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The French Insurance Market¹

by

GUILLAUME LEGRAND

1 — The premiums written by the French insurance companies in 1976 amounted to F 16,407M in life and capitalization and F 51,122M in other branches.

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These figures included the direct premiums written in France and abroad and the inwards reinsurance. To their total of F67,529M or \$14 billion must be added, to give a complete picture, the premiums originated by the professional reinsurance companies — about F3,500M — and the companies controlled abroad, as well as by the participations. The last figure is around F2,500M. This leads to a grand total of about F73,400 million or £ 8 billion.

Compared to the other markets of the European Community, the direct premiums written in France give to our market the second place. Figures published lately by the EEC Authorities are:

- 38.6% for Germany
- 20.4% for France
- 17.2% for Great Britain
- 9.4% for Netherlands
- 6.8% for Italy
- 4.4% for Belgium
- 2.6% for Denmark
- 0.6% for Ireland

¹Devant un auditoire formé de ce que Londres compte de plus important parmi les réassureurs, M. Guillaume Legrand, directeur général du groupe de la Préservatrice, a présenté une étude sur l'assurance en France, à la dernière réunion de la Reinsurance Offices Association, le 8 mars 1978. Avec l'autorisation de M. Legrand et de l'Association nous présentons ici une partie du travail où il a résumé l'assurance dans son pays, son importance, ses problèmes, son essor et ses réalisations. A.

It is also interesting to stress that the foreign business of the French market is substantial. Related in percentage to its total business, it is the third behind Great Britain and Switzerland. Taking into consideration the number of foreign branch offices or agencies, it is also the third behind Great Britain and the USA.

110 Finally the total premiums figure is fifth on the list where, behind the USA, the biggest by far, come Germany, Japan and Great Britain.

The number of companies licensed in France exceeds 400. Are well known the 4 State owned Groups: UAP, AGF, GAN and MGF, to which must be added the Caisse Nationale de Prévoyance which is only active in life insurance and does not belong to our professional associations. There are also 104 stock companies, 153 mutual offices and slightly above 150 foreign enterprises.

The figures, for 1977, are not yet available though it may be estimated that the premium increase, compared to 1976, is around 10% for the direct business and well above — probably 20% — for the inwards reinsurance. I shall, therefore, limit myself to 1976 for which we dispose of substantial information, the best source, if I can remind it, being the booklet published by our Ministry of Finances, Direction des Assurances.

II — Premiums

Regarding the premium income, I should like to make three remarks:

- 1 — In life and capitalization, the 4 State companies plus the Caisse Nationale de Prévoyance represent nearly $\frac{2}{3}$ of the total turnover whereas the stock companies hardly reach $\frac{1}{4}$.

2 — In the other branches, the stock companies are ahead with around 36% of the whole book but their growth, in the recent years, has been smaller than the growth of the mutual offices. These, in fact, can be divided into 4 quite different categories:

- a) The mutual offices acquiring their business through brokers or agents, members of the various professional associations: their working methods are similar to those of the stock companies. The first category had, in 1976, a premium income of 5,176M out of which 2,192M in motorcar and 1,000M in fire.
- b) In the second category are to be put the mutual offices only writing through their branch offices and excluding completely every class of intermediary: strongly politicized the main ones are located in Niort, their premium income for 1976 reaching 4,445M out of which 3,747M in motorcar.
- c) The third category comprises the purely local or professional mutuals with a premium income of 1,676M, mainly illness with 419M, motorcar with 264M and general liability with 423M.
- d) Finally, the agricultural mutuals with global premiums of 3,544M in which workmen's compensation — which is their monopoly since 3 years — represents 620M, motorcar 1,206M and fire 706M.

This fourth category of mutual offices has, in the course of the years, received a powerful government support, particularly through tax exemptions.

3 — As for the foreign companies, their share of 4.1% in life insurance is inferior to their proportion in the other branches which gave them 7.1% of the total 1976 premiums.

Quite normally, their largest influence is to be found in the branches where co-insurance is frequent: fire where they wrote 12.5% and marine with 18.4%.

III — Results

As for the results, I should also like to present three remarks:

112 First, in life insurance as well as in the other branches, the stock companies have shown better results than the State owned companies; the respective figures are, for life, a net profit of 2.5% of the premiums for the State owned and 4% for the stock companies; in non-life, 0.60% and 1.9%.

Secondly, in the branches other than life, all the groups of companies have had, in 1976, an underwriting loss, their average figure being of 6.4%.

The effective underwriting losses have been different in the various groups: 7.8% of the premiums for the State owned companies, 5.6% for the stock companies, 7.2% for the mutual offices and 3.4% for the foreign.

The financial income has corrected the underwriting losses turning them into profits. There, the situation is slightly different, the State owned companies having a financial income of 8.4% of their premiums and the stock companies of only 7.5%.

Thirdly the mutual offices using agents and brokers have done practically as well as the stock companies. Those only writing business through their own offices had started very well 10 years ago in motorcar due to a very strict selection; with the growth of their business the risks have deteriorated and moreover their efforts to expand rapidly in the field of homeowners has lead to some very disappointing figures.

YEAR 1976 (ALL FIGURES IN MILLIONS OF FRANCS)

I Life and Capitalization	Premiums	In %	Increase 1976/75	Profits	In %
Caisse Nationale de Prévoyance	2.176	13.3	20.7	95	17.4
State owned companies	8.292	50.5	15.7	204	37.4
Stock companies	3.765	22.9	21.0	151	27.7
Mutual offices	1.495	9.1	19.2	101	18.5
Foreign	679	4.1	17.5	-7	-1.0
	<u>16.407</u>	<u>100.0</u>	<u>17.9</u>	<u>544</u>	<u>100.0</u>

II Others	Premiums	In %	Increase 1976/75	Underwriting profit or loss	Net financial income	Net Profit	In % of total
State owned companies	14.483	28.3	11.7	-1,127	1,223	96	9.4
Stock companies	18.193	35.6	8.5	-1,012	1,365	353	34.5
Mutual offices	14.841	29.0	18.6	-1,050	635	415	40.6
Foreign	3.605	7.1	5.8	- 123	282	159	15.5
	<u>51.122</u>	<u>100.0</u>	<u>11.5</u>	<u>-3.312</u>	<u>4,335</u>	<u>1,023</u>	<u>100.0</u>

*Out of which 275 for the landowner mutual offices

The best seems to remain the agricultural mutuals particularly through their monopolized workmen's compensation affairs.

IV — Main Features of the French Market

114 The growth of the French insurance market has been both regular and fast in the last 10 years. The percentage of increase has regularly been above the percentage of inflation. In fact, since 1969, the premiums in francs have trebled.

This improvement is certainly due to a large activity both in direct insurance and inwards reinsurance completed by serious efforts in many countries abroad. It is also apparently the consequence of the capacity of the market to adapt itself to the continual changes occurring in our economy.

Among other proofs of this innovation capacity, I should like to produce a few examples.

a) Currency problems

Though quite recent in some other markets, indexed clauses applying both to the sums insured and the corresponding premiums have been in force since more than 20 years in homeowners policies.

The index used has been constantly the cost of construction which is official and published quarterly by the « Fédération du Bâtiment ». However this index is actually criticized: satisfactory for the buildings themselves it can quite normally not be as effective when used to determine the moving values of furniture, valuable objects such as jewels, paintings and tapestries. Solutions will have to be found.

Since last year a new formula has been devised and offered to the industry. In order to avoid the prorata clause, our industrialists can decide, after an initial expertise, to have

their policies include the « Assemblée Plénière's » index clause which is a combination of 3 official indexes, the proportion being 25% for the buildings, 45% for the machinery and 30% for the goods. The first index is the same as for the homeowners; the second one which is the index used by the machinery breakdown insurers is a combination of the salaries index in the mechanical and electrical industries and of the wholesale index of the metallurgical products, the third being the general wholesale index of all industrial products.

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b) Claims

Similarly to Great Britain where claim settlement agreements of various forms were already in force before World War II, we have, in the course of the years, established quite a number of arrangements accepted by a very large majority of companies and for some of them followed by other European markets.

The list for motor car insurance is long. It started with the Expertise Convention according to which if the expert appointed by the first company was on the list of approved experts, the second company involved would automatically accept the conclusions.¹

Regarding the damages to the vehicles themselves a first system, the Convention de Règlement forfaitaire anticipé (RFA) was introduced in 1960 and considerably improved with the Convention d'Indemnisation Directe de l'Assuré (IDA) in 1968.

¹ Il est intéressant de voir ce qu'au Canada on s'est efforcé de faire dans ce sens. C'est exceptionnellement, dans le cas de dommages matériels, que les experts de l'extérieur interviennent. Après avoir fait constater les faits soit par téléphone, soit par un préposé de la compagnie, celle-ci règle comme le prévoit l'article 116 de la nouvelle loi d'assurance automobile en faisant intervenir soit l'assurance des dommages matériels, soit l'assurance collision, selon le cas, chaque assureur traitant avec son propre assuré. Bien appliquée, cette disposition ne peut que faciliter ou hâter le règlement, pourvu que l'assuré collabore au point de fournir les renseignements assez précis à son assureur pour lui permettre de juger les faits en connaissance de cause. Éventuellement, cette première phase de l'évolution sera suivie d'une seconde avec l'emploi du constat à l'amiable. C'est par là que l'usage dans le Québec rejoindra la pratique française.

Since quite recently, in October 1977, we have the IDAC (Indemnisation Directe des Accidents Corporels). The idea is, taking into consideration the same proportion of liability as in the IDA, to have the company paying to the victim the health consequences of an accident such as medical, chemistry or hospital expenses, the disablement being limited to 90 days.

116 According to our statistical experience, the IDA covers about 90% of the accidents limited to material damage, the IDAC will apply to about 56%.

V — Various Problems

It is generally recognized that the technical standards of the French market are of a decent level and this has certainly contributed to the development of its international influence. One must also stress that the specialized supervision authority, the Direction des Assurances, depending of the Ministry of Finances, exercises a permanent and effective control of the situation of the various companies and offices. This has certainly contributed to the complete absence, in the last 30 years, of any serious insolvency case.

Though fairly satisfied of the control, our companies often feel, however, that in frequent cases it is going beyond the necessities or even the regulations.

Officially the tariff controls are limited to the compulsory insurances, the main one being motorcar third party liability. In fact, our Insurance Control considers the motorcar branch as a package and manages to regulate the tariffs for damages to the vehicles, fire, theft, as well as the basic liability. Something similar is occurring in industrial fire where no authorization has, in principle, to be requested if an increase of the rates is foreseen and where, quite regularly due to the absence of clarity in our price regulations, the Direction des Assurances is exercising an influence.