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French Insurers Reconsider Natural Catastrophe Assumptions Following Another Very Expensive Year

There is an emerging consensus that prior estimates regarding the frequency and severity of natural catastrophes are not reflective of current conditions

Principal Takeaways

- 2022 was another very expensive year for insured natural catastrophe losses in France
- Recent weather-related claims experience is forcing French insurers and reinsurers to reconsider their assumptions with respect to natural catastrophe frequency and severity
- Insurers and reinsurers are expected to increase premium levels and reduce their risk appetite for natural catastrophe events in response to increasing actual and expected losses

France experienced another year of extreme weather in 2022, including record-breaking temperatures and lower than usual precipitation, resulting in heavy weather-related natural catastrophe losses for insurers and reinsurers exposed to the country.

The experience of 2022 aligns with an ongoing trend towards hotter and drier weather in France. According to the national meteorological service, Météo-France, six of the country's 10 hottest years since 1900 have occurred in the last decade, with 2022 and 2020 occupying first and second place, respectively.

The trend towards extreme weather is continuing in 2023, with February expected to have been the driest month since 1959.

There is a growing consensus within the insurance industry that hotter, drier weather in France contributes to the increase in the frequency and severity of weather-related events such as drought, storms and wildfires. As a result, French insurers and reinsurers are reconsidering their assumptions, pricing and risk appetites for weather-related natural catastrophe events.

2022 Characterised by Large Events

In a year of record heat and low precipitation, France experienced severe droughts that caused significant property damage losses.

The extreme weather also contributed to numerous severe thunderstorms. Two in particular produced some of the most damaging hailstorms on record. Exceptional not only for their frequency but also their severity, the hailstorms reset the benchmark for potential damage from this peril.

The weather also contributed to extreme wildfires, which burnt around 66 thousand hectares, according to France Assureurs.

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Impact On the Insurance Industry

France Assureurs estimates that insurers' weather-related natural catastrophe losses for 2022 will amount to around EUR 10 billion, driven by hail storm and subsidence caused by drought.

The losses in 2022 are historically large. France Assureurs maintains a list of the most severe natural catastrophe events to impact the country (see **Exhibit 1**). While overall estimates for 2022 relate to more than one event, it seems likely that the year will shake up the order of the list.

The 2022 thunderstorms are an example of emerging experience deviating from historical data. While a final insured loss figure is still to be fully determined, estimates indicate that they will set new records. The most current insured loss estimate from France Assureurs is EUR 6.4 billion.

Exhibit 1

France – Significant Natural Catastrophe Events – 1988 - 2021

Date	Event	Insured Losses (EUR millions at 2021 values)
Dec-1999	Cyclones – Lothar and Martin	12,728
Feb-1990	Storms	3,141
Jan-2009	Strom – Klaus	2,165
2003	Subsidence	2,113
Sep-2017	Cyclones – Irma, St Martin and St Barthélémy	2,016
May-2016	Flooding – Seine and Loire	1,605
2018	Subsidence	1,478
Sep-2002	Flooding – Gard	1,180
2020	Subsidence	1,149
Dec-2003	Flooding – Rhône	1,089

Losses are adjusted for inflation.

Sources: France Assureurs, CCR

Prior to 2022, the benchmark for French hail losses was the Pentecost storms of 2014 (Ela), which produced losses of EUR 600 to 700 million (in 2022 values). This was previously considered to be a 1-in-20 to 1-in-50 year event. Given the experience of 2022, however, the return period for an Ela-sized loss is likely less than 1 in 10 years, according to Swiss Re.

Likewise, there has been a steady increase in soil subsidence-driven property damage losses. Loss estimates for 2022 range from EUR 1.9 to EUR 2.8 billion, according to France Assureurs. This compares to losses of EUR 2.1 billion for the previous record-breaking year, 2003.

Looking ahead, France Assureurs believes that soil subsidence claims are likely to continue their upward trend, with the association expecting around EUR 43 billion of claims for the period 2020-2050, compared to an annual average of EUR 13.8 billion for the prior 30 years.

Technical results for natural catastrophe cover in France, on a gross basis, have deteriorated markedly since 2017 – even before taking 2022 into account (see **Exhibit 2**). Natural catastrophe cover is compulsory, and most French motor and property coverage includes a defined premium loading for the coverage. Prior to 2017, the premium loadings were generally sufficient for the natural catastrophe risks covered, with combined ratios trending well below 100%. While results in 2017 were exceptional, marked by hurricane Irma-related losses in French territories in the Caribbean, 2017 was also the first in a series of years with elevated drought and soil subsidence losses. Together, these events have led to the gross natural catastrophe combined ratio for the market since 2017 trending well over 100%.

High Catastrophe Losses Contributing to a Hard Reinsurance Market

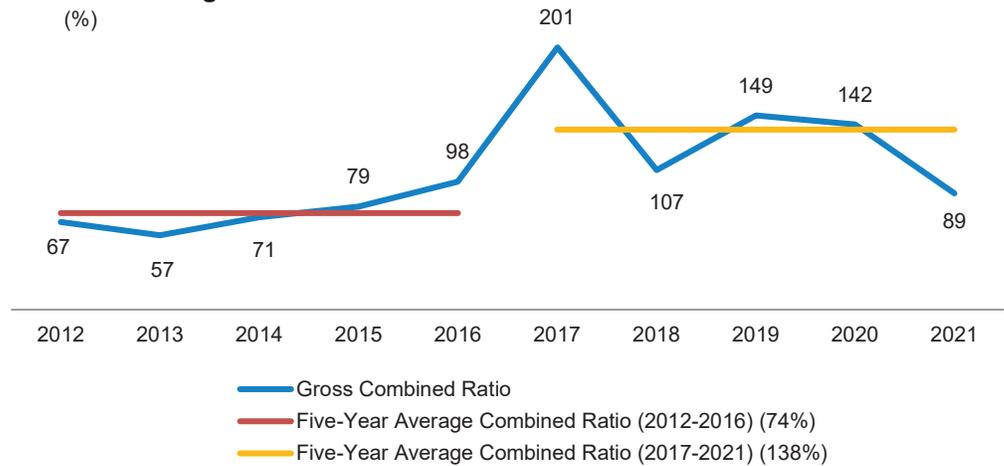
The high insured natural catastrophe losses of recent years have contributed to the hard reinsurance market conditions seen in 2023.

In its Best's Special Report, "Hesitant Capital Had Looming Role at January 1 Reinsurance Renewals" (January 2023), AM Best stated that the much-anticipated reinsurance price hikes and tighter terms in the run-up to the January 1, 2023 renewal season lived up to expectations. Market participants have also described negotiations as difficult, with prices, terms and retention levels all changing.

Exhibit 2

France – Natural Catastrophe – Gross Combined Ratio and Five-Year Average

(%)



Source: France Assureurs

In addition to the effects of increasing loss frequency and severity, the inflationary environment is likely to further exacerbate market conditions. AM Best expects that pricing, in both the French insurance and reinsurance segments, will continue to be affected by the increasing costs of natural catastrophes through the medium term.

Support from the State

The French state has a track record of supporting individuals and companies impacted by natural catastrophe events, including the insurance industry. Most notably, the state has assumed the most extreme risks associated with large events or natural catastrophes, decreasing the insurance industry's exposure and volatility of earnings. AM Best views positively the impact of the state support on the insurance industry.

Most state-backed natural catastrophe cover is provided through Caisse Centrale de Réassurance (CCR), which can include unlimited excess of loss cover. Coverage varies by risk type. Notably, while soil subsidence-related losses caused by drought have been included since 1989, hail is not.

Various reforms of the natural catastrophe programme have been carried out over the years, but the underlying risk-transfer proposal has not changed, with the state providing an explicit backstop in the event of a declared natural disaster since 1982.

While the overall role of the state has been stable, the programme has undergone frequent evolutions. The thresholds defining qualifying natural catastrophe events are regularly amended, for example, impacting ultimate responsibility for losses.

Most recently, in February 2023, the Council of Ministers approved an ordinance easing the rules around declaring a soil subsidence-related natural catastrophe that should “simplify and extend the compensation system for [drought-related] natural disasters”.

These changes are likely to impact how risk is shared between the state and insurers. Furthermore, the evolving definition of natural catastrophes obscures underlying trends in loss frequency and severity, making analysis and loss modelling more challenging.

Because the risk sharing is predicated on the declaration of natural catastrophes, the frequency and success rate of local governments’ applications for recognition of events as natural catastrophes is also an important factor that can change over time.

There is emerging evidence that the number of applications is increasing, and that applicants are becoming more persistent, particularly with respect to soil subsidence claims. This view is supported by dramatic increases in applications and appeals on declined applications, as noted by the Cour des Comptes (France’s supreme audit institution).

At this point, it is unclear whether the higher application and appeal rate is driven by an increase in events, an increase in awareness at local government level, or a mixture of both. This dynamic does introduce additional uncertainty in modelling and understanding of both the underlying risk and the risk sharing mechanisms in place.

While natural catastrophe losses will be volatile, 2022 is likely to play a strong role in how insurers assess and manage their risk profiles prospectively. Ultimately, if average combined ratios for natural catastrophe business remain above 100%, premium rates may need to increase to account for the sector’s evolving risk profile.

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