Q2 EDITION 2019

PLANETALKING

A SPECIALIST RISK PUBLICATION FOR THE AVIATION SECTOR

LEAD LINES: UNCHARTED WATERS

What next for the aviation insurance market?

TOP TIPS FOR BUYERS

Navigating the current market.

GOVERNMENT COMPLACENCY THE ONLY BARRIER TO FUTURE AVIATION SUCCESS

Gallagher

Insurance | Risk Management | Consulting

ABOUT GALLAGHER

Founded by Arthur Gallagher in Chicago in 1927, Gallagher (NYSE: AJG) has grown to become one of the largest insurance brokerage, risk management, and human capital consultant companies in the world. With significant reach internationally, the group employs over 30,000 people and its global network provides services in more than 150 countries.

Gallagher's London divisions offer specialist insurance and risk management services. We provide bespoke policy wordings, programme design and risk placement solutions, and consulting support across a range of specialisms. We manage complex, large, global risks on a direct and wholesale basis and serve as primary access point to Lloyd's of London, London company markets, and international insurance markets.

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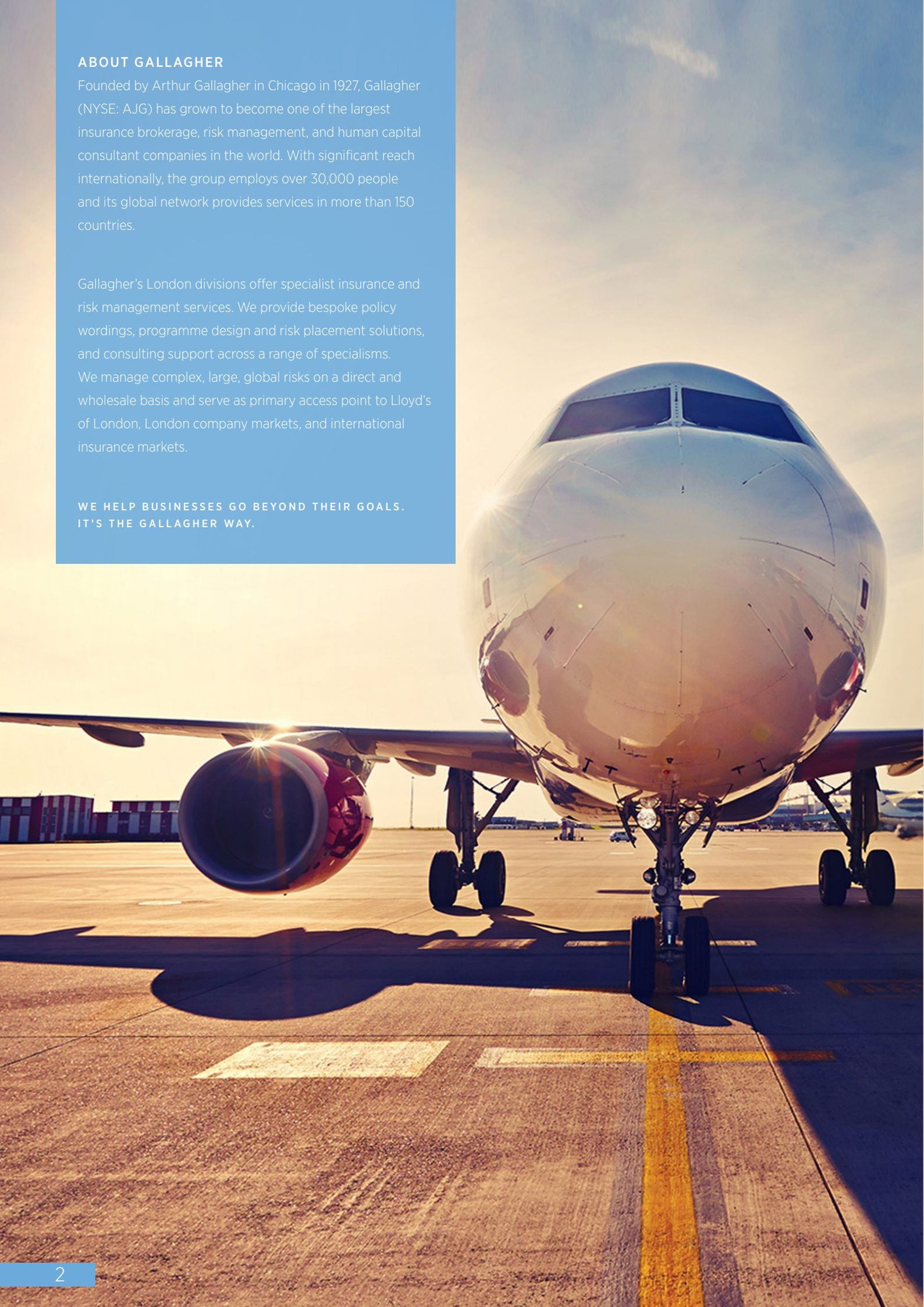

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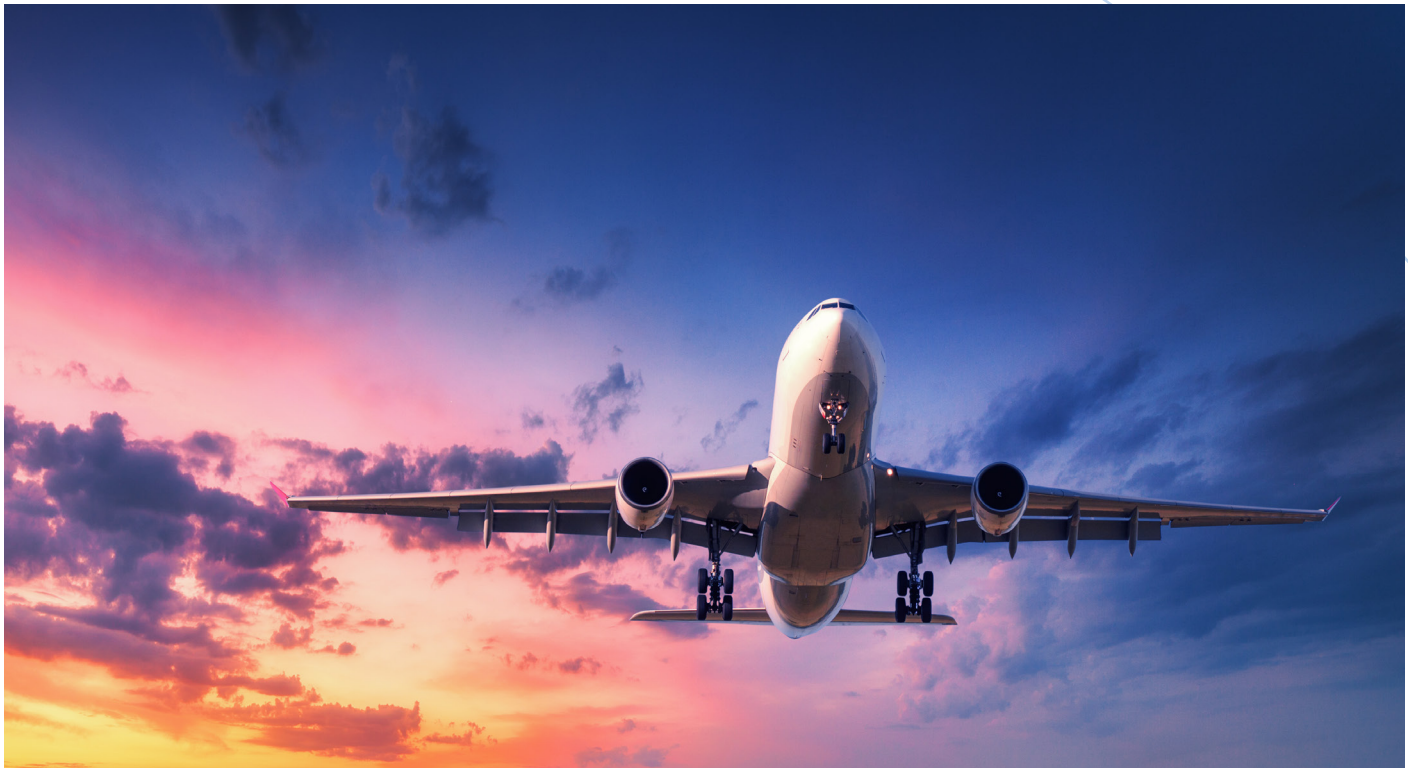
EXECUTIVE FOREWORD



Welcome to the first edition of Plane Talking brought to you by Gallagher's Aerospace division.

On 4 March 2019, Gallagher reached an agreement to purchase JLT's global aerospace insurance business, including Hayward Aviation. This acquisition closed in London as of 1 June, and those teams have now transferred to our new home.

The whole aerospace practice is excited about this move and the benefits we can provide our clients as part of Gallagher. Originally founded by Arthur J. Gallagher in 1927, Gallagher today is one of the world's largest insurance broking, risk management services and consulting firms. Clients can access the expertise of over 30,000 employees in operations spanning 35 countries, alongside service capabilities in more than 150 countries through a network of trusted correspondent brokers and consultants.

Gallagher has made substantial investments over the last decade, including the growth of its specialist aerospace team through the acquisition of the Boston Marks aviation team in December 2018. Following the latest acquisition and the integration of the JLT colleagues into the Gallagher organisation, we comprise one of world's largest and leading aerospace insurance broking teams with over 350 specialists located throughout the globe. Our team has a proven track record of delivering market leading results and is committed to providing the highest standards of service for our clients. Backed by the strength, depth and resource of the Gallagher group we see numerous opportunities to further develop innovative customer solutions, new products and technology.

In this edition of Plane Talking, we explore conditions in the aerospace insurance market, current trends and the impact of recent losses. We've collaborated with specialists across Gallagher, as well as external contributors, to write about some of the risks that the industry faces, and how these are relevant for organisations across the sector, from airlines and airports, through to aerospace manufacturers and service providers.

We hope you enjoy the issue, and please don't hesitate to get in touch.

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01. LEAD LINES: UNCHARTED WATERS

Article by Nick Brown, Group Chief Executive Officer (CEO) of Global Aerospace.

In 1924 a young pilot called Captain Charles Lamplugh formed an underwriting pool in London that he named The British Aviation Insurance Group. Civil Aviation was in its infancy, as was the business of insuring aircraft, so it made sense to share the capacity among a consortium of insurers in order to spread the volatility of an unpredictable risk.

For the early pioneers of aviation insurance almost every risk was new and unpredictable. How would the latest technical innovations perform? How should pilots be trained? What legal regime would apply to accidents involving international flights?

Ninety-five years on, aviation underwriters can draw upon a wealth of historical data and can rely on the performance of proven technologies and procedures. And yet the new and the unpredictable remain constant features of the risk landscape we cover. How, for example, should we approach the fledgling space tourism business? Or what about the prospect of autonomous flying taxis? (If you think that is mere science fiction, consider the fact that there are currently over 100 “urban mobility” projects in motion, many of them very well funded and supported by the big names in aerospace manufacturing.)

These types of developments may make us nervous, but aviation insurers have always been willing to make that leap of faith required for each new step change in the industry, and to respond to any unforeseen consequences that may arise.

The business of flying is a mature industry, but the risks associated with it are by no means static. Flight safety has improved dramatically, even in the last twenty years, but the technology of powerplants, airframes and systems continues to be pushed ever further, with both foreseeable and unforeseeable consequences for insurers.

We should not be surprised, for example, that repair costs for modern aircraft and their components are significantly higher than for their predecessors. Harder to predict have been the design and manufacturing issues which have only become apparent in service and which have resulted in costly grounding claims for both insurers and the industry. Then there have been the serious accidents which have resulted from the interaction between sophisticated aircraft systems and pilots responding to abnormal situations.

If we throw into the mix the recent phenomenon of nine figure jury awards for individual cases in the US (something not limited to the aviation world – just look at the recent Monsanto awards in California), we can see that aviation insurance represents a much more volatile risk exposure than the market's behaviour during the recent soft market seemed to suggest.

And speaking of the soft market, that was something that none of us predicted correctly. Consider the numbers: between 2003 and 2017 worldwide airline passenger numbers increased by 139%. During the same period, worldwide airline hull and liability premiums reduced by 64% - in other words the cost of insurance per passenger carried fell by a staggering 85%. We had seen dramatic fluctuations in the cost of airline insurance in the past, but what we had never seen before was a soft market cycle sustained for 14 years. I remember that some underwriters started predicting a hardening of the market in late 2005, and even the most seasoned brokers were warning their clients to expect rate increases several years before they actually started to materialise in 2018.

So what next? I think it is important to understand that the changes we have seen thus far in the market environment have been driven largely by the unprofitability of the business over a number of years absent any major catastrophes. Aviation underwriters are now facing the prospect of a number of very expensive claims which are only beginning to be reserved and recognised in people's books. Some of these claims will then feed through to the reinsurance protections purchased by direct underwriters on an "excess loss" basis, and it can only be assumed that the cost of these reinsurance covers may rise substantially as they renew over the next year.

So make no mistake, there is more change to come – and probably not just on pricing - possibly a fundamental change in the way we have to approach certain coverages or certain types of risks. Maybe we will also see changes in the way in which programmes are structured and placed in the future.

Who knows? I do believe, however, that in spite of the sometimes irrational behaviour of the market as a whole, there will be enough creative thinking from both brokers and underwriters for us to find a genuinely constructive passage through the uncharted waters ahead.

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› Global Aerospace is a leading provider of aerospace insurance with a worldwide portfolio of clients engaged in every aspect of the aviation and space industries.

02. AVIATION INSURANCE MARKET UPDATE

As the second quarter closes, we are experiencing an acceleration of the upwards rating trend and hardening market environment. Insurers, under pressure, remain resolute in returning to underwriting profitability and we are seeing price firming across the entire aviation class. While conditions may be more prominent in some lines or sectors of the business, virtually all renewals are experiencing increased rates and premiums, some significantly.

The upwards pricing trend continues

The aviation insurance market continues to display upwards movement in rates and our analysis of the second quarter results indicates that the average level of increases has accelerated from that seen at the start of the year.

Differential pricing to the lead has, in most cases, contracted significantly and this is a key factor in the overall results. All insurers are under strong pressure both internally and by external influence, to address their worst-performing lines which for many include aviation. With underwriters increasingly having to justify more and more of their decisions to higher management, this has led many to adopt a more selective stance. Following markets are now seeking to deploy their capacity at their own prices with far less regard to the leader's price. This is a significant shift in market dynamics and ultimately it is adversely affecting the composite terms for clients.

Looking at the individual renewal results it is clear that a three-tier market position exists with variation in the treatment of those operators that fall within each tier. With the markets tolerance for losses extremely low, those accounts that have high loss ratios or suffer frequent attritional losses, will undoubtedly experience significant capacity restraints and a higher level of increase. Similarly high-limit operators are also experiencing capacity restraints due to their larger line size and market participation requirements. Additionally, it must be noted that the overall market appetite for these accounts has reduced and underwriters, no longer driven by account prestige or status, are quoting far higher pricing for these operators than in the past.

The strongest market appetite remains reserved for those low-limit buying risks, particularly the low cost carriers operating narrowbody aircraft. However, while underwriters are often willing to write larger lines and be more competitive on pricing this business, in the current market environment, it remains the fact that these risks will still experience some degree of upwards movement in rates.

This trend of upwards rate movement is evident across all aviation coverages including Hull War, Excess War and Deductible. Aviation insurers are under pressure to improve profitability across their whole portfolio and therefore they continue to look at all lines in which they participate in order to improve their income and offset losses.

Capacity is contracting

There has been significant movement in the insurance industry during the past 12 months, in terms of both merger and acquisition (M&A) activity and also key underwriting personnel movement. In the aviation class, we are experiencing the impact of some of this activity and it is clear we are witnessing a shift in underwriting appetite in 2019 with an overall tightening of pricing and underwriting requirements. Profitability is the primary target.

While there is still sufficient capacity in the market, if managed and brokered correctly, overall levels have contracted significantly and a large portion is now unavailable or unacceptable, either quoting significant increases or requiring select criteria to be met before it is deployed. For some accounts, particularly the loss active and high-limit carriers, the overall sum of market capacity actually available (at an acceptable price point) can now leave little room for negotiation, making early market engagement all the more important.

Another factor that is reducing capacity is premium limitations on how much business insurers can write per annum. Lloyd's for instance, introduced strict measures on its syndicates for 2019 and many reduced capacity in their business plans in order to gain approval to operate. However, with market premiums currently trending upwards, it has been reported[1] that around 40% of all active syndicates are already close to exhausting these budgets and have submitted requests to Lloyd's performance management directorate (PMD) to increase their capacity so that they can continue to write business, without constraint, throughout the remaining months of the year.

We would expect many of these requests will be approved, however should they not, some markets may be forced to start declining business and or reduce their line sizes, which could have an effect on capacity levels as we reach the final quarter.

While these factors paint a fairly negative picture for insurance buyers, it must be said that a continuation of the current upwards trending could encourage new capacity to enter the market and this will provide new opportunities and, to some degree, should help to stabilise the rating trend. Indeed we have already seen new start-up - Convex - enter the market this year and there are rumours that others are planning and recruiting staff in preparation for entry in the fourth quarter or early next year.

Losses continue

As the second quarter comes to close, loss activity has continued to be significant with insurers suffering further high-profile and expensive losses, across the airline, aerospace and general aviation sectors. These losses come at a time when insurers are still calculating their exposure from the Ethiopian Airlines crash and the subsequent worldwide grounding of the Boeing 737 Max fleet, which we estimate could cost aviation insurers over USD1bn combined. Major claims are however, only one element of the overall loss experience and the trend of smaller and more frequent 'attritional' claims continues to offset against upwards movement in premium and affect insurers' bottom lines.

Hull War developments

It has been reported[1] that the aviation war market will now absorb the full value of the hull claim (over USD100 million) in relation to the disappearance of Malaysia Airlines flight MH370 in 2014. The decision follows extensive arbitration between the respective insurers who had previously agreed to split the hull payout 50/50 between the war and all risks policies due to unknown circumstances surrounding the loss.

This claim will wipe-out a substantial portion of the market's premium and further compounds what to date must be considered a poor year in terms of aviation losses. Given the current market environment and capacity restraints this development could have a significant effect on aviation war pricing in the coming months and renewal negotiations are likely to remain challenging.

Increased focus on coverage

In the current market, requests for new or expanded coverage on renewal are likely to face additional charges and in general, there is now greater underwriting scrutiny towards insurance coverage with limits, conditions, excesses, exclusions and extensions all within scope. More specifically, elements of wording and the interpretation of language in relation to aircraft software, cyber, and grounding are being closely reviewed, following recent high-profile losses.

Another area which some insurers are reviewing is deductible cover and in recent weeks one major insurer has started to quote renewal business with increased deductibles. Underwriters have long viewed the standard market limits as out-dated, having not kept pace with today's rising aircraft values, and therefore it is possible that in the coming months we could see a more concerted push with others following suit.

For now however, any immediate change in coverage and or revisions to standard market clauses and limits, would seem some way off and any efforts from insurers will likely be met with strong resistance. We continue to monitor the situation closely.

Looking ahead

Looking ahead, all indications seemingly point to a continuation of the current trending and a challenging marketplace for the remainder of 2019. Future claims activity and capacity levels will however, ultimately be the key influencing factors in how conditions progress as we continue through to the latter stages of the year.

While a changing market and increased pricing can be difficult for aviation insurance buyers to understand and plan for, after having become accustomed to year on year rate reductions, most buyers will still be paying less for their aviation insurance than they did five years ago, while likely having grown their operation and exposures significantly.

As our Lead Lines author comments "it is important to understand that the changes we have seen thus far in the market environment have been driven largely by the unprofitability of the business over a number of years". Indeed, the poor performance of the aviation insurance class in recent years is highlighted by the number of capacity withdrawals and underwriting job losses we have witnessed, particularly in the past 24 months.

Ultimately, had the soft market environment continued unchanged, we would have continued to see further casualties, reduced competition and increased selectivity, all of which would have likely led to a far more extreme pricing environment than that which we are currently experiencing.

We are well prepared

Whilst a changing market produces challenges, for an experienced broker it should also present an opportunity in which to really demonstrate the strength, value and expertise it brings to its clients.

At Gallagher we are well prepared. Our aerospace team is made up of some of the most experienced insurance practitioners in the industry who have decades of first-hand experience in navigating the most challenging market conditions and delivering results. We are confident that we can really demonstrate our abilities and value in this current testing environment and we are ready with some great strategies, innovative solutions and tools on hand to mitigate cost for your organisation.

[1] *www.insuranceinsider.com*

03. TOP TIPS FOR INSURANCE BUYERS

Ensure you have the right representation: It is vital to partner with a broker that understands your unique risk profile and has the experience, leverage and insurer relationships to navigate this hardening market and deliver the best result for your organisation.

Start your renewal process earlier: In the current market renewal negotiations can take longer so the earlier the process is started, the better. Early preparation and engagement with the market can be key to achieving the best result and it also allows for more accurate planning and budgeting.

Consider your options: Review your insurance requirements and take time to consider alternative options and recommendations from your broker.

Present the right information: With more insurer selectivity in the market, presenting the right risk information is essential as it will help differentiate you from your peers and better educate underwriters on your individual risk.

Insurance carrier relationships: Taking time to regularly speak or meet with your key insurance partners will help build relationships and leads to more constructive discussions and renewal negotiation.

Focus on loss control measures and safety management: Many factors play a part in an underwriters assessment of risk, however those clients who can demonstrate an active approach to safety and loss control will undoubtedly be viewed far more positively.

Clients should therefore make sure to share the results of any risk management projects or surveys undertaken so that these can be positively highlighted by your broker when marketing your risk.

Similarly, with such a diverse range of specialist aviation solutions and services available in the industry today, clients should take time to speak with their broker to explore the latest resources and discuss the potential benefits they can provide.

TO FIND OUT MORE ›

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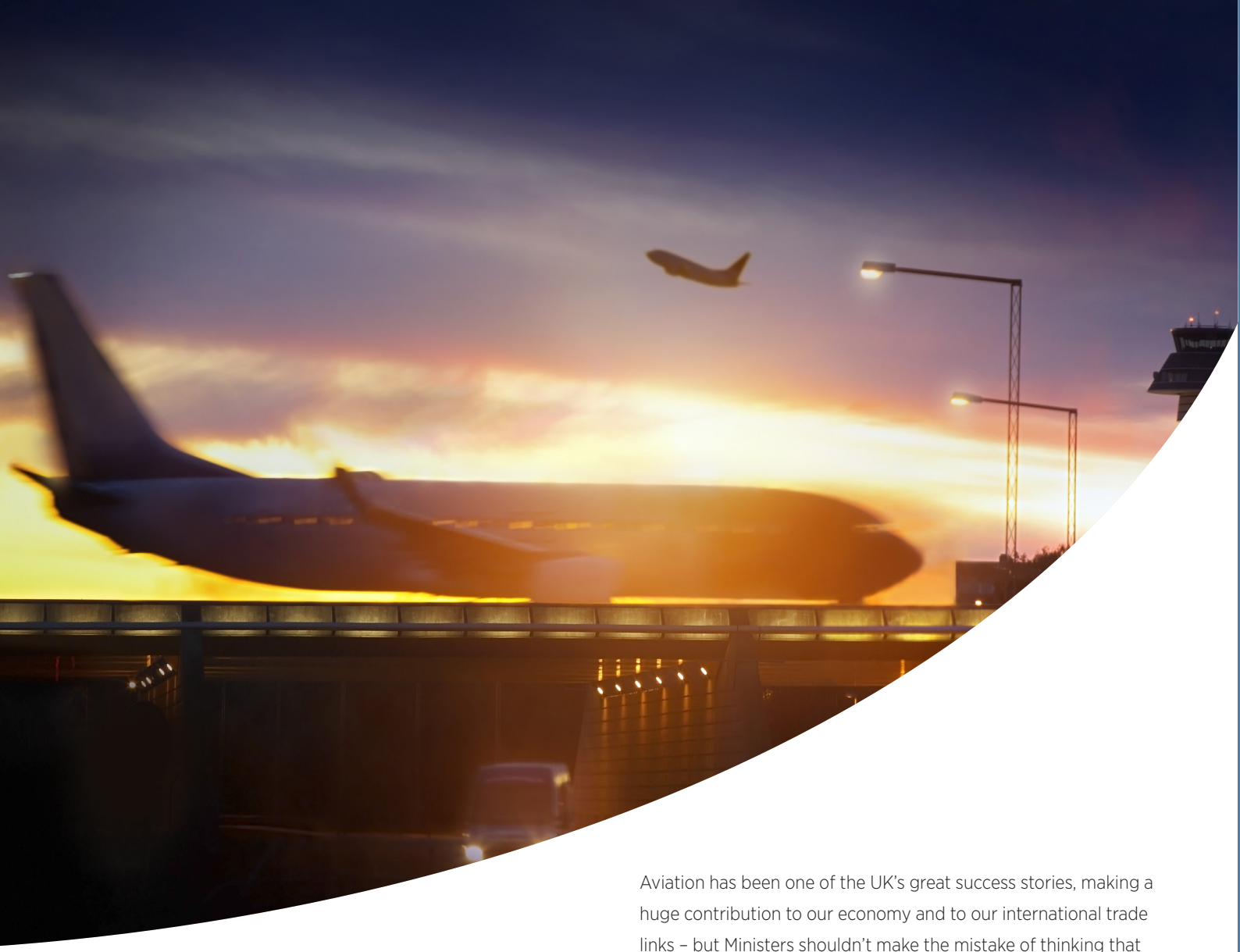

04. GOVERNMENT COMPLACENCY THE ONLY BARRIER TO FUTURE AVIATION SUCCESS

Article by Tim Alderslade Chief Executive of Airlines UK.

Aviation has been one of the UK's great success stories, making a huge contribution to our economy and to our international trade links – but Ministers shouldn't make the mistake of thinking that the sector's future success is guaranteed.

To the contrary, a succession of recent airline bankruptcies offers a vivid reminder that this is an industry facing a threatening combination of rising costs and slowing revenues.

The roll call of airline failures over the last two years is a long one: Monarch and Air Berlin in 2017, Primera Air and Cobalt Air last year and Flybmi and Germania this year. Rising costs over the past two and a half years have been a key factor in precipitating these failures, at the same time as a decline in business confidence and economic conditions have hit revenues.

Last year the UK yet again saw a reduction in direct connectivity and this was caused by lack of capacity at our largest airports and a cost base that has hampered the ability of carriers to serve new destinations viably. This must change if airlines are to deliver the new routes and connections that will be vital to ensure stronger trading links for the UK with the rest of the world.

The Government wants to build a global Britain, but this can't happen if the costs of sustaining routes consistently outweighs revenue.

As IATA has recently suggested, for the typical airline in Europe the combination of weakening economies, intense competition for slowing revenue and high infrastructure and regulatory costs are likely to mean that 2019 will be a tough year.

Now, more than ever, UK aviation needs long-term backing from the Government and policies that will help us to succeed in the face of an intensively competitive environment. Fortunately, Government Ministers now have a perfect opportunity to help us to deliver success over the next 30 years in the form of the Aviation 2050 strategy on which they are currently consulting.

There are many ways in which the Government could help to ensure route viability and aviation success – certainly by taking a fresh look at the high cost of regulation, but also by policies to deal with congested airports and airspace. Continued Government support for a new runway at Heathrow and openness to Gatwick's ideas for expansion will help and so will a commitment to play a leadership role in delivering the airspace modernisation that the UK so badly needs.

Some people say that backing aviation is exactly what the Government should not be doing right now. Parliament has just agreed that we face a climate emergency and the Committee on Climate Change, the Government's own independent advisers, have urged the Government to cut UK greenhouse gas emissions to net zero by 2050.

But it is a false choice to say that you can't be both for the environment and for aviation. We share the Committee's ambition to bring emissions into line with the Paris Agreement and we look forward to discussing with the Government how we can work together to rise to this challenge, while still enabling the many positive benefits that aviation brings by connecting people across the world.

We are proud of our sector's success in recent years in decoupling aviation growth from growth in emissions thanks, among other things, to considerable investment by airlines in the latest aircraft technology, as well as improved operating procedures and air traffic management. Looking ahead, we see exciting opportunities to further reduce emissions through the development of hybrid electrical aircraft, the use of sustainable aviation fuels and modernisation of UK airspace.

We stand ready to partner with Government on that vital agenda and, in return we hope that Ministers and officials will listen and respond sympathetically as we outline our ideas on how the Government's Aviation Strategy could be crafted to ensure the future success of UK aviation.

Baroness Vere, our new Aviation Minister, says she has joined the Department for Transport at an exciting time. She is right about that and right to note that aviation and aerospace are great industries to work in. We look forward to working closely with her and her officials on an Aviation Strategy that will deliver for passengers, for the environment, for the aviation sector and for UK PLC.

TO FIND OUT MORE ›

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› Airlines UK is the trade body for UK registered airlines, with members representing all sectors of the industry. Working with governments, regulators and legislators to promote the interests of UK airlines, and with organisations across the sector to encourage long-term and sustainable growth in aviation.

05. LOSS UPDATE

Aviation loss activity continues to dominate the media, and as the second quarter passes, insurers remain concerned that despite upwards rating movement, 2019 is poised to become yet another loss making year.

Airline crashes make headlines again

Following the tragic and much publicised Ethiopian Airlines crash in March, the aviation industry continued to make the headlines during the second quarter, suffering further major loss activity. Sadly, we saw further loss of life as an Aeroflot Sukhoi Superjet 100 crashed and caught fire during landing at Moscow's Sheremetyevo International Airport, killing 41 people. Fortunately, 37 occupants survived, albeit with some sustaining injuries. The cause of the crash, the second fatal accident involving the Superjet since it went in to service, has not yet been established, but the hull and liability claim is likely to be substantial.

Despite being the one fatal loss during the second quarter, it certainly wasn't the only incident to have made the media headlines. In particular, the crash of a Biman Bangladesh Dash 8 Q400 in Myanmar, and a Miami Air International Boeing 737-800 which skidded off the runway and into a Florida river, both featured and must be considered remarkably close calls, given the extent of damage each aircraft sustained and the fact that together they were carrying over 170 passengers and crew.

Attritional losses remain frequent

While fatal accidents and near misses are often the only incidents to be reported, these major claims only make up one aspect of the losses that occur in the aviation sector. The smaller partial and attritional claims remain ever frequent and we continue to see overruns, bumps and scrapes that regularly lead to significant repair claims and costly constructive total losses. Together these everyday events account for a significant portion of the annual market claims figure and as such remain the key area of concern amongst aviation insurers.

Losses in other sectors add pressure

In addition to the airline accidents witnessed in the second quarter, other sectors of the aviation industry also continue to experience losses and add pressure on underwriters. The general aviation (GA) sector, in particular, suffered some high-profile losses in the second quarter involving both fixed-wing and rotor-wing aircraft. This included the crash of a corporate jet in Mexico in which eleven passengers perished, a mid-air collision of two floatplanes in Alaska which killed six people, the crash of a light aircraft in Brazil, killing all three occupants, among them a Brazilian popstar and a jet that was destroyed after impacting a hangar during takeoff, resulting in ten fatalities and third party damages. While it is too early to suggest reserves for these losses, it is estimated that they will produce some substantial hull and liability insurance claims.

General aviation losses aside, insurers are still calculating their exposure from recent losses in the aerospace sector, including, earthquake damage at Clark International Airport in the Philippines and of course the continued worldwide grounding of the Boeing 737 Max fleet, which could end up being the largest ever non-war claim the aviation market has incurred.

In summary

The second quarter has produced further costly claims for aviation insurers, across all sectors of the business. Coming against the backdrop of a bad year in 2018, and a poor first quarter, these recent losses will continue to spur underwriters to remain disciplined as the year progresses. The market is finely balanced and further major losses in the coming months could lead underwriters to react more strongly.

Airline losses in Q2

22 April 2019 - Asia Airways: The AN-26 freighter performing a flight from Djibouti to Khartoum Airport, Sudan, was forced to land in open terrain after reportedly running out of fuel.

23 April 2019 - AirBlue: The A320-200 performing a flight from Sharjah to Peshawar suffered a runway excursion on landing and collided with aircraft arresting barriers. Both engines were reported to have been damaged in the occurrence.

03 May 2019 - Miami Air International: The B737-800 experienced a runway overrun upon landing at Jacksonville Naval Air Station, Florida. The plane came to rest in shallow waters of a nearby river, sustaining substantial damage. All 143 passengers and crew survived.

03 May 2019 - Buffalo Airways: The DC-3 aircraft lost engine power after takeoff from Hay River Airport, Canada. The crew declared an emergency and a forced landing was executed. The aircraft is reported to have sustained substantial damage.

05 May 2019 - Aeroflot: On takeoff from Sheremetyevo airport the SSJ100 was reportedly struck by lightning. The aircraft returned to land where it experienced a runway overrun. A fire broke out destroying part of the aircraft. 41 occupants (40 passengers and one crew member) perished, 37 occupants survived, some having sustained injuries.

08 May 2019 - Biman Bangladesh Airlines: The DHC-8-400 skidded off the runway during landing at Yangon International Airport in Myanmar during bad weather. The aircraft is reported to have sustained substantial damage.

10 May 2019 - Jazz Aviation: The Air Canada Express DHC-8-300 being operated by Jazz Aviation, was hit by a fuel truck while taxiing to gate at Toronto Pearson Airport in Canada. The aircraft is reported to have suffered substantial damage.

12 May 2019 - Myanmar National Airlines: The ERJ-190LR performed a forced landing at Mandalay International Airport, Myanmar with the nose landing gear retracted. There were no injuries reported.

15 May 2019 - Air Peace: The B737-300 suffered a hard landing at Lagos Murtala Mohammed International Airport, Nigeria. It was reported that the right hand engine contacted the runway surface sustaining damage, the extent of which is unknown.

30 May 2019 - Venezolana: The B737-200 suffered an uncontained no.1 engine failure after departure from Port of Spain-Piarco Airport in Trinidad. The aircraft returned for a safe emergency landing. According to media reports the engine suffered significant damage.

15 June 2019 - United Airlines: The B757-200 sustained damage to the forward fuselage and nose gear following a hard landing accident at Newark Liberty International Airport, New Jersey, USA.

27 June 2019 - Angara Airlines: The An-24 aircraft crashed into a building following a runway excursion on landing at Nizhneangarsk Airport, Russia. A post impact fire erupted. Two crew members were killed and a number of passengers were reported injured.

Source: Market knowledge and publicly available information, including: www.flightglobal.com, www.aviation-safety.net, www.avherald.com. Information is based on reported airline incidents involving loss of life and or where we estimate hull reserves will exceed deductible. Excludes aircraft with less than 50 passenger seats, and private or military aircraft.

06. INDUSTRY NEWS

S&P revises Lloyd's outlook

S&P Global Ratings (S&P) announced that it has revised its outlook on Lloyd's of London from negative to stable, due to improved underwriting performance and a strengthening of its capital.

Additionally the ratings agency also affirmed its 'A+' issuer credit and financial strength ratings. The revision and ratings apply to Lloyd's, the Society of Lloyd's, and its core subsidiaries.

New (re)insurance start-up, Convex to launch

Insurance industry experts Stephen Catlin and Paul Brand have announced the launch of Convex Group, an international specialty insurer and reinsurer focused on complex risks.

Convex launches with USD1.8bn of initial committed capital and will draw down USD1.6bn to commence business; it will have access to further capital as the business expands. The company has received an AM Best rating of 'A-' (Excellent) and regulatory approval to operate in London and Bermuda.

Convex will underwrite insurance and reinsurance for complex specialty risks across a diversified range of business lines in London and Bermuda, the company said in a statement. "The business brings together an exceptional group of talented underwriters who will focus on areas where they have a competitive advantage and aim to deliver top quartile, risk adjusted returns," the statement continued.

MSP Underwriting renamed

Cincinnati Financial has renamed the parent company of newly acquired Lloyd's business Beaufort Underwriting. In a press release, the carrier announced the business, MSP Underwriting, will become Cincinnati Global Underwriting, effective immediately.

Hive Aero expands into AVN52

In a press release, Hive Aero announced its expansion into underwriting Excess Third-Party Aviation War Liabilities (AVN52). The company said its AVN52 line for 2019 is USD47.5m, backed by the major Lloyd's insurers Beazley and Arch.

IATA downgrades its 2019 profit outlook for airlines

The International Air Transport Association (IATA) announced a downgrade of its 2019 outlook for the global air transport industry to a USD28 billion profit (from USD35.5 billion forecast in December 2018). That is also a decline on 2018 net post-tax profits which IATA estimates at USD30bn.

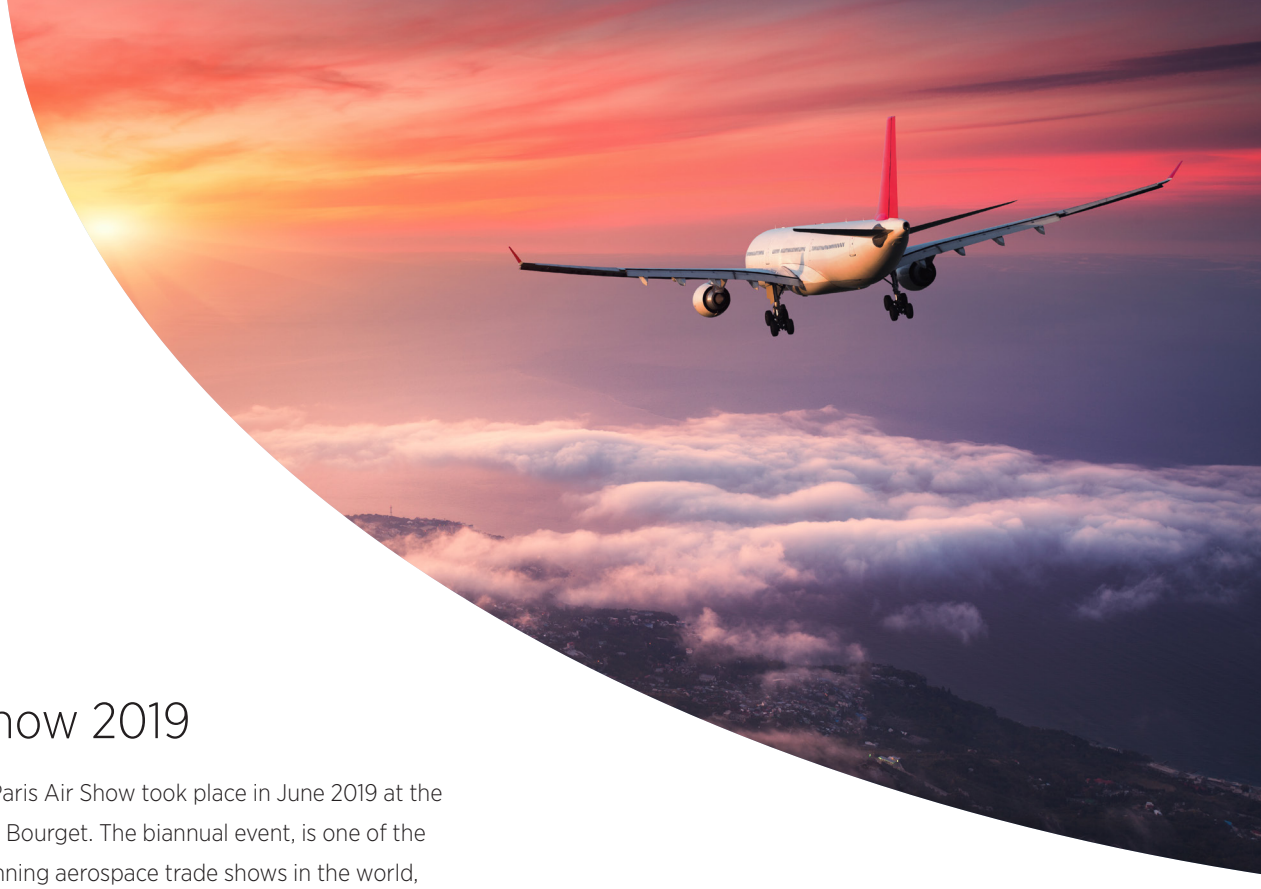
The business environment for airlines has deteriorated with rising fuel prices and a substantial weakening of world trade. In 2019 overall costs are expected to grow by 7.4%, outpacing a 6.5% rise in revenues. As a result, net margins are expected to be squeezed to 3.2% (from 3.7% in 2018). Profit per passenger will similarly decline to USD6.12 (from USD6.85 in 2018).

MHI to acquire Bombardier Regional Jet Program

In a press release, Bombardier announced it has entered into a definitive agreement with Mitsubishi Heavy Industries (MHI), to sell its regional jet program for USD550m.

Under the agreement, MHI will acquire the maintenance, support, refurbishment, marketing, and sales activities for the CRJ Series aircraft, including the related services and support network located in Montréal, Québec, and Toronto, Ontario, and its service centres located in Bridgeport, West Virginia, and Tucson, Arizona, as well as the type certificates.

The transaction is currently expected to close during the first half of 2020 and remains subject to regulatory approvals and customary closing conditions.



Paris Air Show 2019

The 53rd International Paris Air Show took place in June 2019 at the Exhibition Center of Le Bourget. The biannual event, is one of the largest and longest-running aerospace trade shows in the world, and brings together industry players to showcase a broad range of commercial and defence products, services and technologies.

While the show was another busy affair, with some 300,000 plus visitors in attendance, on the order front this year's event was relatively quiet recording deals and commitments for just over 860 new aircraft. This figure is some way below that recorded at Paris in 2017 and according to FlightGlobal is the second lowest figure recorded in the last seven years of the major air shows.

As ever, one of the main talking points of any big industry show is who will get the most aircraft orders out of the two biggest manufactures, Airbus or Boeing?

This year, it was Airbus who took the honours, announcing new business for 363 commercial aircraft, comprised of 149 firm orders and 214 commitments. The highlight of the show for the European manufacturer was the unveiling of its new A321XLR, a long-haul version of the A321neo, which will become available from 2023. The aircraft racked up over 240 orders, commitments and conversions, with the largest deals coming from Indigo Partners, American Airlines and Qantas[1].

In contrast, Boeing announced new business for 232 orders, with the majority share coming from International Airlines Group (IAG) which committed to 200 737 MAX 8 and MAX 10 aircraft in a deal valued at more than USD24bn at list[2]. This order is the first for the MAX since the worldwide grounding of the aircraft type in April and was one of the biggest surprises of the show when it was announced at the end of the second day.

In the regional sector, ATR secured orders for over 140 aircraft, which included a commitment for 105 aircraft from lessor Nordic Aviation Capital (NAC). Brazilian manufacturer Embraer announced orders for some 78 aircraft at the show, with KLM committing to 35 E195-E2 aircraft for use in their Cityhopper fleet. Elsewhere, Japan's Mitsubishi Aircraft Corp. secured an order from an anonymous customer for 15 of its renamed SpaceJet M100 aircraft, formally known as the Mitsubishi Regional Jet (MRJ).

Aircraft orders aside, electric and hybrid technology had a noticeable presence at the show with a number of companies showcasing their latest innovations, aircraft and systems. One particular company that attracted media attention was Israel-based aircraft manufacturer Eviation Aircraft who announced US-based Cape Air as the launch customer for its new electric aircraft named "Alice". Scheduled to undergo flight tests this year, the aircraft can seat nine passengers and cruise at a speed of 260 knots for a range of up to 650 miles. Eviation said it plans to make the aircraft available for commercial use in 2022.

Additionally, Rolls-Royce announced it has agreed to purchase the electric and hybrid aerospace propulsion activities of Siemens, United Technologies unveiled plans for a new hybrid-electric turboprop codenamed "Project 804", and Airbus announced it has teamed up with aerospace firms Daher and Safran to develop a new hybrid propulsion system named EcoPulse with aims to test a hybrid aircraft by 2022.

[1] *www.airbus.com*
[2] *www.boeing.com/airshows/paris*

07. MARKET MOVES IN Q2 2019

AIG

David Bell has left his position as Global Head of Aerospace. Additionally, Jonathan Woodrow has retired from his position as Aerospace Claims Manager.

Allianz Global Corporate & Specialty (AGCS)

Tom Fadden has been named as Global Head of Aviation.

Chaucer

Former Head of Energy Kelan Hunt has been promoted to a wider specialty role which now includes oversight of Chaucer's aviation and marine portfolios.

Chubb Global Markets

Angus Roberts has left W.R. Berkley to join Chubb as a senior underwriter in its aviation division. Additionally David Slevin has joined from Hiscox.

Convex

New (re)insurance start-up, Convex has made a number of appointments to its new aviation team which will be led by Mike Hansen (former Allianz Global Head of Aviation). Paul Cooper and Rebecca Derzypilskyj both join from Axa XL, and Paul Maguire joins from Faraday. Richard Williams also joins from Cathedral to oversee the company's aviation reinsurance business.

Clyde and Co.

Thomas van der Wijngaart has been promoted to a Partner in the Aviation practice.

Everest Re

George Toulkeridis has left his position as Global Head of Aerospace Reinsurance.

Faraday

Lisa Leahy has been promoted to Head of Aviation.

Global Aerospace

Paul Trueman will be leaving his position as Head of Aviation & Space at Asia Capital Re (ACR) to join Global Aerospace. He will fulfil his notice period at ACR before joining Global in October.

HDI Global

Martin Jackson has joined HDI Global as Head of Aviation and Space. Jackson joins from Neon where he was previously class underwriter, marine and transport. Jamie Bowes, formally of QBE, also joins as Head of HDI's new Melbourne-based aviation team.

Holman Fenwick Willan (HFW)

Jeremy Shebson has been elected as its new Managing Partner, with Richard Crump re-elected as a Senior Partner. Together, they will manage the strategy and operations of HFW's global business. Additionally Giles Kavanagh has been re-elected as practice head of Aerospace and a member of HFW's new Management Board.

StarStone

Marc Weber has left his position at StarStone following elseco's acquisition of the renewal rights to its Zurich-based airlines and products portfolio. He will be joining Helvetia Assurance Switzerland.

Source: Market knowledge and publicly available information.

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