Q3 EDITION 2019

PLANETALKING

A SPECIALIST RISK PUBLICATION FOR THE AVIATION SECTOR

FEATURE ARTICLES

LEAD LINES

An insurance perspective of Article 8 of the International Air Transport Association (IATA) SGHA

AVIATION INSURANCE MARKET UPDATE

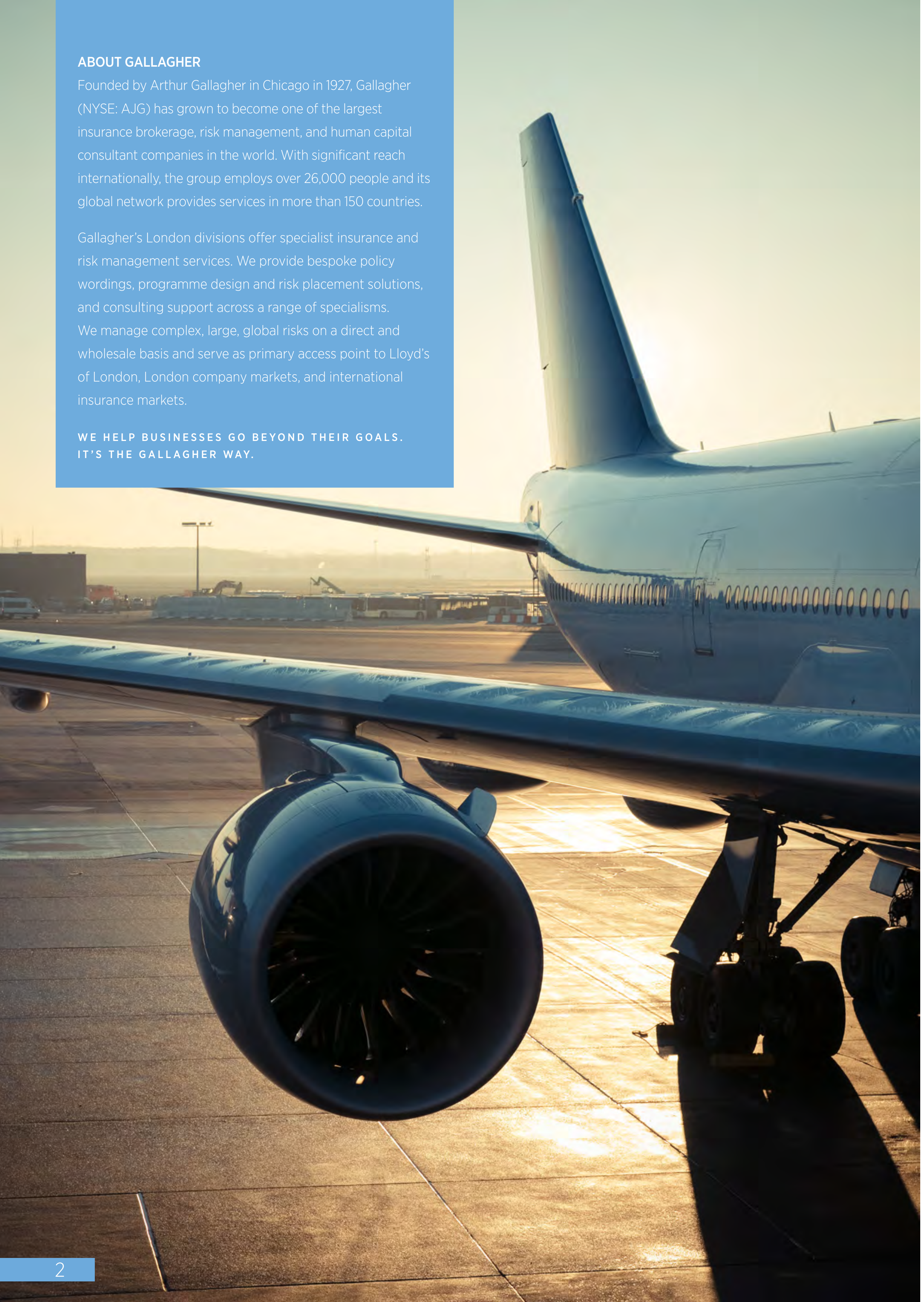
An update ahead of our industry's busiest renewal period

SIMPLIFYING AND STREAMLINING THE TRAVEL INSURANCE EXPERIENCE

Insights into dealing with the complexities and uncertainties of today's air travel experience

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 26,000 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.

WE HELP BUSINESSES GO BEYOND THEIR GOALS. IT'S THE GALLAGHER WAY.

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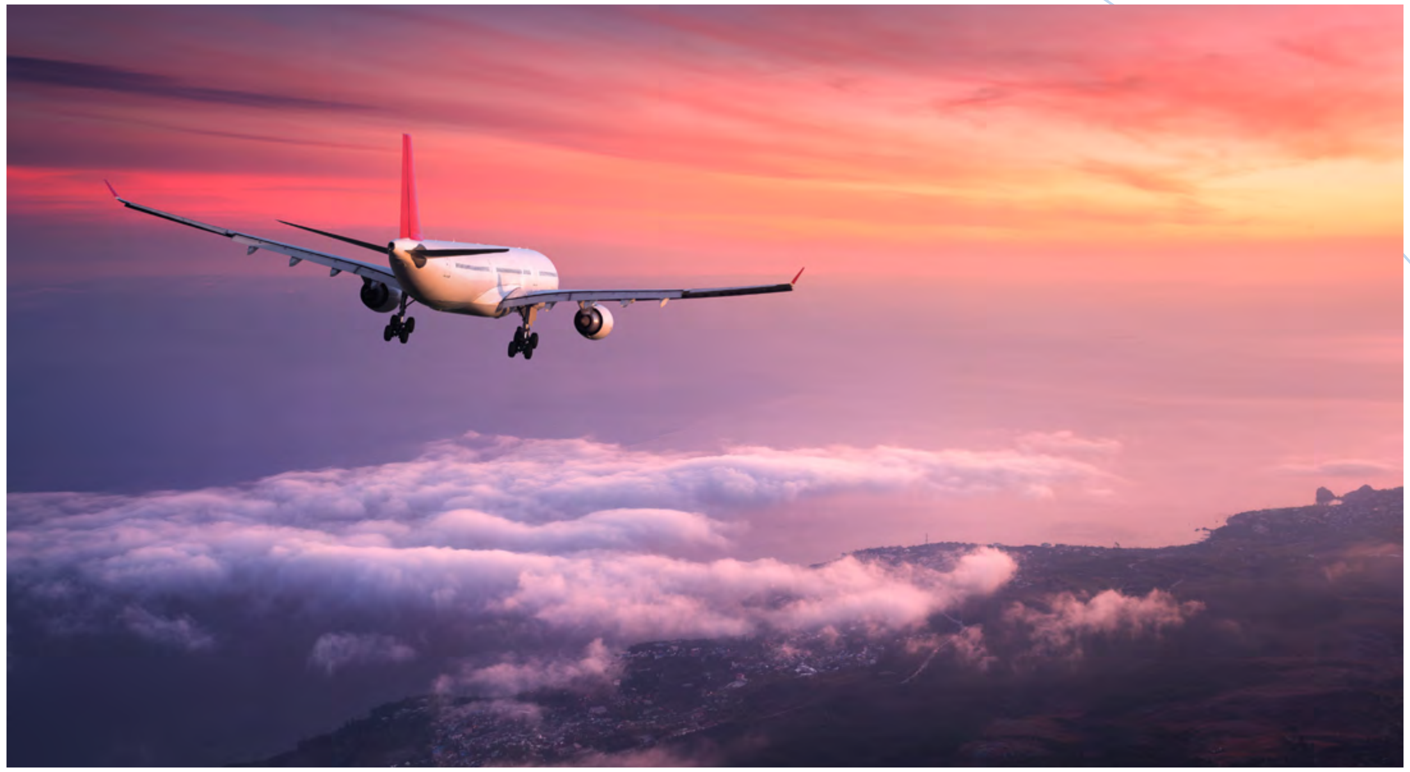
EXECUTIVE FOREWORD



Welcome to the third quarter (Q3) edition of Plane Talking brought to you by the Gallagher aerospace team.

In this edition, we analyse the key factors affecting aviation insurance renewals during 2019, including increased underwriting discipline, tightening capacity and continued loss activity. We discuss the impact of several large liability claims, some of the largest seen in recent decades, and look ahead to negotiations for the fourth quarter, our industry's busiest renewal period. With underwriters under increased pressure to perform and meet their year-end goals and with a substantial volume of premium income available, early indications are that we will experience further upwards rating movement in the final quarter.

In composing this edition, we've collaborated with specialists across Gallagher, as well as external contributors from Virgin Australia and Cirium, to write about some of the risks that the industry faces and how these are relevant for organisations across the aviation sector.

Since the last issue of Plane Talking, we have continued to grow, expanding our global aerospace practice with new hires in London, USA and Singapore. These appointments (detailed later in this edition) are a clear demonstration of our continued strategy to retain, develop and invest in industry-leading talent to deliver unmatched capability and expertise to our aerospace clients around the globe. Service excellence is a fundamental part of our differentiated client proposition.

A changing market environment will always reveal the true strengths and weaknesses in any operation and insurance broking is no exception. With the investment that Gallagher has made in building our talent pool and depth of resource we believe that we have a great opportunity to really demonstrate our abilities and help to minimise the impact of whatever lays ahead on our clients.

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

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01. LEAD LINES – AN INSURANCE PERSPECTIVE OF ARTICLE 8 OF THE INTERNATIONAL AIR TRANSPORT ASSOCIATION (IATA) SGHA

AUTHOR: *MARIE HUGHES, MANAGER INSURANCE – VIRGIN AUSTRALIA GROUP*

We are all know airports are busy places, not just inside the terminal but outside on the apron and runway as well. Preparing an aircraft for departure involves a network of tugs, refuelling equipment, catering trucks and ground handling equipment (not to mention other aircraft taxiing in close proximity) moving about in the airside environment, so it isn't surprising that accidents occur.

In my time in the aviation industry as the Insurance Manager of a major airline, I've seen all manner of ground handling incidents. Vehicles driven into the side of aircraft, wing tips damaged due to contact with objects, unsecured items being blown around the tarmac causing damage to anything in its path.

Implementation of a risk-based approach by handling companies and airlines, and the creation of greater training and standards is helping to address the problem, but human error can never be alleviated fully in a busy environment. The cost to repair the damage is also increasing with the introduction of composite aircraft which are expensive to repair.

In 2017, a White Paper published by Twiga Aero estimated that the cost of damage caused to aircraft from ground handling incidents was in the vicinity of USD4bn annually, and that is just the damage to the aircraft aspect. This figure does not take in to account the consequential financial losses and detrimental impact a service disruption has on an airline following a damage event. The time the aircraft is out of service has an adverse flow on effect to flight schedules and the impact to staff crewing and rosters is costly, as is the task of reaccommodating passengers effected. And of course we should never forget the very real impacts of physical injury to workers as well.

So, who is footing the bill when this type of damage occurs? Some may say the simple answer is the airline's insurers, after all that is why an airline purchases insurance, right?

Well no, it's not.

Airlines, like most other companies who purchase insurance, do so to protect their own liability, largely for one off unexpected events or events within their control. Given that most airlines around the world outsource some, or all, of their ground handling requirements, one could argue that the Handling Company and/or its insurers should pay as they are in control of that part of the operation.

It can't be ignored that this line of thinking may largely stem from Article 8 of the IATA Standard Ground Handling Agreement (SGHA), which aims to outline an industry standard approach to Liability and Indemnity. It isn't a compulsory approach, but certainly one that is widely adopted.

To summarise, Article 8 states that a Carrier (airline) may not make a claim against the ground handling company and shall indemnify it unless the damage is as a result of an act or omission of the handling company, which is done with intent or where the Handling Company has been reckless and with the knowledge that a loss would probably result.

It does go one step further in sub-article 8.5 of the Article, calling on the Handling Company to indemnify the carrier for physical loss or damage to aircraft, but limits that to "not exceeding the level of deductible under the Carrier's Hull All Risk Policy which shall not, in any event, exceed USD 1,500,000". However, it does go on to say that "sub-article 8.5 does not affect or prejudice the generality of sub-article 8.1 including the principle that the Carrier shall not make any claim against the Handling Company and shall indemnify it…"

By default, the standard creates a position that relies on the insurance of the airline. It in no way provides that a Handling Company carries any substantial financial risk for a loss that an airline incurs due to the negligent act of the Handling Company during the performance of the services. Negligent act being the key theme, because it is not my suggestion that any responsibility lie with the Handling Company outside of when they are negligent.

In my day-to-day job, I review numerous contracts where the IATA SGHA is used for all manner of ground activities, from cabin cleaning to heavy maintenance. Areas of service where damage to the aircraft can and does occur. Almost all handling Companies defer to Article 8 as the starting Liability and Indemnity stance. It is difficult to negotiate a position outside of the adopted industry standard, but disputing the validity of Article 8 of IATA's SGHA is a necessary conversation and one that both sides should carefully and reasonably consider.

Why move away from Article 8 of the IATA SGHA, given that it is so widely used and generally has been accepted? With Airbus forecasting that the world passenger aircraft and freighter fleet will more than double from 23,000 to almost 48,000 aircraft over the next twenty years, airports will become ever more crowded, placing even more pressure on stretched facilities.

› Continued on page 8

In an Insurance market where attritional losses continue to rise, we need to address the mounting financial and human cost of ground handling incidents. Managing insurance risk in contracts is more important than ever before, where every claim cost counts, and those attritional losses are in the spotlight. It is essential to look to protect a policy of insurance from claims which have arisen from the negligent actions of a Handling Company.

This could be the differentiating factor separating one risk from another when an Insurer is looking to deploy capacity.

One way of addressing the problem is to ensure a "user pays" principle, where the people who can best control the risk take responsibility for the risk. Any good business relies on its staff being accountable for their actions. Those of you who, like me, have raised children would know that if there are no consequences for an action, chances are that the action will be repeated. In the case of aviation where not just large costs but maintaining safety on the ramp, is at stake, it seems to me that anything we can do to reduce the probability of an event is a good thing for everyone.

We all understand that in a complex world accidents sometimes do happen and insurance is there to assist. But in the case of a negligent act is it so unreasonable to ask that the party at fault take on some accountability for the financial loss suffered?

Surely it is a position that should be reflected in Article 8 of the IATA SGHA. A fair and reasonable approach for both Airlines (or Carriers as they are referred to in the SGHA) and Handling Companies alike.

TO FIND OUT MORE ›

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02. AVIATION INSURANCE MARKET UPDATE

Having left the summer months behind us we reach the point of the year where market activity escalates and focus turns firmly towards negotiations for the fourth quarter, our industry's busiest renewal period. A significant portion of the annual airline and aerospace premium income is generated by the renewals of the fourth quarter, notably November and December, and therefore it is this period that will largely influence the market direction and future rating trend.

As we enter this busy period, we can report that aviation insurance pricing stimulated by almost unprecedented losses and tightening capacity has carried forward its momentum from the preceding months and rates are now accelerating upwards.

When looking at the renewal analysis, rate variation amongst the results continues to be significant with risk profile and loss experience key influencing factors in both the levels of capacity available and the overall pricing achievable. In general all markets have adopted a more selective stance to the risks they write and following underwriters in particular continue to quote some particularly aggressive rate increases, in some cases well above lead. It is clear that insurers are maintaining underwriting discipline in pursuit of their desired rate adequacy and longer-term goal of a more sustainable pricing environment. These elements mean renewal negotiations are taking longer and require a higher level of resource and careful management by the broker.

In the current environment even the most desirable loss-free accounts are receiving higher increases than similar accounts which renewed earlier in the year. Rate increases on loss-affected accounts are highly dependent on the severity and value of losses suffered and the overall 5 year loss ratio position and as such are potentially substantial. Based on current information of the many fourth quarter renewals now well underway, and in some cases already complete, it is evident conditions are very much continuing to harden and great care is needed on each renewal. This is potentially treacherous terrain for the incautious and unprepared. Continuity with key insurers, long-term relationships and insurer confidence in a client are crucial factors and if these elements have previously been ignored the renewal result is likely to be adversely affected.

No let-up in losses

The third quarter provided little reprieve to aviation insurers producing further expensive losses which combined are likely to lead to claims in excess of hundreds of millions of dollars. As has been the theme in 2019, loss activity persists across all sectors of the industry including airline, aerospace, general aviation and space.

Notably, in the aerospace sector, the Boeing 737 Max grounding and a number of other potentially large liability claims (detailed later in this edition) continue to develop and there are now some substantial estimates circulating the market as to the potential final loss quantum. These incidents continue to have a significant influence on the current market pricing trend and insurer attitude.

With other incurred but not reported (IBNR) claims likely to filter through and three months of the year still to run, 2019 is on course to be the most costly loss year in aviation insurance history, after the September 11 attacks in 2001. As we enter the final stages of 2019 further major loss activity may embolden underwriters to react even more strongly, given the pressure of poor historic performance and the current senior management scrutiny the market finds itself under.

Capacity

Capacity levels for the majority of aviation accounts have contracted throughout the past year. Differing underwriting tolerances and philosophies, fluctuating line sizes and frequent insurer consolidation, exits and personnel moves, all mean renewal negotiations remain challenging and securing markets (at a competitive/acceptable price point for the client) is becoming harder, particularly for those loss active and/or high-limit/value insurance buyers. Capacity must be managed carefully and a well prepared renewal strategy is essential in the current market.

Aviation insurers are all experiencing similar market difficulties, operating in an environment whereby performance scrutiny and management pressure is higher than ever. Profit is being prioritised over premium income and insurers are taking remedial actions to achieve this. During the past 18 months alone, over ten insurance carriers have either exited the aerospace class or scaled back their participation in select lines or areas of business. Most recently, MS Amlin announced[1] that aviation no longer forms part of its future strategic direction, meanwhile Swiss Re has stopped writing space and general aviation business.

Looking ahead, future capacity levels could depend highly on the year-end underwriting results of the current market participants and so the situation remains precarious. That said, with strong signs that upwards pricing momentum will continue into 2020 it is reasonable to suggest that most markets will remain committed to the class. We may also start to see new capacity enter the market as highlighted by the recent arrivals of Helvetia Specialty and Convex, who both began writing aviation insurance business effective 1 October. While the underwriting appetite and strategy of these markets is as yet unclear, aviation insurers will no doubt be hoping that they and any others who may enter the class in the coming months, support rather than disrupt the current pricing environment.

Aviation personnel moves gather pace

Another point of note in the current market concerns the recent concentration of personnel moves within the broking sector. While insurer personnel moves in aviation aren't uncommon, typically broker movement is far less frequent. However with the announcement of some start-up entities we have learned of over 60 individual aviation broking staff to have resigned from their respective positions in recent weeks. Further resignations are possible in the coming weeks and months as these new operations start building their teams and given that we are now in the aviation insurance industries busiest renewal period, this personnel movement may cause some disruption and test resources at an already demanding time.

What can we expect looking ahead?

With underwriters under increased pressure to perform and meet their year-end goals and with a substantial volume of premium income up for grabs, it is anticipated we will experience further upwards rating movement in the final quarter. Looking further ahead, from our recent discussions with various underwriting management the general market consensus is that aviation insurers will continue to look for rate improvements and are already factoring in rate increases into their 2020 business plans. We therefore see little to suggest that that the current market trajectory will change, at least in the short-term. As always future claims activity, capacity levels and underwriting discipline will be fundamental to how conditions develop.

During this period of transition and uncertainty Gallagher will continue to work closely with our clients to ensure they understand the changing market dynamics and how they impact on their renewals. As one of the most highly resourced aviation insurance brokers in the world our clients can be confident that we have the experience and expertise to navigate this more resistant market and still deliver the finest service and results.

Sources
[1] MS Amlin press release

03. MERGERS AND ACQUISITIONS (M&A) INSURANCE FOR THE AEROSPACE SECTOR

The appetite amongst underwriters in the specialist (M&A) class of insurance continues to increase, as more capacity in numbers and limits becomes available and as Warranty and Indemnity (W&I) and Tax policies now become a staple part of the acquisition transaction process, across all sectors. How is this impacting the aerospace industry? We sat down with Charles Russell, Gallagher's Head of Transactional Risks, to get his outlook on M&A activity so far this year, future predictions, and the benefits that transactional insurances available in the London market have to offer the aviation sector.

1. What are the benefits of M&A insurance, particularly where the market stands today?

Charles Russell (CR): The aerospace sector has seen a dramatic increase in the use of M&A insurance over the course of 2019. The W&I product allows sellers to limit their liability to £1 (or $1 or €1) and make a completely clean exit from the transaction. The buyer will only be able to claim from an insurer in the event of a breach of seller warranty, meaning the seller can distribute proceeds to investors with no need for escrow. W&I insurance has become increasingly widespread within aviation transactions, since the management often 'roll over' to the newly consolidated firm - creating an awkward situation whereby the new owner would not want to sue a warrantor if they are still part of the company.

Tax insurance is now used to eliminate tax risks that have been flagged within the due diligence process. During review of a target's tax situation, advisors often highlight uncertainties over whether certain taxes are owed (as the legal interpretation can be unclear). Tax policies can now cover these tax risks which previously would have needed to be met by way of a seller indemnity, or purchase price adjustments. The tax insurance solutions available today in the London market therefore can often be used to smoothen a deal if it is close to de-railing.

Due to increased competition in the market (bought about by an influx of new capacity), premiums and excess levels for specialist W&I and Tax insurances have steadily reduced over the course of the last eighteen months, with coverage widening further in areas such as known tax risks as competition between underwriters intensifies.

2. What does the future of M&A insurance look like within the aerospace sector?

CR: Moving forward we can anticipate 'mega mergers' to decrease, with giants such as Airbus and Boeing further solidifying their hold over the commercial aviation market through joint ventures. Instead, we are likely to start to see a steady increase in acquisitions of smaller targets and thus an uptick in M&A activity.

In terms of acquisition strategy within the aerospace sector, there appears to be a shift from production to technology and innovation, with buyers looking to expand their capabilities in software, data analytics, and predictive intelligence.

3. What are the strategic uses of W&I insurance?

CR: There are many strategic benefits to the cover, which can support across a range of deal scenarios:

Competitive auction scenarios – a bidder can include a buy-side policy within the bid, which allows the seller to limit their long-tail liability

Questions over seller covenant strength - If there are questions over the seller's covenant strength, the buyer may want to transfer the risk of paying a claim from seller, to a reputable, well-rated insurance company

Lender requirements - Sometimes banks and financiers are only willing to fund a transaction if certain policies are in places, so the coverage allows buyers to meet certain lender clauses

Fund wind-up and private equity deals - In the case of fund wind-up and private equity deals, no residual liability can remain as such, the policies can work well to transfer and tie up these liabilities.

Liquidations - Assets are allocated between creditors and shareholders, so there can be no residual liability.

4. What is the process of taking out cover?

CR: Any W&I policy will ideally incept at the same time that the deal closes and, if initiated in a timely manner, can be negotiated in a parallel work stream to the actual transaction.

Gallagher will always work at the speed of the deal, so transaction timelines will not suffer. We will work closely with the insured's legal team to enhance the policy wherever possible, and ensure the wording is the most competitive available in the market. Generally the process can be managed in a few days - usually between five and seven – if not more quickly for more straightforward transactions.

In summary

In summary, since the Aerospace sector is experiencing an extreme uptick in M&A transactions, W&I and tax insurance are becoming a key part of the process, giving both buyer and seller the comfort they need to see a deal through.

Case Study – Buy-Side Warranty & Indemnity

(W&I) and Tax Wrapper

Situation: Sovereign wealth fund acquires a controlling interest in airline manufacturer for USD350m.

Problem

1. The Seller wanted to cap their liability in the Sale and Purchase Agreement (SPA) to a low level.
2. The fund questioned the seller's covenant strength and required an alternative form of recourse.
3. A low risk but financially significant tax issue was flagged in the buyer's due diligence.
4. The seller would not provide an indemnity for this issue.

Solution

A W&I policy was placed for the buyer, allowing the seller to limit their liability to a low level and offering an alternative form of recourse; this included affirmative cover for the known tax risk within the W&I policy.

Both policies included cover for the known tax risk and a separate environmental policy was put in place for the fund.

As a result, the seller was able to limit their liability to a much lower level (avoiding the need to indemnify the buyer) whilst the buyers' specific interests were protected.

TO FIND OUT MORE ›

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04. AVIATION LOSS UPDATE

As the third quarter concludes the insurance market has experienced further loss activity across all aviation sectors. With three months of the year still to run and further incurred but not reported (IBNR) claims still to filter through 2019 remains firmly on track to become one of the most costly loss years in aviation insurance history.

Airline update

Following six fatal airline losses in the first half of the year accounting for over 230 passenger and crew fatalities, fortunately the third quarter came to an end with no additional loss of life. Yet while this is undoubtedly positive for airline safety, the sector still recorded a steady flow of incidents including the remarkable emergency landing of an Ural Airlines A321 aircraft in a Russian cornfield, the destruction of three Ilyushin Il-76TD transport aircraft during air-strikes in Libya and damage to an Air China Airbus A330 which caught fire whilst parked at Beijing Capital International Airport, amongst others.

Taking into account recorded hull, liability and other day-to-day attritional losses we estimate that the year to date combined airline hull and liability figure is currently around USD1.4 billion. This figure will undoubtedly increase before year-end and it will be interesting to assess how the final position compares to the USD1.6 billion claims estimate for 2018.

Aerospace

As mentioned earlier, the aerospace sector remains a key topic of conversation within the aviation insurance market with some high-profile claims yet to be resolved and other incidents under review that could potentially lead to further costly claims.

Specifically, claims relating to the worldwide grounding of the Boeing 737 Max fleet and subsequent liability payments in respect of two fatal crashes involving the type, remain unsettled with reserves understood to have risen significantly since initial estimates. The Rolls Royce manufacturer's liability loss related to issues with the Trent 1000 engine is also yet to have been settled after first being reported back in 2018. Additionally it is now understood that the 2018 Southwest Airlines engine blow-out which led to the death of a passenger, may now also result in a claim against the engine manufacturers' liability policy.

Meanwhile, damage to a new Airbus A220-300 during an incident at the manufacturer's assembly plant in Mobile, USA, is also being mooted as a potentially large claim. While typically manufacturers' hull coverage kicks in once the aircraft is complete and rolls outside the hangar, some manufacturers are known to have extended policies which include cover whilst an aircraft is in the production process. It is unclear at present if this is the case in this instance.

Despite the fact that many of these claims remain unresolved and in some cases unconfirmed, it is highly likely to assume that whatever the final quantum of losses it will be sufficient to wipe-out substantial portions of the annual aerospace premium, across a number of years, potentially impacting some reinsurance programmes.

General Aviation (GA)

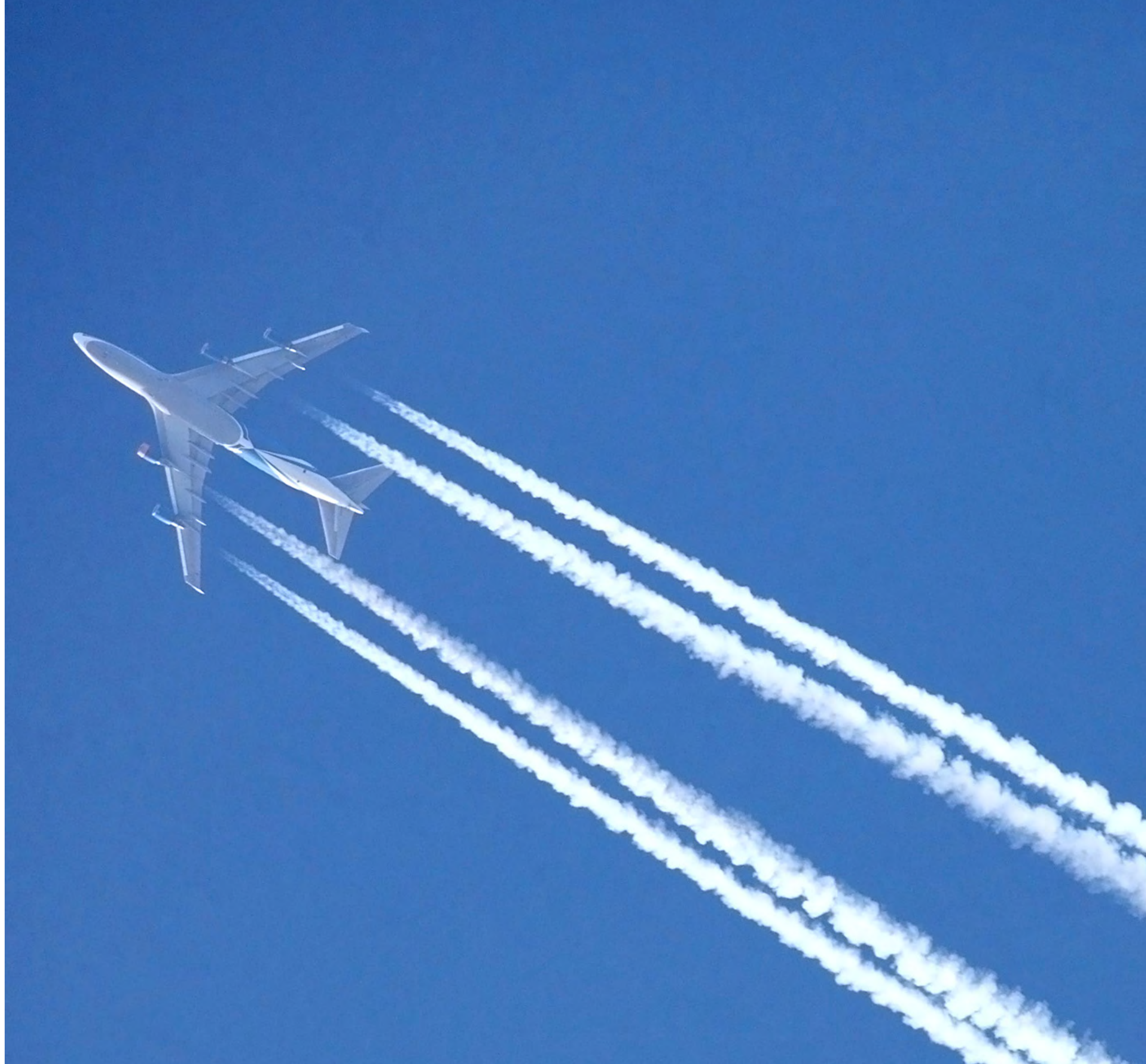
General aviation incidents in the third quarter were far less remarkable than in other sectors, however we still recorded a host of fatal crashes and total losses involving business jets, float planes and rotor-wing aircraft. While most of these GA losses are likely to be relatively low value in monetary terms compared to say airline losses, we have seen some substantial claims emanating from this business sector in recent times and in general claims costs and compensation awards are rising.

Space

The space market suffered two substantial losses during the third quarter, the aggregated effect of which will wipe-out the markets annual premium by some margin. The first loss occurred in July when an Arianespace Vega-1 rocket failed during launch resulting in the loss of the Falcon-Eye 1 satellite. The second loss took place in August when the ChinaSat-18 telecom satellite was reported to have suffered a solar array deployment failure. Combined, it is estimated that these two losses will cost insurers circa USD620 million. In particular the Falcon Eye-1 claim is estimated to be the largest single loss space insurers have covered to date. These losses follow a loss making year in 2018 for space insurers which included the significant failure of the WorldView-4 satellite in late December.

In summary

We often talk about the aviation insurance market as being comprised of different business sectors i.e. airline, aerospace, general aviation and space, each with their own market dynamics and loss experience. Typically loss frequency in each sector is mixed with some areas seen to regularly perform better than others. However while this may be true it is important to understand that many aviation insurers underwrite a wide range of risks so even those whose aviation books are not affected by one particular event are still likely to have suffered one or more losses. As such, with 2019 having recorded some of the largest claims seen in recent decades across all sectors of the business, many insurers are on course to experience one of the most costly loss years in aviation insurance history.



05. SIMPLIFYING AND STREAMLINING THE TRAVEL INSURANCE EXPERIENCE

AUTHOR: *DAVID WHITE, VP OF BUSINESS DEVELOPMENT - CIRIUM*

The travel insurance offerings that we're used to seeing while booking flights are overdue for disruption. Travelers seeking to cover flight delays or cancellations are forced to take a package of coverage that includes cancellation due to loss of employment, serious illness, injury or death, transportation strikes, political violence etc.

While prices for packaged coverage run quite high – as much as 10% of the total ticket price – many travelers still opt in. After all, flight delays are very common. More than 20% of scheduled airline flights depart and/or arrive late. What many purchasers don't realize is that their insurance policies only cover delays greater than six or even eight hours and offer no compensation against the much more common 1-3 hour delays that can totally disrupt travel plans. Missed connections are a common result of these shorter delays and can result in the loss of 2-3 days in a strange city awaiting a seat on another flight. Yet they are not covered.

When a qualifying event actually occurs, claimants face a daunting array of documentation requirements. Proof is often difficult to produce. In the case of flight delays and cancellations, clients can be required to produce evidence of insured interest (a plane ticket and/or boarding pass). They must provide documentation from the airline to substantiate a delay or cancellation. Imagine spending hours on hold with an airline's customer service staff to request delay documentation only to find out they won't or don't know how to help you. These are all good reasons to say no to traditional travel insurance. The customer experience can only be described as awful. But what is the alternative?

Fortunately, a new generation of parametric delay insurance products are becoming the norm. These leaner, simpler, more accessible flight delay insurance products are here (except in the US where insurers must obtain regulatory approval state-by-state) and innovation will continue to improve them over the next few years. A much better customer experience can now be delivered through the use of data, predictive analytics, machine learning and real-time flight monitoring.

Flight Delays – actuarial analysis and dynamic pricing

As with any insurance product, the insurer must have a solid understanding of the risks associated with insured events. Understanding of the risks of flight delays can be determined by examining historical flight data and on-time performance statistics at the route level, the airport level, the airline level, and even on a flight-by-flight basis. Deeper analysis can uncover how certain variables influence flight outcomes such as weather and seasonal factors, time of day, day of week, airline operational models, and labor disputes.

The degree of risk analysis depends, of course, upon the delay threshold beyond which a payout will be required. A threshold of 2 hours or greater presents a relatively straightforward actuarial challenge. In 2018, on average, the top 300 airlines cancelled approximately 1.4% of their flights. Of the remaining 31 million scheduled flights, 98% of them departed within 120 minutes of their scheduled departure, i.e. there is a 2% risk of payout on insurance against a 2-hour delay.

Performance varies airline-to-airline and flight-to-flight requiring a deeper analysis and a dynamic pricing capability to maximize profitability and minimize risk. It is a rather simple task to assign a risk profile to each airline based upon an examination of their on-time performance history and apply that risk profile to dynamically price coverage.

Greater granularity is also quite possible. A major re-insurance company takes the risk assessment down to the flight level. Using historical flight records from Cirium combined with weather and other relevant data sets, their data scientists applied predictive analytics techniques to create an actuarial table for future flights assessing the probability of flight delays of 30 minutes, 45 minutes, 60 minutes, or 120 minutes to future flights. Thorough testing of their algorithms proved the technique to be quite reliable. This level of granularity enables the reinsurer to provide a price quote for each flight based upon the risk of the requested delay threshold on that flight on that day. It also allows them to sell delay insurance against delays as short as 30 minutes

Avoiding Excessive Loss

Volcanic eruptions, severe weather events, and political violence can have a huge impact on flight delays and cancellations. Insurers need to have the ability to watch for and anticipate these conditions so that profitability can be maintained. Policies can have exceptions due to catastrophic natural events. Or better yet, sales of coverage can be suspended when there is a reasonable probability of such an event in the forecast.

Eliminating the claims process and paying out in near real-time

Insurers are using parametric or transurance concepts to greatly improve the customer experience. Real-time flight status data can provide the information necessary to trigger a payout without the requirement for a passenger to file a claim. Upon confirmation of a flight delay greater than the insured threshold, the insurer can immediately transfer funds to the traveler via a variety of payment gateways. The traveler receives funds when they provide the most value to help cover the cost of the disruption – funding entrance to an airport lounge, to pay for a hotel, or purchase some alternative form of transportation.

Aviation data providers such as Cirium offer the ability to monitor flight status in near-real time and push out alerts triggered by events including cancellations, diversions, or delays >x minutes. Insurers rely on these alerts to trigger the payout and can rely on them to dependably validate an insured event.

Insuring Journeys vs Insuring Flights

Most of the new delay insurance products cover individual, non-stop flight segments. However, many journeys require connections between flight segments to complete the journey. The next level of innovation in flight delay insurance will be able to watch and consider the overall context of multi-segment trips and distinguish between delays that matter and those that don't. If, for example a traveler has booked a trip from airport A to airport C with a 3 hour layover in airport B and purchased delay insurance coverage for any delayed arrival >2 hours, a 2-hour delay on the first segment, airport A to airport B, will have no impact on the trip outcome. The traveler will still have 1 hour to make the connecting flight from airport B to airport C, i.e. no payout is required. Conversely, if the layover time at airport B is shorter, e.g. 60 minutes, even a short delay on the first segment will likely result in a missed connection and a severe disruption.

Trip disruption insurance, as opposed to flight delay insurance, requires more sophisticated monitoring against an entire itinerary. Trip monitoring and alerting services are available to support a trip insurance model and new products are beginning to emerge that can trigger payouts on missed connections, cancelled connecting flights, and other forms of trip disruption. Travelers can expect to find in help from innovative insurers in dealing with the complexities and uncertainties of today's air travel experience.

TO FIND OUT MORE ›

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6. REINSURANCE MARKET UPDATE

AUTHOR: *JENAN NAKEEB – CAPSICUM RE*

Reinsurance brokers and underwriters in the aviation market have had an interesting year so far in 2019. The relatively small aviation reinsurance market has struggled through years of declining rates and has seen little consistent expansion of the underlying original business. This has led to increased competition between insurers and reinsurers for market share to protect income levels. However with a year of headline hitting loss activity, we are expecting reinsurers to push hard for improved terms on both proportional and non-proportional business.

Direct aviation rates have been increasing over the last twelve months, largely due to overall market strengthening which followed the impact of HIM hurricanes (Harvey, Irma and Maria), but also due to heavy losses in the Aviation sector itself and compounded by various capacity factors.

However, while this market hardening has led to double-digit rate increases on direct aviation business, risk adjusted aviation reinsurance rates have been largely unaffected to date in 2019 as reinsurers have benefitted from this increased income base.

While capacity levels for the majority of aviation accounts have contracted during the past year, improved pricing on direct business may have played a role in decisions to enter the aerospace class for some of the new entrants observed in recent months. Regardless reinsurance carriers are hopeful that new markets will support the current pricing momentum, rather than dilute it. The relatively modest size of the aviation insurance market means that any pricing balance is fragile and a play for primary market shares by a couple of carriers can influence rates.

The defining event of 2019 is the grounding of all Boeing 737 Max planes after the Lion Air and Ethiopian Airlines tragedies. The timing of the second crash and subsequent grounding by Boeing occurred just weeks before 1 April when renewals had already been priced. As the Boeing situation developed over the summer and estimates of potential loss quantum were circulating the market, pricing tensions began to emerge at the 1 July renewals. Brokers pushed to keep pricing flat on a risk-adjusted basis and reinsurance rate increases were limited almost exclusively to loss – affected layers.

We now have more clarity on the Boeing loss figures, the ongoing legal implications and the impact of the grounding on insurance programmes. The severity of the original Boeing manufacturing issues, the resultant hull losses as a consequence and the grounding have affected some reinsurance programmes all the way through. This loss has reinforced the value of reinsurance for the direct insurers after several years of low loss activity and sliding prices.

Sentiment in the reinsurance market supports the upwards pricing momentum, so it is likely that 1 October programmes will be quoted with increases in the range of 10% to 20%. How this will translate into final rate changes of placed programmes however is uncertain because brokers will defend their clients' renewals with vigour. Insurers with substantial concentrations of manufacturer exposures are likely to be under the most pressure as reinsurance markets with heavy aggregated Boeing exposures react accordingly. We also expect a meaningful increase in minimum rate on line to be pushed by markets at the top end of reinsurance programmes driven by the cost of capital.

Capacity in the aviation reinsurance market remains stable and we do not expect to see a flood of new capital into the market in Q4. This controlled supply provides reinsurers with a greater potential to drive rates higher. However, insurers who have long-standing relationships with their reinsurers will reap the benefits of their commitment as we move into a gently hardening market.

Aviation reinsurance has usually sat somewhat outside the wider reinsurance market and bucked general pricing trends. Now however as the class has experienced its own loss activity, and its peers are all pushing for rate increases, aviation reinsurance is finally toeing the line.

TO FIND OUT MORE ›

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7. AVIATION INDUSTRY NEWS

Helvetia to enter global aviation insurance market

Helvetia Specialty Lines CH & International is entering the aviation insurance segment with an experienced team. It will be headed by Marc Weber and offer worldwide insurance coverage for passenger liability, third-party liability and comprehensive cover.

Weber most recently led the Airline and Aerospace account for StarStone Insurance before the firm was acquired by elseco earlier this year. Weber will be joined by his former colleagues Gregor Banzer and Stefan Koller.

Globally licenced Helvetia Group will enter the aviation market at 1 October, 2019, in time for the busy fourth quarter. Its main focus and target business will be direct/facultative airline and aerospace, and large international general aviation business. Helvetia offers a combined maximum gross line of up to USD125m per risk.

The Aviation division will report to Pascal Barbato, Head of Marine, Aviation and Art, which in turn forms part of Helvetia's Specialty Lines under the leadership of Specialty Markets CEO David Ribeaud.

MS Amlin announces refocused underwriting strategy

MS Amlin announced a new underwriting strategy designed to support the delivery of its on-going transformation plan, as it moves towards its goal of becoming a world class insurance group specialising in complex and reinsurance risks.

Following a comprehensive underwriting review, MS Amlin said it has identified nine classes of business and operations that no longer form part of its future strategic direction. These business classes include: P&C UK Insurance (Corporate Property / Real Estate / Casualty / Package Binders / Fleet) and Aviation.

Simon Beale, CEO, MS Amlin said: "Whilst we have identified several classes of business that no longer fit within our long-term strategy, we believe there are other owners that are better positioned to take these great books of business forward. There will be no interruption to the service our brokers and clients receive in the meantime". "There is a great deal of work ahead to achieve our financial and strategic goals but the new underwriting focus builds on some of the early momentum we have created and more information will follow as we continue to progress with our transformation plan.

Swiss Re exits space and general aviation markets

Swiss Re have advised that they have ceased underwriting space business and scaled back their general aviation book with immediate effect, following the "bad results of recent years and unsustainable premium rates."

The announcement follows the release of the company's financial results in which its Swiss Re Corporate Solutions unit posted a USD403 million net loss for the first six months of 2019 and the company said it would actively reduce risk exposures in specific lines to ensure a more focused and profitable portfolio going forward.

Elseco strikes aviation partnership with AmTrust

The Insurance Insider announced that Elseco has forged an aviation underwriting agreement with AmTrust.

As part of the deal, three aviation specialists at AmTrust's Lloyd's operation will transfer to Elseco along with the book of general aviation business, which the publication said represented annual premiums of about USD20 million. AmTrust will remain involved with the portfolio and continue to have a stake in actuarial decision-making.

The underwriting partnership will take the total aviation premiums written by Elseco to around USD70 million. The specialist MGA's aviation book includes airline, general aviation and manufacturer's business.

Boeing second-quarter results hit by 737 MAX grounding

In a press release, Boeing reported a loss of USD2.9 billion for the second-quarter of 2019 reflecting the company's previously announced 737 MAX charge (which reduced revenue by USD5.6 billion and earnings by USD8.74 per share) as well as lower 737 deliveries partially offset by higher defence and services volume.

The company delivered 104 fewer airplanes to customers in the second quarter compared with last year, as deliveries of the company's 737 Max aircraft are halted following its worldwide grounding in the wake of two fatal crashes that killed 346 people. Boeing said it was working very closely with the Federal Aviation Administration (FAA) to certify the 737 MAX software update and safely return the MAX to service.

Lloyd's posts 2019 first-half results

In a press release of its interim results Lloyd's announced a pre-tax profit of GBP2.3bn for the first six months of 2019 underpinned by a combined ratio of 98.8%.

Gross written premiums for the year to June were GBP19.7bn representing a 1.8% increase over the same period in 2018. The elimination of foreign exchange rate movements and growth from new syndicates shows a like-for-like year-on-year reduction of 2.6%. The net impact of a 6.5% reduction in business volumes and an average risk adjusted rate increase on renewal business of 3.9%. Lloyd's said the changes reflected the strengthened underwriting discipline being applied in 2019 post the underwriting performance seen in 2017 and 2018.

The 2019 half year results show underlying improvements with risk adjusted rate increases across the majority of classes of business, most notably, property, marine and aviation. In the report, Lloyd's noted that aviation produced the largest rate increase in the first half. When looking at the segmental analysis however, just two business lines – property and energy showed a positive underwriting result in the first half, net of claims and operating expenses.

Commenting on the results Lloyd's CEO John Neal said: "Lloyd's has been working hard to ensure the market improves its underwriting performance by remediating the worst performing sectors in the marketplace. "Whilst we are pleased to be reporting a return to profitability during the first six months of 2019, we recognise the importance of continued focus on performance management to maintain this momentum throughout the balance of 2019 and in future years."

08. MARKET PERSONNEL MOVES IN Q3

Gallagher expands its aerospace team with new hires.

We are delighted to announce the following new appointments to our global aerospace practice:

Steve Wilkinson has joined as Global Head of Claims effective immediately. He will be based in London and will be responsible for leading our existing claims team and supporting our airline and aerospace clients throughout the world. Steve joins Gallagher having last held the position of Managing Director Aviation and Aerospace at Marsh. Widely recognised as a top market practitioner, Steve brings over 40 years' experience having been involved with some of the world's largest and most complex aviation claims during his career.

Milorad Piper will join the Gallagher Aerospace team as Account Executive with effect from 14 October. He will be based in New York, as part of the Gallagher US team with specific responsibility for the production, support and servicing of our aerospace clients. Milorad has extensive client experience handling aerospace and GA business throughout North America and joins Gallagher from Swiss Re where he previously held the role of Vice President Aerospace.

Additionally, **Wan Xin Lee** will join the Gallagher Aerospace team as Associate Director from 1 November following completion of her current contractual commitments. Xin will be based in Singapore and brings a wealth of experience in all aspects of aviation insurance. She joins Gallagher from Asia Capital Re where she previously held the role of Senior Underwriter.

"We're absolutely delighted that **Steve, Milorad** and **Xin** have chosen to join Gallagher's global aerospace practice, now one of the largest aerospace broking teams in the world. These individuals are a valuable addition to the team and their appointments are a clear demonstration of our continued strategy to invest in industry-leading talent to deliver unmatched capability and expertise to our aerospace clients around the globe. Service excellence is a fundamental part of our differentiated client proposition," said Peter Elson, Chief Executive Officer, Gallagher Aerospace.

AIG
Steve Eccles will join as Global Head of Aerospace effective April 2020.

Agile Underwriting Services
Jamie Connor has joined as Senior Underwriter - Aviation based in Melbourne, Australia. He was previously Client Manager - Aviation at Aon.

AXA XL
Joseph Davidson-Merritt has left his position as Senior Class Underwriter – Space.

Elseco
General aviation underwriters Bassel Matta and Paris Riseborough and claims specialist Leigh Gladden will move to Elseco following the company's recently announced aviation underwriting agreement with AM Trust.

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