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**Introduction to Aviation Insurance**

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**Q) Given low global premium pool for the Aviation sector has a “Pool Re” type of solution been investigated to transfer some of the risk? Or would this not work?**

A) The only precedent bearing any resemblance to the potential Russian losses has been 9/11. It is clear that whilst the aircraft was the direct cause of the loss and the third party damage to property on the ground, the two airline’s insurance policies could not feasibly pay for the total damage and loss of life. So apart from setting up a Fund to pay for these losses there was also a central insurance programme, TRIA - The Terrorism Risk Insurance Act (TRIA) - which created a temporary federal program that provided for a transparent system of shared public and private compensation for certain insured losses resulting from a certified act of terrorism. The Secretary of the Treasury administers the program with the assistance of the Federal Insurance Office. It is likely that this has never been used but President Trump did extend the programme for a further 10 years to 2027.

Whilst the Russian situation seems similar in some ways many a CEO statement has been made saying that the potential losses are well within their business models (Lloyds and Chubb are two) and their Reinsurance programmes. Whilst insurers have made losses consistently over the years it has not been enough to threaten the existence of the market.

Would it work? In light of the market place consisting of a variety of different classes – airline, aerospace, general aviation, War – I believe it would be difficult to apply a financially feasible Pool whether across all branches or on any one in particular. The underwriting criteria and limits are significantly varied that it would be hard to package as one “risk” for a group of insurers. Maybe in the financial / Bond markets as an umbrella...?

**Q) How do brokers make any sense of the insurer value statements?**

A) I am not sure what is being asked in this instance but over the years aviation markets have come and gone but there has always been sufficient capacity and strength of capital backing that has allowed insurers to continue to provide cover for the industry. There are less units offering the insurance but those who remain are bigger and stronger and, to that end, we as brokers have to assume a professional integrity and financial stability for our clients and they will honour the “promise to pay”. Personally, I do feel that their response to the Lessors portfolio is poor and particularly when we see them providing reductions to some airlines but that is just one instance.

**Q) COVID saw a long period of time when pilots, mechanics and other critical aviation workers were not able to work – are you concerned around people being rusty?**

Ye, there is great concern. As we are now seeing many staff were made redundant – both pilots and ground staff – who took other jobs and have not returned. Some of those who were retained received recurrency training but clearly “real time” flying and maintenance is very different. Ground staff and engineers as well as pilots are in short supply after substantial cost cutting and minimal recruitment. For the current time this will impose limitations (as with BA recently) on the airlines ability to get aircraft in the air. Adjusters are also seeing critical issues as a result of these shortages as well as chronic supply issues and soaring costs.

**With the current financial world state, and the beginning of a reduction in capital access do you see this as a turning point for premiums?**

Ironically, after 6-8 years of losses in a falling market, in 2018 rates did steady and start to increase. Unfortunately, COVID blocked any financial benefit as most airlines earned huge return premiums due to the fleets being grounded (after which insurers imposed minimum earned amounts for each policy). At the same time though claims fell although there were still ground incidents on the stored aircraft but, as my premium / claims graph showed 2020 /21 was profitable for airline insurers. Current losses- from the MAX, the potential Lessor’s Russian confiscation/theft claim and higher inflation as well as the potential effects of Hurricane Ian (rumoured to be around USD60-80bn) on the Reinsurance markets may drive Capital into other areas and force insurers to withdraw or dramatically increase premiums. But for now insurers are looking for short term income and airline rates are flat or even falling again although there is greater resolve in the Aerospace market.

**Did the B737-MAX scandal spark a review by aviation insurers on software implementation/testing requirements as a condition of coverage?**

Clearly a potential claim on the market of around USD3.5bn could trigger a wholesale review of working practices. But the products provided by Boeing have stood the test of time and the issues are deemed to be a more systemic rot in management and regulatory oversight than a specific failure in the technology available. The new model was based upon the existing B737 (possibly to save money as opposed to developing a whole new airframe) but with bigger engines. They needed to develop a fix which was the. Boeing developed the system to address stability issues in certain flight conditions induced by the plane’s new larger engines which was the new flight control feature.

Unfortunately, the aircraft model arose from flawed technical design criteria, faulty assumptions about pilot response times, and production pressures. Boeing failed in its design and development of the Max and additionally, the US Federal Aviation Administration, overlooked its aviation safety mission. It failed in its oversight of Boeing and its certification of the aircraft.

So, it is unlikely at insurance level that there will be a deep delve down into specific technology but it is clear that major changes will need to be seen in the oversight and management with Boeing and even the FAA. Litigation is ongoing from many angles and parties and premiums will rise significantly with SIR’s increasing therefore an incentive for Boeing to “get it right”. They will need to sell themselves again when their Policy renews...