



Room document
EN orig.

IMPACT OF THE EVENTS OF SEPT. 11
COVER OF TERRORIST RISKS
STATE OF PLAY OF AIR INSURANCE MARKET

Questions:

Do IC members have any comments on this analysis?

Have there been any other or more recent developments at a national level?

Do IC members still consider it necessary for the Commission to monitor market developments?

The last Committee meeting debated at some length the different consequences of the events of 11th September on the EU insurance industry. With regard to the impact on the liability and asset side of insurers' balance sheets, the overall feeling was that on the liability side, this should not present a systemic problem for the insurance and reinsurance sector and on the asset side, the recovery of financial markets and the soundness of the EU regulatory framework were not making it necessary to put in place specific measures.

Regarding the availability of insurance cover for terrorist risks, it was clear that much market uncertainty remained and it was agreed that the Commission should monitor the situation closely on the basis of information Member States were required to send to the Commission by 15 January 2002.

Two reminders were sent to IC members on 11 December and on 13 March. 12 Member States reacted to one or both of these requests for further information.

1. Regarding the impact on insurers' balance sheets, very few Member States reported any substantial change. Austria mentioned an amendment of the Insurance Supervisory Law on the valuation of certain assets of insurance undertakings; Italy informed that the possibility of introducing some adjustments to their accounting rules was no longer considered necessary and the UK indicated that the resilience test, which had been temporarily relaxed, had now been reinstated.
2. Regarding terrorist risks cover, the main developments reported to the Commission are the following:
 - 2.1. France reported on the creation of a scheme that would allow maximum recourse to the private insurance capacities available and save the intervention by public guarantee only for very exceptional disasters. French insurers have formed a pool, organised in the form of an economic grouping of interest, to which any operative insurer on the French market may adhere. This pool aims at covering, when it originates from a terrorist act, the loss or damage to property of the companies or the public entities whose insured value is higher than 6 M€ and located on the national territory.

This mechanism excludes the guarantees for civil liability. In order to avoid a phenomenon of adverse selection, each adhering insurer must commit to the pool all his contracts entering its field.

This pool is reinsured by private reinsurers for total claims over the year up to 1000 M€. A second line of "finite" cover between 1000 and 1500 M€ (refundable advance) is provided by the Caisse Centrale de Réassurance (CCR). Beyond the latter limit, i.e. in excess of 1500 M€, the pool has unlimited reinsurance cover provided by the CCR. The CCR is a state owned reinsurance company and is guaranteed by the state. Indeed, French law allows the State to guarantee the reinsurance of such risks by the CCR.

This scheme has been set up for one year.

- 2.2 Spain reported that the Consorcio de Compensación de Seguros (the Consortium) had extended cover until March 31 for air navigation risks for civil liability in relation to third parties other than passengers, for war and terrorism risks to the State's charge. The Consortium is negotiating with the Spanish Underwriting Insurance Association to establish a reinsurance system for terrorism risks under insurance policies that includes cover for loss of profit.
- 2.3 The UK indicated that discussions had taken place with the insurance industry on changes to the Pool Re scheme for terrorism insurance for commercial property to reflect the situation post-September 11 and other market changes since Pool Re was established in 1993.
- 2.4 The Netherlands mentioned the setting up of a Task Force monitoring the situation on the market and the emergence of any capacity problem. The Task Force is expected to prepare a Report by April 2002.
- 2.5 Germany also reported on discussions between the insurance industry and government. No decision has been taken as yet. Germany also mentioned that German industry was reflecting on the foundation of a special reinsurance company.

3. State of play of the air insurance market

- 3.1 The following comments are based on the information reported at the meeting of the working group on air insurance, chaired by DG TREN, held on 18th March 2002.

AEA scheme for the coverage of war and terrorist risks

- 3.2 The Association of European Airlines (AEA) working with lawyers and a group of brokers (London Market Brokers Committee) is seeking to establish an air industry scheme for the coverage of war and terrorist risks. The features of this future scheme are not yet very well defined, but it seems that the scheme would be funded by premiums charged to air travellers and would cover airlines, airports and air services suppliers. In the event of a terrorist attack the amount of the premium would be increased in order to recover the fund. The scheme would be integrated at a later date into a world-wide scheme currently being drawn up by the ICAO (international civil aviation organisation)
- 3.3 Apparently the scheme would not involve, in principle, direct contribution by States or the payment of claims, but it would require a State guarantee during a four or five years period until the scheme is well-established. Pending the establishment of the scheme, the AEA has requested the extension of the current provisional State aid schemes for a further sixty days period.

Extension of the current provisional State schemes for a sixty days period

- 3.4 The President informed the members of the Group of the decision adopted on 14 March by the Barcelona ECOFIN. Further to the decision of the US Government to assist its companies for another 60 days beyond the end of March, the Council mandated the Economic and Financial Committee (EFC) to analyse the impact this will have on the European airline industry. The Transport Council decided to support an extension of the schemes for other 60 days (until end May) in order to meet US competition in the air sector and to give the AEA time to establish the air industry insurance arrangements. The Commission will continue to examine these schemes in accordance with the EU competition rules.
- 3.5 The next meeting of the group will take place on 17 April. One of the main items expected to be on the agenda is the state of progress of the scheme for coverage of war and terrorism risks being developed by the AEA.

4. CEA view on terrorist risks in general

- 4.1 Although the Commission does not have detailed information, the Commission understands that the CEA claims that at the current time it is still not possible to obtain commercially satisfactory cover for terrorist risks.

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