



French riots

June-July 2023

FAQ

What is the trigger of the riots?

In the hours following the death of Nahel, a young man killed by a policeman on June 27, 2023 in Nanterre (department 92), uprisings began in the western suburbs and spread to the whole of France. Although there are some differences, this phenomenon appears to be fairly similar to the three weeks of rioting in France in November 2005, following the deaths of two teenagers electrocuted in a transformer while fleeing from the police. It also brings to mind the BLM (Black Lives Matter) movement in the USA in 2020.

What is the impact in terms of insured losses?

A large number of stores, restaurants, apartment buildings, banks, insurance companies, city center offices and shopping malls, public buildings, street furniture and vehicles have been affected.

At this stage, it is difficult to put a figure on the claims. Some stores and restaurants were completely destroyed by the ensuing fire.

On July 4, France Assureurs reported initial figures for insured damage and losses of €280 million. This estimate was raised to €650 million on July 11 and might continue to increase significantly.

Medef, as well as some insurers behind the scenes, are talking about the possibility of greatly exceeding €1 billion.

For the record, the riots in November 2005 cost insurers around €200 million, or €260 million updated for inflation.

The impact on the insurance and reinsurance markets of the Black Lives Matter (BLM) movements in 2020 following the death of George Floyd at the hands of the police on May 25, 2020 is estimated at over \$2 billion.

What cover is in place for business risks?

In corporate risks, the TRE (business risk) market systematically includes this Strikes, Riots, Civil Commotion (SRCC) cover, which is basic cover on the French market, incorporating the so called "P13bis" annex.

Cover is provided for damage (and consequential losses) caused for loss control by police or military authorities intervening to maintain law and order.

All-Risks Household and All-Risks Business contracts do not systematically provide this cover.

It is worth noting that SRCC cover is in the line of fire of the non-life market worldwide, following a number of damaging events in recent years. In addition to the aforementioned events, note the weeks of riots at the end of 2019 in Chile for over \$3 billion insured, Colombia in 2021: \$3 billion, the uprisings in South Africa on July 15, 2021 (\$2 billion), the Gilets Jaunes (Yellow Vests) in France in late 2018 and the first half of 2019 (over €1 billion).

As a result, since 2021, non-life insurers have been demanding sub-limits (per event and often per year) on SRCC for exposed activities (retail, catering, banking, post and courier, social or city-center real estate, public and/or emblematic real estate, street furniture, etc.). In some cases, for more specific activities, SRCC limits also apply to "fire following". To do so, contracts must provide for a globalization clause; otherwise, the "fire" limit (which is higher) remains applicable.

Insurers also often impose higher deductibles.

Against this backdrop, the Political Violence and Terrorism (PVT) market, itself impacted by these events as well as by the war in Ukraine (under "war risks" cover), is providing solutions to enhance the capacity thus reduced by non-life insurers.

What is the time limit for Riot events?

In non-life contracts, it has never been customary to set a time limit for "Riot" events. As a result of the aforementioned claims experience, many contracts have gradually incorporated a 72-hour definition clause, as has been the case for decades with natural events.

However, this clause is gradually being incorporated into policy texts, even if it is still far from systematic.

This 72-hour clause should be extended to all texts, as it is in the best interests of policyholders. The template of Diot Siaci wording has been fitted with this clause.

What is the impact of the event definition?

Definition of the event, and therefore its time limit (72 hours), has a significant contractual and financial impact, as it directs the application of one or more:

- limits or sub-limits
- deductibles
- additional self insured retentions (captive)

As the profile of Riot claims is generally characterized by multi-site impacts, rather than by heavy claims on a given site (which, unfortunately, have already occurred as a result of consecutive uncontrolled fires), the issue we are most often confronted with is that of arbitration of retentions.

Insurers are bound to want to increase the number of events, while brokers and policyholders will campaign for the opposite. The 72-hour clause makes arbitration easier. This clause is a plus, even if it does not cover all scenarios, such as riots lasting several weeks in Colombia in 2021 and in Chile in 2019, weekly protests like for the Gilets Jaunes in 2018 and 2019, or events straddling two insurance years: e.g. June 29 and 30 and July 1, 2023 for an account maturing on July 1.

It should be noted that some insurers argue that the occurrence of riots in several parts of the country would constitute different events, because of their distinct origins. We dispute this, as the origin is clearly common to the June 27 event in Nanterre. Insurers have an obvious interest in developing this thesis. In addition to the impact in terms of retention, this allows them to promote the idea that these phenomena are not concerted, which would be a plus in obtaining (hypothetical) recourse against the State (see below).

What role does the French state play? From encouraging benevolence to a low level of openness to recourse against the State

A few days after the events began, the French Minister of the Economy, Bruno Le Maire, instructed insurers to issue riot cover to policyholders (All-Risks Household, All-Risks Business) who did not have any.

In the case of business risks, as indicated above, this cover is generally provided. However, the Minister has asked insurers to be lenient on deductible levels.

Even if we think that this discourse is geared toward private individuals and trade, it can enable brokers to counter the positions of insurers who are radical about the interpretation of deductibles or events.

According to Article 92 of the Deferre Law of January 7, 1983, codified in Article L.2216-3 of the French General Code on Local Authorities, "the State is civilly liable for damage resulting from crimes and misdemeanors committed, by open force or violence, by armed or unarmed gatherings, either against persons or property".

Three conditions must be met for this liability regime to apply:

1. Any damage must be attributable to an assembly or gathering.
2. The individuals responsible for the damage must have engaged in acts constituting crimes or misdemeanors, and these acts must have been committed with open force or violence.
3. Lastly, these acts must have been carried out in an unorganized manner, in other words without premeditation.

According to our observations, particularly after the riots of 2005 and those of the Gilets Jaunes, we have not seen any appeals succeed, except very occasionally for small amounts. However, as a broker, we handle a large number of appeals on behalf of policyholders and delegated insurers.

What impact will this have on the Diot-Siaci portfolio?

To date, we have received over 300 claims. They mainly come from our many customers in the retail, banking, restaurant and social real estate sectors.

What is the expected impact on the market?

The French non-life market, and the continental market in general, is easing off. After almost 5 years of hard market conditions, the market remains extremely disciplined, but is quick to reward the most deserving risks in terms of claims and/or prevention with moderate reductions. We are also seeing double-digit declines for worthy cases that would have been particularly “mishandled” due to the occurrence of high intensity claims a few years ago.

We don't see the occurrence of a claim of a few hundred million euros, or even more than €1 billion, changing this trend, which is based on a return to competition for insurers who have cleaned up their portfolios over the last 5 years, with the arrival of new players. The sharp increase in reinsurance treaties for 2023 did not have the feared impact in terms of mark-ups, due to this competitive environment and the fear of losing sections of quality portfolios, whose premiums are naturally increased by economic inflation.

On the other hand, it is clear that this sequence will increase the adversity to the risk of riots (SRCC). Compensatory solutions may need to be identified on the PVT markets, as well as with self-insurance tools (captive, virtual captive, mutual retentions).



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