Q2 EDITION 2021

PLANETALKING

A SPECIALIST RISK PUBLICATION FOR THE AVIATION SECTOR

FEATURE ARTICLES

LEAD LINES:
AIG Aerospace

Steve Eccles, Global Head of Aerospace, AIG

SPECIAL FEATURE:
Decarbonisation: The test of our times

Michael Gill, International Air Transport Association (IATA)

Gallagher

Insurance | Risk Management | Consulting

ABOUT GALLAGHER

Founded by Arthur J. Gallagher in Chicago in 1927, Gallagher 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 32,000 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.

CONTENTS

INSIDE THIS EDITION...

EDITORIAL TEAM›

RICHARD ADAMS

Partner, Gallagher Aerospace

+44 (0)204 511 4625 | Richard_Adams@ajgaerospace.com

BRAD HILLS

Partner, Gallagher Aerospace

+44 (0)204 511 4642 | Brad_Hills@ajgaerospace.com

EXECUTIVE FOREWORD

Welcome to the second quarter (Q2) 2021 edition of Plane Talking brought to you by the Gallagher Aerospace team.

This quarter, we cover a broad range of topics from commentary on market conditions in the core aviation segments, to a Lead Lines article from Steve Eccles, Global Head of Aerospace at AIG. Michael Gill at IATA discusses the challenges of climate change and decarbonisation, while we also provide a round-up of the latest market personnel moves and a brief Gallagher update.

As the second quarter concludes, it is clear that vaccination programmes are advancing and in general, air travel is picking up. Nevertheless, social and travel restrictions remain in place throughout the world and flight numbers, while varied between geographies, are generally still far below pre-pandemic levels. Many clients and industry bodies expect the outlook to brighten in the second half of the year and we sincerely hope this transpires.

Fortunately, from an insurance perspective, market conditions across all aerospace segments are showing signs of improvement, pointing to a more positive environment for buyers in 2021 than has been seen for some time. Due to differing recovery levels, renewals are highly likely to remain complex and demanding for the foreseeable future. However, with a well-worked strategy and effective partnership approach, we are confident that we remain fully positioned to support our clients through these challenges.

On this note, I am once again delighted to announce that Gallagher has made further appointments to our global aerospace practice in 2021, following those announced in our last edition. These new colleagues (detailed later) are valuable additions to our team. Their recruitment at this time now more than ever is further demonstration of Gallagher's long-term commitment to aerospace. We very much hope that our strategy of investing in talent and technology will continue to deliver to clients quality cover, service and value in the sector.

Our aerospace business has achieved substantial growth over a number of years and we are very excited by the recent news that Gallagher will acquire certain Willis Towers Watson operations (detailed later), including aerospace and space assets. We look forward to welcoming the many new colleagues and future opportunities that this transaction will bring and the enhanced value proposition it will present to our clients.

We hope you enjoy this edition. Please don't hesitate to get in touch.

PETER ELSON
Chief Executive Officer, Gallagher Aerospace
+44 (0)204 511 4588 | Peter_Elson@ajgaerospace.com

›INTERESTED IN FEATURING IN A FUTURE EDITION OF PLANE TALKING?

If so, then please contact us at:
Publications@ajgaerospace.com

01.LEAD LINES - AIG AEROSPACE

AUTHOR: ***STEVE ECCLES***, *GLOBAL HEAD OF AEROSPACE, AIG*

In April, I marked my first anniversary at AIG. Not only has it been a strange time to join a new company – unable to be in the office or meet any of my colleagues in person, but it has also been the most unusual period for the industry that I have experienced in my entire career.

The insurance industry is one that thrives on relationships and connectivity. It has been impressive to see how we have all adapted to the challenges that we have had to overcome. My onboarding at AIG was entirely virtual and completely seamless. Video calls, electronic slips, negotiations without looking at your counterpart straight in the eye have all become the 'norm' whilst we all continue to work remotely.

For the aerospace industry, however, connectivity is its 'raison d'etre': it brings people together. Therefore, the dramatic decline in the ability to connect during 2020 has severely challenged business models.

I am sure most of us thought that 2021 would see a return to some sort of normality, but I am now convinced that the aviation insurance market we return to will be markedly different to the one we left. Although the importance of connectivity will remain.

Within the insurance industry, there have been significant changes in the broking world with start-ups, acquisitions and mergers. From an insurer's perspective, these are fascinating developments and present opportunities on many differing levels to all stakeholders, not least our customers. The last three years have seen brokers transition from a softening to harder marketplace whilst seeing new market entrants look to disrupt the established broking houses. Indeed, this publication was previously published by a broker with a different 3 letters to AJG. Nothing lasts forever in our market, with the only constant seemingly being change.

For airlines, the potential return to more regular flights presents new challenges, including both pilot and aircraft readiness for returning to service, as well as potentially catastrophic ground accumulations.

We have also witnessed increased levels for passenger award settlements. Insurers are closely tracking how increased liability payments influence exposure assessments, which will, in turn, be pivotal in how we rate our business. The last 14 months have challenged assumptions regarding expected claims, with spikes in award settlements as well as deteriorating reserves across the industry due to prior year accidents.

The uncertainty regarding the future trend of liability payments creates volatility. One way to offset this would be greater industry-wide accuracy in claims reporting and reserve setting. Close co-operation between insurers and clients will enable improvement in these skills in the future.

We are also seeing some clients looking for different solutions due to internal cost pressures. The economic pressures faced by our clients and pressure on business models within the aviation industry make it only natural that there is increased focus and sensitivity to the pricing and rating of all the products that support the industry, insurance included.

From an aviation insurance rating perspective, underwriting returns had been under pressure pre-2020. In 2019, the industry had started to see adjustments in both terms and rates in the market; not just in the airline market but in all sectors – aerospace, general aviation, space. Insurers are focusing on the minimum premium levels they must achieve for their operations to remain sustainable, and adjusting their appetite accordingly. We have also seen the reinsurance market harden due to reduced exposures and changes in the established loss reserves held for claims.

This meant 2020 presented the perfect storm: pressure on insurer returns, increased reinsurance costs and capacity withdrawal driving rates to the highest level for some time. As Nigel Weyman from Gallagher pointed out in the Q4 2020 edition Plane Talking: "The last set of renewals have been some of the toughest and most impassioned negotiations that the market and clients have experienced for decades!". For insurers, the focus has been on generating an underwriting return on a bottom-line basis. While the correction was overdue, this clearly adds to a challenging year for the aviation industry.

At AIG, we will continue to grow in our chosen business segments, but we recognise that in order to offer our clients consistency and stability, we will need to be willing to make tough decisions at an account or portfolio level. There are numerous factors that go into the rating of any individual risk and we see that there is not a 'one-size-fits-all' solution. Having supported our clients throughout 2020, we will again balance an understanding and commercial response with our ability to meet the cost of the capital we require to continue offering the substantial policy limits enjoyed by our customers. The key will be to keep talking.

With clear communication, a partnership approach and consistent behaviours from all parties, we will be well-positioned to support the aviation market through these challenges and those in the future.

Looking forward, it is clear that insurers will be judged on the ease of trading with them – we recognise that never before has empowerment of underwriters, responsiveness and accessibility been as important as it is now, especially as we continue to navigate the new 'hybrid' working environment. As I said, connectivity and close relationships remain key to navigating the future.

If anything, this last year has made me appreciate the importance of human contact and the unique buzz the 'market' brings more than ever. I hope when we return to the new 'normal' we all have greater appreciation for one another than we had before lockdown.

As the global vaccination programmes are starting to have the desired effect in protecting our families, friends and colleagues, we can all hope that we will shortly be able to return to visiting loved ones wherever they may be. I have every confidence that the aerospace industry will play an important role in bringing people back together in a safe way, and the insurance industry will be there to support you.

TO FIND OUT MORE ›

STEVE ECCLES

Global Head of Aerospace, AIG
Stephen.Eccles@aig.com
www.aig.com

02. IN FOCUS: AIRLINES

IATA[1] said it expects the outlook for global airlines to brighten in the second half of the year but the situation continues to be extremely challenging for airlines. Positively, as the second quarter concludes we can report that conditions in the insurance market are now looking brighter with the market showing signs of improvement and a more positive buying environment for airlines than has been seen for some time.

Premium and rating trends

In our last edition, we reported that we were starting to see some early rate deceleration in the airline segment and evidence that the upwards rating trend was stabilising. Positively, as the second quarter concludes, we can report further evidence of deceleration of rating increases. There remains notable differentiation in results of each risk dependant on individual losses and exposure changes but overall rate increases are now moving from double-digit territory closer to high single-digits, albeit for the 'right' risks. Insurers focus is now on trying to maintain income and in general most appear to be targeting premiums at 2020 levels or higher.

With the airline industry's recovery proving slower than anticipated, insurers recognise the need to continue to apply a tailored response in terms of both requests for premium relief and renewal pricing, but they will do so based on a considered assessment of each individual airline account. On the back of reduced exposures, premium reductions are possible and we are seeing the start of some insurers agreeing to return premiums below the stated minimums in the policy, an interesting development. We remain mindful that current 2021 data is still somewhat limited but based on our knowledge of early July renewals which have completed and others currently in negotiation, all signs point to a more positive environment for airline insurance buyers in 2021.

Capacity

As the second quarter concludes, we can report an overall increase in available airline capacity levels across both the primary All Risks and ancillary covers. Consensus is that technical rating levels are now at or around a level that insurers see as 'sustainable', and this coupled with the lower loss levels of the past year has probably been influential in several new entrants' decisions to start writing airline business in 2021. These factors have also seemingly coaxed some previously dormant capacity to come off the sidelines and start writing again.

Importantly, we are now also seeing an increase in capacity through underwriters desire to maintain market share and premium income levels which is resulting in the deployment of increased line sizes (on certain risks). We are now seeing support for many airline risks far in excess of 100% and this increased competition is having a positive effect on composite premiums and leading to an increase in vertical pricing spreads.

Ultimately, increased capacity is a key factor in the recent deceleration of rate increases, but we must remain mindful that available capacity levels are still very much dependent on the individual airline, its circumstances and the underlying pricing. It will be interesting to see how the situation develops in the coming months and whether the current rating position softens further as renewal activity increases and we approach the latter stages of the year, the airline insurance markets busiest renewal period.

Ancillary covers

As a whole, airline Hull War and AVN52E rate increases are now also starting to slow down, albeit at a slower pace than witnessed in the All Risks line of business. As mentioned earlier, increased capacity is a key contributor to this change and indeed, in recent weeks and months we have witnessed the entry of ERS (Hull War) and Mosaic (AVN52E) as new markets as well as the re-entry of Argo (Hull War) who had stopped writing this business some years ago. This new capacity provides additional options and is welcomed following notable market withdrawals from this business in recent years. As one would expect, those airlines which purchase highest levels of cover and or have adverse exposures will still generally attract less capacity than their peers which do not.

In respect of airline Deductible insurance, this cover is far harder to report on in general terms. Premium levels will depend on individual loss levels, but that said, following the wider airline market conditions we are generally seeing a more moderate level of increase on airline policies with low losses than seen during the past 12 months.

Airline losses

In terms of airline losses, 2021 got off to a poor start with some notable major loss activity. Fortunately, as the second quarter concludes, we can report a far better experience with no major fatal airline losses or other known major claims of note. As is typical in the airline industry, we did observe a steady flow of airline incidents throughout the second quarter, including various runway mishaps, bird-strikes, and ground incidents however, most of which were fairly unremarkable.

One of the most notable incidents of the second quarter was a near miss rather than an actual loss, when three pallets of Vivo smartphones caught fire at Hong Kong airport[2] while waiting to be loaded. Fortunately, nobody was injured and the pallets were far enough away from the aircraft so that the only damage done was to the smartphones themselves and the tarmac. This incident does however once again trigger questions on the safety of lithium batteries on board aircraft with a number of fire damage claims in recent years having been attributed to the combustion of these batteries.

We also observed another high-profile airline incident during the second quarter when Ryanair flight FR4978[3] was intercepted by a fighter jet over Belarus Airspace and forced to land in Minsk. According to media reports, the flight was forced to land under the pretence of a bomb threat but on landing two of its passengers, a local activist and journalist and his girlfriend, were arrested by authorities. The aircraft departed several hours later, reaching Vilnius eight and a half hours behind schedule. The act has been condemned by the European Union (EU), NATO, and by various countries and civil aviation authorities globally and directives have been issued halting overflights in Belarusian airspace. Aviation insurers are monitoring the situation closely.

Future outlook

- Signs of a more positive environment for airline insurance buyers than seen in 2020.
- Absent of high loss levels, or a major event, we expect to see a continuation of the current trend with further deceleration in technical rate increases.
- Capacity levels and competition amongst underwriters has increased and as renewal activity gathers pace in the coming months, this could develop further.
- Risk differentiation will remain a key theme and insurers will continue to look for robust underwriting data.
- Renewal negotiations will remain complex, take longer and the individual circumstances and policy specifics of each airline will influence the results.
- Broker selection remains critical to the success of a renewal and resource levels, leverage, experience and service team stability will have a real impact on what is achievable.

TO FIND OUT MORE ›

NIGEL WEYMAN

Global Executive, Gallagher Aerospace

+44 (0)204 511 4583 | Nigel_Weyman@ajgaerospace.com

[1]*Source:* http://www.iata.org/en/pressroom/pr/2021-05-26-01/
[2]*Source:* Hong Kong Air Cargo ban on Vivo phones after pallets catch fire at airport - The Loadstar
[3]*Source:* Belarus Ryanair flight diverted: Passengers describe panic on board - BBC News

03. SPECIAL FEATURE - DECARBONISATION: THE TEST OF OUR TIMES

AUTHOR: ***MICHAEL GILL,*** *INTERNATIONAL AIR TRANSPORT ASSOCIATION (IATA)*

The aviation industry has survived the existential crisis of COVID-19. The worst is now behind us and passengers are slowly returning to the skies even with governments remaining overly cautious about re-opening borders.

However, deep scars will remain: losses for 2020 and 2021 are expected to top USD170bn. Airline debt as a whole has soared to more than USD650bn as a result of borrowing from governments and the capital markets to stay afloat.

It is going to be a long and difficult road back but that does not mean we have lost sight of another issue that will become another existential crisis - if we do not act on it. That issue is climate change.

In fact, this is an issue that despite COVID-19, never went away. Sustainability is clearly our biggest challenge and the metric on which our industry will be judged for decades to come.

Passengers are already questioning their flying habits as they worry about climate change. We ignore them at our peril.

Aviation contributes about 2% of global CO_2 emissions, considerably less than road transport (11.9%) and on a par with shipping. However, even though it may seem modest now, our emissions are likely to grow relative to other industries like ground transport that are steadily decarbonising through electric vehicles. Airlines know this and understand they have to act.

What you probably have not noticed hidden under the avalanche of COVID-related aviation stories is the steady drumbeat of airlines committing to increasingly aggressive climate targets.

As an industry, we are committed to a 50% reduction in CO_2 emissions relative to 2005 levels, by 2050. That effectively means cutting emissions from 915 million tonnes in pre-COVID 2019, to 325 million tonnes.

However, many airlines have moved well beyond that. More than 40, carrying about 40% of international passengers, have pledged net zero emissions by 2050 or earlier. In addition, most revealingly, the majority of those airlines made their commitment during the pandemic.

Emissions per passenger have already fallen by well over half in the past 30 years as aircraft and engine design improved fuel efficiency but that can only take us so far. To truly change our emissions profile we must incorporate new technology free of fossil-based fuels.

It is an enormous challenge but it is achievable. The cross-industry Air Transport Action Group, of which I am executive director, has mapped out three potential pathways to a zero-emissions future using electric and hydrogen powered flight, and Sustainable Aviation Fuel (SAF).

Development of hydrogen and electric powered flight is progressing fast via both start-ups and big manufacturers. Airbus as unveiled its ZEROe strategy, which includes hydrogen flight, while smaller operators like ZeroAvia are already flying small hydrogen powered aircraft.

The inescapable fact is that SAF is the best solution in the short-to medium-term to get us to our climate change goals. The technology exists, it cuts life-cycle emissions by up to 80% and it has been used in more than 350,000 flights so far.

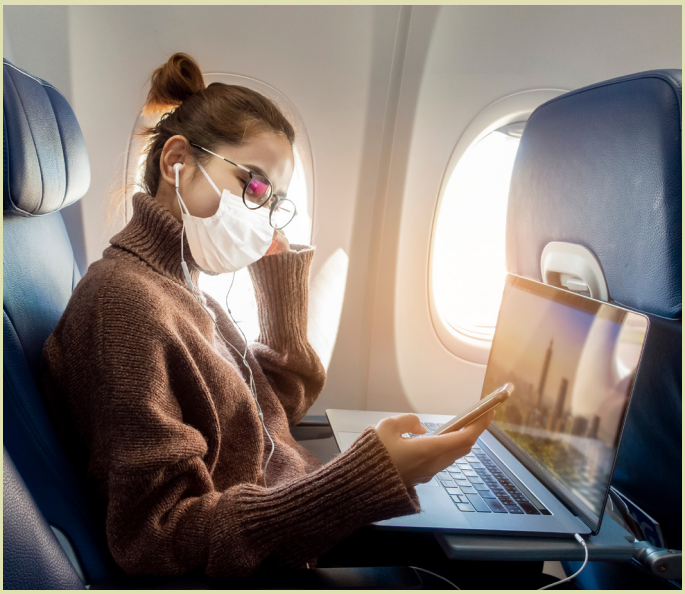
It is a drop-in fuel which is blended to a maximum ratio of 50-50 with regular jet kerosene, and produced from feedstock that is strictly regulated to ensure it does not compete with food crops, precious water resources or is responsible for forest degradation.

Because SAF can be dropped into existing aircraft, it can be used on the most CO_2- intensive sector of flying - long haul. We estimate long-haul flights account for three-quarters of all CO_2 emissions from aviation.

Emissions-free hydrogen and electric powered flight are expected to be in use by the middle of next decade but will be restricted to commuter and short haul flying. It will be several more decades before they will replace fuels like SAF.

Nevertheless, there are significant obstacles, the biggest of which is price. SAF costs about three times as much as regular jet kerosene because production is limited. It accounted for less than 0.1% of total fuel consumed in 2019.

Ramping up production over the next 10 years is critical but aviation cannot do it on its own. It needs policy support from governments and buy-in from Big Oil. The good news is that government policy is becoming more supportive, particularly in the US with the proposed by SAF tax credits, in the UK through the Jet Zero Council, and the EU's ReFuelEU proposal.



ReFuelEU is likely to include a mandate for airlines to use a blend of SAF in all flights, most likely starting at 2% and rising steadily to reach Europe's 2050 net zero goals. If it is introduced correctly it will provide a vital demand signal for SAF producers.

However, there is a potential concern - that the EU could over-reach by applying the mandate to all airlines flying in and out of Europe, rather than just to intra-EU flights.

It may sound counter-productive for an industry that believes a global solution is the best way forward for a global problem like emissions, but imposing a blanket mandate on all flights to the EU runs the risk of a political backlash (we have seen it before when Europe attempted to impose a blanket Emissions Trading Scheme on all flights in 2011) as well as competitive distortion.

If the mandate can be successfully introduced in Europe, though, it could be a blueprint for a global SAF framework in the not too distant future. Widespread use of SAF globally at a competitive price to regular kerosene is the goal we seek.

Despite the crushing blow of COVID-19 on our industry, momentum has been building for cleaner skies.

IATA is currently discussing a more stringent emissions target, and the industry's key regulator, the International Civil Aviation Organisation (ICAO) is expected to deliver its own long-term target when it meets in September next year.

Aviation has a well-deserved reputation for innovation. In 2009, we became the first global industry to unveil an emissions reduction plan. That was the first step. We know there is more to do.

TO FIND OUT MORE ›

MICHAEL GILL
International Air Transport Association (IATA)
www.iata.org

04. IN FOCUS: GENERAL AVIATION (GA)

AUTHOR: ***MATTHEW TRUNDLE,*** *DIVISIONAL DIRECTOR, GALLAGHER AEROSPACE (SINGAPORE)*

In recent months, GA insurance market conditions have started to display a deceleration in rate increases, across all sub-sectors of this highly diverse business segment. As such, as we enter the second half of the year there is now optimism that insurance buyers can expect a more positive outlook as we continue through 2021.

Rates and premium

With the majority of GA reinsurers having gone through a remedial process, scaling back and re-basing their GA portfolios in recent years, we are now at a point where technical rating levels are getting close to target adequacy and overall premium income for the segment is at or around a level that insurers deem to be 'sustainable'. General aviation rates have notably increased in recent years and underwriting results are now looking far more positive for insurers against what was a backdrop of soft market conditions and poor performance over a number of years. Subsequently, confidence in the GA segment has improved, capacity is increasing and we are now seeing an overall deceleration in GA rates. That said, insurers are still paying close attention to the premium income on any given risk particularly on those operators with reduced flying activity and aircraft on the ground for long periods, as typically these accounts result in policy adjustments, which can see insurers having to return significant portions of the premium.

As the world enters its new normal and operations start to pick up, as a result this should generate organic growth and insurers are hopeful that this will deliver their desired premium income to see them return to profitability in the GA segment. For the time being, insurers are still likely to take a cautious approach to each renewal and results will depend heavily on individual risk profile and loss performance.

Capacity

There are several factors influencing the rate deceleration seen this year but capacity levels are a key contributor. As mentioned, with results improving and confidence increasing, new capacity has entered into the market (Helvetia and Blenheim) and we are now seeing a greater level of appetite from existing insurers when it comes to capacity and appetite for GA risks. Despite increased capacity, insurers remain disciplined on their risk selection and deployment and in general, the larger the Hull value and/or liability limit, the lower the levels of capacity and competition will be available. For the perceived 'right' risk, however, there is a 'fight for quality' and many insurers will now look to deploy larger shares at competitive terms. This has had a positive effect on composite premiums as those insurers who previously wrote shares at terms higher than the leader are now seeing their position squeezed. This again is another positive sign for buyers with an attractive risk profile.

As we look ahead, there is continued optimism that the GA market is now over the worst and subject to no major losses; we would expect this trend to continue throughout the coming months. We would however continue to suggest a careful and strategic approach to the market with your broker in order to maximize this more positive outlook.

Losses

As the second quarter concludes, fortunately we have little to report on in terms of major GA loss activity. Due to the diverse nature of GA operations, losses are in general much harder to track compared to other segments with only a handful of incidents typically deemed high-profile enough to gain media attention. As is typical in the GA segment, we did observe a steady flow of incidents throughout the second quarter, including various landing mishaps, collisions and ground incidents but fortunately known fatal losses were low.

It is a long way to go before year-end and underwriters will continue to monitor claims in this sector closely but it would seem that the drop in losses seen in the last year or so is a trend that has carried over into the first half of 2021. Insurers will be hoping this continues for their profitability but they remain wary that this is only a short-term trend and as flight activity increases and pandemic restrictions lift further, losses may increase. Insurers also have concerns around return to service plans, pilot hours and mechanical failure of aircraft that may have sat dormant for long periods during the pandemic. In this respect, working with your broker to supply the right underwriting information and highlight key points will help differentiate your operation as a preferred risk and this will pay dividends in the end result that is achievable.

Future outlook

- Signs of a more positive environment for GA insurance buyers than seen in 2020.
- Absent of high loss levels, or a major event, we expect to see a continuation of the current trend with further deceleration in technical rate increases.
- Capacity levels and competition amongst underwriters has increased with potential for increased levels in the coming months.
- Variation in pricing levels between risks in different geographies and operational sub-sets will remain.
- The individual circumstances and policy specifics of each operator will influence the results.
- Broker selection remains critical to the success of a renewal and resource levels, leverage, experience and service team stability will have a real impact on what is achievable.

TO FIND OUT MORE ›

MATTHEW TRUNDLE

Partner & Divisional Director, Gallagher Aerospace

Matthew_Trundle@ajg.com

05. IN FOCUS: AEROSPACE INFRASTRUCTURE

AUTHOR: ***CLAIRE VINCENT,*** *SENIOR PARTNER, GALLAGHER AEROSPACE*

In our last edition of Plane Talking, we expressed our concerns about the lack of support from insurers for the aerospace infrastructure segment and the markets continuing drive for significant premium increases. As the second quarter concludes, conditions have improved slightly but challenges remain and so we must continue to manage the impact on our clients, most of which are now experiencing their second renewal during what unfortunately remains a pandemic environment.

Current trends

The focus from insurers changed 18-24 months ago from top line income to bottom line profitability and that position continues. Insurers still argue that premiums in this segment are not at the required level for them to recoup the major losses of the last 10 years and provide a sustainable premium base for future losses, especially in a post-pandemic environment when operational levels are higher.

In our last edition, we explained that we believed insurers needed to take a longer-term view of an insured's operations, in order to smooth out the impact of the two extremes i.e. lower client exposures versus insurers' demand for more dollars due to past poor claims. Positively, what we have seen in the second quarter is a more considered approach from insurers and the message we were receiving from insurers at the beginning of the year of targeted premium increases of 'at least 15% or more' seems to have softened somewhat. That is not to say that we have moved back into a 'soft' market, as we have not, and premium increases are still being quoted and achieved by insurers. Positively, the level of increases that are now actually being achieved on a composite basis once the market has been fully canvassed and negotiations concluded has largely reduced below this previously targeted 15% level.

Why have we seen this change in the composite pricing?

The simple answer is the increased availability of capacity. Unlike in other areas, we have not seen an influx of new insurers enter the aerospace infrastructure segment but we have seen a number of existing insurers seeking to re-engage on a broader spectrum of the risks in this segment. These insurers have always been involved in the aerospace infrastructure business but whilst premiums were at such a low level, they were very selective in the risks that they chose to write. As premiums have increased and are seen to be approaching a more sustainable level (and with reduced exposures due to COVID-19) these insurers are now looking to engage on a wider selection of this business.

In addition, other insurers are now more likely to deploy their maximum capacity on risks. Over the last few years, insurers have restricted the shares that they were prepared to offer on certain risks, in many instances offering less than 50% of their maximum capacity. The reasoning being that these insurers deemed premium levels insufficient compared to loss history/exposures, but they still wanted to stay involved in the class and so they began to limit their shares. Now that the premium levels are considerably higher than those in 2018 and prior, and exposures are limited, there is a far greater willingness amongst insurers to deploy their maximum capacity. Therefore, whilst the overall maximum capacity in the aerospace infrastructure segment has not necessarily changed in recent months, the availability and deployment of that capacity has grown.

Capacity brings competition and as such, for small to medium sized risks in this segment, with limits up to USD1bn and good loss records, achieving far in excess of 100% support is now becoming a regular occurrence. This additional capacity therefore allows us as the broker to 'push' against quoted premium increases and help drive them down.

It must also be noted, that this additional capacity is more widely available in certain sub-segments of risk than others, for example airports, ANSP's and refuellers. Losses for this business are largely low level and contained within the realms of profitability for insurers. In addition, current exposures remain low due to a lack of aircraft and reduced passenger movements and as such, many insurers are now keen to deploy greater capacity to this sector.

Supporting service companies at airports, such as Groundhandlers and aircraft maintenance operations, will be considered in a slightly more measured way, as historically this business has been more loss active due to the nature of operations. With this in mind, premium increases for this business will not just follow the market average with insurers more likely to apply targeted adjustments based on loss histories to address the profitability of each account.

In the manufacturing sub-segment, the increases experienced here will vary considerably between the tiers and criticality of the products supplied. There is appetite amongst insurers for non-critical manufacturers but capacity is far more restrictive for major manufacturers, and much like Groundhandler and aircraft maintenance risks, accounts will be rated largely based on their loss histories.

Losses

2021 remains largely inactive in terms of losses so far in this segment but we understand that a hailstorm in San Antonio in May caused damage to a number of aircraft at a manufacturer's facility and this could lead to a claim under their aviation programme. Importantly, we are not aware of any further significant deterioration in large losses on prior years. Looking ahead, insurers remain concerned about the long-tail nature of liability risks and in particular those accounts with US exposures following several individual awards in excess of USD100m in recent years. This is an area that insurers will continue to monitor closely.

Future outlook

- The resolve from insurers to increase rate and premium across the board will continue, but in a more measured way.
- Capacity has been available but is now being deployed on a greater level putting pressure on insurers drive for premium increases.
- Rating adequacies are still at the forefront of insurers underwriting.
- Distinction between risks must be pursued and underwriting information is essential for successful negotiations.

TO FIND OUT MORE ›

CLAIRE VINCENT
Senior Partner, Gallagher Aerospace
+44 (0)204 511 4546 | claire_vincent@ajgaerospace.com

06. IN FOCUS: SPACE

AUTHOR: ***PETER ELSON,*** *CEO, GALLAGHER AEROSPACE*

The second quarter of 2021 has proved to be relatively stable, with no major insured losses reported and no significant changes to market capacity, but some signs of increased insurer confidence and appetite.

We are starting to see greater willingness to compete amongst insurers, however, with the high level of incurred claims over the last 24 months still very much in the minds of underwriters, premium rates are holding steady. Underwriter appetite for market share remains solid across the board and for non-distressed risks requiring low to moderate sums insured, the competitive forces can be harnessed to the benefit of buyers. For more distressed risks, underwriters are able to better leverage their positions, although pricing remains reasonable value compared to long-term historical trends across the board.

Assuming no significant loss activity, we would expect current trends to continue through the rest of 2021, noting that the upcoming placement of recently expanded GEO (geostationary) order books will likely alleviate perceived volatility and restore market confidence in the sector.

Within the New Space sphere, we note that the Electron launch on 15 May 2021 failed to reach orbit. Although not insured, this will no doubt have an impact on the blossoming small satellite launch segment, which is now moving rapidly towards commercial service.

Staying with New Space, world leaders gathered in Cornwall for the G7 Summit with a large number visiting Spaceport Cornwall to hear of developments in the UK space industry. Just weeks before, the government paved the way for commercial space launches from UK soil with new regulations that are currently before Parliament. The hope is that the new regulation will put the UK firmly on track to see launches take place from England, Wales and Scotland as early as next year.

For all of our clients, Gallagher Space strives to provide innovative and intelligent strategies coupled with market leading delivery and service standards to ensure optimal results.

TO FIND OUT MORE ›

PETER ELSON
CEO, Gallagher Aerospace
+44 (0)204 511 4588 | Peter_Elson@ajgaerospace.com

07. GALLAGHER UPDATE

Gallagher announces an agreement to acquire certain Willis Towers Watson operations

On 12 May, Gallagher announced an agreement to acquire certain Willis Towers Watson plc reinsurance, specialty and retail brokerage operations as part of a proposed regulatory remedy for the pending Aon plc and Willis Towers Watson plc combination. The transaction is expected to close during the second half of 2021.

"This acquisition will accelerate our long-term strategy by significantly expanding our global value proposition in reinsurance, broadening our retail brokerage footprint and strengthening key niches and specialty brokerage offerings," said J. Patrick Gallagher, Jr., Chairman, President and CEO. "The powerful combination of expertise, geographic reach and scale that this acquisition presents will greatly enhance our offerings to clients and prospects, while also providing significant value for our colleagues, carrier partners and shareholders. Most importantly, I look forward to welcoming more than 6,000 new colleagues to our growing Gallagher family of professionals."

The transaction is subject to European Commission, US Department of Justice and other regulatory approvals, including regulatory approvals related to the pending Aon plc and Willis Towers Watson plc combination and the proposed remedy.

Further information and our press release can be viewed here.

Gallagher expands its aerospace team with new hires

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

- **Jessie Sharp** has joined as an Aviation Business and Broking Support Technician based in London
- **Nicholas Wheeler** has joined as a Wordings Analyst based in London
- **Thuy Vu** has joined as Aerospace Manager based in Hanoi, Vietnam

"I am delighted to announce these latest appointments to our global aerospace practice, one of the largest aerospace broking teams in the world. These new colleagues are a valuable addition to our team and are further demonstration of Gallagher's long term commitment to aviation and our strategy of investing in talent with the aim to deliver high quality cover, service and value in the sector".

Peter Elson, CEO, Aerospace - Gallagher

08. MARKET PERSONNEL NEWS IN Q1

AIG

Calum Duncan has joined as Senior Underwriter, Manufacturers & Airports UK, Aerospace.

Allianz Global Corporate & Specialty (AGCS)

Jean-Pascal Mouchette has been promoted to Head of Aviation & Space for AGCS Mediterranean & Africa. Additionally, Cristina Schoen, has been promoted to Global Head of Aviation Claims. Schoen previously served as Director of Airline Claims for the US, a role she will retain in addition to her new one.

ERS

Daniel Warburg has been appointed Head of Specialty Reinsurance Lines. He most recently held the position of Head of Aviation Treaty & Satellite at Lancashire.

Global Aerospace

Daniel Turner has been appointed Head of Claims UK based in London.

Hive Aero

Isabel Kelly has joined as an Aviation Underwriting Assistant. She most recently worked in the Aviation team at Starr Insurance.

Talbot

Will Green has joined the Talbot aviation team. He most recently held the position of Senior Aviation War Underwriter at Munich Re Syndicate.

Source: Market knowledge and publicly available information.

BUSINESS CONTACTS

UK

PETER ELSON

CEO, Gallagher Aerospace
+44 (0)204 511 4588 | Peter_Elson@ajgaerospace.com

NIGEL WEYMAN

Global Executive, Gallagher Aerospace
+44 (0)204 511 4583 | Nigel_Weyman@ajgaerospace.com

WILLIAM SMITH

Global Executive, Gallagher Aerospace
+44 (0)204 511 4620 | William_Smith@ajgaerospace.com

Asia Pacific

ADAM SULLIVAN

Managing Director, Aerospace Asia Pacific - Gallagher
+65 6411 9394 | Adam_Sullivan@ajg.com

Australia, New Zealand and Pacific

JOANNE GREEN

Divisional Manager, Aerospace Australia, NZ and Pacific
+61 (07)3002 2293 (Ext: 72293) | Joanne.Green@ajg.com.au

Middle East & Africa

PAUL WARING

Senior Partner, Gallagher Aerospace
+44 (0)204 511 4591 | Paul_Waring@ajgaerospace.com

USA

STEVE LLOYD

CEO, Aerospace USA - Gallagher
+1 312 315 1944 | Steve_Lloyd@ajg.com

Canada

GRANT S. ROBINSON

Managing Director - Gallagher
+1 403 298 4314 | Grant_S_Robinson@ajg.com

Latin America

EDUARDO DUERI

Managing Director, Gallagher Aerospace, LATAM
+57 1600 4000 (Ext: 249) | Eduardo_Dueri@ajg.com

ajg.com/uk | gallagher-uk | @GallagherUK

CONDITIONS AND LIMITATIONS

This publication is not intended to give legal or financial advice, and, accordingly, it should not be relied upon for such. It should not be regarded as a comprehensive statement of the law and/or market practice in this area. In preparing this publication, we have relied on information sourced from third parties and we make no claims as to the completeness or accuracy of the information contained herein. It reflects our understanding as at 25/06/2021, but you will recognise that matters concerning COVID-19 are fast changing across the world. You should not act upon information in this bulletin nor determine not to act, without first seeking specific legal and/or specialist advice. Our advice to our clients is as an insurance broker and is provided subject to specific terms and conditions, the terms of which take precedence over any representations in this document. No third party to whom this is passed can rely on it. We and our officers, employees or agents shall not be responsible for any loss whatsoever arising from the recipient's reliance upon any information we provide herein and exclude liability for the content to fullest extent permitted by law. Should you require advice about your specific insurance arrangements or specific claim circumstances, please get in touch with your usual contact at Gallagher Aerospace.

Arthur J. Gallagher (UK) Limited which is authorised and regulated by the Financial Conduct Authority. Registered Office: The Walbrook Building, 25 Walbrook, London EC4N 8AW. Registered in England and Wales. Company Number: 1193013. FP877-2021a Exp. 25.06.2022

Gallagher

Insurance | Risk Management | Consulting