

AON



The International Aviation Insurance Market

John Levack

Executive Director, Head of Client
Development and Solutions, Aviation

November 2023



Contents



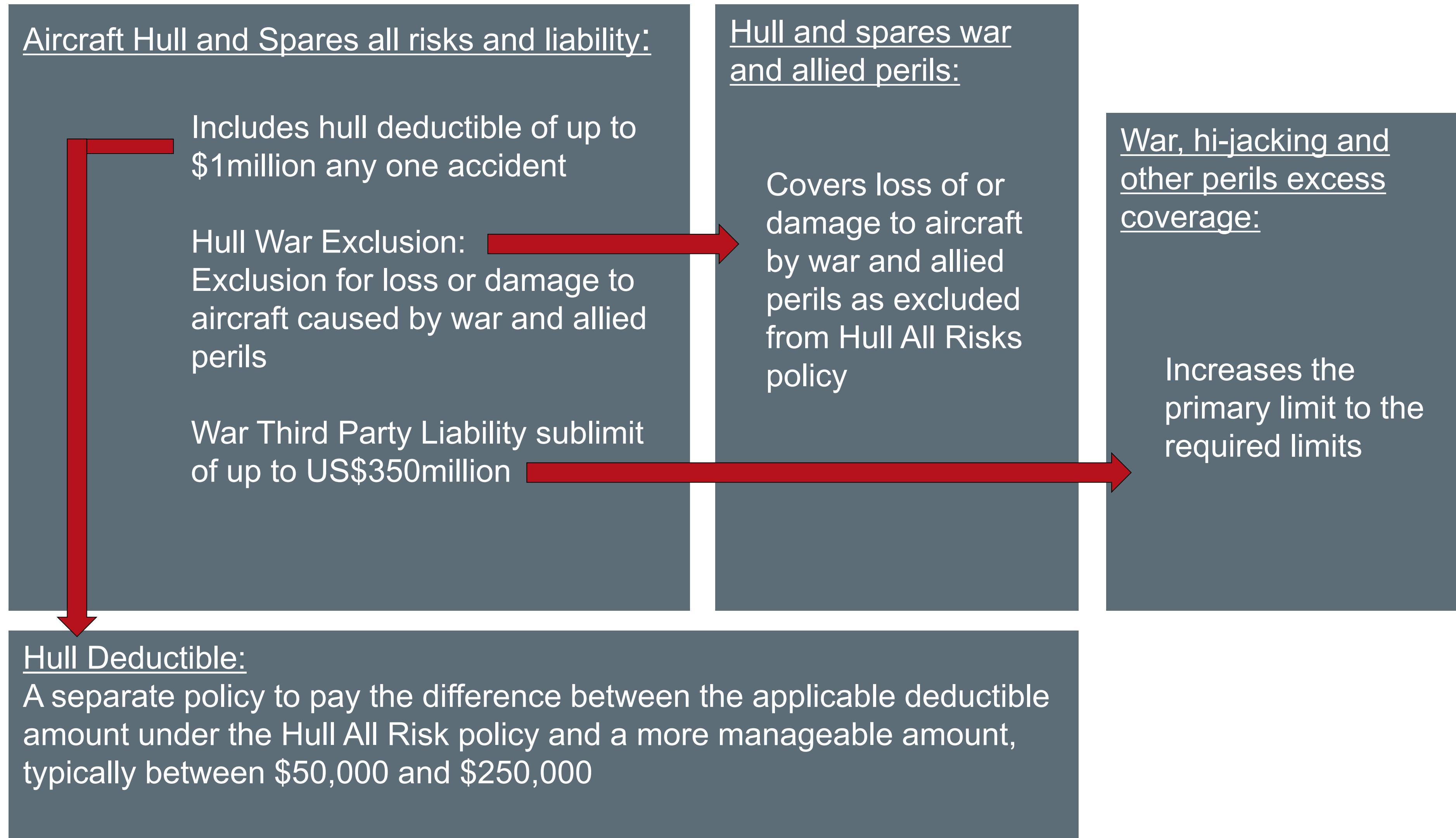
1. The Exposures Facing Aviation Insurers
2. Structure of a typical Airline Insurance Programme
3. The International Airline Hull and Liability Insurance Market
4. Insurance Marketing Strategies
5. How the Insurance Market responds to disasters

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\$10billion
- 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 \$2.9trillion.
- Values can be in excess of \$400million each aircraft
- Liability limits of up to \$2.25billion any one occurrence



Structure of an Airline Insurance Programme



Airline Insurance Programme



Coverage	Typical proportion of Total Premium spend
Hull, Spares and Legal Liability All Risks	70%
Hull and Spares War and Allied Perils	10%
Aircraft Hull and Spare Engine Deductible	10%
Excess War Third Party Legal Liability (AVN52E)	10%

The International Airline Hull and Liability Insurance Market

AON

 **Minet**



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



PartnerRe



elseco



AON

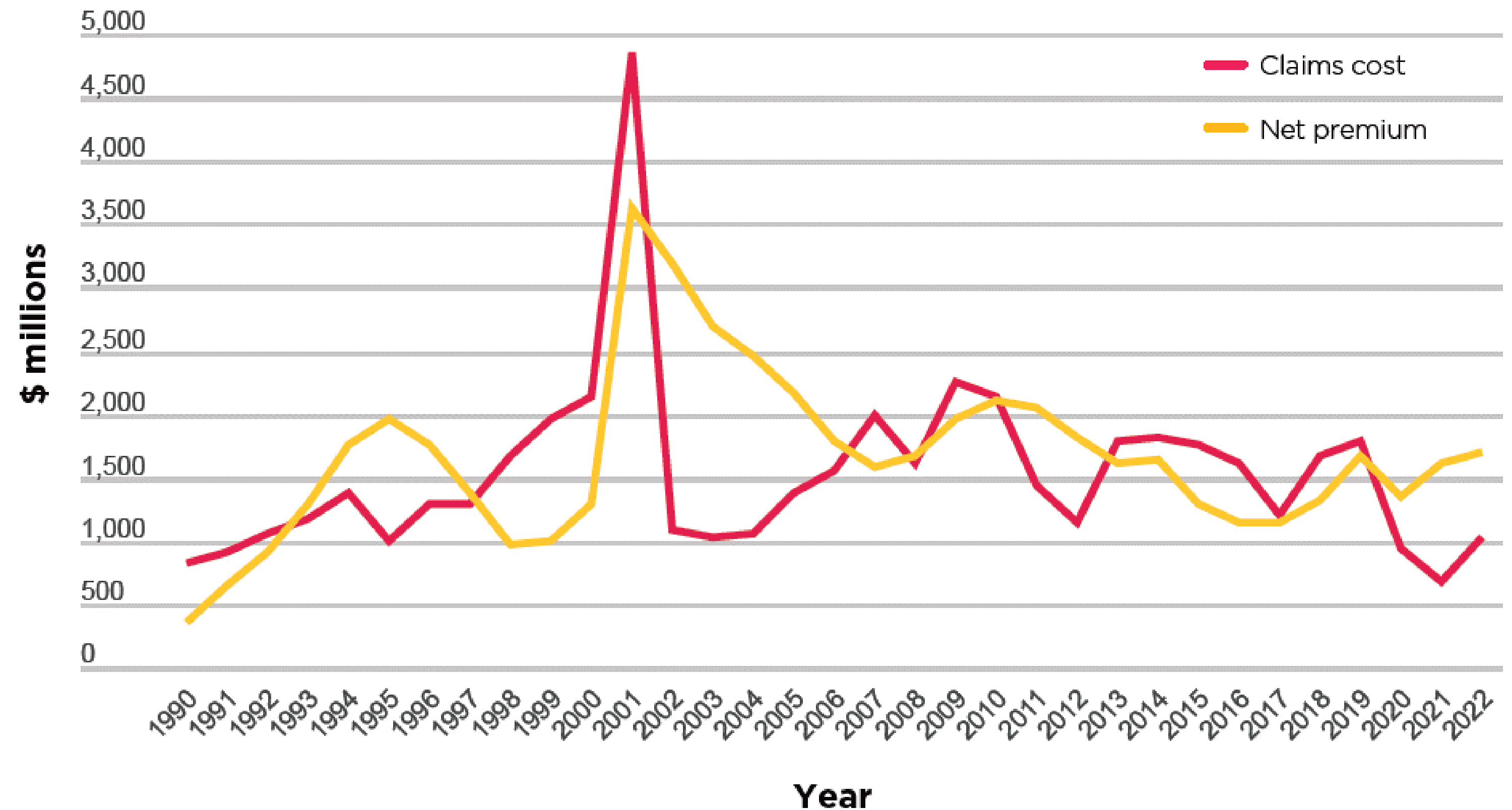
Airline Hull and Liability Insurance

Historical Premiums and Claims



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.

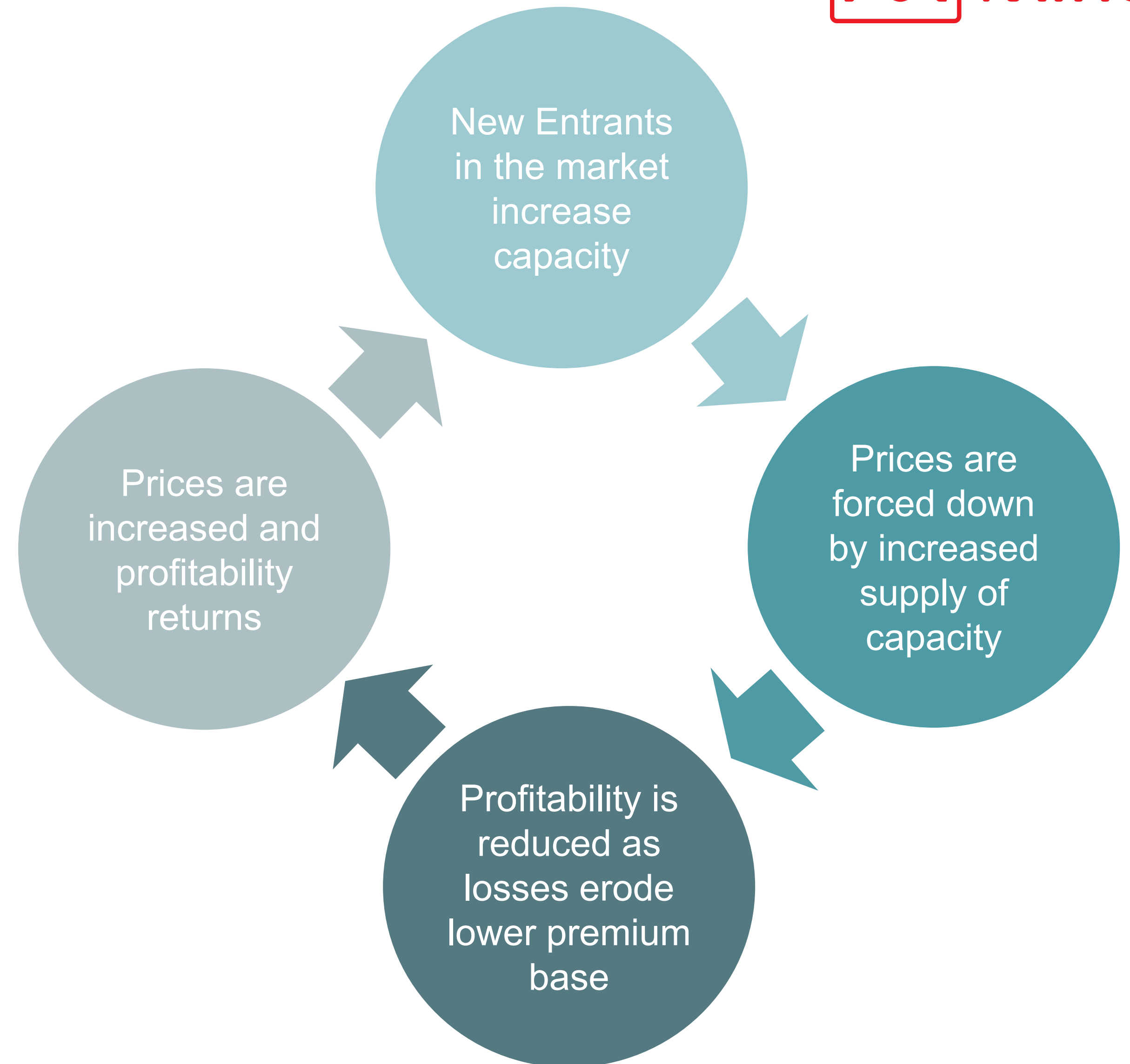


Source: Cirium Airline Safety Review 2022

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



Airline Insurance Marketing Strategies

AON



 **Minet**

Airline Insurance Marketing Strategies

Considerations

- Agree timeline
- Seek to build market insights around the risk
 - Market Presentations
 - Underwriting engagement
 - Information document
- Select the most appropriate potential lead (re)insurers
- Determine target panel of following (re)insurers based on factors such as:
 - Claims payment performance
 - Financial rating
 - Geographic licenses
- Undertake technical review of current insurance contracts
- Design optimum coverage proposal for quoting
- Placement structure including Vertical Marketing

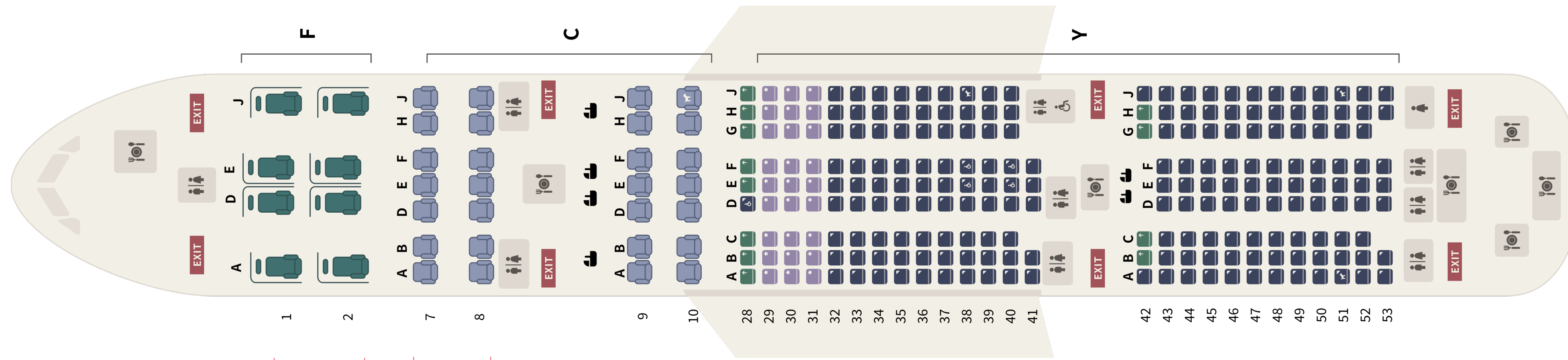


Airline Insurance Marketing Strategies

Vertical Marketing



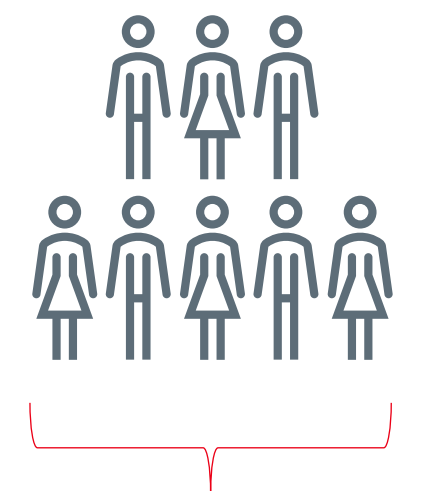
The typical structure of an Airline Hull, Spares and Liability (Re)Insurance



Lead UW
UW A

UW B
UW C
UW D
UW E
UW F
UW G
UW H
UW K

UW L
UW M
UW N
UW O



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



How the Insurance Market Responds to Disasters



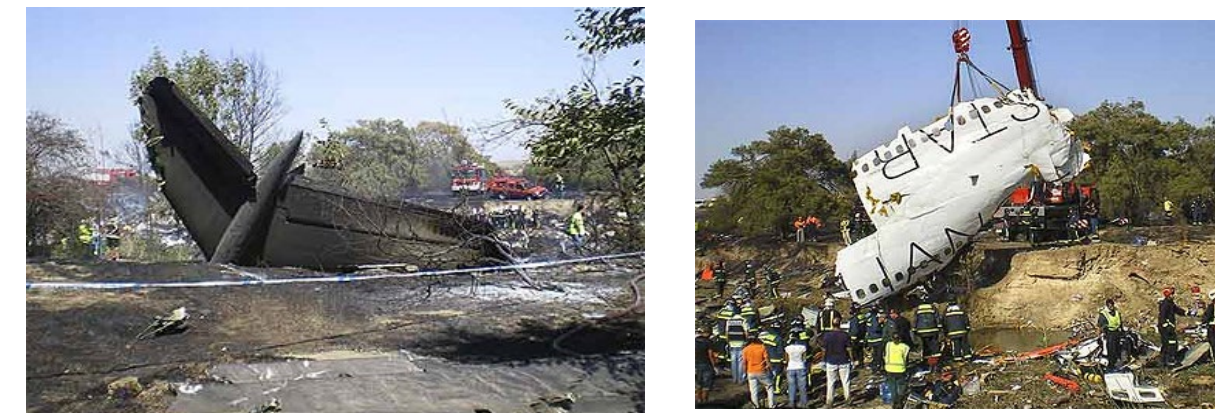
Scandinavian Airlines SAS, Milan, Linate-Italy
8 October 2001 (MD-87)



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



Spanair, Madrid, Spain
20 August 2008 MD-82



American Airlines, New York
11th September 2001, B767



Thank You