The International Aviation Insurance Market

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**Exposure Facing Aviation Insurers**

- Over 1,250 Boeing 737 aircraft are estimated to be in the air at any one time.

- Airlines carry an estimated six million people every day.

- At peak times at Heathrow Airport, there are 115 aircraft, these value in excess of US$10 billion.

- There are over 2,600 aircraft movements per day at Chicago O'Hare Airport.

- Every 1.8 Seconds an aircraft is refueled somewhere on the planet.

- Cirium estimate between 2022 and 2041 there will be 44,500 airline aircraft delivered worth an estimated $2.9 trillion.

- Values can be in excess of $400 million each aircraft.

- Liability limits of up to $2.25 billion any one occurrence.
Aircraft Hull and Spares all risks and liability:
- Includes hull deductible of up to $1 million any one accident
- Hull War Exclusion: Exclusion for loss or damage to aircraft caused by war and allied perils
- War Third Party Liability sublimit of up to US$350 million

Hull Deductible:
A separate policy to pay the difference between the applicable deductible amount under the Hull All Risk policy and a more manageable amount, typically between $50,000 and $250,000

Hull and spares war and allied perils:
- Covers loss of or damage to aircraft by war and allied perils as excluded from Hull All Risks policy

War, hi-jacking and other perils excess coverage:
- Increases the primary limit to the required limits
## Airline Insurance Programme

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Typical proportion of Total Premium spend</th>
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<tbody>
<tr>
<td>Hull, Spares and Legal Liability All Risks</td>
<td>70%</td>
</tr>
<tr>
<td>Hull and Spares War and Allied Perils</td>
<td>10%</td>
</tr>
<tr>
<td>Aircraft Hull and Spare Engine Deductible</td>
<td>10%</td>
</tr>
<tr>
<td>Excess War Third Party Legal Liability (AVN52E)</td>
<td>10%</td>
</tr>
</tbody>
</table>
The International Airline Hull and Liability Insurance Market
The Insurance Market
What do we mean?

• Capital that enables commercial risk transfer

• Lloyd’s of London

• London based specialty insurers and reinsurers

• International Insurance and Reinsurance Companies
The sectors comprising the Aviation Insurance Market

The Aviation Insurance Market provides coverage all types of companies involved with the aviation industry from aircraft operators, manufacturers airports, air traffic control and service providers.

Aon’s aviation client portfolio reflects this diverse range of companies.
Lloyd’s of London
Background

• Specialist Insurance and Reinsurance market

• Founded in 1688 by Edward Lloyd

• It is not a company but a corporate body governed by the Lloyd’s Act of 1871 and subsequent revisions

• Corporate and private capital is provided by members of Lloyd’s

• Syndicates are formed by one or more members coming together to take on insurance risks

• Managing agents are the companies established to employ underwriters and operate the syndicate

• Over 50 managing agents and over 75 syndicates operating at Lloyd’s

• Gross Written Premium for Lloyd’s GBP46.7 Billion

• Lloyd’s capital structure consist of three elements to back all insurance policies underwritten:
  ○ Syndicate assets – working capital
  ○ Funds at Lloyd’s – members’ capital deposited
  ○ Central Funds
London and International Company Airline Insurance Market

AIG

AXA

STARR Companies

Allianz

Swiss Re

HDI

Generali

Axis

Liberty Mutual Insurance

nexus

Munich RE

PartnerRe

MAPFRE

Helvetia

Sukoon Insurance

ADNIC

elseco

Fidelis

SOMPO International

Everest

Convex

AON

Réunion Aérienne & Spatiale
Historical Premiums and Claims

Airline Hull and Liability Insurance

It is reported that the 2022 global hull and liability premium may be in the region of $1,700 million, up from $1,600 million in 2021.

The current estimated claims for 2022, including attrition losses, is approximately $675m, inflation and supply chain issues predict to significantly increase reserves.

Source: Cirium Airline Safety Review 2022
Insurance Market Cycle

Insurance market transition

- Simple economics of supply and demand

- Available capacity is influenced by numerous factors such as:
  - Availability of reinsurance
  - Risk free rates of return available
  - Capital market position
  - Insurer portfolio performance and returns on invested capital achieved

New Entrants in the market increase capacity

Prices are increased and profitability returns

Profitability is reduced as losses erode lower premium base

Prices are forced down by increased supply of capacity
Airline Insurance Marketing Strategies
Airline Insurance Marketing Strategies
Considerations

• Agree timeline

• Seek to build market insights around the risk
  o Market Presentations
  o Underwriting engagement
  o Information document

• Select the most appropriate potential lead (re)insurers

• Determine target panel of following (re)insurers based on factors such as:
  o Claims payment performance
  o Financial rating
  o Geographic licenses

• Undertake technical review of current insurance contracts

• Design optimum coverage proposal for quoting

• Placement structure including Vertical Marketing
Airline Insurance Marketing Strategies

Vertical Marketing

The typical structure of an Airline Hull, Spares and Liability (Re)Insurance

By negotiating terms with each underwriter individually, the average (composite) premium charged is reduced.

Underwriters not willing to participate at offered terms or conditions are omitted from the placement.
Key Information for Insurers of Airline risks

Exposure Estimates and Future Planning
With minimum premiums often still being required by insurers, accurately estimating exposures, particularly passenger and departure numbers is critical. Too low an estimate and rates will be higher and too high an estimate may result in an unnecessarily high minimum premium.

Emphasis on Safety and Losses
Risks with a high level of losses whether from major losses or a high level of attritional losses will continue to attract underwriting scrutiny and higher levels of premium increases unless the causes are not addressed by clients.

Strategic Market Relationships
The importance and value of direct client and insurer relationships has increased as Insurers have deployed their capacity more selectively. Insurers will attempt to revisit coverage enhancements that were broadened during the softening market however this may not be the case for clients where they have a long term relationship.

Differentiation of Risk
As the market evolved, the differentiation between clients was lost. As underwriters seek a correction in pricing, it is essential that clients demonstrate why their risk should be differentiated from their peers. A comprehensive submission document will ensure that Insurers are best placed to justify the rating quoted to their capital providers and will also help to ensure that each risk profile is recognised and could attract new capacity onto risks.
How the Insurance Market Responds to Disasters
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Scandinavian Airlines SAS, Milan, Linate-Italy
8 October 2001 (MD-87)

Helios Airways, Grammatikos, Greece
14 August 2005 (Boeing 737)

Spanair, Madrid, Spain
20 August 2008 MD-82

American Airlines, New York
11\textsuperscript{th} September 2001, B767
Thank You