

PLANE TALKING

AVIATION NEWSLETTER Q1 2018 EDITION



LEAD LINES

David Godley - Founder Partner, Altitude Risk Partners.

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MARKET UPDATE

As the first quarter of 2018 concludes, and the major catastrophe losses of last year are now.

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LOSS INFORMATION

In terms of losses 2018 has started off poorly and by the end of the first quarter.

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Executive Summary

A CONTROLLED CLIMB

At the end of last year, it was evident that conditions in the aviation insurance market had diverted from the long-term downwards ratings trend and we were experiencing a tougher market environment. The real question was, how this transition would develop. With the first quarter of 2018 now at an end, we can report that the markets resolve has not faded.

For the first time in many years underwriters are maintaining their position and pricing discipline. Underwriters now seem committed to preventing a further decline in aviation insurance rates, working to stabilise them at a level they believe is more sustainable in the long-term. In general rates are holding flat and aviation underwriters are, at least for the moment, continuing to prioritise profitability above volume or market share, declining any risks they feel are inadequately priced. Underwriters appear to be taking a measured approach this time around, perhaps mindful that an attempt to raise prices too steeply would undoubtedly lead to an influx of opportunistic market capacity and a return to a downwards trend.

Capacity remains varied by risk and price and levels are still relatively stable. This is perhaps due in part to the recent uptick in the rating trend. Merger and Acquisition (M&A) activity is another interesting factor to monitor closely in the coming months.

Taking the above into account, we must still be mindful that at this early stage of the year, airline renewal activity has been limited and so the current market environment may not yet transpire into a longer-term market trend. The next big test of the markets resolve will come in July when a number of major airlines and insurance groupings come to renew.

AUTHOR PROFILE



David Godley

Founder Partner, Altitude Risk Partners

Biography

David is a co-founder of Altitude Risk Partners, a specialist aviation and space underwriting agency established in 2014 and based London.

David is a Law Graduate and a Fellow of the Chartered Insurance Institute.

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Lead Lines - a market under pressure

For the first time in a decade, airline premium and rates ended 2017 higher than the preceding year. Not dramatically higher, but the swing in market direction was both real and significant. In our view, the underlying conditions continue to support higher premium and rates in 2018. The question is, how much higher?

A review of 2017 demonstrated that overall premiums and rates rose despite the absence of any new significant airline losses during the year. However, it is also true that the market rate movement was skewed by very large increases being imposed upon a few carriers with poor claims records. Most airlines achieved respectable renewals, albeit they still paid more premium than in the prior year. However, this is still not good enough to generate adequate returns on capital, once costs are taken into account.

At Altitude Risk Partners, we expect upwards pressure for overall market premiums and rates to continue to build in 2018. This is a result of factors both internal and external to the aviation market. It is worth looking at them separately although their impact has a compounding effect.

applies to the whole of the aviation market not just the airline sub-class. In fact, some of the largest losses in recent years have arisen within the general aviation and aerospace segments – normally a traditional balance to the volatile airline sector.

Understandably, greater management scrutiny always follows an extended period of poor results. Unfortunately for aviation underwriters, the scrutiny is likely to reveal that the 2017 premium and rate increases are insufficient to improve results sufficiently. Attritional losses are consuming a record share (over 50%) of the available premium. Once costs are taken into account, margins will be wafer thin – assuming that large losses continue to be favourable. This may explain why some insurers are withdrawing from the market even as

“Premiums are too low and costs are too high. Over the past five years, the aviation market has generated no return on capital, after costs.”

The problem with the aviation market

Premiums are too low and costs are too high. Over the past five years, the aviation market has generated no return on capital, after costs. This statement

premiums begin to rise. More are likely to follow.

Wider market impact

Over the same five-year period that

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◀◀ *Continued from page 2*

aviation insurers have struggled, the overall property and casualty market was profitable – driven principally by the absence of large catastrophe losses. However, in the third quarter of 2017,

Whilst the impact on the aviation market is not certain, it is reasonable to assume that some capacity will be removed via this process too.

across the portfolio - not just on those accounts with poor loss records.

However, rising premiums alone will not be sufficient to generate adequate

“We expect upwards pressure for overall market premiums and rates to continue to build in 2018. This is a result of factors both internal and external to the aviation market.”

that all changed. The large underwriting losses emanating from hurricanes, earthquakes and wildfires has made management re-think their desire to subsidise loss making lines. All portfolios are now under review - including aviation.

To accentuate matters, the wider insurance market is also consolidating.

Outcome

The pressure to improve underwriting performance coupled with an expected reduction in capacity is likely to mean that premiums and rates will rise at a faster rate than in 2017. Furthermore, albeit early days, evidence in 2018 suggests that re-pricing is occurring

returns. Costs need to be addressed too. In a class of business where major loss frequency continues to fall, the structural (downwards) shift in long term premiums is going to mean that a lean cost structure will also be a pre-requisite, even in the better years.



Airline insurance market update

As the first quarter of 2018 concludes, and the major natural catastrophe losses of last year are now some months past, we find ourselves in an opportune moment to pause and reflect on the direction the aviation insurance market has taken.

While it can be said that an air of uncertainty still surrounds the market, underwriters have maintained the resolve and discipline seen in the final months of last year and as such the aviation insurance market seems to have stabilised, at least for now. It is not to say that we are now experiencing a hard market, but the prolonged soft market cycle of prior years' has been halted and we do not expect conditions to revert back, at least for the time being.

Reinsurers/insurers face a challenging 2018 as global economic growth remains slow and the political environment continues to be volatile. Competitive pressure remains high in commercial and specialty lines of business and the natural catastrophes of 2017 which were estimated at over USD 100 billion produced poor earnings results for many global reinsurers/insurers.

As a result, senior management at many of these companies are applying substantial pressure on their underwriting teams to harden pricing levels. Aviation underwriters are now under more scrutiny than ever as prices rise in other sectors and top management expect the same. Overall, insurers

have an expectation that soft market conditions have reached the bottom in many sectors. In aviation, insurance rates for many carriers are at record low levels and overall the profitability of the class has been a strong concern for underwriters in recent years. Underwriters are now taking action, prioritising profit in order to correct this position and regain profitability.

Hull, spares and liability

Underwriters of this class are generally targeting rates as expiry as the benchmark for an average airline. Thereafter, underwriters continue to negotiate and differentiate their pricing on a case by case basis, dependent on risk profile and individual circumstances.

The three-tier market that we have highlighted in past editions remains evident, albeit the spread of pricing for each 'tier' has narrowed, as the overall rating trend has flattened. 'Tier A' airlines, top among them the fast-growing, low-cost carriers, continue to be the most sought after business by underwriters. These carriers are achieving the most competitive renewal results with some degree of rate reduction still available.

'Tier B' airlines are typically achieving 'as before' rates or small increases due mainly to their higher liability limit and aircraft value requirements. Loss active accounts in 'Tier C', that are regularly burning through their premiums, continue to attract far less capacity and are a target for rate increases.

Hull war

2017 was another loss making year for the hull war market, with claims estimated to have exceeded premium income. Consequently this class of business remains a particular area of focus for underwriters. In comparison to the other traditional aviation classes, hull war has become less competitive in terms of pricing. Rate reductions are now extremely limited, even for the most favourable of risks. Underwriters continue to push hard to increase prices and appear determined to re-inflate premium levels for this class. Those accounts which require large aggregate limits and high sums insured remain the most challenging and now typically require almost all available capacity to participate in order to complete their placements.

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Excess AVN52

With a long-term loss free record, both rates and premium have continued to reduce year on year in this class. With premium levels now at an historic low level, some underwriters are now questioning whether their capacity could be better deployed elsewhere. A single loss under this coverage would now likely wipe out multiple years of premium income. With these factors in mind, and in line with the wider aviation market conditions underwriters are now starting to tighten rates for this cover, albeit at a more moderate level in comparison to the other traditional aviation classes.

Hull deductible

Hull deductible, is different to the other traditional aviation classes in that it is often written 100% by just one insurer. Due to the nature of this business capacity levels are obviously much higher than in other classes but pricing remains almost entirely driven by the individual airlines loss experience and underlying level of profitability.

Have capacity levels changed?

The overall picture is that there is still a good level of capacity available in the market, but not at any cost. Competitively priced capacity is gradually being squeezed by market withdrawals, including most recently Hiscox and Ortac, as well as by reductions in line sizes and a more selective underwriting approach. In particular, the hull war class has experienced the greatest change in capacity in the past year, with around nine markets having withdrawn, due to what they determine is now an unprofitable line of business.

Merger and acquisition (M&A) activity is now also a key theme to watch. Recent announcements (AIG/Validus and AXA/XL Group) will likely lead to a reduction in available capacity, as lines get combined, but more importantly, fewer markets from whom to negotiate with. Further M&A activity, including the potential sale of Aspen, looks likely in the coming months, if market rumors are to be believed.

Looking ahead, the recent uptick in the rating trend, should keep capacity levels relatively stable, at least for the time being.

What can we expect to see for the rest of 2018?

Looking ahead, subject to no major losses and or significant market events, all indications seemingly point to the persistence of these new market conditions:

- Challenging renewal negotiations
- A further reduction in capacity levels
- Underwriters maintaining their position and pricing discipline
- Focus on the comparative burning cost of each risk and the underlying level of profit
- A gradual flattening out of rates across each coverage.

More than ever, tailored strategies, early preparation and broker experience will be key to securing the best possible renewal result.

THE 'THREE-TIER' MARKET VIEW

TIER A



Harder Softer

Typically airlines with:

- Lower liability limits/hull values
- High fleet/traffic growth
- Smaller aircraft, i.e. narrowbody

Achieving small rate reductions or 'as before' rates.

TIER B



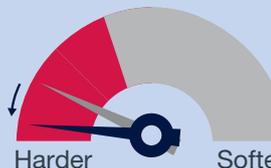
Harder Softer

Typically airlines with:

- High liability limits/hull values
- Low fleet/traffic growth
- Mixed fleets/widebody aircraft

Subject to 'as before' rates or small rate increases.

TIER C



Harder Softer

Typically airlines with:

- Poor attritional loss records
- Major loss/losses
- Adverse loss ratios

Subject to rate increases.



General aviation market update

In this feature Toby Ward, Chairman, Hayward Aviation, a trading name of JLT Specialty Limited, shares his thoughts on the general aviation (GA) insurance aviation market.

GA is one of the most dynamic and diverse segments of the aviation industry and while it is considered a separate area of business, market conditions have historically been, and remain, influenced by the results of the airline sector.

It therefore comes as no surprise, given the recent shift in market conditions for airlines, that we are now starting to experience a knock-on effect in the GA sector, albeit at a more moderate level. As the vast majority of aviation insurers participate in all sectors, they are now focussed on profitability and are pushing hard to maintain rates and grow premiums across their whole aviation book of business.

At the moment we do not see a significant increase in premium levels for business aviation and GA risks because there remains considerable over-capacity in the GA insurance sector. Underwriters continue to show a good appetite for GA risks but they have become a little more selective and they are seeking out the “better value risks”. Larger GA risks are experiencing the greatest upward pricing pressure due to their higher value and limit requirements, compared to their smaller GA counterparts.

While there remains high market capacity for the majority of GA risks, in recent months we have seen the withdrawals of Hiscox, MS Amlin and Ortac. Additionally

other insurers are believed to be reviewing the spread and depth of their underwriting activities, seeking to re-focus on areas where they feel the risk/reward ratio is more favourable.

The very nature of the business aviation and GA insurance risks, with most national insurance markets providing capacity for the smaller indigenous GA risks, makes global predictions hard to provide. Local market capacity conditions and loss records drive the country-by-country small GA insurance sector. Internationally, larger GA and business aviation risks continue to be able to shop globally, seeking out the best international terms rather than being restricted to domestic insurance providers. It is also where large brokers can apply their global knowledge and expertise to drive market conditions to their clients’ advantage.

In terms of GA losses, so far in 2018 we have witnessed a number of notable incidents. These include, among others, the loss of, three parked [AW119 helicopters](#) in Chile, a [UH-60 military helicopter](#) in Mexico, a [sightseeing EC-130 helicopter](#) in the USA and a [Turkish Challenger 604 jet](#) in Iran. Some of these losses are expected to produce significant hull and liability claims.

While overall GA safety is said to be improving, claims costs are increasing,

due to higher repair costs and growing liability compensation awards. The natural catastrophe events of 2017 which included earthquakes, fires, floods and hurricanes, also served to remind underwriters of the very real loss exposure inherent in GA business.

No market outlook can ignore Brexit! The recent announcements regarding the transition period offers companies some certainty regarding inevitable change but merely delays rather than answers many issues regarding European airspace, safety regulations, licensing and certification and operating procedures, to name a few specific issues facing European-based business and general aviation operators. From an insurance perspective however, the necessity for a global aviation insurance industry will not reduce post-Brexit.

Staying calm, while change swirls around is at the core of our insurance and risk management offer to GA businesses. So while we predict change all around, our commitment to the highest quality service and expert support to our clients has not changed.

The Hayward Aviation team will be exhibiting at EBACE in Geneva between 29-31 May, stand G100 and would be delighted to see JLT clients and other operators alike.



Aerospace infrastructure market update

The aerospace infrastructure sector is comprised of a number of different business types and models operating in different areas. In this feature we briefly explore the current state and direction of this highly diverse aviation insurance sector.

While the aerospace infrastructure sector has its own dynamics, it typically follows behind the trends of the airline market, and 2018 seems no different. We are currently experiencing a tougher environment than has been seen for sometime with underwriters specialising in this class under the same pressures from their capital providers and senior managements as their airline colleagues to maintain or increase rates. The difference compared to the airline sector is the long tail nature of liability claims. What were seemingly profitable years between 2012 and 2016 are now in fact looking like loss making years via several large losses. The individual loss for the [City of Chicago Airport](#) whereby a single passenger at the airport was awarded in excess of USD 100 million for her injuries is unprecedented and causing a concern for insurers as to whether this is the start of a new trend in award settlements. The focus of underwriters is now very much on bottom line profit than top line income levels.

As a general rule, insurers are simply not offering any form of premium reduction in this sector without significant decrease in risk exposures/loss history. Any increase in exposures needs to be reviewed in detail and as such each risk is very much rated on its own merit.

“Underwriters specialising in this class are under the same pressures from their capital providers and senior managements as their airline colleagues to maintain or increase rates.”

Capacity however remains available in abundance, particularly for those risks buying limits of USD 500 million and below, where a number of insurers can still write on a 100% basis. The airports, service providers and non-critical

products risks are where this capacity remains most readily available and as such competition amongst insurers is preventing premium increases. Lack of growth in the aviation industry as a whole is making it difficult for insurers to maintain 2017 premium levels and if the risk is particularly loss active, insurers are trying to take this as an opportunity to re-address premium levels.

The excess capacity available is preventing conditions in the aerospace infrastructure sector from being labelled as a ‘hard’ market but the environment is certainly changing and is now a very different market to the fourth quarter of 2017 and prior.

Looking ahead, the quarter dates are important in the aerospace infrastructure sector, so the results of the forthcoming April and July 2018 renewals will be very interesting and a great gauge for the rest of the year.



Loss Information

AIRLINE LOSS SUMMARY

Hull and liability

In terms of losses, 2018 has started off poorly, experiencing three fatal losses which account for some 188 fatalities. These figures come in stark contrast to the 2017 loss experience in which the airline industry recorded 47 fatalities for the entire year.

While the fatality figures for 2018 have increased, it must be noted that all three fatal losses involved turboprop aircraft and so the jet airline loss experience still remains excellent. The resultant hull claims from these fatal losses should be relatively low value due to the age/type of the aircraft involved. Indeed some of the non-fatal incidents we observed in the first quarter could end up producing hull claims of equal if not higher value to those that made news headlines, due to the newer aircraft types involved. Once again this highlights that year on year improvements in airline safety statistics do not result in an improved claims position and underwriting profits.

Hull war

While the first quarter of 2018 did not witness any hull war claims, we did observe further war related losses. In January, an attack on Mitiga airport in Tripoli resulted in gunfire damage to at least five parked aircraft. Hull war underwriters ceased writing Libyan airline business in 2014 following multiple losses in the country so fortunately this event had no financial impact upon them.

That said, these losses have highlighted the latest political situation and so hull war underwriters have now increased their “call rates” for non-Libyan carriers flying to the country. Underwriters continue to closely monitor country and regional developments around the world and this line of business remains a particular area of focus.

Q1 AIRLINE LOSSES

Sunwing Airlines	05/01/2018	0 Fatalities	B737-800 (C-FPRP)	Canada
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The aircraft was involved in a ground collision at Toronto-Pearson International Airport, Canada. During pushback the APU of the Sunwing Airlines aircraft struck the wing tip of a stationary Westjet aircraft and subsequently caught fire.

Pegasus Airlines	13/01/2018	0 Fatalities	B737-800 (TC-CPF)	Turkey
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The aircraft suffered a runway excursion after landing at Trabzon Airport, Turkey. The aircraft went off the left side of the runway and stopped on a steep downslope. The no. 2 engine broke away and fell into the sea. All occupants were safely evacuated.

Various	15/01/2018	0 Fatalities	Various	Libya
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One Afriqiyah Airways A319, two Libyan Wings A319s and two Buraq Air B737 aircraft are reported to have sustained gunfire damage following an armed militia attack on Mitiga airport, Tripoli.

Saratov Airlines	11/02/2018	71 Fatalities	An-148-100B (RA-61704)	Russia
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The aircraft disappeared from radar minutes after taking off from Domodedovo Airport. Wreckage of the plane was later found in a snowy field near Stepanovskoye, Russia. All 65 passengers and 6 crew members were killed.

Qeshm Air	16/02/2018	0 Fatalities	Fokker 100 (EP-FQF)	Iran
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The aircraft performed a forced landing at Mashhad, Iran after the left main landing gear failed to deploy. The aircraft came to rest on the side of the runway leaning on its left wing. During the recovery operation the wing was being lifted when the crane support strap broke, subsequently the wing hit the ground again, causing additional damage.

Iran Aseman Airlines	18/02/2018	66 Fatalities	ATR 72-21 (EP-ATS)	Iran
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The aircraft travelling from Tehran to Yasuj, Iran, crashed into Mount Dena, south of Isfahan. All 59 passengers and six crew perished.

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TezJet Airlines	01/03/2018	0 Fatalities	Avro RJ85 (EX-27005)	Kyrgyzstan
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The aircraft suffered an uncontained engine failure of the no.1 engine shortly after takeoff from Bishkek-Manas International Airport, Kyrgyzstan. The aircraft returned to the airport and made an emergency landing. All 96 passengers were safely evacuated.

Serve Air	04/03/2018	0 Fatalities	B737-322SF (9S-ASG)	D.R. Congo
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The cargo plane suffered a runway excursion after landing at Lubumbashi International Airport, D.R. Congo. The aircraft veered off the left side of the runway, its nose landing gear collapsed and it came to rest on the runway shoulder.

US-Bangla Airlines	12/03/2018	51 Fatalities	DHC-8-Q400 (S2-AGU)	Nepal
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The aircraft crashed on approach to Kathmandu Airport following confusion over the landing runway between pilots and the tower controller. 51 of 71 passengers and crew on board perished.

EI Al Israel Airlines / Germania	28/03/2018	0 Fatalities	Various	Israel
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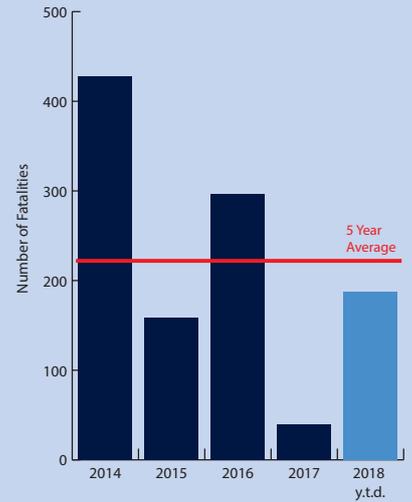
A Germania B737 was involved in a ground collision with an EI Al B767 at Tel Aviv-Ben Gurion International Airport, Israel. The Germania aircraft was being pushed back from the gate when its tail fin impacted the right hand horizontal stabilizer of the EI Al aircraft.

Aeromar	29/03/2018	0 Fatalities	Various	Mexico
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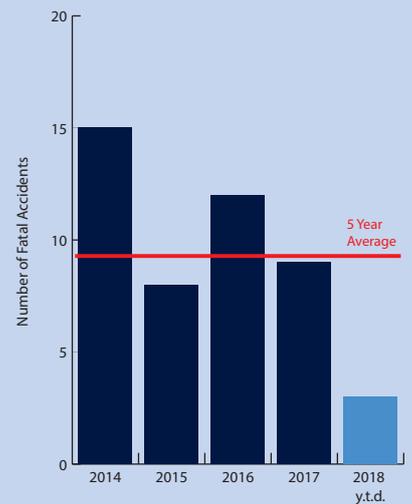
The Aeromar ATR 72-600 (XA-UYY) collided with a parked Aeromar ATR 42-500 (XA-UAV) during an engine test run at Mexico City International Airport. The left hand engine propeller of the ATR 72 impacted the tail cone and rudder of the ATR 42. Both aircraft sustained damage.

LOSS SUMMARY

5 year Airline Fatality Summary



5 Year Airline Fatal Accident Summary



**Figures are on a calendar year basis and are shown only as a guide. They include commercially operated jet or turboprop aircraft of more than 14 passenger seats or their cargo equivalent. Source: FlightGlobal.*



Industry News

AVIATION ARRIVALS & DEPARTURES

- Sampo International announced that **Ian Keegan** has been promoted to the new role of head of London Market Aerospace, Energy & Marine and will be a deputy active underwriter for Sampo International's Syndicate 5151.
- **Steven Crook** has left his position as a Senior Vice President at Marsh to join STARR Aviation as Airline Claims Manager.

Source: Publicly available information.

SAVE THE DATE - IATA RIM18 LONDON FORUM

The International Air Transport Association (IATA) Risk and Insurance Management (RIM) forum will take place 25-26 April 2018 in London.

This year's RIM Forum is unique with five global law firms, key adjusters, claims brokers, claims underwriters and emergency response experts presenting throughout the Forum. Together with communication and aircraft leasing experts, they are going to examine an invented loss from first advice to final settlement in quasi real time.

Additionally this year's event will include sessions on Sanctions (including Military cargo), the essential Legal Update Panel, EU-PTD, Cyber, the GDI and examining war related coverages. There will also be a closed airline only session.

Registration for the 2018 RIM forum is now open and further details can be found on the [IATA](#) website.

HISCOX WITHDRAWS FROM WRITING AVIATION HULL AND LIABILITY



In a press release email, Hiscox has announced their withdrawal from writing aviation Hull and Liability business. They will continue to honour all existing quotes, new or renewal.

The insurer commented that years of rate reductions and soft market conditions

had led to its decision to exit the class.

Hiscox said its appetite for aviation product recall and aviation cyber has not changed and it will continue to service the aviation industry with other products such as D&O, general liability and personal accident.

AXA TO ACQUIRE XL GROUP

[AXA](#) announced that it has entered into an agreement to acquire XL Group in a deal valued at around USD 15.3 billion.

The merger agreement has been unanimously approved by the boards of AXA and XL Group. Completion of

the transaction is subject to shareholder approval other customary closing conditions, including regulatory approvals. It is expected to take place during the second half of 2018.

AIG TO ACQUIRE VALIDUS

It was announced, that [AIG](#) is buying insurance firm Validus in an all cash deal worth around USD 5.6 billion.

The deal has been approved by the boards of both firms and is likely to close in mid-2018, subject to approval by Validus shareholders and other

customary closing conditions, including regulatory approvals.

Aside from its Bermudian-based reinsurance operation, Validus also owns Lloyd's underwriter Talbot, US insurer Western World and alternative capital manager AlphaCat.



MARKET RATINGS CHANGES

- AM Best has placed under review with developing implications the financial strength rating of 'A' (Excellent) of **Validus Re** and its subsidiaries.
- AM Best has affirmed the financial strength rating of 'A' (Excellent) of **New India**. The outlook of the rating remains stable.
- AM Best has placed the credit ratings of **XL Group** and its operating subsidiaries under review with developing implications.
- AM Best has placed the credit ratings of **AXA Insurance Group** and its operating subsidiaries under review with developing implications.
- AM Best has affirmed the financial strength rating of 'A' (Excellent) of **Hiscox** and its core subsidiaries. The outlook of the credit ratings remains stable.
- AM Best has affirmed the financial strength ratings of **Axis** and its operating subsidiaries at 'A+' (Superior) and revised the ratings outlook from stable to negative.
- S&P Global Ratings has placed its long-term ratings on **AXA Insurance Group** and its core subsidiaries on CreditWatch with negative implications.
- S&P Global Ratings has revised its ratings outlook on **Aspen Insurance** and its core subsidiaries to negative from stable.

Source: Publicly available information.

MS AMLIN WITHDRAW CAPACITY SUPPORT FOR ORTAC

In a press release email, Ortac has announced that MS Amlin have withdrawn their support as a capital provider. A 60 days' notice period will take place with the cancellation to be effective 16 April 2018.

During this notice period Ortac said it is

able to negotiate renewal terms however was unable to offer terms in respect of new business.

Ortac said it will now work to re-establish aviation underwriting capacity in Guernsey and if successful it will approach broker security committees.

IATA PREDICTS STRONG AIRLINE PROFITABILITY IN 2018

The International Air Transport Association (IATA) forecasts global industry net profit to rise to USD 38.4 billion in 2018, an improvement from the USD 34.5 billion expected net profit in 2017.

Strong demand, efficiency and reduced interest payments will help airlines improve net profitability in 2018 despite rising costs. 2018 is expected to be the fourth consecutive year of sustainable profits with a return on invested capital (9.4%) exceeding the industry's average cost of capital (7.4%).

IATA said the biggest challenge to

profitability in 2018 is rising costs, linked primarily to increases in jet fuel prices and labour costs, which have been accelerating strongly and are now a larger expense item than fuel.

All regions are expected to report improved profitability in 2018 and all regions are expected to see demand growth outpace capacity expansion. Carriers in North America continue to lead on financial performance, accounting for nearly half of the industry's total profits.

The full report is available to view on the [IATA](#) website.



LLOYD'S RELEASE ANNUAL RESULTS FOR 2017

Following one of the costliest years for natural catastrophes in the past decade, Lloyd's has announced an aggregated market loss of GBP 2 billion for 2017. This is the first time in six years Lloyd's has reported a loss.

After a number of relatively benign catastrophe years, the frequency and scale of the disasters that struck around the world in the second half of 2017 saw major claims costing the Lloyd's market GBP 4.5 billion, more than double the previous year. This significant loss activity generated an underwriting loss of GBP 3.4 billion for 2017 (2016: GBP 0.5 billion profit), resulting in a combined ratio of 114.0% (2016: 97.9%).

Full details of Lloyd's annual results can be found [here](#).

MS AMLIN STOPS WRITING GENERAL AVIATION

In a press release email, MS Amlin has announced its decision to stop writing General Aviation (GA) insurance, from its aviation box in Lloyd's, following an in-depth strategic review of its participation and performance in this market.

The insurer said it will continue to work with a small number of specialist GA binders, and that this decision does not affect any other aviation lines, which remain open for business.

The decision, which takes place with immediate effect, will allow MS Amlin to focus on other aviation classes of business and markets that support its 2018 objectives to improve underwriting performance, reduce cost, and simplify its business, the statement said.

ALLIANZ RISK BAROMETER - TOP BUSINESS RISKS FOR 2018

Business interruption (BI) and cyber incidents interlink as the major threat for companies through 2018 and beyond, according to the Allianz Risk Barometer 2018.

The 2018 report is based on the insight of more than 1,900 risk management experts from 80 countries. It identifies the top risks globally and by region, industry sector and company size.

In the Aviation, Aerospace and Defense sector, BI tops the risk list for the first time with 45% of responses, up from third (32% of responses) in 2017. The report said, with more and more new loss triggers emerging, and an increase in cyber BI incidents, BI is the top risk in a "networked society". The risk usurped market developments, which dropped to third place this year with 33% of responses.

Cyber incident was a non-mover in Aviation's risk list this year, remaining in second place with 44% of responses, up from 35% in 2017. Five years ago Cyber incident ranked 15th, however new threats such as "cyber hurricanes", increasing reputational risk and tougher data rules mean businesses and risk

experts are now more concerned than ever, the report said. "Every company has been or will be impacted by cyber risk. It is not over-hyped. If anything it is under-appreciated because the threats are not always well understood," says Emy Donovan, Global Head of Cyber at AGCS, noting that over 50% of Risk Barometer responses rank cyber as the risk most underestimated by businesses.

According to the report the top 5 risks in Aviation, Aerospace and Defense are:

1. Business interruption (BI)
2. Cyber incidents
3. Market developments
4. Changes in legislation and regulation
5. Political risks and violence

The full report is available to view on the [Allianz Global Corporate and Specialty \(AGCS\)](#) website.



JLT News

NEW AVIATION APPOINTMENTS

JLT appoints Global Practice Head of Aviation and Aviation National Specialty Leader

We are pleased to announce the following recent appointments:

Joe Trotti has joined JLT as part of its new Global Specialty leadership team and Global Specialty Executive. Based in New York, one of Joe's key roles in the leadership team will be Global Practice Head of Aviation where he will be responsible for coordinating our global aviation capabilities and accelerating their development. Joe joins JLT from AIG Europe, where he has held various senior management positions, including most

recently Head of Property and Specialty Risk and Head of UK Wholesale and previously President Global Aerospace and Marine.

Additionally **Steven Godfrey** has joined JLT Canada as Aviation National Specialty Leader, Managing Director, based in Toronto. Steven joins JLT Canada from Swiss Re, where he has held various positions over a number of years, including most recently Head of General Aviation in Canada.

DART - CYBER COVER FOR AIRLINES

JLT recently announced the launch of a new bespoke cyber insurance product developed specifically for the airline industry.

Cyber is now recognised as being one of the top business risks in the world today, however standard cyber policies do not address the specialised risks faced by airlines. Recognising this, the Data and Reliance on Technology (DART) wording has been designed with insurers to offer airlines a comprehensive solution to cyber risk. Standard form coverage includes essential elements such as incident response, business interruption

loss, cyber extortion, cyber and data breach and data restoration. Cover can also be enhanced via a number of additional policy extensions.

For further information on DART and to view our video, in which Nigel Weyman, Head of Aerospace and Sarah Stephens, Head of Cyber, discuss this new product please visit our [website](#).



JLT ASIA REGIONAL AVIATION TEAM ASSEMBLY

The fifth annual Asia team assembly took place in Hong Kong in March, attended by our aviation specialists from a number of countries throughout the region including Singapore, India, Indonesia, Taiwan, Hong Kong and Korea.

This event sees our colleagues come together to discuss market developments and explore innovative solutions to managing risk. Importantly these events provide the forum for our team to further enhance our local value proposition in order to meet our key objectives of delivering exceptional service and performance in line with our client first ethos.

SAVE THE DATE - AVIATION AND AEROSPACE US FORUM 2018

JLT Specialty USA is pleased to announce that it will be hosting its second Aviation and Aerospace Forum on 4 October 2018. The event will be held at the Steven F. Udvar-Hazy Center the Smithsonian National Air and Space Museum's annex in Virginia, USA.

The Forum will include discussions on managing aviation and aerospace risks in 2018 and beyond. It will provide delegates with insight into important developments in the aviation insurance market and provide the forum for insurance buyers, underwriters and other industry service providers to meet and discuss this highly specialist sector.

More information on the Forum and a formal agenda will be released in the coming months.

AUTHOR PROFILE



Alexandra Gedge ACII

Business Development and Captives Executive

Biography

Alexandra joined JLT in London to support JLT Insurance Management in their captive consulting and business development.

She has a background in captive consulting, working with large corporates engaging in a full spectrum of captive services, from feasibility studies and captive set ups, through to strategic reviews to increase effectiveness and helping captives to align their risk management and financing strategies with their parent company, through to captive disposal. Each captive required bespoke tailoring and solutions for their specific needs.

Key clients/project experience:

Alexandra has worked on accounts across a number of industry sectors including law, construction, real estate, manufacturing, telecoms and aviation.

Professional qualifications:

Alexandra Associate of the Chartered Insurance Institute (ACII); PGCert Captive Insurance Management.

Want to find out more?

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Aviation companies and captives: how can a captive solve your problems?

Introduction

The aviation business, with its zero tolerance to safety violations as well as potential fluctuations of market premiums, could now more than ever be in a position to consider alternatives to traditional insurance.

One of the ways of doing this is through a captive.

A captive is “a wholly owned subsidiary of a non-insurance related parent company that acts as an insurer for that parents own risks.” The parent puts up their own capital to insure their own risks with a view to building a better risk management programme and sharing in underwriting profits.

Where the aviation market has been experiencing low rates for a long time, taking dependency out of the market can smooth the increases many aviation brokers are anticipating. This can be particularly valuable where there is uncertainty over airfares as it can add more certainty to your insurance spending.

Add more value?

After the North American hurricanes last year there could be a swing in the market, with a lot of underwriters being cautious (even those who were not specifically affected). As with traditional risks, exposure to the market can be limited by retaining more risk. Further

“A captive is ‘a wholly owned subsidiary of a non-insurance related parent company that acts as an insurer for that parents own risks’.”

How can a captive...

Help your traditional risk?

By self-insuring your traditional risks, you can retain some underwriting profit in your business, as well as ensuring you are able to pay claims. Paying yourself your premium, the captive can then take charge of your attritional claims where they may arise (to avoid pound swapping with insurers) and then retain the profits in your own subsidiary.

Having a captive can help to smooth fluctuations in insurance price.

exposure to weather can be managed through access to reinsurance markets.

Where there is less appetite in the insurance market, specifically for aviation with new technologies like UAVs, these risks can be incubated in your captive. This gives a chance to build up data, and a loss record, without exposing your balance sheet to unnecessary risk.

Look after your people?

It takes a lot of people to run a company. Most large companies now operate in several companies, and organise their

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“The aviation business, with its zero tolerance to safety violations as well as potential fluctuations of market premiums, could now more than ever be in a position to consider alternatives to traditional insurance.”



◀◀ *Continued from page 14*

employee benefit programmes locally.

The considerable time and expense involved in managing this can be reduced through Multinational Pooling, allowing for benefits from economies of scale and a global good claims experience. Businesses can then build this into a captive, to benefit from further reductions in cost, as well as making sure employees have good coverage.

Look after your bottom line?

Cancellation cover, baggage insurance, travel insurance can generate huge profits for airlines, with claims that some budget airlines make as much as GBP 2.6 billion in add-ons.

By utilising a captive to offer insurance to customers, they can benefit from insurance, and companies can diversify their captives as well as generate some additional income.

One of the largest benefits to come from a captive, and particularly using one in this way, is data. By building up a picture the evidence shows where claims are coming from.

Key takeaways:

The idea of self-retaining risk is not new, and with the sector's strong stance on safety monitoring and risk management data, it is in a strong position to benefit from captive insurance.

Using our full time consulting team to offer independent advice, captive underwriters and actuaries as well as our management teams we can offer you support through the full life cycle of the captive.

“By self-insuring your traditional risks, you can retain some underwriting profit in your business, as well as ensuring you are able to pay claims.”

About JLT IM:

JLT Insurance Management (IM) has broad experience in both set up of innovative captive solutions and offering strategic consultation and captive management. We have an extensive background of working with global Aviation firms.

JLT IM provides leading corporations with Captive Management services in Barbados, Bermuda, Guernsey, Malta, Singapore and the United States.

With annual written premiums and assets of over USD 2.3 billion and USD 4.9 billion respectively, we've a proven track record in helping clients choose a fitting domicile for their Captive Insurance Company by evaluating business goals and operational issues. Over 30 of our current captives have transferred from other Captive Insurance managers. This is due to the active involvement of our highly experienced senior managers.

JLT provides insurance broking, risk management and claims consulting services to large and international companies. Our success comes from focusing on sectors where we know we can make the greatest difference - using insight, intelligence and imagination to provide expert advice and robust - often unique - solutions. We build partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

We are one of the world's leading aviation insurance brokers with a proven reputation for innovation, client-focused service and performance. Our team has a wealth of experience in this challenging, highly specialist market and are committed to delivering the very best results and tangible value for our clients.

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LET US KNOW WHAT YOU THINK

JLT is always looking to improve the services and information we provide to our readers. We value your opinion and welcome your feedback on our Plane Talking publication. Should you have any feedback please contact us at: publications@jltgroup.com

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