

Insurance against natural catastrophe in France

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Résumé de l'article

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by

ERIC A. PEARCE, F.C.I.I.

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On 13th July 1982, the French government introduced legislation for the purpose of compensating those who sustain physical damage loss as a result of natural catastrophes. The text of the law has been widely circulated and several insurance journals have given detailed analyses. For the sake of our readers who may have over-looked this in the course of general reading, the briefest synopsis is :

- a) Policies covering physical damage are compulsorily extended to apply to natural catastrophes.
- b) Additional premium is paid by the insured at uniform country-wide rates, for example : 5.5.% of the basic fire rate, 9% of the motor fire and theft premium, or 0.8% of own damage premium, if fire and theft is not included.
- c) Insurers are offered quota share and stop loss reinsurance with the *Caisse Centrale de Réassurance*, guaranteed by the government.
- d) "Natural catastrophe" is not defined, but it is stated that : "L'état de catastrophe naturelle est constaté par arrêté inter-ministériel". (Tr : The existence of a natural catastrophe is determined by inter-ministerial order).

Many countries throughout the world have, either by legislation or tradition, the means for the government to declare disaster areas following a tragic event, and to sustain those who have suffered loss. Such compensation is usually paid out of public funds and as such is a charge on general taxation, as is any other State payment. As taxation is always a delicate matter, it may be confidently assumed that governments will not be unreasonably lavish.

In the legislation under review, the unusual aspect is that insurance companies are forced into involvement. The reason for this is not altogether clear. Possibly it is because the companies are assumed to have adequate staff and expertise for dealing with the various operations, such as the issue of documents, collection of premiums and payment of claims. Be that as it may, there must be some apprehension as to the possibilities. In the absence of any definition of the perils insured against, there must be the possibility of tremendous pressure on ministers to come down on the side of the electorate in cases of doubt. The French are not necessarily the least articulate or forceful in matters of politics, and one can imagine the cogent arguments that might be marshalled to persuade politicians that inclement weather was indeed a veritable catastrophe.

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As regards claims, it is stated that they must be settled within three months from the date an estimate of the damage is received, or similar. Whilst on paper this seems a reasonable condition, it is probably one with which it is quite impossible to comply. Even assuming that every estimate is complete, accurate and without the slightest degree of exaggeration or inflation of values (something which a claims-inspector might be likely to frame in gold and hang on the wall) the pressure of clerical work in an area where a true disaster has occurred would for a time be quite overwhelming. The insurance industry recognized this in the case of natural catastrophes declared to have occurred on 6th and 10th November 1982, and set up an organisation of claims experts to which all insurers who were involved could, if they wished, submit their claims files for settlement. In practice, in disasters such as the hurricanes in the USA, it is normal to find some claims still outstanding, in part at least, years after the occurrence. Certainly not because of any lack of diligence on the part of insurers or reinsurers. Further, it must be obvious that if a large number of buildings require to be repaired or rebuilt in one area, the work of re-construction will not be completed within three months of architects providing estimates.

The premium for this extension of cover is to be shown on the policy and collection-notes as a separate item. One asks oneself what is likely to be the procedure if an insured pays his standard premium, but resolutely refuses to pay the premium for catastrophe insurance which the insured in his wisdom may decide he does not require and will never use. Presumably the courts have powers to enforce payment, but who is to meet the cost of legal proceedings to recover an additional 5.5% of a fire premium, usually not a great sum in itself. Indeed, an argument which might seem to support an insured in his refusal to pay, is that this insurance is not compulsory in the accepted sense. The protection is an extension of existing cover, but he who does not have standard insurance apparently is not required to submit to the terms of the new legislation. This in itself seems strange, as one might expect a benevolent government to seek to protect more especially the poor and the ignorant.

At the present time, uniform rates of premium have been fixed on a country-wide basis. As the risk covered is not defined, it is difficult to imagine how such rates were determined. However, whatever the risk may be, it seems probable that there will be widely differing experience in various regions of the country. Thus it is likely that the financial results of different insurers will vary very considerably. This is particularly regrettable when one remembers that the presence of many mutual companies is an important feature of the French market. Some mutuals operate in a small well-defined area, such as a *Département*. A disaster in such a locality could be expected to have serious repercussions for the mutuals heavily involved.

If the experience of some insurers proves to be poor and they press for increased rates, one can expect to hear the argument that premiums collected far exceed claims paid, so how can an increase in the former be justified? Taken at its face value, this seems to be valid and indeed it would be if there were to be an equitable equalization between regions and companies.

However, the more closely one examines the difficulties likely to arise from this new law, the more one asks oneself if a more practical solution might not have been found. First, it would be reasonable to extend the scheme to all, whether or not insured against other perils, so that the right to claim would be automatic, as soon as a natural catastrophe had been declared. Then, assum-

ing that for some reason of which one is unaware, it is essential to involve insurers, two possibilities immediately spring to mind.

1. France has a very important group of State owned insurance companies. It would be reasonable to expect government to make use of such companies for the organization and administration of a scheme brought into being for the benefit of all, and to meet the whole cost out of general taxation.

2. Alternatively, it should be possible to provide for the operation of the scheme through existing government services or by insurers on a zone basis and to raise a levy on all insurers operating in stated classes of insurance to meet the cost. This would leave the insurers free to pass on the cost, if necessary, by a uniform increase in premiums for all policyholders within such stated classes of business.

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The damage in early November 1982, referred to above, was caused by windstorm, tempest and bad weather over a wide area, and is estimated as likely to cost F.Frs 2.500 millions (say, C\$ 400 millions).

In addition, in the first period up to the end of 1982, there were the following natural catastrophes, believed to be less important :

Floods in the Burgundy region on 16th August 1982.

Floods in the Loire and Rhone region on 25-26 September 1982.

Landslide in Mougins on 4th October 1982.

Heavy snowfalls in Central France on 26-28 November 1982.

Floods in various parts of France over the period 8-31 December 1982.

Although at present the legislation applies only to France, it is expected that it will be extended to French Overseas Departments, which will, no doubt, provide their own special problems.