

**COST ACTION C17: FIRE LOSS TO HISTORIC BUILDINGS AppendixWG331
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The Insurance Policy Of The City Of Paris

Adapted from a presented paper by Ms Marriane Delage Joubert

1. The city of Paris has reinforced its team dedicated to insurance issues. This reflects an increased risk – awareness, at the local and national level.

At the National Level:

- The French government is imposing new insurance requirements: For example, in 2002, the “Kouchner Law” imposed a liability insurance for medical practitioners. This law concerns the City of Paris which employs almost eight hundred (800) doctors and nurses.
- Furthermore, emblematic damages have also raised public awareness of risks: For example: In 1994, a historical building in Rennes, the “Parlement de Bretagne”, partially burnt. The reconstruction of this building lasted over 10 years. The total cost of this reconstruction is estimated at €56 million.

2. In Paris itself, recent disasters demonstrate this increase of risk.

Moreover, they demonstrate that the risk may arise from new causes. These new causes are, for example, changes in legal doctrine, in climatic conditions or in international relations.

a) The first example occurred in 1990, when a fire broke in storage facilities located in La Villette, in the north of Paris. These facilities belonged to the City which rented them to private businesses, community groups and individuals. The fire was caused by vengeance: the City of Paris was in no way responsible of the fire! However, since the criminal was insolvent, the tenants sued the City of Paris for financial compensation. After a protracted trial, and an unexpected court decision, the City of Paris was condemned in 2001 to pay for these damages at a total cost of €26 million.

b) The second example occurred in 1999 when a major storm destroyed buildings and whole forests all over France. For the City of Paris alone, €35 million were spent to reconstruct damaged parks and buildings.

c) Finally, the terrorist attacks in Madrid, vividly reminded Paris of the terrorist threat it also faces.

3. As a result, Paris has reinforced its team dedicated to insurance issues.

In 2003, the City of Paris reorganised its financial department, the “direction of finances” and especially the management of insurance issues.

Before 2003, for these insurance issues, the financial department collected the little data available and, within its limited capabilities, offered case by case support to other departments.

Since 2003, the financial department now centralises all the City insurance issues:

- a) It determines the overall insurance policy of the City
- b) It centralises all its insurance purchasing
- c) Its dedicated team offers technical support to all the other departments of the City

4. A comprehensive audit of the city insurance practices was realised in 2003.

Before defining an overall insurance policy, the City needed to have a clear picture of the existing insurance practices. Hence, the insurance situation was evaluated through a series of questionnaires and interviews of “risks and insurances” with all the administrative departments of the City. Furthermore, the team analysed all the existing insurance policies subscribed by the City of Paris. It also analysed the insurance strategies of other municipal and regional entities. Finally, it studied the available possibilities of insurance and their cost.

This comprehensive audit revealed that:

Overall, the City of Paris self-insures the major risks it faces. In particular, the historical and cultural properties of the City are not covered by any type of insurance. Yet, this principle of self-insurance was not applied uniformly throughout the City. Indeed, a number of policies had been subscribed on an ad-hoc basis. In the last 10 years, the City recorded part of its insurance related expenses. These insurance related expenses could be insurance premiums or they could be the cost of claims that could have been insured and were self-insured. The total cost of these insurance related expenses was over €100 million in 10 years. Of this €100 million, self-insurance expenses (that is, expenses that could have been insured but were not) represented 75% of the total expenditure. More importantly, €60 million out of these €100 million were related to the two major disasters mentioned earlier, the fire of the storage buildings of La Villette and the storm of 1999.

5. Following this audit, we defined the global insurance policy of the city of Paris:

Firstly, it was decided to reaffirm the overall principle of self-insurance; whenever this self-insurance is possible. Given its good financial situation, the City of Paris can withstand the cost of most of the risks it faces, or at least the most usual ones. Hence, some unnecessary insurance policies have been terminated.

Second, some risks were defined as non self-insurable. These non self-insurable risks are:

- The ones required by law: cars, medical liability, and so on ...
- These non self-insurable risks may also be risks which can be managed more efficiently by an insurer, especially because they involve a large number of small claims. For all these risks that require outside insurance, a Europe wide purchasing procedure has been launched in the Spring of 2004. It is about to be completed.

Third, some risks may have to be defined as non self-insurable. Here, two questions remain: what are the risks the City may not be able to withstand? And for these extraordinary risks, what type of protection should be looked for? These questions are relevant for two sorts of potentially major risks: general liability and property risks.

In the following section we will see how we are trying to answer these questions for property related risks.

Regarding the exceptional general liability risks, the City of Paris decided to subscribe a policy known as an “umbrella insurance or 2nd line”. The purchasing process is not yet completed but, so far, we may describe the mechanism of this policy:

The first €10 million of general liability claims of the City are paid by the City itself (with some minor exceptions) If the total amount of these claims is over €10 million the insurance policy is triggered. In this case, the City still pays for the first €10 million but the insurer pays for up to the next €15 million. Hence, if the total amount of damages is above €25 million, the City of Paris starts paying again.

As a conclusion of the work done so far, we may indicate that the budget devoted to insurance will increase from €1.8 million in 2004 to €3.8 million in 2005.

6. Finally, I will now present our ongoing project: the protection of the historical and cultural properties.

As we said, regarding the historical properties of the City of Paris, two questions remain: what are the risks the City may not be able to withstand? And for these extraordinary risks, what type of protection should be looked for?

To answer the first question, the city is currently assessing the risks linked to historical properties.

- a) The first step of this assessment consists of building an exhaustive inventory of the properties at risk. We are beginning to build a database with the types of buildings, surfaces, and if possible the level of prevention in place.

The gathering of this data may be quite long given:

- the extent of this property;
- the dissemination of the data throughout the different services of the Parisian administration
- and, finally, the format of the data available.

To give you an idea of the task, lets just say that we estimate that the City owns around 8,500 buildings recorded in 80,000 paper records.

- b) The second step of this risk assessment is the evaluation of each of these properties. This step is even more complex than the first one!

Indeed, we have to consider:

- the extraordinary and unique value of certain buildings like this one, l’Hotel de Ville or the Eiffel Tower;
- we also have to consider the cost of their reconstruction due to highly specific architectural requirements
- and we cannot forget the overlap of economic, social and cultural functions of Parisian properties.

For instance, some of the properties are rented out and the City of Paris thus incurs a risk both as owner and as lender, as we saw in the previous example of the storage facilities of La Villette.

- overall, the value of all these properties is difficult to measure given their diversity.

c) The third and final step of this risk assessment is the measure of the probability of a damage. This step is also complex given:

- the total accumulation of exceptional value on a limited geographical space
- the increased risk for one property if another nearby is damaged.

7. Now the second question: what type of protection should be looked for these extraordinary risks on historical properties?

A preliminary question: what is the maximal amount of risks the City of Paris can support on its own, that is that it can self-insure?

To evaluate this maximum bearable cost we will have to consider:

- The maximum ability of the City of Paris to finance the rebuilding of damaged properties in a reasonable time-frame and thus its ability to raise the minimum necessary resources;
- We also have to consider the delays the Parisians are willing to accept.

If the City of Paris cannot bear alone all these risks, it will self-insure part of them and try to insure the rest, at a reasonable cost.

Most likely, this insurance would take the same form as the one we are about to subscribe for general liability risks, that is, an “umbrella” insurance. The insurer covers risk above a certain threshold, to be determined. Yet, it will never be able to cover the totality of the risk and some of it will remain uninsurable.

Besides, whereas it may be insured to some extent, historical property is, by definition, irreplaceable. We are thus delighted to participate in the work of COST and its efforts to restate the importance built heritage.

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