the next renewal? If it were the only European market to be exposed to storms such as **Lothar** or **Martin** then it would be possible to cover all its needs with the traditional reinsurers plus those which have suffered the catastrophes to a lesser extent and those «younger» ones which have a strong capital and equity base.

The problem is to know what neighbouring countries such as

Belgium, Germany and Great Britain will do. If it is estimated that the French market needs a capacity of EUR 4 billion, which is probably available, what would happen if three or four times this sum were needed?

The answer to this question will be known within a few months, but one thing is sure, and that is that the cedants will be increasingly careful about who reinsurers them and their capacity to quickly respond to cash claims and reserve deposits, since it is still the practice in France to require the reinsurer to contribute to deposits. One positive piece of news: it is known that the regulatory authorities are working on this matter with a view to adapt practices to what is done in other European countries. ■