

Q3 EDITION 2020

PLANETALKING

A SPECIALIST RISK PUBLICATION FOR THE AVIATION SECTOR

FEATURE ARTICLES

LEAD LINES – TIME FOR SCHOOL

Paul Trueman, Underwriting Manager at Global Aerospace, reflects on our craving for stability and simplicity following the upheaval of COVID-19.

UNSTABILISED APPROACH

Flights down but unstabilised approaches up - What does this tell us about operational risk in the industry's gradual emergence from COVID-19?

AVIATION MARKET AND INDUSTRY NEWS



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EXECUTIVE FOREWORD



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

Having left the summer months behind us, focus has now shifted firmly towards negotiations for the fourth quarter (Q4) renewals. As we enter this traditionally busy period for aviation insurance, the market finds itself in an unfamiliar and challenging situation as it contends with the additional challenges and consequences of the ongoing COVID-19 pandemic.

For aerospace insurers, getting back to profitability remains the key concern. Uncertain, unpredictable and changing exposures combined with continued losses, reduced income and economic factors are all exerting pressure, and there is a clear and heightening expectation that the broader insurance industry will suffer very significant losses in 2020. These drivers add further impetus to rate increases in an already hardening market environment.

For our clients around the world, this global pandemic has and continues to affect operations dramatically. Contrary to most projections earlier in the year, it is clear that the aviation industry remains in a state of distress. Recovery is proving slower and shallower than expected, undermined by the progress of the pandemic and constantly shifting government reactions. More than ever, clients are looking to their insurance partners to recognise the severity of their situation and for assistance and relief during their time of need. Insurers are taking differing approaches but, in our experience, - as has been the case during past crises - they are responding positively.



For Gallagher, our number one focus has been and remains to help our aviation clients manage their businesses through this unprecedented situation. Since the start of lockdown and throughout this pandemic we have moved quickly to understand our client's individual situations, provide solutions and negotiate relief where possible. While this has been a massive task, I'm very pleased to say that we continue to meet all demands, stepping up our market presence and maintaining the consistency, stability and service excellence for which we are known. This has been essential for retaining our client's confidence and has also led to several new business wins from prospects recognising the capabilities and resources that we can provide. More so than ever, it is vital that clients have the best representation in place to navigate this turbulent period and Gallagher will continue to strive to offer a compelling value proposition, backed by robust data and analytics and a culture of constant improvement.

Looking ahead, with the pandemic continuing to impact clients, insurers and brokers alike, the aviation insurance sector looks set to remain a challenging trading environment. It is imperative that all parties continue to engage and work collaboratively to overcome the hurdles that arise so that we arrive together, post-pandemic in a healthy position.

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

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01.LEAD LINES – TIME FOR SCHOOL

AUTHOR: PAUL TRUEMAN, UNDERWRITING MANAGER, AIRLINES, GLOBAL AEROSPACE

It's my daughter's first week at school (or at least it was at the time of writing). Time to learn that the moon isn't made of cheese, $2 + 2 = 4$ and somewhat devastatingly perhaps for the Trueman household, that unicorns do not actually exist.

I won't lie - the champagne is on ice. It means she can't have an outright fight and/or screaming match with her two and a half-year-old brother every seven minutes. Or, gouge her scooter through our freshly plastered walls every day to name a couple of the immediate benefits.

Don't get me wrong, as parents, we have cherished the additional time we have had together as a family – undoubtedly one of the benefits that has arisen from this crisis. However, I believe we are now as a family both collectively and individually ready to embrace some stability and normality where it can exist in today's world, and the school is at least for us a shining beacon of hope. After all, what could represent stability and normality more than taking your kids to school at the start of September – a true annual milestone.

Another milestone was also achieved this week with the office open at Global Aerospace. This week I spent my first two days in the office in six months. While this may be short-lived for now as restrictions resume, it was surprisingly refreshing – not because my usual train route was 80% less congested or because I was in more relaxed attire, but because I was simply back in the office. With a routine, people to speak to, a broker to discuss a renewal with and some internal meetings to prepare for, stability and simplicity was back, albeit briefly, and provides reassurance for a time where being back in the office is more permanent.

I feel very lucky to have a degree of stability returning to my life. I am not sure how long it will last at this point. My BBC news feed is currently littered with articles on new local lockdowns, but I am taking advantage of it whilst I can. Unfortunately, many others are not so fortunate.

As aviation underwriters, we have all spent the past six months having some very depressing conversations with clients about the pandemic's impact on their operations both today and for the future. Along the way, we have heard tragic stories of mass furloughs and significant redundancies – in some cases, it has been the people we have been dealing with for many years. On a personal level, I have a couple of friends who are pilots in the UK. Discussion regarding the pandemic has now almost become a taboo subject whilst in their vicinity – who can blame them for that. We see and hear the pain for so many, whilst some of us can obtain some small degree of stability which is unfortunately still out of reach for others.

As humans, we tend to crave what we can't quite obtain, more money, a bigger house, more freedom, more time. Don't beat yourself up about it; it is hard-wired. For six months, we have lived with uncertainty, instability and volatility in both our personal and work lives. Once the norm, this stability and certainty, is now seldom available, and we crave it as a result.

The aviation insurance industry is a true provider of stability. A vehicle to mitigate some of the risk that exists in the world and allow individuals and businesses to thrive. How such stability is provided is multi-faceted, however, and frankly speaking, some are better at delivering it than others.

The ability to write a cheque that won't bounce, and write the cheque within 48 hours rather than 48 days is just the start of the stable offering. Offering consistency of service, approach and having the experience to deal with an unfortunate event when it arises whilst also providing clients and brokers with true decision makers is just as important. In fact, some of these 'softer' skills have risen to the very forefront of our clients and brokers minds during this pandemic – they have immense value. It stands to reason therefore that the intrinsic value of that stability (however people want to quantify it) is at the start of a very long bull run. Sure, it might not be completely apparent and appreciated everywhere, but it is happening.

Aviation underwriters are selling this multi-faceted stability every day. We sell it with the expectation of a financial margin without which the industry would not be able to provide the stability the industry requires in the first place. And yes, the industry needs to evolve and embrace new technology, new risks and more efficient ways of working to name a few. But let's not get completely carried away and lose focus on what is quite a simple value proposition – simplicity is always best.

Stability and simplicity are not traditionally sexy concepts. Right now, they are, and the value we assign to them is rightly skyrocketing as we crave the benefits they bring to our personal and professional lives. Aviation underwriters represent a great source of stability for our clients, and we would do well to remember this simple fact at times like this.

I was very keen to understand what my daughter had been doing at school on her first day. In truth, she told me and my wife very little. Did she like it? Were other children being nice to her? Was she intimidated or scared? Your mind naturally races when you want information about an unknown – you crave that stability and reassurance.

Finally, when she was tucked up in her bed that evening with her fluffy unicorn (clearly the teachers hadn't covered mythical creatures on the first day) she asked me "Daddy, can I go back to big school tomorrow?" Somewhat relieved, I said, "of course you can!" She replied, "but I only want you and mummy to pick me up from school like today, okay?" I'm not entirely sure what she thought the other option was, but it was a simple request for some stability in her new world and of course, we will provide it.

TO FIND OUT MORE ›

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02. MARKET UPDATE

Having left the summer months behind us, we reach the point of the year where market activity gathers pace and focus turns to the renewals of the fourth quarter, a decisive period for aviation insurers and the market alike.

Aviation insurance pricing trend

With the third quarter now concluded, we can report little change in market conditions with definitive upwards rating movement across most business segments in-line with that seen throughout the year. Analysis would suggest that the level of rating increase accelerated slightly in the third quarter. Yet, we must be mindful that renewal activity is more substantial during this period with several major accounts renewing which have a more significant influence on the overall figures.

Looking ahead, the fourth quarter is undoubtedly the most significant transactional period for the aviation insurance market. It is a time in which a substantial portion of the world's airlines and aerospace accounts renew. Considering the high volume of renewals taking place, it is typically this period which will determine the year-end results for aviation underwriters and set the tone for the forthcoming year. With this in mind, all indications point to a continuation of the current market hardening.

Impact of COVID-19 on the insurance market and aviation insurers

As we reported in our last edition, it will be some time before we understand the true impact of COVID-19 on the insurance market as the pandemic continues and a number of moving factors remain in play. While positively, recent commentary has been slightly more upbeat suggesting the level of claims may not be as high as initially feared, industry opinion still suggests that COVID-19 will represent one of the worst ever years for the insurance market. The impacts of continued losses, reduced income/investment returns and low-interest rates are impacting profitability and these drivers add further impetus to rate increases in an already hardening market environment.

For aviation insurers, from a business perspective, the brunt of the pandemic related impact is on the sector's overall premium pot which is anticipated to suffer a sizable hit. Unfortunately, aviation is still among the worst affected industries by the pandemic and the various premium relief measures, client defaults and reduced operations are all negatively impacting premium levels, despite the underlying upwards rating trend. In the airline sector in particular, at the start of the year pre-pandemic, market consensus suggested insurers were aiming to grow 2020 airline premium from circa USD 1.6 billion (2019) to circa USD 2 billion, a number earmarked as a more sustainable market figure. As we approach the final quarter of the year however, despite significant rate increases the overall premium pot may be significantly down if exposure projections continue on current pessimistic levels, driven by continued widespread travel restrictions. Of course much will depend on the results of the fourth quarter renewals however whatever the overall hit on premium volume is for insurers, it should be viewed in context that it is still likely to be substantially less than the reduction in revenues suffered by our mutual aviation clients.

Renewal and placement negotiations

There can be little doubt that we have experienced significant changes in respect of renewal negotiations. For the past six months or so everyone has been busier than usual, partly because of lockdown and changes in day to day working but also due to increased workloads in respect of policy changes and the negotiation of various client support measures. Since the initial UK lockdown began in early March, brokers have been busy re-negotiating with insurers (where possible) large numbers of contracts and amending policies to reflect a myriad of changes including premium adjustments/returns, payment extensions/changes and various other relief measures. This has been a significant task across a large portion of business since each negotiation is dependant on the individual circumstances and policy specifics of each client.

We have observed distinct variation in the individual attitudes and responses of each insurer and disappointingly it must be said that a select few have been far less accommodating to negotiations and/or slower to react. At the start of the pandemic these insurers adopted a harder standpoint, limiting their underwriter's authorities and subjecting almost every renewal to higher management sign-off. Fortunately in recent weeks these outliers have since softened their positions, albeit it's taken time, perseverance and a sustained effort from Brokers to achieve this.

Looking ahead, we anticipate that renewal negotiations will remain more complex and challenging. Significant attention must be given to changes in operations and each client's circumstances taking into consideration as to how this may require the altering of terms and influence negotiations, both now and how in the future, at least until travel restrictions lift further and operations start to return to somewhere near post-pandemic levels. In light of the current situation, more so than ever it is essential that insurance buyers ensure that they have specialist broking representation with the resource, experience and tools in place to manage the situation and mitigate volatility.

Capacity

Overall capacity levels reduced further during the third quarter following the rating downgrade of two insurers by rating agency AM Best. Both General Insurance Corporation of India (GIC Re) and New India Assurance Company Limited (New India) saw AM Best downgrade their respective financial strength ratings to 'B++' (Good) from 'A-' (Excellent).

While ratings and outlook changes are not uncommon, these particular downgrades are significant in that they put these insurers below the crucial 'A-' threshold that most buyers and broker security teams deem the minimum rating requirement. The impact of a major downgrade such as this can be two-fold, in that 1) it triggers security clauses in existing policies meaning the affected insurer may need to either be replaced mid-term or another insurer persuaded to increase their participation to cover the shortfall, and 2) it may lead to reduced overall available capacity levels for the forthcoming renewal. While ultimately downgrades add further pressure to negotiations, the actual impact will very much depend on each client's individual position and whether they are willing to retain/use a downgraded insurer at the expense of heightened security risk.

On a separate note, in recent negotiations some insurers have suggested they may be looking to take a more selective underwriting approach in the coming months, potentially limiting their participation or shares on select business and or exiting certain territories and lines. This would undoubtedly impact some accounts, and so we will be continuing to monitor these insurers closely.

There are some positives for capacity however, as market hardening has also lead to the entry of some new capacity and expanded offerings. Those entrants that joined last year have raised capital and are establishing themselves as credible players, meanwhile in 2020, Rokstone entered the market in Q2 while Hive Aero recently announced their expansion into underwriting Aviation Hull and Liabilities. This new capacity does not offset the overall capacity lost, but it does help mitigate some of the difficulties mentioned earlier and provide options. It is important to note however, that any new entrants are likely to be selective and, as with established markets, will only participate at what they see as the right price.





Losses

To date, the overall aviation loss figures remain lower than those recorded for the same period last year due in part to the significant reduction in operations seen as a result of the ongoing pandemic. That said, as reported in our previous edition we have continued to observe a steady flow of claims throughout 2020 and the third quarter was no exception with further significant losses and ground incidents seen across the airline, aerospace and general aviation segments. Ultimately this demonstrates that despite reduced numbers of aircraft movements, the underlying risk inherent in aviation has not decreased and the costs of just a few individual losses can quickly mount up.

In the airline segment, the Air India Express Boeing 737-800 which skidded off the end of the runway at Kozhikode-Calicut Airport during heavy rain and tailwinds was perhaps the most publicised incident during the third quarter. The flight was part of a COVID-19 repatriation mission and tragically of the 188 onboard, 18 passengers and both pilots were killed. Another much-publicised incident was that of the Ethiopian Airlines Boeing 777 freighter which caught fire while being loaded with cargo at Shanghai Pudong International Airport. This loss is rumoured to have a substantial claim reserve. It could become one of the most expensive hull losses in history should the aircraft be deemed uneconomical to repair and declared a constructive total loss. Factoring in current travel restrictions however it is likely to be some time before loss adjusters and other necessary parties can visit the site to assess the extent of damage fully and so at this point it is too early to speculate on the outcome and values.

In the general aviation segment, excluding private owned or military aircraft, we recorded a handful of fatal losses the most high profile of which involved a mid-air collision between a de Havilland DHC-2 floatplane and a Piper PA-12 aircraft in Alaska. Both pilots and the five passengers onboard the DHC-2 were killed. Fatal losses aside, we also witnessed several other claims in this segment, including damage and destruction of various aircraft across multiple locations in the USA following extreme weather events.

In the aerospace Manufacturers and Infrastructure segment, the aforementioned extreme weather events in the US are also reported to have caused damage of varying degrees to airport buildings, hangars and equipment. Similarly, in Pakistan, Islamabad International Airport is reported to have suffered damage when parts of its ceiling collapsed following heavy rain. In Beirut, the devastating port explosion that killed more than 100 people and injured thousands, is reported to have caused damage at Beirut International Airport with the shockwave impacting the site despite being over 9km away. At Liege airport in Brussels, a hangar suffered damage when a fire broke out. Meanwhile, at Sheremetyevo airport, a fuel truck collided with an Airbus A321 causing damage to the aircraft nose and fuselage. It is not yet known what claims will arise following these incidents and indeed whether they would fall on aerospace policies and so at this point, it is too early to speculate on any figures and/or outcomes.

As aviation activity increases following the further opening up and easing of pandemic related travel restrictions, it is probable that we will observe an increase in claims, albeit levels are likely to fluctuate by different regions and or countries, at least in the short-term as recovery rates vary. As discussed later in an article from Holman Fenwick Willan, there is concern that a long period of reduced operations may have increased some risk factors and so, insurers are likely to continue to monitor claims levels closely and scrutinise individual risk elements such as aggregation of aircraft/assets on the ground, pilot training and pandemic safety plans. As mentioned in our last edition, many new safety support programmes have been announced in recent months, and aviation companies and operators could find value in exploring the resources and benefit that these solutions can provide. Your Gallagher service team can provide further information on these providers and services on request.

Source: Gallagher market knowledge and publicly available information

What is happening in the different aviation segments?

Airlines

Pricing remains under pressure for all airline risks in line with the ongoing market rating trend. Although pandemic travel restrictions are easing, and many airlines are gradually restarting operations, uncertainty exists, and schedules and risk exposures continue to change week by week. For insurers, the airline industry is currently representing a different profile than which was the case pre-pandemic. Many airlines still have large numbers of aircraft grounded and on renewal are presenting substantially reduced exposure forecasts for the year ahead, as the pandemic continues to affect operations.

Whilst aviation insurers are sympathetic to the situation of their clients, profitability and premium income is a key concern for underwriters as they seek to provide greater assurance to their senior management and ensure that they are able to continue to operate. In the current environment, many underwriters are now trying to mitigate reduced exposure volumes (where possible) by changing rating requirements and or imposing measures such as minimum premium levels. Insurers are also pushing hard to remove any favourable coverage enhancements and conditions which may also impact premiums. On renewals seen to date and from our initial conversations on other Q4 renewals, it is important to note that despite exposure reduction clients may still receive no premium reduction or a non-proportional reduction and in some cases even an increase in premium. The actual result will depend on the individual circumstances of each client and in part the skill of the broker, but it is important to understand that the catastrophe nature of the aviation sector remains unchanged and an underwriters exposure to risk is far from proportional with volume of exposure.

With exposures down for most airlines there is a danger that premium measures and targets could lead to over inflation of rates. Therefore it is essential from a broker perspective that negotiations are undertaken carefully, considering the particular circumstances of each account. In the coming months and years, recovery levels will undoubtedly differ between each airline, therefore, it is equally as important that insurers recognise their need to be flexible and understanding with respect to future renewals and ratings as the situation continues to evolve.

In terms of capacity, overall levels have reduced in 2020, and most accounts now approach their renewals with some level of expiring capacity unavailable due to withdrawals, consolidation and/or rating downgrades. Finding replacement markets can be challenging, particularly for high-limit and or loss active risks, and often this involves engaging with insurers who may have in the past either quoted uncompetitive terms and/or declined to participate.

Looking ahead to the fourth quarter with such a high volume of renewals taking place, accounting for a large portion of the segments total premium income, all indications point to a continuation of the current trending with the possibility of further acceleration in rates.



General Aviation (GA)

Insurers continue to exercise strong discipline in this diverse business segment. With the third quarter now concluded, it is clear that both the upwards rating trend and underwriting behaviour remain in-line with that seen earlier in the year. Rates continue to rise in this segment, albeit there remains significant variation in levels between risks in different geographies and operational sub-sets, i.e. rotor-wing, fixed-wing, military, private, business etc. The negative impact of the pandemic on premium levels in other segments is now having some knock-on effect, as aviation underwriters are looking to other less affected areas of their portfolio, such as GA, to try to mitigate the overall impact on their year-end figures.

Capacity levels have reduced further in recent months, and the downgrading of GIC Re and New India has brought added strain for GA risks, particularly those which require the participation of two or more insurers. GIC Re in particular provided notable capacity to the GA market, both directly and via Managing General Agents (MGA's). Following these recent downgrades and the continued reduction of GA capacity seen throughout 2020 some underwriters are attempting to use this opportunity to target larger rate increases and so early renewal engagement is important.

As aviation insurers continue to focus on profitability, much like in other segments, certain covers and conditions are now under greater pressure and any return or discount premium features within policies now face significant scrutiny. Additionally individual risk elements such as pilot training, safety plans and numbers of aircraft/assets on the ground are all subject to increased scrutiny on renewal. There has been a number of parked/stored GA aircraft damaged in recent months and the heightened risk of aircraft on the ground due to the pandemic remains a concern for insurers especially in those countries and regions deemed more susceptible to extreme weather events.

Looking ahead to the fourth quarter, given the above factors and the growing focus of insurers on year-end results it is expected we will continue to witness a challenging market environment and further upwards movement in rates cannot be discounted.

Aerospace Manufacturers and Infrastructure

Since our last edition, we have seen limited positive change in the approach that insurers are prepared to take with regards to the Aerospace Manufacturers and Infrastructure segment. Due to the non-adjustable in-full premium basis of these policies, mid-term return premiums to take in to account the reduction in exposures during 2020 are still not being entertained. At renewal stage, as one would expect, due to COVID-19, the vast majority of Aerospace companies in this sector are still reporting significant downturns in their exposures both for 2020 updates and estimates for 2021.

The increases that insurers were seeking in 2019 were largely focussed on rate, due to the market taking the view that the aviation sector, along with the global economy, was generally in good health at the time and would continue to grow over the short to medium term. Insurers believed that they could repair their balance sheets by benefitting from a general growth in exposures (via the traditional measures of revenue, passenger numbers, aircraft movements or fuel throughput) combined with sustainable rate increases to ultimately increase premium income over a two to three year period to what they perceived as a sustainable level. With the advent of COVID-19, and the global economy now significantly below 2019 levels, insurers approach has changed. We are now seeing a greater demand for not just rate but premium increase too, irrespective of exposures. Insurers are seeking that 'right pricing level' that will re-float their account and ensure sustainability in the event of future losses.

Compounding the impact upon this business segment is the relatively low number of aviation insurers in a lead quoting position. There is little appetite amongst insurers for undercutting pricing to take over the lead position in this class and this is particularly true for the larger and/or loss active accounts. As is the case in the airline and GA insurance market, it is now not uncommon to see some insurers quoting above lead premium levels and trying to re-adjust premiums on loss active accounts to ensure profitability right now, rather than over the course of the next few years, which was the plan that insurers had 12 months ago. However, whilst the number of lead insurers is low, there is still capacity available in the marketplace. For those insureds with lower exposures and good loss ratios, there is capacity available to replace the insurers that have left the market over the last 12 months or so, without having to pay over and above lead terms.

There also appears to be further concern amongst insurers with regards to the ongoing litigation cases against Boeing in respect of the Lion Air and Ethiopian Airlines crashes. On 17 September 2020, the House of Representatives Committee on Transportation and Infrastructure released its **final report** on the Boeing 737 MAX investigation in which it identifies serious flaws and missteps in the design, development, and certification of the aircraft, which entered commercial service in 2017. Following the release of this report, there could be negative repercussions for Boeing and their insurers in respect of the apportionment of liability and the associated passenger awards in respect of those incidents.

Space

Launch activity in the third quarter crept back to expected pre COVID-19 levels and it is pleasing to report that we did not record any space insurance losses during this period, a stark contrast to the losses seen in the previous quarter. To date, 2020 has suffered approximately USD 280 million of losses this year, but positively after recording a clean sheet in the third quarter there still remains a chance for insurers to return an underwriting profit should the rest of the year be loss free. Recording a clean sheet in the third quarter was quite an achievement considering from mid July to mid August four heavily insured launches took place totalling in excess of USD 1.5 billion. The year to date experience is a prime example of the narrow margin between profit and loss and further demonstrates the volatility inherent in the space insurance industry.

Other good news for the space insurance market is that there has been a sharp upturn in the number of geostationary satellite orders from US satellite manufacturers. Fuelled by the rush to meet C-band spectrum clearing targets as mandated by the Federal Communications Commission (FCC) in order to pave the way for high-speed 5G networks, the GEO Sat industry has been regenerated which can only be good news for the space insurance industry. It will take some time for these projects to come to fruition, but insurance programmes for these could begin to be purchased within the next twelve months or so.

The 'New Space' segment, which refers to the recent commercialisation of space, continues to develop, albeit not at the pace predicted by many a few years ago. A good number of new SmallSat launch vehicles are currently in testing with varying degrees of success. Skyrora's two-stage Skylark Micro launch vehicle flew a perfect mission from the Icelandic coast. Virgin Orbit's air-launched LauncherOne rocket demonstrated partial success with a successful drop and main rocket engine ignition, albeit an anomaly occurred shortly after. And the Chinese built KZ-1A rocket launch ended in failure after 9 straight successes.

There is increasing interest in SmallSat launch vehicles, but in the commercial arena, it is competition from larger launch vehicles coupled with uncertainty around some SmallSat business models which will ultimately determine the profile of this new launch segment.

Numerous SmallSat projects continue with between 300 to 400 satellites launched each year for the past 3 years. This figure is expected to grow sharply as telecommunications companies plan to launch tens of thousands of SmallSats in the race to control global telephony and internet supply.

Growth in the space industry can only be good for the space insurance industry but many challenges lie ahead. Projects will come and go, delays are inevitable and new technologies will continue to test this small but highly dynamic segment of insurance.

Aviation Insurance Market Summary

- The aviation insurance market continues to harden and rates are increasing
- Capacity levels have reduced further in recent months and are strained in some segments
- Overall aviation loss activity has reduced but we continue to observe claims
- Each renewal and insurer offering is viewed on a case-by-case basis making risk differentiation critical
- Profitability and protecting premium income is the key driver for insurers
- The results of the fourth quarter are crucial to the year-end results and future trending
- Looking ahead, further rate acceleration in 2021 is possible
- It remains the case that buyers must ensure they are partnered with an insurance broker which has the resource, experience and leverage to navigate this challenging period and mitigate volatility.

TO FIND OUT MORE ›

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03. FEATURE ARTICLE - UNSTABILISED APPROACH

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Flights down but unstabilised approaches up - What does this tell us about operational risk in the industry's gradual emergence from COVID-19?

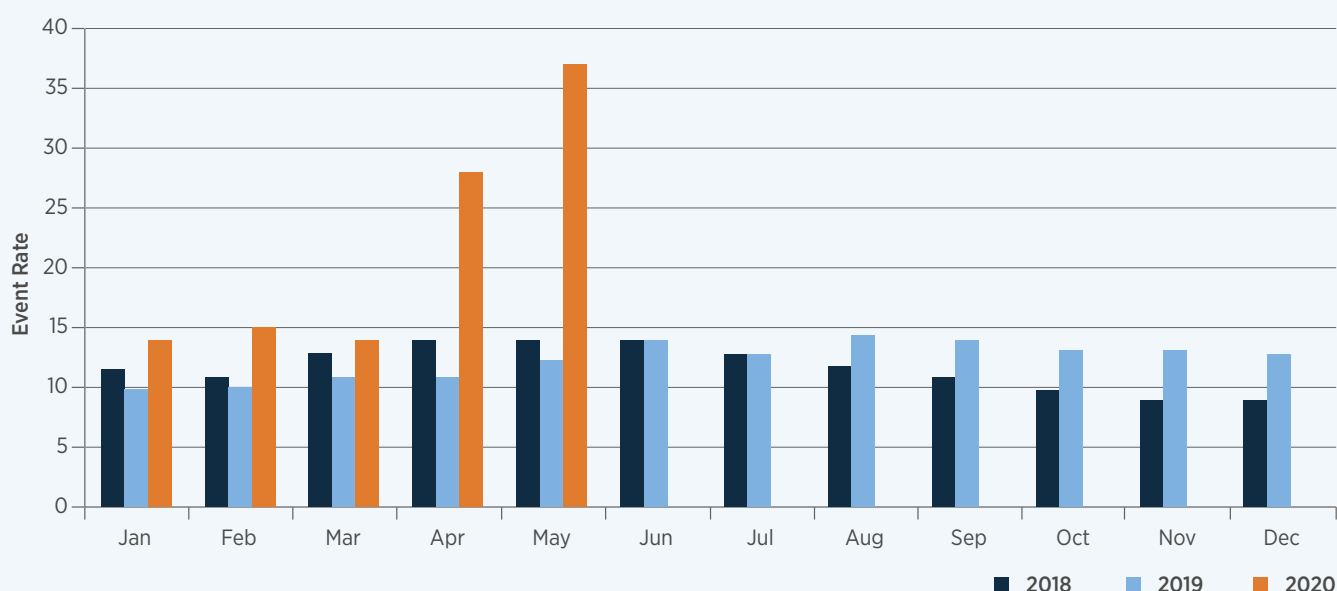
Airline operators and their insurers alike will be interested in statistics recently released by IATA which show that, despite the historic low volume of flight operations over the last few months, the percentage of unstabilised approaches prior to landing has dramatically increased.

The data has prompted IATA to issue a warning to operators about the need to adhere to standard operating procedures and ensure

that risk mitigation strategies are reviewed. Is this an aberration, or is it a symptom of a broader issue concerning the degradation of piloting skills caused by extensive periods of downtime during the coronavirus pandemic?

Unstable approaches have recently more than doubled compared to the same point last year - a stark and potentially worrying trend.

Unstable Approach Trend Rate



Source: IATA FDX (Flight Data Exchange) database

Unstabilised approaches have frequently found themselves to be the origin of serious incidents resulting in damage to equipment and worse. The loss of an Airbus A320 at Karachi in May involved an approach which on any analysis was not only unstabilised but profoundly so, while an Air India Express aircraft which crashed in early August had aborted two landings before landing long and skidding off the runway on the third attempt.

The criteria for a stabilised approach is not the subject of mandatory regulatory requirements on a global level. Instead, the position tends to be left to the airlines themselves – although, amongst most of them, it is fair to say that the criteria is largely consistent with the aircraft having to meet the following primary characteristics by 1,000ft AGL:

- Landing gear down and locked
- Flaps deployed in the correct position for landing
- Target V-ref speed achieved
- Correct power setting inputted
- Aircraft established on a 3° glideslope or the appropriate glideslope for a visual approach

Within many airlines, the standard practice is for the non-handling pilot to check that by the 1,000ft mark, each of the above parameters has been met. If all of these have been met, the standard callout is “stable”. If not, the standard callout is “Unstable. Go around”, in which instance the approach is abandoned. IATA is keen to emphasise that “the decision to execute a go-around is not, in any way, an indication of poor flight crew performance but rather prudent decision-making. There should be a clear non-punitive go-around policy”.

In most countries around the world, the strict legal criteria for a pilot who is about to operate a passenger flight is that he or she must have undertaken three take-offs and three landings (including ones carried out in a simulator) in the previous 90 days. If all such take-offs and landings have been performed at the very beginning of that 90-day period, it is possible that pilots can still legally operate flights without having done a single take-off or landing in the previous three months. Is this a cause for concern?

“Not really,” advises a senior Captain and type rating examiner for a UK-based airline with over 20,000 hours of personal flying experience. “Take-offs and landings are usually straightforward and only really become a challenge when marginal weather is encountered. My bigger concern would be pilots returning to the flight deck for the first time in many weeks and committing errors in the various pre-flight checks when the aircraft is being set up for its flight. Distraction combined with lack of recency could pose a real problem here and I am certainly very mindful of this in the run-up to my next operation, which will be the first one in many weeks. However, I am not sure that all pilots will necessarily be of the same mindset”.

With pilots worldwide having been grounded in unprecedented numbers, for unprecedented lengths of time, airlines must now ask themselves whether their standard approach to training and safety needs to be revised to take into account new human factor risks created by the pandemic. A failure to do so (particularly in the light of express warnings like that issued by IATA) could create or compound liability exposures if the worst happens and an accident occurs.

Thankfully, the levels of redundancy and automation built into modern passenger aircraft are more extensive than ever before. Whilst these have been known to create their own set of challenges, most commentators are agreed that these systems have significantly enhanced rather than diminished safety. It seems as if, however, they will be put to the test as the airline industry strives to return to its new normal.

TO FIND OUT MORE >

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04. AVIATION MARKET AND INDUSTRY NEWS

Gallagher and specialist consultancy firm, Sirius Aviation to launch online risk management webinar series - Delivering safe operations during COVID-19

Aviation industry management teams are facing unprecedented times managing the COVID-19 pandemic. Yet despite the challenges presented there are a range of tools available which can help to safely manage this crisis and mitigate the changes the industry must overcome.

Split over four events, Gallagher's aerospace team, in partnership with specialist consultancy firm **Sirius Aviation** is hosting a series of online webinars to look at how the industry has adapted in the COVID-19 world. Subject matter is wide-ranging and will include, operational readiness, aviation risk management, assuring safe operations in the COVID-19 environment and operational safety resilience.

For further information and/or to register please visit our **website**. Alternatively please contact your nominated Gallagher service team who will be happy to assist.

Hive Aero expands into Aviation All Risks

In a press release, Hive Aero announced its expansion into underwriting Aviation Hull and Liabilities (All Risks). Underwriting will commence in time for the fourth quarter airline renewals of 2020 and capacity will be provided by Arch Insurance (UK), part of Arch Insurance International.

Hive Aero began underwriting Aviation Hull War in 2018 and Excess Third-Party Aviation War Liabilities (AVN52) in 2019 and has successfully grown a sizeable account underwriting on behalf of a number of carriers, including Arch.

Bruce Carman, Chief Underwriting Officer, commented: "Adding the All Risks to the Aviation War classes Hive Aero already underwrite serves to further demonstrate our commitment to our aviation clients. I am delighted to be able to extend our valued partnership with Arch, with the strength of their first-class security behind our knowledge-based underwriting".

Third Point Re and Sirius Group to Combine

Third Point Re, a specialty reinsurer, and Sirius Group, a global multi-line insurer and reinsurer, announced they have entered into a definitive agreement to combine in a cash and stock transaction.

In a joint press release the companies said the transaction will create a global company with approximately USD 3.3 billion of tangible capital, to be renamed SiriusPoint Ltd. The transaction is anticipated to close in the first quarter of 2021, but until such time Sirius Group and Third Point Re will remain separate companies and their respective teams will continue to operate separately.

Third Point Re's newly named non-executive Chairman of the Board, Siddhartha Sankaran, will lead SiriusPoint as Chairman and Chief Executive Officer post-closing. Third Point Re's current CEO, Dan Malloy, will remain a senior underwriting executive of SiriusPoint following the closing.

Arch combines Lloyd's units under one brand

Arch Insurance International, a subsidiary of Bermudian re/insurer Arch Capital Group, Ltd., has combined its Lloyd's managing agency units into a single business, called Arch Managing Agency Limited.

Effective immediately, the new brand brings together Arch Underwriting and Barbican Managing Agency Ltd. into a single operation led by Managing Director Ben Canagaretna.

Arch Managing Agency Limited will manage Syndicate 2012, Syndicate 1955, Arcus 1856 and Toa Re Special Purpose Arrangement 6132 at Lloyd's.

The move follows on from Arch's acquisition of Barbican Group Holdings Limited back in December 2019.

Lloyd's 2020 Half Year Results

With the publication of its **Half Year Results**, Lloyd's of London (Lloyd's) confirmed it expects to pay out up to GBP 5 billion in COVID-19 customer claims in 2020 on a gross basis, with GBP 2 billion of this figure being reinsured. In the first six months of 2020, Lloyd's COVID-19 claims after reinsurance recoveries totalled GBP 2.4 billion, contributing 18.7% to the market's combined ratio of 110.4% and driving an overall market loss of GBP 400 million for the first six months of 2020, compared to GBP 2.3 billion in 2019.

Excluding COVID-19 losses, Lloyd's announced significant improvement in its underlying performance, with the market delivering an underwriting profit of GBP 1 billion and a combined ratio of 91.7%, down from 98.8% in H1 2019. This is supported by 7.1% improvement in the attritional loss ratio which has dropped to 52.6% in the first six months of 2020.

John Neal, Lloyd's CEO said: "The first half of 2020 has been an exceptionally challenging period for our people, our customers, and for economies around the world. The pandemic has inflicted catastrophic societal and economic damage calling for unparalleled measures to stifle the spread of the virus, and to get businesses and economies back on their feet. Our half year results demonstrate that our robust approach to performance management and remediation has begun to take effect, evidenced by a significant turnaround in the underlying performance metrics, which give the truest indication of our market's profitability".

Source: Gallagher and publicly available information.



05. MARKET PERSONNEL MOVES IN Q3

AXIS Insurance

[Filip Vandeputte](#) has been appointed to lead AXIS Specialty Europe's aviation business in continental Europe. Filip joins as Branch Manager and Brussels Office Lead for Aviabel, as well as Branch Manager and Amsterdam Office Lead for Aviabel's Dutch brand "NLP" ("Nederlandse Luchtvaartpool"). Aviabel is the European specialty aviation insurer and reinsurer owned by AXIS. Both Branch Manager appointments are subject to regulatory approval.

DAC Beachcroft

[Alex Stovold](#) has joined as an Aviation Partner based in London. He most recently held the position of Partner at law firm Clyde & Co.

Global Aerospace

[Charles Wetton](#) has joined as Underwriting Manager, Space based in Zurich, Switzerland. He most recently held the position of Vice President, Corporate Solutions at Swiss Re.

Hive Aero

[Benjamin Davy](#) has joined as an Aviation Underwriter having previously worked at Antares and Chaucer. Additionally, [Andrew Webster](#) has joined as Class Underwriter coming from MS Amlin while [David Adcock](#) has joined as Head of Aviation Claims having most recently been at Chubb. Benjamin and Andrew will be responsible for underwriting new aviation Hull and Liabilities business and David will manage and oversee Aviation claims. All three will be based in London and report to Chief Operating Officer, Bruce Carman.

LIIBA

[Bill Smith](#), Global Executive of Gallagher's London aerospace practice has been appointed as Chairman of LIIBA's (London & International Brokers Association) Aviation Executive Committee.

Starr Insurance

[Andy Trundle](#) has been named Head of Global Aviation, responsible for strategy and driving growth across Starr's aviation portfolio, including airlines, general aviation, light aviation and aerospace. Andy joined Starr in 2017 and was previously Global Head of Airlines. He will be based in Starr's London office and report to President Steve Blakey.

Source: Market knowledge and publicly available information.



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