Q1 EDITION 2021

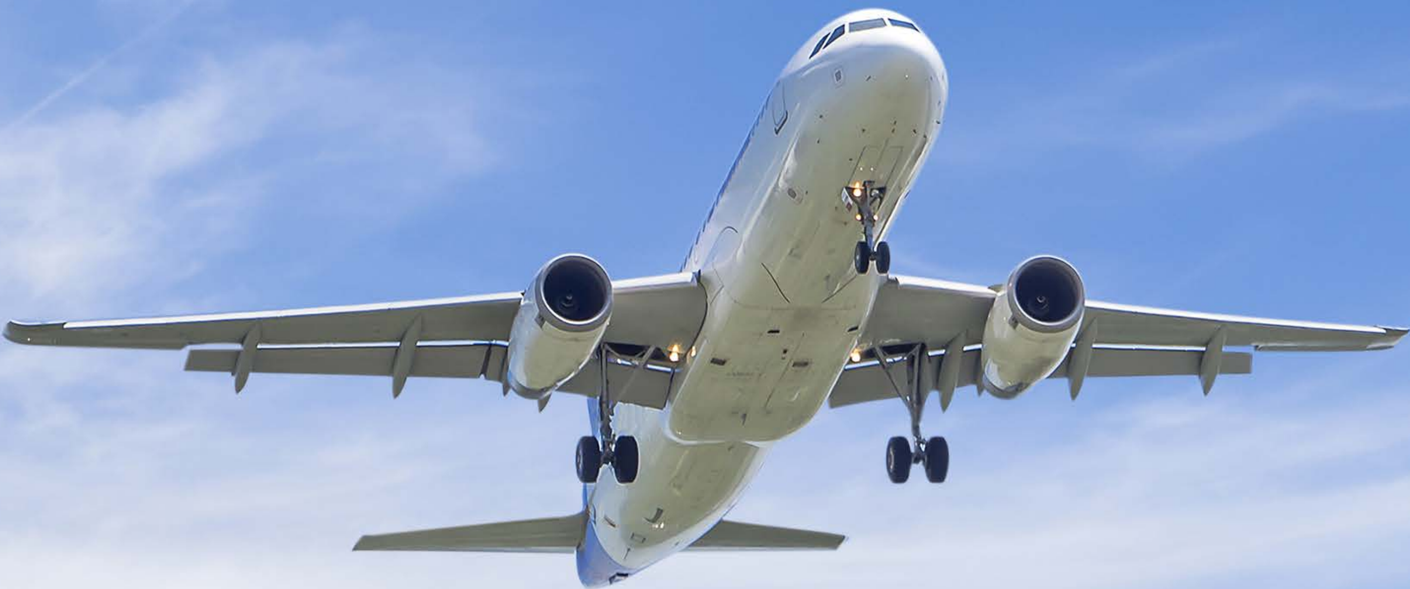
# PLANE TALKING

A SPECIALIST RISK PUBLICATION FOR THE AVIATION SECTOR

## FEATURE ARTICLES

### LEAD LINES: WEATHERING THE STORMS

*David Slevin, Product Line Head, Aviation, Chubb Global Markets*



### AVIATION CYBER RISK – OUT OF THE PANDEMIC FRYING PAN AND INTO THE FIRE?

*Jake Hernandez, Senior Consultant, Cyber, Gallagher*

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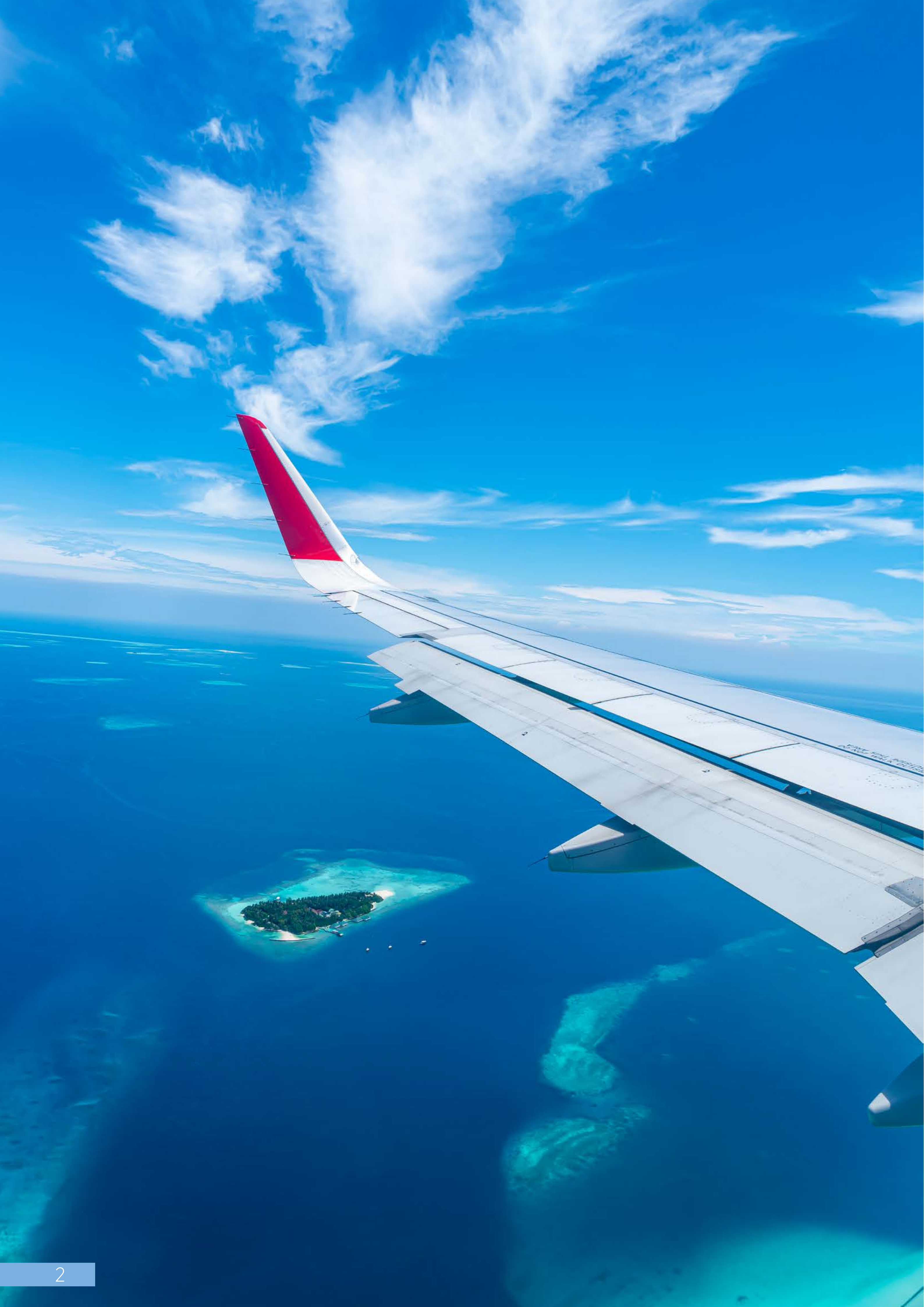

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# EXECUTIVE FOREWORD

## Welcome to the first quarter (Q1) 2021 edition of Plane Talking brought to you by the Gallagher Aerospace team.

As the first quarter concludes, 2021 picked up where 2020 ended and, unfortunately, many of us remain in some state of lockdown. Entering year two of this pandemic, our return to normality is proving doggedly slower than we would have hoped. However, with the arrival of spring we see shoots of optimism appearing, which point to much sunnier times ahead. We appear to be on the runway but we have not yet been cleared for flight, so for now we must continue to be patient.

With this in mind, 2021 renewals look set to present another complex engagement. It is clear that aviation insurance buyers will continue to face significant challenges in 2021 and they will again be looking to the insurance market for a sympathetic response. Positively, we saw a generally good reaction from the aviation insurance market in 2020 to the reduced traffic suffered by its clients. We will be re-initiating constructive negotiations in due course and expect insurers to again respond appropriately in 2021.

In this uncertain environment, it is important that our clients continue to get the support they need and can be confident that their broker has the resource, expertise and market presence to deliver. On this note, I am delighted to announce that Gallagher has made a number of appointments to our global aerospace practice in these early months of 2021. These new colleagues (detailed later in this edition) are a valuable addition to our team. Their recruitment at this time now more than ever demonstrates Gallagher's long term commitment to aviation and our strategy of investing in talent to deliver the highest quality of cover and service and value available anywhere in the sector.

There can be no doubt that the aviation industry is suffering its most challenging period in history, but with the depth and breadth of resource we've built at Gallagher, our clients can be sure that we will continue to think creatively and do everything we can to assist you and help to minimise the impact of the current adverse economic environment on your business.

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


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# 01. LEAD LINES: WEATHERING THE STORMS

*AUTHOR: **DAVID SLEVIN**, PRODUCT LINE HEAD, AVIATION, CHUBB GLOBAL MARKETS*

Firstly, I hope everyone is healthy and has managed to cope with the past 12 months of working and living through a pandemic. Like many countries during the last few months, in the UK we have been under almost total lockdown. We have resorted as a nation to taking walks close to home as part of our daily allowed exercise and I often wonder whether this is some sort of dream as I watch those walking the other way, occasionally swerving past me to maintain the two-metre distance. Surely, we have to get back to normality soon?

Last summer, most of us probably imagined that by the beginning of March 2021, we would be back in the office and looking forward to the rest of the year and 2022 with huge positivity.

Roll forward to today and here we are all still working from home, 12 months on from the start of the pandemic, having weathered a tumultuous 2020. Most of our clients are thankfully still in business and most insurers and reinsurers have survived some of the largest financial losses in Aviation history. Collectively we have shown amazing resilience to continually change our business plans and work together to support each other.

2020 saw a huge dip in traffic in the summer, down almost 80%. Our original forecast in March 2020 indicated that recovery would be slow but return to 70% of pre-COVID-19 levels by early 2021.

We had so many unknowns to consider:

- Accumulation of aircraft on the ground;
- How would attritional losses change?
- Would fatal aircraft accidents reduce in line with exposures?
- How do we cover cost of capital?
- How many of our clients would survive?

At Chubb we had to quickly rewrite our business plan and establish even stronger, more frequent communications with clients and brokers in order to assess the impact. We listened empathetically to our clients with the goal of retaining a premium base that was commercially viable as well as trying to give consideration to our clients' changes in exposures. It became clear that each client had their own unique set of circumstances and we had to respond on a case by case basis

As 2020 progressed, it became clear that the Aviation industry was in trouble and that recovery would be slower and take much longer than anticipated.

In terms of Aviation insurers' results for 2020, these appear to have been very mixed. As regards 2020 claims, we saw several major fatal accidents and the expected fall in attritional losses has yet to fully materialise. In addition to this, the return premiums on the 2019 year of account and the adverse development of claims from previous years has had a negative impact on most insurers' 2020 financial results. The reinsurance market has also suffered in terms of adverse development of historical losses and they will need to reflate their business, which will have an inevitable impact on the costs of all direct insurers.

As we go further into 2021 we are now predicting that we will not reach pre-COVID-19 levels of traffic until at least the end of 2023.

In 2021 we should see a slow recovery in traffic followed by a much steeper resurgence in 2022.

We continue to have so many unknowns:

- How successful will the worldwide COVID-19 vaccinations be?
- How and which parts of the world will see recovery in traffic first?
- Will this be sustained or will another variant slow things down even further?
- When will business travel resume?
- When will we all get to go on holiday again?

In terms of safety, we have even more unknowns. How have the aircraft been stored? Have the aircraft been maintained properly? Have the pilots been retrained properly to return to flight? What are the pilots' mental states? How do we regulate and measure this?

During 2021 we will continue to collect as much data as possible around attritional and large loss trends in order to hopefully see the beneficial impact of the much reduced flying, while balancing this against the potential increase in claims from aircraft, airports and manufacturers returning to a much more normalised level of operations.

Hopefully we can learn from 2020 in terms of handling the ongoing uncertainties and concerns of our clients and financial stakeholders. As insurers, we have to be clear as to how we intend to assess and price the risks we are taking on and to establish and articulate what minimum premiums are needed to cover those risks. One facet of 2020 that sticks in my mind was the need to treat each insured on a case by case basis. Some clients wanted certainty on costs as early as possible, some re purposed their businesses towards cargo carriage, some decided to almost shut their businesses and just wait for the storm to pass.

Our view at Chubb is that in 2021 we have to continue to communicate with and listen to our clients. We need to collectively understand how we create a sustainable future together so we can weather the storms that we may face over the next few years.

We have all shown great resilience and adaptability so far and, as we move towards Q2 2021, we are beginning to see the storm clouds clear and look forward to much sunnier calmer times ahead.

Finally, on a more personal note, hopefully this is the last time a Plane Talking article is written from the spare bedroom of someone's house! I am sure we are all looking forward to getting back to the office as soon as possible, meeting our key stakeholders in person again and seeing the Aviation industry grow and thrive once more.

TO FIND OUT MORE ›

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# 02. MARKET UPDATE: AVIATION INSURANCE

Last year, the aviation insurance sector was unquestionably a challenging marketplace, driven by the COVID-19 pandemic and the uncertainty it presented around operations, income and a host of other factors. As we enter year two of this pandemic, there are signs of optimism but a return to normality is still some way off. From an insurance perspective, it is clear that we are set for another complicated round of negotiations in 2021.

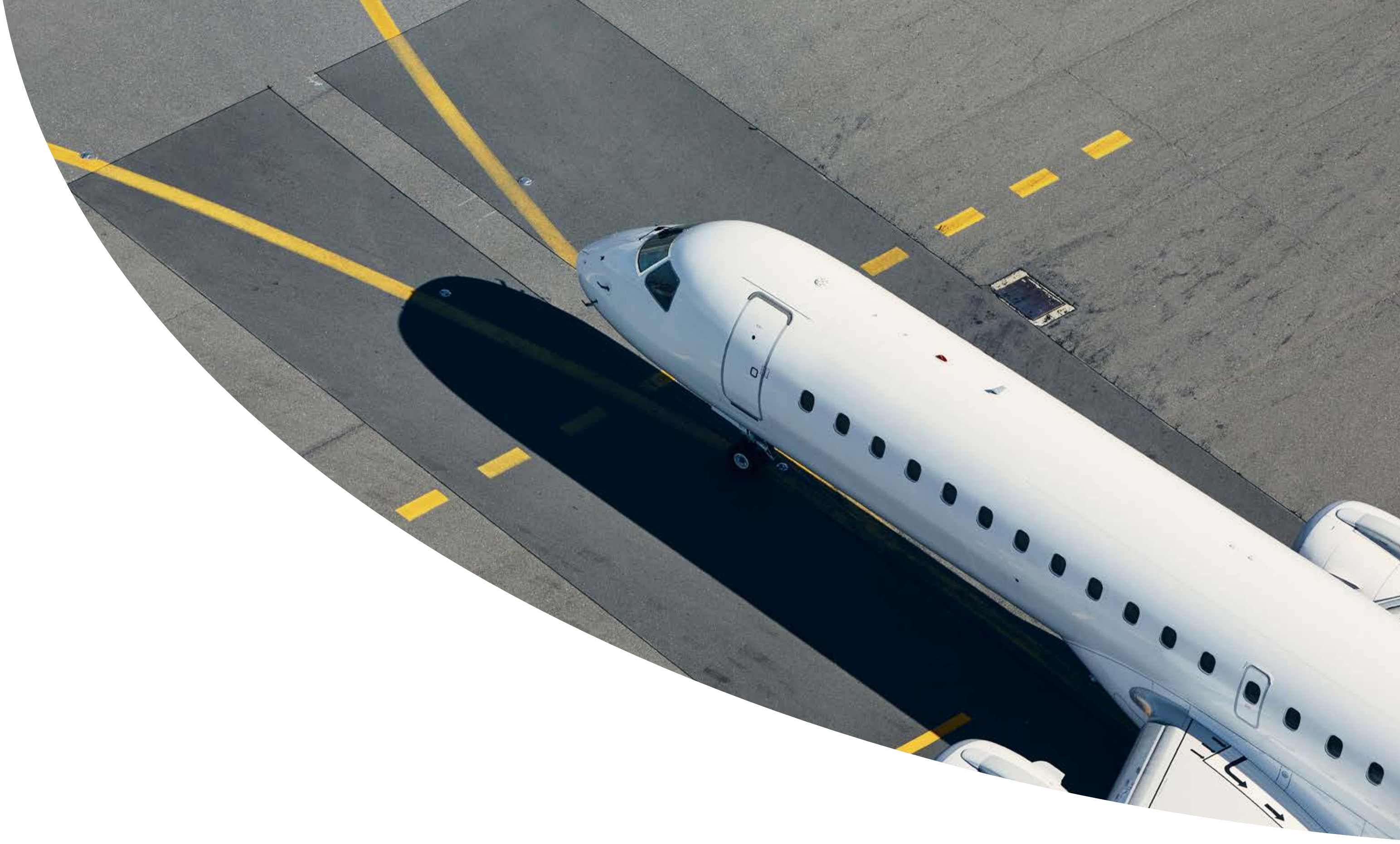
## Rates and premium trend

2020 was an extremely challenging year for the aviation industry and the insurance rating environment continued to harden even though the majority of the industry was running substantially reduced operations due to the pandemic. As 2020 concluded, we were starting to see some rate deceleration in certain segments and perhaps signs that the rating trend was stabilising. That's not to say that rates were reducing or the overall market conditions had changed, as they hadn't, but the average rate increase in the fourth quarter was slightly lower than recorded in the preceding months.

As the first quarter concludes, a traditionally quiet period for aviation insurance in terms of overall renewal activity, data would suggest that the underlying trends have continued into 2021. Rate increases are at a similar level to that seen in Q4 last year and this would suggest the upwards trend has stabilised. However, we must be mindful that 2021 data is limited and there remains significant variation in the results by risk and segment of operation. As renewal activity increases in the coming weeks and months we will have a far clearer picture and assessment.

## How did COVID-19 impact aviation insurers in 2020?

In terms of looking at insurer results, this is not straightforward with insurers working on a year of account basis as opposed to calendar year. With the weighting of the majority of aviation renewals toward the end of the year much of what happened in 2020 in terms of claims and premiums actually impacted on the 2019 year of account for insurers. Despite a notable reduction in attritional losses there were several major losses in 2020, across the airline, general aviation and space sectors. Several aviation insurers reported an underwriting loss on the 2019 year of account, partly as a result of their exposure to these major losses but also due to the erosion of their premium base due to COVID related returns and the adverse development of some existing claims. Increased reinsurance costs also had some impact on direct insurers. While some aviation insurers faired better than others with their results, all suffered direct and indirect impacts from the pandemic which were evident in their overall reported company results.



## As the pandemic continues, how will underwriters react to 2021 renewals?

Last year was truly an unprecedented year for aviation. The general response from the aviation insurance market in 2020 to our clients situation was positive, albeit not uniform amongst the different segments with airlines receiving substantially more aid from underwriters than their aerospace manufacturing, airport and service provider colleagues. Insurance policies are structured differently in the aerospace segment which played some factor in this, as did losses. Overall, where applicable, the measures that aviation underwriters agreed to in 2020 were greatly appreciated by our clients and we must commend the market for its response, but for some clients more help was needed. Everybody was hoping for a strong uptick in 2021, however, as the first quarter of 2021 concludes, it is clear that recovery is going to be far slower than anticipated. With this in mind, understandably clients will again be looking for a sympathetic response and assistance from the insurance market. We are confident that insurers will again be willing to listen and act appropriately on renewals where they believe there is justification, but whether this approach will be adopted across all sectors of the aerospace industry remains to be seen. As was the theme last year, all renewals are likely to take longer to complete and will be viewed on a case by case basis.

Minimum premium requirements are also likely to play a key part to many of the negotiations. The actual result and outcome will continue to depend on the individual circumstances of the client, the data supplied, its insurer relationships and the strength of the broker.

Aviation insurers find themselves going into the 2021 renewal negotiations in a better position, having achieved higher technical ratings levels in 2020 across all sectors and having introduced minimum premiums on a large portion of their business. These factors will provide greater certainty around potential future income levels which is a luxury that insurers didn't have this time last year. In some segments, there is an argument to suggest that the high rate increases achieved by underwriters in 2020 have seen accounts reach underwriters desired technical positions in terms of rating adequacy. While this hasn't yet translated to target premium adequacy, as pandemic restrictions ease and operational levels increase this will organically deliver higher premium without the need for further substantial rate increases. It's going to be a gradual process but we believe that there are now strong arguments to be made for insurers to adopt a longer-term view, and this provides a meaningful starting point for constructive negotiations in 2021. We are well prepared.

## Capacity

Capacity levels for most aviation risks are stable and fortunately we have not seen any withdrawals or market exits during the early months of 2021. In some segments capacity is up slightly in 2021 and additional capacity looks set to emerge in the coming months. Indeed we are aware of at least one additional start-up finalising their plans for entry into aviation and there are also some current players known to be reviewing coverages such as War and Deductible in the hope of being able to offer cover alongside their existing offerings. While this would seem good news for buyers, we must be mindful that we are still yet to fully replace the large chunk of capacity that we have lost in recent years. Looking ahead, any new capacity in 2021 will provide greater flexibility and options but ultimately until some of the current uncertainty passes we don't anticipate any significant material dampening impact on future conditions. The easing of pandemic restrictions and speed of recovery as well as loss activity are likely to play a key role in what transpires over the coming year.

## Aviation losses

We recorded a steady flow of loss activity across the airline, aerospace, space and general aviation sectors throughout the first quarter including some early major loss activity. In January we witnessed the tragic fatal loss of Sriwijaya Air flight 182. In March, a Dolijet Airbus AS350 helicopter crashed in Normandy killing the pilot and its passenger, French politician and billionaire Olivier Dassault. The first quarter also witnessed the much publicised incident involving United Airlines flight 328 which was forced to make an emergency landing following an engine fire. The United engine incident drew particular media attention as it led to the temporary grounding of all 777-model aircraft with Pratt & Whitney PW4000 engines fitted. In the space sector, insurers are also bracing themselves for a potential claim on a Sirius SMX-7 satellite which suffered an anomaly during in orbit testing. At present it is too early to speculate on the final outcome or values in relation to any of these incidents but some of these will undoubtedly result in expensive claims. Aside from these losses, the majority of the other incidents seen during the first quarter were relatively unremarkable involving a typical selection of ground incidents and other miscellaneous aviation mishaps.

There has been much speculation around claims levels during the past 12 months with the pandemic having led to substantially reduced flights and operations. Market consensus is that overall loss levels in 2020 were lower than average but that losses didn't reduce proportionally with the level of reduction seen in operations. We know that there were more fatal airline losses in 2020 than the prior year as this is easy to track however in respect of smaller attritional claims market estimates for 2020 vary from a 30% reduction to over 50%. At this stage, claims are still filtering in from 2020 so it will be some months before we have more accurate figures and the true impact of the pandemic on claims is known.

Most insurers however look at claims on a long term basis, typically based on rolling ten or five year numbers, and so it is important to recognise that a single 'good' year with lower claims is not sufficient to cause a meaningful change in market conditions/direction. It is also important to note that while losses in one segment may be lower or higher than in another, everything is linked together and the majority of aviation insurers participate across multi lines and sectors. Insurers balance income across their whole portfolio and so when a large catastrophic loss or event occurs in one sector, such as the Boeing MAX grounding, the impact will inevitably be felt across other lines of aerospace business.

On a separate point, insurers continue to scrutinise information regarding return to service plans. This is an area that underwriters now view as heightened risk and isn't just exclusive to airlines, applying to all of the industry including airports, service companies, manufacturers etc. With insurers now looking for more information, the supply of data in relation to bringing staff back safely, revised processes, aircraft on the ground, maintenance etc. is extremely important. Our advice to buyers is to prepare this information ahead of your renewal as data can help to positively differentiate your operation as a preferred risk in the eyes of underwriters.

## Looking ahead

As we look ahead, we do not expect to see too much change in market dynamics or overall underwriting approach from that witnessed in 2020. Insurers are likely to continue to seek rate increases and so we expect another year of tough renewal negotiations. In this current climate, it is more important than ever that insurance buyers work with a broker that is well-resourced to absorb the additional time that renewals will take, and that has maintained strong, collaborative ties with insurers to navigate this period.

Starting the renewal process early with a clear strategy of what you want to achieve is key. Renewal negotiations remain complex and insurers want more time to review all information and are asking more questions. Buyers must be prepared to be proactive and involved throughout the process, and be ready to answer more in-depth questions from insurers. Early preparation with your broker will be hugely beneficial to achieving the best renewal outcome, and also allows for more accurate planning and budgeting of insurance costs.

The Gallagher team is well prepared. Our clients can be confident that we have the bandwidth and resources to deliver and we are ready with some creative solutions and strategies to help to minimise the impact on your business wherever we can.

TO FIND OUT MORE ›

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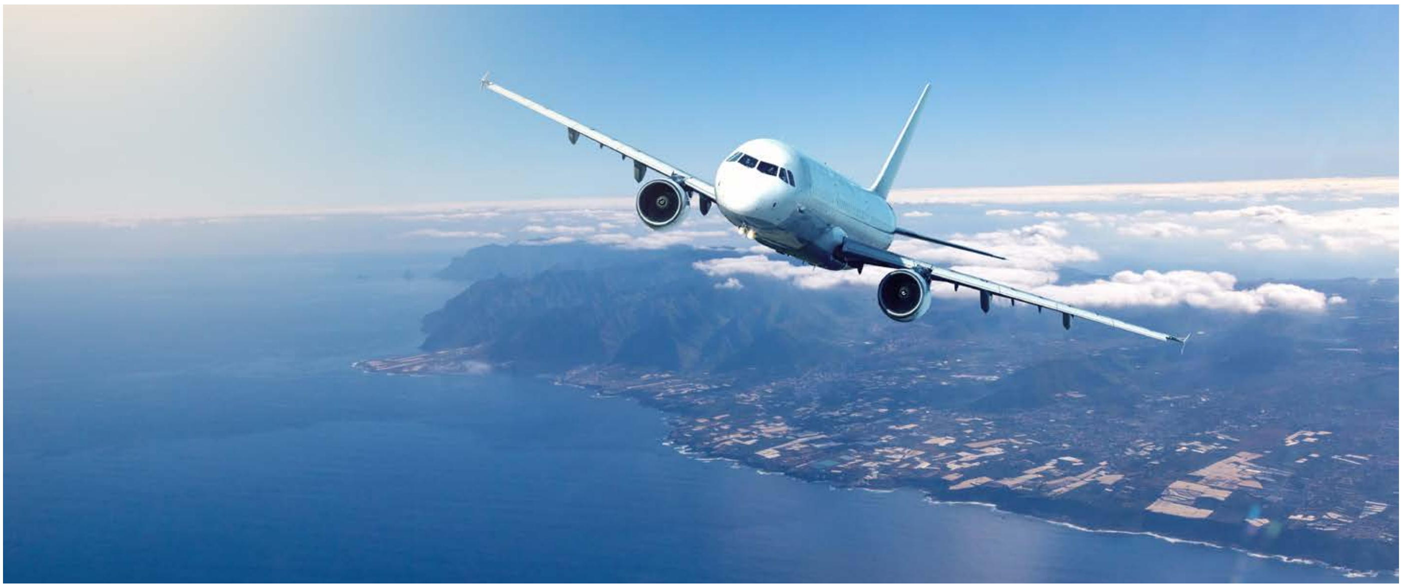
*Source: Market knowledge and publicly available information*



# 03. REINSURANCE MARKET UPDATE

*AUTHOR: **DAVID BELL**, HEAD OF AVIATION, SPECIALTY, GALLAGHER RE*

In our last edition of Plane Talking we ended our article on the turbulent reinsurance market with the comment to the challenge facing reinsurers at 1 January (1/1) and 1 April (1/4) renewals, noting this involves the majority of both the largest programmes and Boeing exposures.

As we write this article the 1/4 programmes have yet to be finalised and so we can only comment on the results from 1/1 and their directional onwards likelihood.

Naturally 1/1 in 2021 was a challenge for both direct insurers and reinsurers, with two Boeing loss movements occurring since 1/1 2020 and therefore the greatest single change in deterioration compared to any other renewal date. In reality, insurers were not surprised with their quoted premiums being far greater than the year before but digesting this and, reporting internally the change to 2021 cost levels, was never going to be easy.

The three components of reinsurers rating were unchanged;

- Risk adjusted start point in comparison to 2020 (market share as such)
- Market base rate increase, up but in line with that introduced for 1/11 and 1/12.
- Loss AP reflective of Boeing involvement.

However we should note there was still no consideration for the updated pandemic exposure picture.

So what was the reaction, well broadly and for the majority of direct insurers, they chose to consider retention levels and so seek options on price mitigation, but maintained their programmes with the same panel unless reinsurers elected to change participations. This we would add was a traditional approach to catastrophe loss and reinsurer relationships.

And so to 1/4 and, in reality all renewals up to and including 1/10, it would seem that the majority of the reinsurance market remains committed to a consistent approach, which means an increased base rate similar to that introduced from 1/11 2020 and a updated loss load reflecting the Boeing incurred as of now. This would mean that beginning 1/12 2021 all programmes would have ''caught up'' with their own impacted incurred loss, assuming no further change to market reserves and so a new excess of loss (XOL) market base premium will be established.

Whatever figure this may be, and there have been various figures indicated in discussions across the market, it is likely to have at least doubled against the 2018 level, although that may still be lower than some estimate the comparative 2008 number.

We finish the update with some "Star Gazing" for 2022, although many of you who know me will question any ability I may claim to have for predicting next month let alone next year.

It is worth noting though before that we remain deep in the greatest adverse level of pandemic impact when looking at ICAO or IATA current numbers and their predictions, especially as the worldwide level of vaccination is a complex picture.

We know that 2020 has seen a dramatic change in operating aircraft numbers and a trend towards the largest aircraft being either retired earlier than forecasted 2022-24 time range or facing a more abrupt retirement, as airlines seek to adapt business models for the immediate future. In addition the level of Global RPK'S, a key rating component, was estimated as being back to 1999 levels, and went backwards for only the third time ever in ICAO's estimation, based on their records going back to 1929.

And as to the next few years, Cirium have stated that by the end of 2021 they estimate a 47% recovery compared to 2019 numbers but, a pessimistic view that it may be 2024 before the base recovers to full 2019 equivalent.

And so what should reinsurance buyers fear or hope for from 2022 until 2024, assuming global exposure numbers take that time period to return to 2019 equivalent?

- **Fear**: Reinsurers maintain the base premium from expiring and so keep loss load as well, consider risk adjusted position based on involvement estimate share and maintain total adjustable rate even if direct earned premiums increase. This will still ignore the relative exposure in global terms.
- **Hope**: Reinsurers continue to risk adjust as a start point and only increase rates based on any premium directly from increased participations and so not purely keep reinsurance adjustable rate at same level , so not automatically increasing total cost in line with income . And some guidance towards this continuing until the airline exposure goes back to 2019 levels.

Our view on the 'Hope' aspects may not please reinsurers and even some buyers but realistically the base rate view is set until we complete this reinsurance cycle as outlined above, and unless the Boeing reserves suddenly reduce in which case we have a different set of predictions.

Aviation reinsurers have a relatively small pool of people that pay into the reinsurance pot, so with the losses that the aviation market has produced it means that the class has been severely questioned by management. Its ability to spread this cost is more limited compared to marine or property classes for example. Although reflating their market is a must for adequate capacity to remain, this increase is difficult in economic terms for insurers to avoid passing on to Insured's. Aviation insurers have been and will need to absorb some of this cost and will adjust other expenses to compensate but ultimately they are likely to seek to reflect some of this cost in their aviation client's premiums.

It is vital though that Insured's remain in business for both insurers and reinsurers or more premium will be needed from far fewer risks, impacting both markets and making a concentration of risk even greater with less flexibility to participate.

And so we hope that our combined insurance and reinsurance markets will increase their understanding of each other's near term plans, assuming 2022-2024 remains a staggered return to pre-COVID exposure levels. **This understanding will enable reinsurers to receive a fair level of payback and a base rate fitting loss expectations but will not simply just take a similar level of what should be a gradually increasing earned insurance premium base**. Insurers will then be able to aid their clients in a return to financial stability with suitably staggered actual premium levels but also use increased premium to cover retained loss cost and cede to quota share reinsurers, who have experienced the greatest deficit.

*Source: Market knowledge and publicly available information*

## TO FIND OUT MORE ›

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# 04. IN FOCUS: AIRLINES

With the level and pace of recovery extremely varied, underwriting negotiations in the airline insurance market remain complex. With renewal results highly dependent on individual circumstances the supply of information and regular communication is key to achieving the best results.

## Premium and rating trends

As we mentioned earlier in our general market update, the first quarter is traditionally considered a quiet period for aviation insurance. In the airline sector this is particularly true, with just a handful of airlines globally that renew during this period. While renewal activity is somewhat limited it is evident that overall market conditions haven't changed, but we are starting to see early signs of rating stabilisation.

As the first quarter concludes, large portions of the global airline industry are still running substantially reduced operations. It was difficult for airlines to project what was going to happen in 2020 and everyone was hoping that in 2021 we were going to be looking at exposures compared to the previous year and that things would start improving. As we head in to spring, summer booking activity for airlines is looking hopeful in parts albeit varied from country to country. Based on our conversations and the early client data we are seeing, actual exposures for 2021 are likely to be substantially lower than anticipated for many airlines.

Underwriters introduced minimum premiums on many airline accounts in 2020. However in those cases where there's a significant difference between what has actually happened operationally and what was predicted clients and brokers will be looking to insurers for relief. Positively based on our recent market engagement in our airline underwriter webinar series, insurers do recognise the extended impact COVID-19 is having and most have expressed their willingness to listen and undertake constructive negotiations to help support airlines through this exceptional crisis. Whether this includes the renegotiation of minimum premiums, amendments to payment terms, looking at short policies, longer term policies, double deductibles or other options, will be case specific. As witnessed in 2020, underwriter responses are likely to vary and inevitably the results will depend on individual circumstances. Early market engagement is essential.

## Hull war

The hull war market has certainly been a challenging place over the last few years following some significant loss events. Rates had already been increasing but the early 2020 loss of Ukraine International Airlines Flight 752, shot down in Tehran, gave the market fresh impetus and significant rate increases followed. As we enter 2021, sadly, we haven't seen any notable reductions in volatility around the world despite the pandemic. We've seen unrest in Myanmar, and attacks on airports in both Saudi Arabia and Iraq, the former of which led to hull war damage to an aircraft. It is important to note that the market also covers malicious damage, as well as confiscation, detention and those risks particularly relevant to the finance sector. All of these are perceived to be heightened by the current economic stresses.

Looking ahead, war is a reactive market and positively over 12 months have passed since the last major hull war loss. While it is likely that hull war rates will continue increase in 2021, in the absence of losses we hope this will be at a more moderate level than clients have seen in the last 12 months.

## Capacity

Capacity as ever remains a key influence on dynamics, but as the first quarter concludes we have little to report in terms of change with levels remaining consistent with those seen in Q4 2020. Capacity must continue to be managed carefully in the current market environment as underwriting appetite and line size participation differ considerably by risk with those buyers which require the highest limits of coverage and or those with regular losses and poor loss ratios facing the greatest capacity challenges.

Looking ahead, we are aware of at least one new entrant hoping to start underwriting airline business in the coming months and some current insurers are known to be considering expanding their existing offerings. This would provide greater flexibility and options but we do not believe this will have any significant impact on renewal outcomes, at least in the short-term.

*Source: Market knowledge and publicly available information*

## Airline losses

In terms of airline losses, 2021 got off to a poor start, experiencing a fatal loss in early January when Sriwijaya Air flight 182 crashed into the Java Sea killing all 62 people on board. Fortunately for aviation insurers this was to be the only fatal airline loss of the first quarter, but it wasn't the only airline incident to make the headlines. February saw United Airlines flight 328 forced to make an emergency landing following an engine fire, however remarkably nobody was hurt and the plane landed safely.

As is typical in the airline industry, there were a number of other incidents that occurred throughout the first quarter, including several notable runway excursions and hard landings, some of which may lead to fairly expensive hull claims.

However, in summary despite some notable loss activity the first quarter concluded in a slightly better position than the same period in 2020, with fewer fatal accidents and fatalities which is positive.

## Future outlook

- We expect a continuation of the current trend
- Renewal negotiations will remain complex, take longer and the individual circumstances and policy specifics of each airline will influence the results
- Risk differentiation a key theme and insurers will be looking for robust underwriting data
- Capacity levels should remain stable with potentially increased levels and offerings in the coming months
- Absent of high loss levels, or a major event, we may start to see a slow down in technical rate increases.

TO FIND OUT MORE ›

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# 05. IN FOCUS: GENERAL AVIATION (GA)

**AUTHOR**: ***TONY SIMMONS,*** *PARTNER, GALLAGHER AEROSPACE*

The start of 2021 has essentially carried on from where 2020 left off and the GA market remains a challenging environment for insurance buyers. Insurers have maintained the momentum gained in 2020 and continue to push for an overall 'correction' of rating levels. Underwriters specialising in GA are under the same pressures as their airline and aerospace colleagues to remain disciplined and focus on improving results, both by pricing and by mitigating exposures.

## Rates and Premium

The variation of correction we witnessed in the GA sector in 2020 was very much dependent on the risk profile and specifics of each particular operator in question. That remains consistent in 2021 with rate increases still being required for insurers to continue to deploy capacity whilst seeking to improve their bottom line and its profitability.

Each operator is looked at individually and on its own merits. Those that are loss free and with fleet growth are being looked upon more favourably by underwriters, whereas those operators that have experienced losses and/or have a reducing fleet are ultimately receiving greater attention.

COVID-19 is also having an impact on renewal rating thought process of insurers. Whilst it is commonly suggested that general aviation has not been as impacted as much as the airline sector underwriters have noticed higher than normal lay-up returns and policy renewals presenting increased numbers of aircraft on ground risks only (GRO) and/or aircraft being deleted from the schedule. Some insurers have also unfortunately suffered payment defaults although overall client bankruptcies have been minimal. This has the effect of reducing insurers earning potential and therefore these factors are being taken into account when pricing each renewal.

As mentioned in previous Plane Talking articles, there remains significant variation in pricing levels between risks in different geographies and operational sub-sets, i.e. rotor-wing, fixed-wing, military, private, business etc.

## Capacity

With consistent reviews and scrutiny by management, general aviation underwriters are being extremely selective where they deploy their capacity and capital.

Many underwriters are still actively reviewing coverage conditions on renewal, albeit on a case by case basis, but it is fair to say that insurers have adopted a much more disciplined approach and some of the additional 'non-core' coverages that were being provided for free during soft market conditions are now being removed and/or charged for.

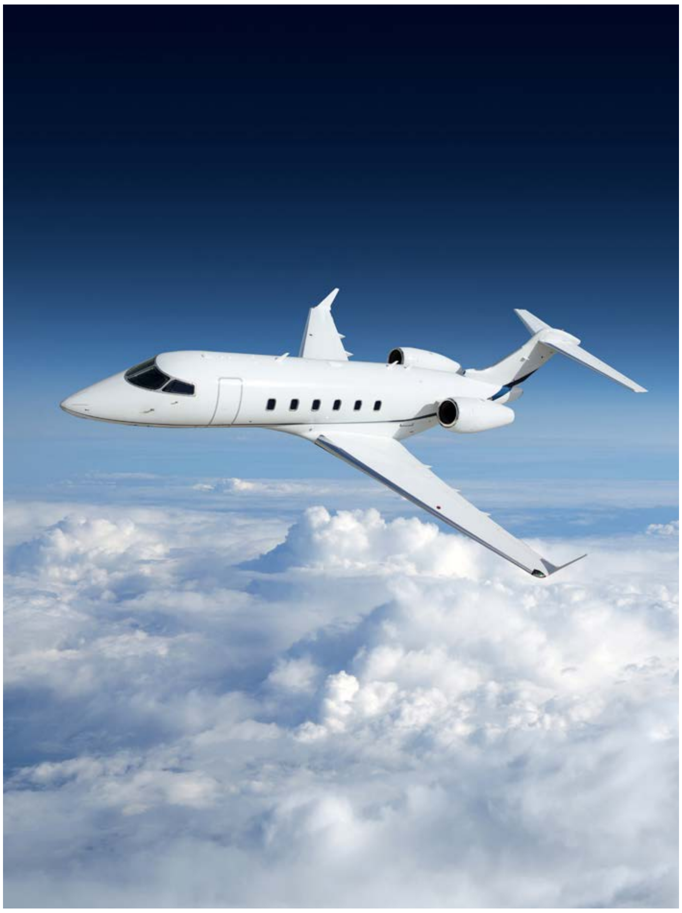
A number of insurers have withdrawn from the general aviation sector during the past two years and subsequently many prominent GA underwriters had disappeared from the market. Positively, we are pleased to report that in recent months many of these individuals have re-appeared at new homes, in some cases offering GA capacity at organisations that did not previously offer this option. Whilst we had a period of reduced availability we as brokers and our clients now have options, although it must be highlighted that new entrants are being extremely cautious on what capacity they deploy and where.

That said, hopefully this new capacity will help dilute any potential desire from those following markets seeking to achieve higher than a lead pricing levels or demands on slip alterations. One factor to avoid this scenario is to ensure the correct leader has been selected for a particular client. More so than ever, a broker needs to use their expertise and experience to gauge what is achievable with the following markets whilst avoiding those insurers offering quotations for their own share and/or making demands on slip conditions that the client will find less than desirable.

## Losses

In most cases general aviation incidents rarely make the news and as the first quarter concludes the overall number of GA losses in 2021 has been relatively low. That said, we did witness a high profile loss in March when a Dolijet Airbus AS350 helicopter crashed in Normandy killing the pilot and its passenger, French politician and billionaire Olivier Dassault, of French aircraft manufacturer Dassault Aviation. Media reports said the blade on the main rotor on the helicopter clipped a tree when taking off. At present it is too early to speculate on any reserve values and liabilities but this loss could prove to be another costly claim for general aviation insurers. It is a long way to go before year end and underwriters will continue to monitor claims in this sector closely.

*Source: Market knowledge and publicly available information*



# Future outlook

- We would expect to see a similar trend to 2020 with much of the same before year end
- Capacity is stable with potential for increased levels in the coming months
- Renewal negotiations are likely to remain complex and take longer, with insurers maintaining a disciplined approach to their exposure and participation on any given risk
- 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

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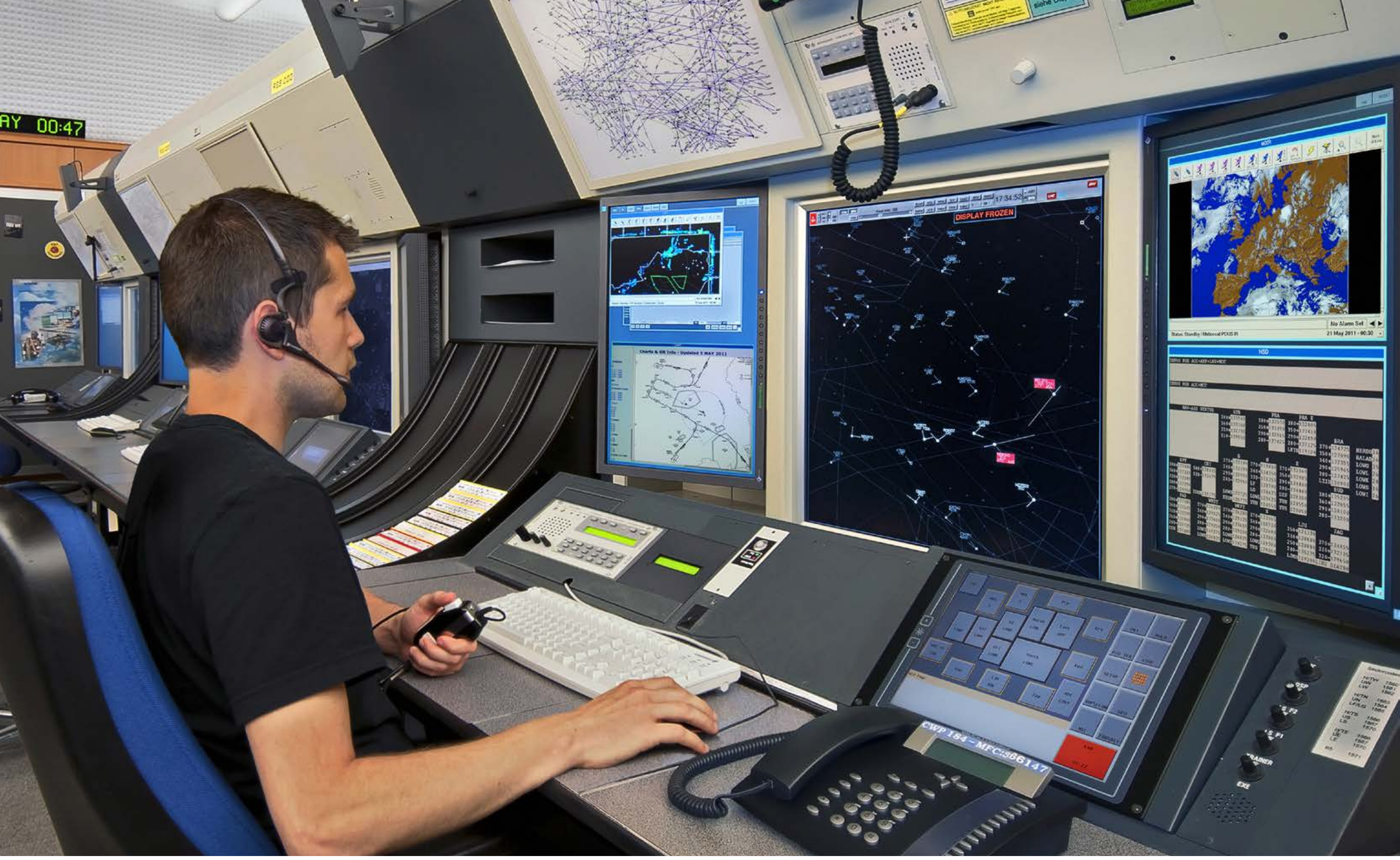


# 06. AVIATION CYBER RISK – OUT OF THE PANDEMIC FRYING PAN AND INTO THE FIRE?

**AUTHOR**: ***JAKE HERNANDEZ,*** *SENIOR CONSULTANT, CYBER, GALLAGHER*

COVID-19 left almost no industry unscathed as it rapidly swept across the world in early 2020. Some, however, felt the impact more immediately and more severely than most, and the aviation industry sits at the top of this list of sectors which will have to make use of new tools, technologies, and approaches to 'build back better' once the world begins to reopen.

Now, a year on from the beginning of the pandemic, airlines are preparing for the bounce-back. Vaccines are being rapidly administered among significant passenger populations, and industry digitisation is leading the way for 'touchless' travel – a key enabler for airlines to operate in the 'new normal'. But while airlines have been reorganising and planning for their return to mainstream travel, the cybersecurity landscape has been changing, and not for the better.

## Phishing fleets

The ability for large portions of the workforce to work remotely, and to do so full-time, has clearly had considerable benefits for world economies during the pandemic. But now that employees are tucked away in back bedrooms, far removed from the all-seeing eyes of corporate information security teams, this has led to a dramatic increase in successful phishing attacks in all industries. Clearly pilots can't work from home, so the aviation industry has been little affected by this scourge so far with the exception of specific functional teams.

Regrettably this is likely to change as we move through 2021, as according to SITA's 2020 IT insights report, 86% of airlines are planning major programs to increase in-house remote access for their non-flying teams[1]. These initiatives will dramatically increase the targets presented to opportunistic cyber-criminals as thousands of new devices, attached to less cyber-aware employees, go live. Teams that are newly adapting to remote working may be much less security-conscious than their counterparts in other industries who've grown accustomed to such attacks and how to appropriately respond.

This may sound like small-fry in the grand scheme of the aviation industry's current economic concerns, but consider that 30% of data breaches in 2020[2] involved internal actors (such as rogue administrators or naïve users), 22% of data breaches were caused by internal errors (misconfigurations, handing over credentials in phishing attacks) and that 58% of all breaches led to the loss of personal data, and the potential exposures speak for themselves. For example: BA's settlement with its customers over two data breaches in 2018 may reach £2.4 billion[3], on top of the £20 million it was fined by the UK Information Commissioners Office (ICO) – a sum that was only reduced from the original £183 million due to the impact of COVID-19 on the industry.

## Big game season

As the world moved in an increasingly digital direction in 2020 due to the pandemic, cyber threats in general also increased throughout the year; with an average 139% increase in ransomware attacks in Q3 of 2020 compared to Q3 of 2019[4]. Preparing proactively now may save airlines and aviation operators the pain of hardening their systems down the line, when passenger numbers and the pace of operations may have returned to normal.

Most concerning has been the rise in ransomware 'big game hunting' attacks where cybercriminals go deep into systems for longer periods, in an attempt to achieve huge payoffs. Rather than harvest individual credentials or computers, 'big game hunters' go after entire networks, seeking to exfiltrate data, destroy backups, and deploy more ransomware wherever they can go. Once all this is done, the hackers make their demands public and often threaten to release exfiltrated data or delete anything that remains.

Big game hunting is not necessarily a new concept, and it's one that has already impacted the aviation industry. In 2018, Cathay Pacific disclosed a data breach that dated back to 2014, in which a threat actor accessed a company server and deployed malware that enabled the perpetrator to linger in the airline's databases for years. The malware eventually began harvesting personal data in early 2015, such as passport information, email addresses, names and historic travel information – ultimately compromising the data of 9.4 million customers. The company narrowly avoided an eye-watering fine from the ICO simply due to the period of time that the malware was deployed, which pre-dated GDPR, but still faces class action law suits which could impact the final financial cost.

With airlines investing heavily in 'touchless' travel, the digitisation of onboard systems, and greater integration between landside systems to make passenger boarding more efficient, the attack surface on offer to cyber threat actors in the industry is about to increase almost exponentially. How much would an airline be willing to pay a ransomware attacker to relinquish control of navigation or flight plan systems? The sky may well be the limit when 'big game hunting' eventually meets newly digitised aviation technology.

1 https://www.sita.aero/globalassets/docs/surveys--reports/2020-air-transport-it-insights.pdf

2 https://enterprise.verizon.com/resources/reports/dbir/

3 https://digit.fyi/british-airways-data-breach-settlement-could-cost-2-4bn/#:-:text=British%20Airways%20(BA)%20aims%20to,%C2%A32.4%20billion%20to%20victims.

4 https://www.business-standard.com/article/technology/ransomware-attacks-surge-40-to-199-7-million-globally-in-q3-report-120110200919_1.html


## The Internet of (dangerous) Things (IOT)

IoT-based technologies are already being deployed by aviation's top companies to exceed customer expectations in offering a seamless experience. According to a study by Deloitte, published in 2020, 86% of industry leaders expect tangible benefits from IoT within the next three years. Moreover, the study goes on to suggest that over 37% have already started implementing IoT improvements to their processes, in order to keep rising costs in check. Everything from aircraft manufacture to baggage reclaim is seeing significant investment in IoT technology.

Despite its benefits, however, IoT brings unique dangers to airline operators. To enable 'touchless travel', improve customer experience, and generally increase efficiencies, airline systems need to be integrated with the myriad third-parties that support air travel. For cyber-attackers, the possibilities are nearly endless.

The integrated ecosystem of the IoT means that an attack on one can very easily become an attack on all. Most recently, European airline IT specialist, SITA, was itself the victim of an attack that it called 'highly sophisticated' just last month. Luckily for the company, which provides outsourced passenger service systems to 90% of the world's airlines, high-risk data such as credit card information appears to have not been compromised, however the breach has impacted dozens of carriers that are now having to manage the impacts to their customers, and review their cyber risk exposure. These kinds of attacks, targeting infrastructure and systems which are common to many airlines, creates aggregation risk – another reason why specialist advice from aviation brokers and consultants is critical.

Airlines are no longer single data entities but nodes in a network of networks, and IoT technology will serve to increase a company's cyber risk exposure far beyond the limit of their firewalls and into the environments of all partners with whom they share data.

## Deploying a risk-led approach to prepare for the future

With post-pandemic budgets squeezed, and investment focused on making air travel as seamless as possible, there is little change left on the table for cyber-security. Cyber is now an integral part of an airlines risks register and more than ever, it is imperative airlines understand their cyber risk and assess whether some of this risk can be transferred to the insurance market; making sure that their re-emergence from one crisis does not set the conditions for another.

At Gallagher we recognise that risk is the intersection of threats and an organisations assets – without an understanding of both, how can risk be transferred appropriately? Many brokers offer off-the-shelf cyber products, or even add-ons to existing policies that focus solely on the threat and leave out what it is that makes your company unique. At Gallagher we question whether these policies have been designed to protect the airline, or are simply a measure to tick a box on an airline's risk register. This could lead to limits far below the expected impacts of incidents such as data breaches, or even mean that you completely lack cover for events that occur within the complex webs of interrelationships with third-parties (as demonstrated by the recent SITA case).

We often find that many aviation clients (and many of Gallagher's larger accounts more broadly) have not closely linked their risk transfer through insurance to the specific nature of the threats they face, the risks likely to materialise to their business, and the investments they've already made in protecting themselves: this tends to lead to obtaining off-the-shelf cyber policies which inevitably don't necessarily transfer the financial risk as intended, and are fundamentally at risk of not being an accurate reflection of the client's risk profile nor how they would want such a policy to respond in the event of a major incident. They also tend to not be well-integrated with the airline's broader response to a crisis, which can only be understood when the process is couched in a risk-led consulting approach that leads to a number of potential improvements and outcomes which reduce cyber risk – only one of which is insurance.

Companies need an understanding of where risk transfer is provided, enhanced or self-retained and when bespoke insurance coverage may be best suited. At Gallagher our Cybair insurance products are tailored specifically to each client, and our specialist consultants work with your teams to develop a deep understanding of your business model, current controls, and future business plans. This provides us with a real-time assessment of your current exposure to the threats you may face and enables us to deliver a clear assessment of your risk, maximum potential losses and, most crucially – what you can do about it.

What kind of threat actor poses the greatest risk to your new revenue management system? How are attackers likely to target a newly released passenger mobile app? Have you mapped all of your data flows with third-parties? Our consulting teams provide a comprehensive and easy to understand report, detailing all areas of exposure – and how these are addressed – to share with Senior Management. This allows strategic decisions to be made on how to protect your business and maximise shareholder value in the long term, particularly over longer time horizons where the potential size and extent of losses from cyber incidents becomes increasingly uncertain.

**COVID-19 has changed everything, and cyber-security is no different. Those airlines most responsive to change will be those that emerge the strongest, so get in touch to see how Gallagher can support your plans for the future. We also look forward to welcoming you on our Cybair cyber risk webinar for aviation, scheduled for April 22nd 2021, details of which will go out shortly.**

TO FIND OUT MORE ›

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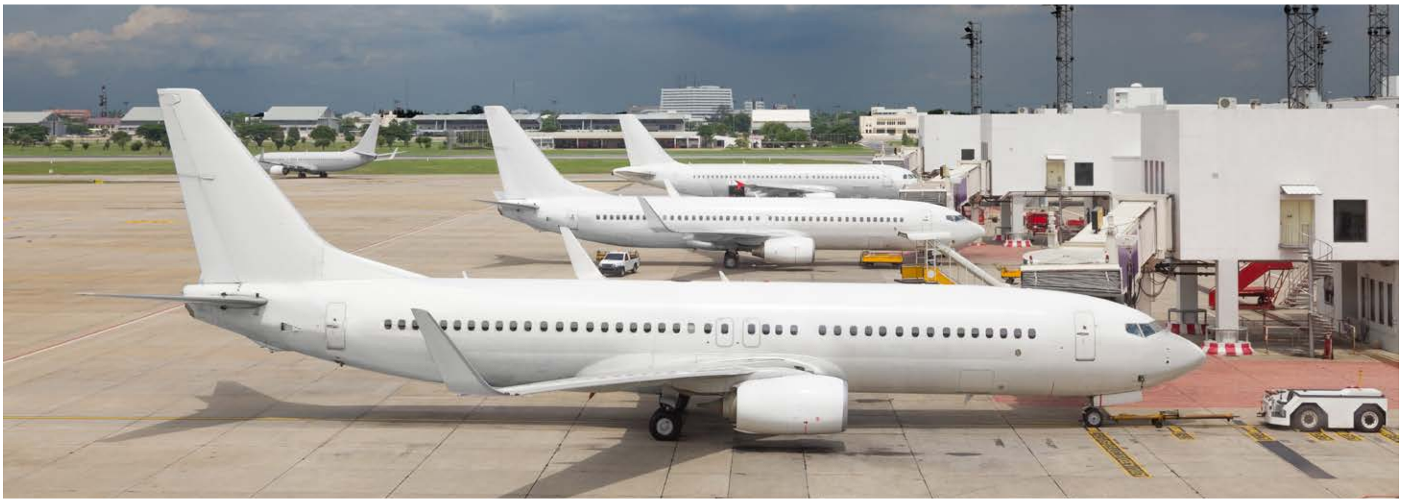


# 07. IN FOCUS: AEROSPACE INFRASTRUCTURE

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

Following the trend of 2020, unfortunately the first quarter of 2021 did not deliver much relief to the aerospace infrastructure sector, from either from an aviation industry or insurance perspective. The pandemic continues to dramatically hamper operations and 2021 exposure outlooks are being provided with a great deal of trepidation. Insurers' resolve for premium increases continues but we have yet to see the real impact on those clients who are about to experience their second renewal during the global pandemic.

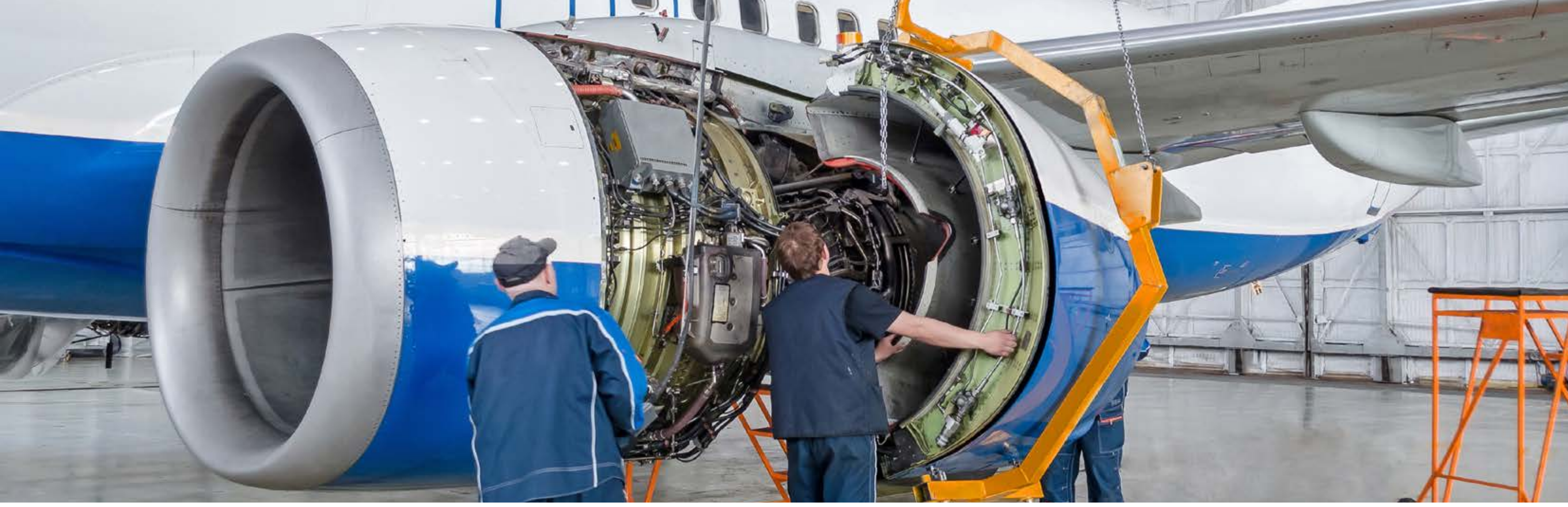
Insurers continue to talk about historical loss ratios and the need to adjust premiums to a sustainable level following years of cheap premiums caused by overcapacity. But unlike in the airline sector, there seems to be little regard being given to the challenges and dramatically reduced exposures that aerospace businesses have faced over the last 12 months and will continue to experience throughout 2021. Return to 2019 levels in terms of the air transport industry is being estimated at 2023-2024, so it is a long road to recovery for the industry. Insurers on the other hand seem to be trying to recover their financial position much quicker than this and imposing further increases across the board in 2021 will only exacerbate the pain being felt by Insureds within this sector.

We of course understand Insurers positions and the need for them to be 'profitable' – no business can survive for long if they are not. But applying a significant percentage increase to all premium surely cannot be the only, let alone best approach. Insurers need to revert to understanding the full change in circumstances, assessing the past years and ongoing exposures, looking at different sectors within our industry and applying a different approach to each case. No one single approach fits all clients, only insurers demand for increased dollars. Continually reflecting on poor previous underwriting results cannot be the answer. We need insurers to be taking a longer term view of the Insured's operations and looking to smooth out the impact of the two extremes i.e. lower client exposures versus demand for more premium due to past poor claims.

How can these two parties whose businesses are both "hurting" currently build a way forward respecting each others issues and hurdles? That is only possible through the skill of your appointed broker in understanding the market dynamics and being able to present your exposures in a fashion that clearly represents the change in exposures through these unprecedented times. The information exchange between client and insurer is vital and should not be overlooked by either party.

For many years now the industry has adopted an "in full" premium approach for virtually all policies in the aerospace infrastructure sector.

Is now the time to revert to fully adjustable policies rated on the Insured's individual exposures being either: passenger movements through the airport, number of aircraft D Checks, annual revenues, number of employees, number of aircraft turns, refuelled gallons, and so on, depending on the individual business and risk profile?



Regrettably we cannot just focus on exposures and ignore claims. We recently saw the Ethiopian Airlines passenger claims moved in to the US courts dramatically increasing the overall claim reserve to the insurance market, and this drive to have claims handled via the US legal system continues to be a concern for insurers. We saw the damages awarded for one individual injured at the City of Chicago airport exceed USD100m a few years ago and the insurance market hoped this would be an exceptional aviation case not to be repeated. However similar amounts have since been awarded in the general aviation (GA) sector and overall there seems to be an increase in the level of demands now being sought by plaintiff lawyers in aviation liability cases. In this litigious regime that the world continues to adopt, insurers are in a challenging position to accurately reserve for liability claims but claim reserving practices are essential. At what point should an Insurer be seeking 'payback' for a bad loss year? A loss reserve is not the same as a paid claim and as such there should be a clear distinction demonstrated between paid and outstanding claims positions when reviewing an individual loss history at the time of a policy renewal.

With such conflicting challenges and drives of insurers versus Insureds in this sector, innovative approaches from your broker are vital to the results of the negotiations in the forthcoming year.

## Capacity

There is no significant change in the capacity available in this sector. Insurers remain significantly more selective on the larger and/or loss active risks reducing the available capacity on those accounts, but there is still ample capacity for the small to medium risks purchasing up to USD1bn in liability cover.

## Losses

We have not yet seen any significant claims that have since come to fruition from 2020 to affect the overall profitability of the aerospace infrastructure sector during that policy year, which is positive. A class action has been brought against United Airlines however following the engine failure and emergency landing of flight 328 on 20 February 2021. The lawsuit we understand has been filed by one passenger who is seeking damages for emotional distress1 but there were 231 passengers and 10 crew on board the aircraft so we cannot rule out that additional similar suits may follow and that Pratt & Whitney as the engine manufacturer (and/or their parent company Raytheon) may find themselves involved in such suits, which could lead to claims in the aerospace infrastructure sector.

## Future outlook

- We expect to see a continued drive from insurers to increase rate and premium across the board
- Capacity remains available but insurers are 'walking away' from risks that do not meet their rating adequacies
- Distinction between risks must be pursued and robust underwriting information is essential
- Renewal negotiations are likely to remain complex and take longer
- The individual circumstances and policy specifics of each operator will influence the results.

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*Source: Market knowledge and publicly available information*

# 08. IN FOCUS: SPACE

**AUTHOR**: ***PETER ELSON,*** *CEO & HEAD OF SPACE, GALLAGHER AEROSPACE*

As we predicted in our Q4 2020 update, the amount of capacity assembled across the space insurance market in 2021 is marginally higher than that available in 2020.

The withdrawal of AIG in November 2020 (USD40m capacity) has been offset by Fidelis and Convex scaling up and several MGA/ Consortia succeeding in securing increased support from members. Across the class most markets are looking to actively deploy lines for business that meets their appetite with the goal of maintaining their share of the overall market premium.

Unfortunately, 2021 has already seen significant loss activity with the potential constructive total loss of Sirius SMX-7. The satellite is reported to have experienced a serious anomaly during in orbit testing and consequently the insurance market is bracing itself for a USD225m claim. This would bring total market claims over the last 12 months to in excess of USD550m (not including any potential loss on the Russian Satellite Communications Company [RSCC] Express 80 satellite).

In spite of the SMX-7 potential loss, the current movement in market pricing appears relatively stable in comparison to the major corrections of the past two years with rates tracking incrementally upwards from the levels we saw in the latter part of 2020. With sufficient capacity available for non-distressed risks requiring low to moderate sums insured, underwriter appetite remains good with competitive pressures in play. For distressed risks and/ or high sums insured, pricing is less elastic but still offers reasonable value compared to historical norms and long term industry burning costs.

The increase in satellite orders placed during 2020 equates to more launches expected in 2022 to 2024. Combined with rate increases, these higher business volumes should dampen market volatility. Absent significant further loss activity, we expect current market trends to continue for the foreseeable future.

The “New Space” sector continues to mature with a number of companies utilising a special purpose acquisition company (SPAC) to become publically traded. The launch vehicle company Rocket Lab and the small sat manufacturing company Spire Global both intend to use this route to go public during 2021. This demonstrates that ambition and investment is likely to continue fuelling “New Space” companies and, in time, the pressure they may exert on established players.

*Source: Market knowledge and publicly available information*

## Looking ahead

Our advice to our clients both large and small remains the same as throughout the recently turbulent market conditions. Engage with your account team as early as possible to allow time to develop effective strategies for placements and methodical delivery to ensure the best possible results. As always, the Gallagher space team will keep clients apprised of market changes and the impacts and opportunities these bring.

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# 09. GALLAGHER UPDATE

## Gallagher expands its aerospace team with new hires

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

### Gallagher Aerospace

- **Dane Tierney** has joined as an Account Executive based in Australia. Dane brings over 10 years of corporate risk and insurance experience and most recently worked at Virgin Australia.
- **Jacquiline Gilbert** has joined as an Account Manager based in London.
- **Harry Whyte** has joined the overseas broking team based in London.
- **Sebastian Terry** has joined the Technical Operations team based in London.
- **Kelyn Koh** has joined as a Broker Assistant based in Singapore.

### Hayward Aviation, Gallagher's specialist general aviation team

- **Lauren Bantock** and **Nye Greenfield** have joined as Account Technicians based in London.
- **Matthew Gilmore** has joined as an Account Executive based in London.
- **Laetitia Dandois** has joined as a Client Executive based in Belgium.

"In this uncertain environment, it is important that our clients continue to get the support they need and can be confident that their broker has the resource, expertise and market presence to deliver. On this note, I am absolutely 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. Their recruitment at this time now more than ever demonstrates Gallagher's long term commitment to aviation and our strategy of investing in talent to deliver the highest quality of cover, service and value available anywhere in the sector".

**Peter Elson, CEO of Gallagher Aerospace**

## Save the date: Gallagher Managing Cyber Risk in Aviation Webinar

Gallagher's aerospace team in conjunction with our Cyber colleagues is pleased to announce our **Managing Cyber Risk in Aviation Webinar taking place on Thursday 22 April 2021**. The webinar will explore a range of pertinent topics affecting airline and aerospace businesses including different elements of risk, understanding your cyber exposure and new threats in a post-pandemic world.

The webinar will also offer a platform to discuss Gallagher's CybAir risk transfer and advisory solutions which have been developed to help our airline and aerospace clients make an assessment of the risks they are facing and secure specialist cyber insurance protection, tailored to their individual requirements.

We look forward to seeing you at this event and further details will be made available to our clients shortly.

# 10. MARKET PERSONNEL NEWS IN Q1

### AIG

AIG has announced a number of new appointments to its UK General Aviation (GA team). **Rob Oakley** has been appointed as General Aviation Senior Underwriter responsible for developing AIG's general aviation portfolio and implementing the GA strategy. In addition, **Leanne Challis** has joined as General Aviation Underwriter responsible for strengthening AIG's general aviation offering. **Duc Tu** has also been appointed as General Aviation Underwriter responsible for business development and coordinating broker liaisons for private pilot license and whitespace platforms.

### Global Aerospace

**Michael Prahl** has been appointed Assistant Vice President based in Chicago, USA. Michael brings over 15 years aviation experience, he most recently held the position of Branch Manager of Old Republic Aerospace's Chicago office. In addition, **Kyle Smith** has joined as an Underwriter and **Julia Smith** has joined as Policy Specialist. Both will be based in Kansas City, USA.

### Hive Aero

**Christine Dandridge** has been appointed to the Board as a non-executive director with immediate effect.

### Starr

**Ben Telling** has joined Starr's aviation team based in London. He most recently held the position of Airline Underwriter at Allianz Global Corporate & Specialty (AGCS).

### Talbot

**Dan Callow** has left his position as an Underwriter.

### USAIG

**Garrett Spurlin** has joined as an Underwriter based in the New York. **Mary Humphrey** has joined as an Underwriting Assistant based in Wichita. **Shawn Gratsch** has joined as Underwriting Support Coordinator based in Toledo.

*Source: Market knowledge and publicly available information.*

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