

# The Importance of Safety Performance in Insurance Placement

Sandy Lonsbury



08 November 2023

# Market drivers

## Hardening Reinsurance Market

### Almost all direct insurers buy reinsurance protection

Direct insurers purchase reinsurance for 4 reasons:

- To limit liability on a specific risk
- To stabilize loss experience
- To protect themselves and the insured against catastrophes
- To increase their capacity/ allow themselves to take on more risk and/or at larger limits.

### The aviation reinsurance market has been hit hard by recent losses

- Boeing MAX reserve increase (now above \$3bn, an increase of circa \$1.3bn)
- Russia/Ukraine losses (estimated at \$6-15bn)

**The largest aviation loss prior to these was WTC (9/11) at \$2.25bn**

### Aviation reinsurers have reacted

Aviation reinsurance programs renew at different dates, but so far in 2023:

- Reinsurance capacity has tightened significantly (particularly for War covers)
- Tokio Marine (a major player) has closed its aviation retro book
- Pricing is up significantly (triple-digit increases)
- Coverage is now subject to restrictions/limitations

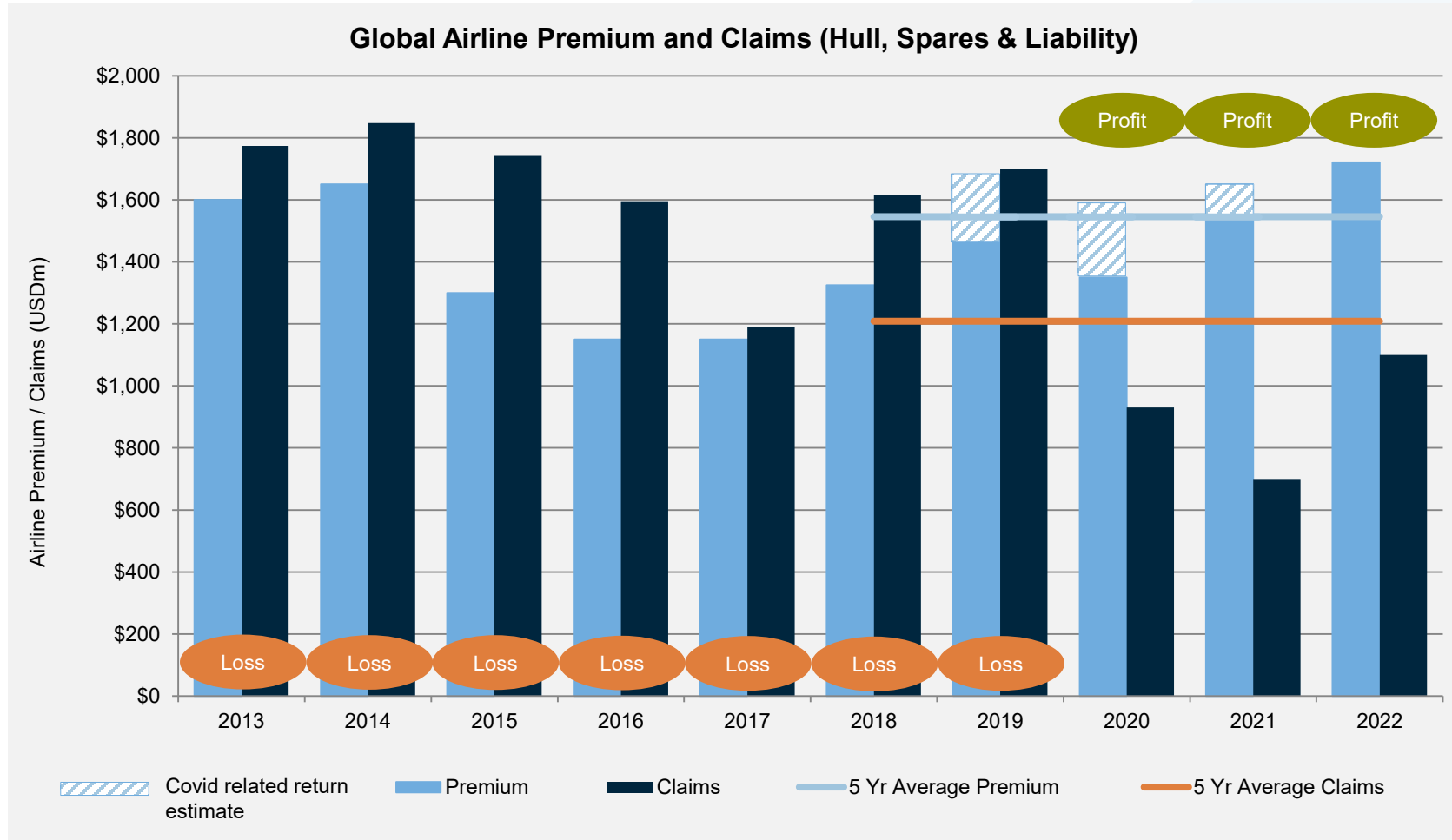
**Direct insurers are now paying more and having to retain bigger shares of loss.**

### How does this affect airline insurance pricing?

- For now, the impact on airline pricing is being stymied by an excess of direct capacity, an enduring benign loss environment in relation to the COVID impact on flying activity and generally low loss ratios given the absence of any substantial loss activity
- But with airline All Risks rates softening and reinsurance rates hardening, direct insurer profit margins are being squeezed
- Direct insurers are now under increasing pressure to react in order to achieve their target income levels and ensure their futures.

# Airline Hull, Spares & Liability Premium and Claims

## 10 Year Global Market Position



Airline claims are estimated to have exceeded premium income in 7 of the past 10 years.

Attritional losses circa 40% lower in 2020 than average due to pandemic and this has helped improve the overall market position.

5 year loss ratio has improved to circa 80% with 3 years of profit. This is however before expenses, reinsurance costs and IBNR claims are factored in.

Notes: Figures are for illustration purposes only on a calendar year basis. An estimated reserve for Boeing Max related claims is included in the figures but is subject to change. Figures do not include potential claims resulting from Russia/Ukraine. Source: Gallagher and Cirium and publicly available information.

# Current Airline Market Conditions

## Core airline coverages at a glance

Hull, Spares & Liability	Hull War	Excess AVN52	Hull Deductible
<ul style="list-style-type: none"><li>• 2023 rates reducing but exposures driving premium growth</li><li>• Results vary depending on risk profile and programme structures</li><li>• Exposure growth is key in renewal negotiations</li><li>• Excess capacity and underwriting appetite for 'profitable' risks</li><li>• Sanctions and coverage challenges persist.</li></ul>	<ul style="list-style-type: none"><li>• Recent events in Sudan have further added to the perceived risk of this cover</li><li>• Rates still under pressure with large increases being applied to all renewals</li><li>• Heightened focus around geographic exposure, routes and accumulation</li><li>• Coverage restrictions and limitations being applied</li><li>• Reduced appetite for this business.</li></ul>	<ul style="list-style-type: none"><li>• Written by Hull War insurers so pricing follows the War market</li><li>• Rates still under pressure with large increases being applied to all renewals</li><li>• Capacity levels and appetite has reduced significantly</li><li>• Heightened focus around geographic exposure, routes and accumulation</li><li>• Coverage restrictions and limitations being applied.</li></ul>	<ul style="list-style-type: none"><li>• This cover is difficult to report on in general terms</li><li>• Premium levels are highly influenced by individual airline loss levels</li><li>• Generally written 100% by one insurer</li><li>• Capacity remains sufficient with a number of markets and options available</li><li>• Double deductible options becoming more common.</li></ul>

Recent events have put Insurers under pressure and the market remains a challenging marketplace.

# Looking Ahead

## Future Considerations for Insurance Buyers

### Start your renewal process earlier

Allocate time with your broker to prepare the right strategy and information ahead of your renewal. Having sufficient time to engage with the market early will be beneficial to achieving the best renewal outcome.

### Consider the options

Take time to consider all strategies and options proposed by your broker. Review your buying requirements and consider additional solutions i.e. pandemic cover, business interruption, cyber etc.



### Present the right information

Be sure to address any changes in routes, aircraft use, operations etc. and evidence your safety credentials. **The right information can help positively differentiate your operation.**

Highlighting your ESG credentials can also help unlock added capacity options.

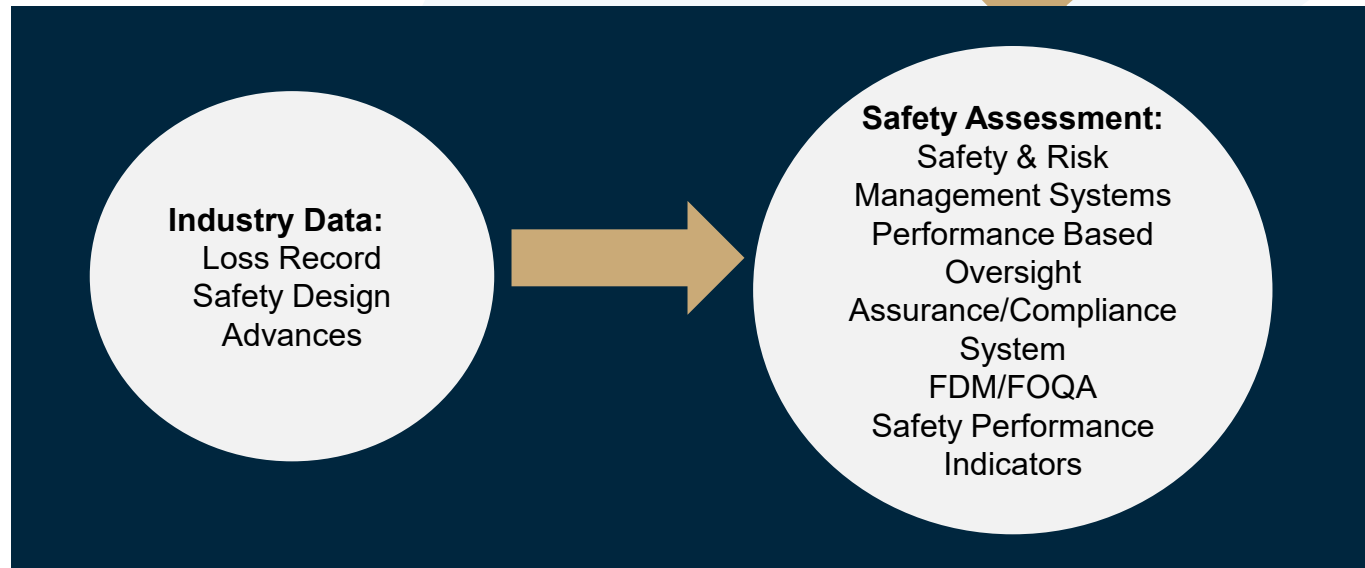
### Lock-in early

Prudent clients should seek to 'lock in' competitive terms early with uncertainty surrounding future trending.

# Operator Renewal Process

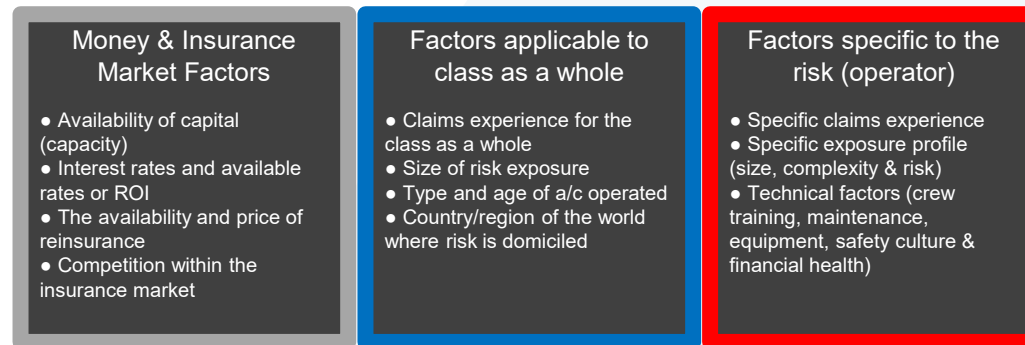


*Increasingly underwriters are linking risk management and safety performance capability of clients to set the terms and conditions of the policy.*



# Insurance Risk Factors Specific to the Operator

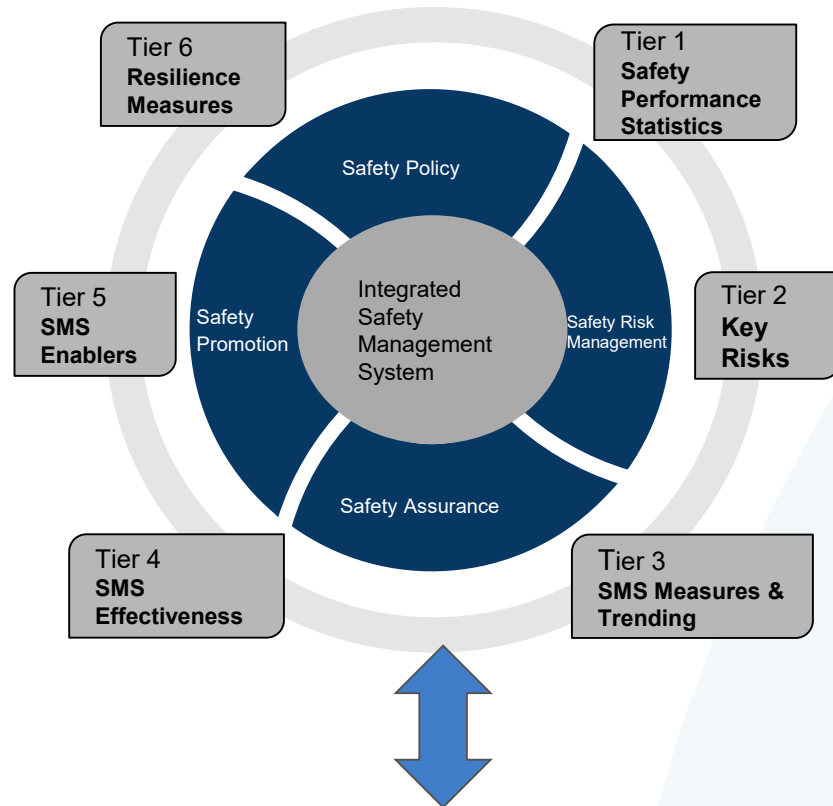
There are many factors which can affect the price that an airline pays for insurance. There are a number of factors which are inside (operational risk management and claims) and others completely outside (market factors) the airline's control but which can have a major impact on the cost of insurance. Factors that can impact insurance rates include:



Operator needs to provide to the underwriter a clear understanding of the factors specific to the operator's intrinsic risk profile and its safety management system.

# ISAT® Safety Performance Assessment

ISAT



**Business Risk Profile Index**  
Operations/Fleet/Country/Accident Assessment Factors

## 6-Tier Safety Performance Model

*Tier 1: Safety Performance Statistics*

*Tier 2: Operator Safety Key Risks*

*Tier 3: SMS Measures and Trending*

*Tier 4: SMS Effectiveness Evaluation*

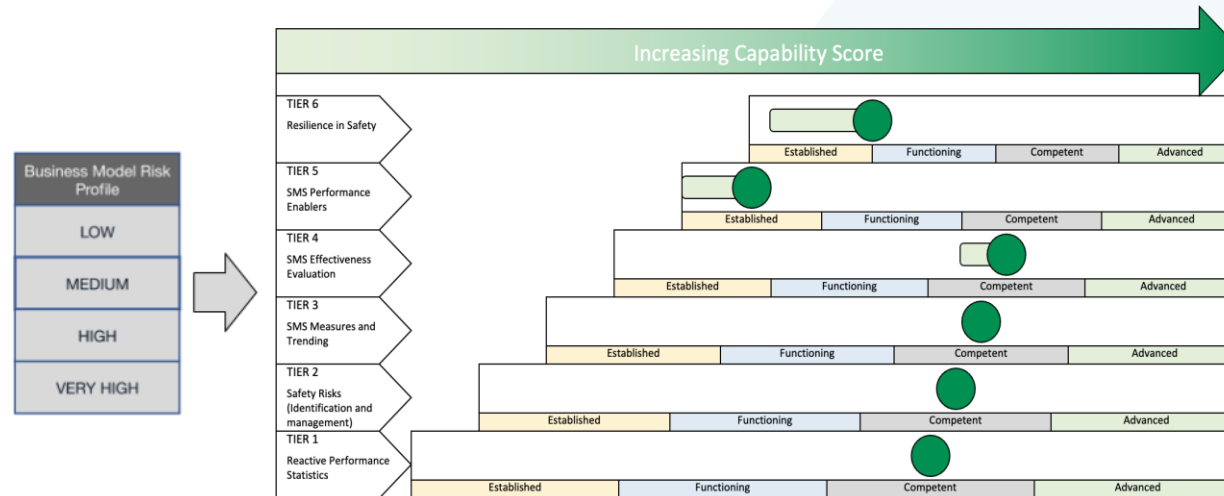
*Tier 5: SMS Performance Enablers*

*Tier 6: Resilience in Safety*

ISAT score will be calibrated against the size, nature and complexity of the operational business model.



- The objective of the ISAT tool is to assess the level of SMS capability in relation to the operating risk profile. A higher score means an increased expectation of SMS capability.



- The output of the ISAT model is the Capability Scoring Table which provides the overall capability scoring, confidence banding and supports identification of areas of good performance and areas of recommended focus within the tiers. (Example score in diagram)

# SMS Implementation

## Levels of SMS Implementation

### Established

- Defined and established
- Capability and procedures exist but further implementation and/or effectiveness

### Functioning

- Fully Implemented & Operational
- Capability and functionality adequate to operating risk exposure

### Competent

- Proactive, systematic and explicitly integrated functionality
- Elements of leading and lagging safety performance

### Advanced

- Continuous improvement and operational excellence
- Proactive, anticipatory and adaptive managerial capability

## Market Contribution to Safety

- Underwriters and clients share risk so relevant measures to manage and reduce it to an acceptable level will positively influence policy conditions
- Operators also want the opportunity to link their safety program to their renewal premiums and benefit from their safety capability in addition to their safety performance;
- Most insurers are now looking at claims on a long-term basis, typically based on rolling ten or five year numbers, and so it is important to provide the insurance community with clarity of operator SMS effectiveness as well as accounting for safety innovation and initiatives specific to the operator to reduce risk exposure.
- Underwriters are increasingly seeking a clear risk picture of operators to support differentiation and pricing of policy.