



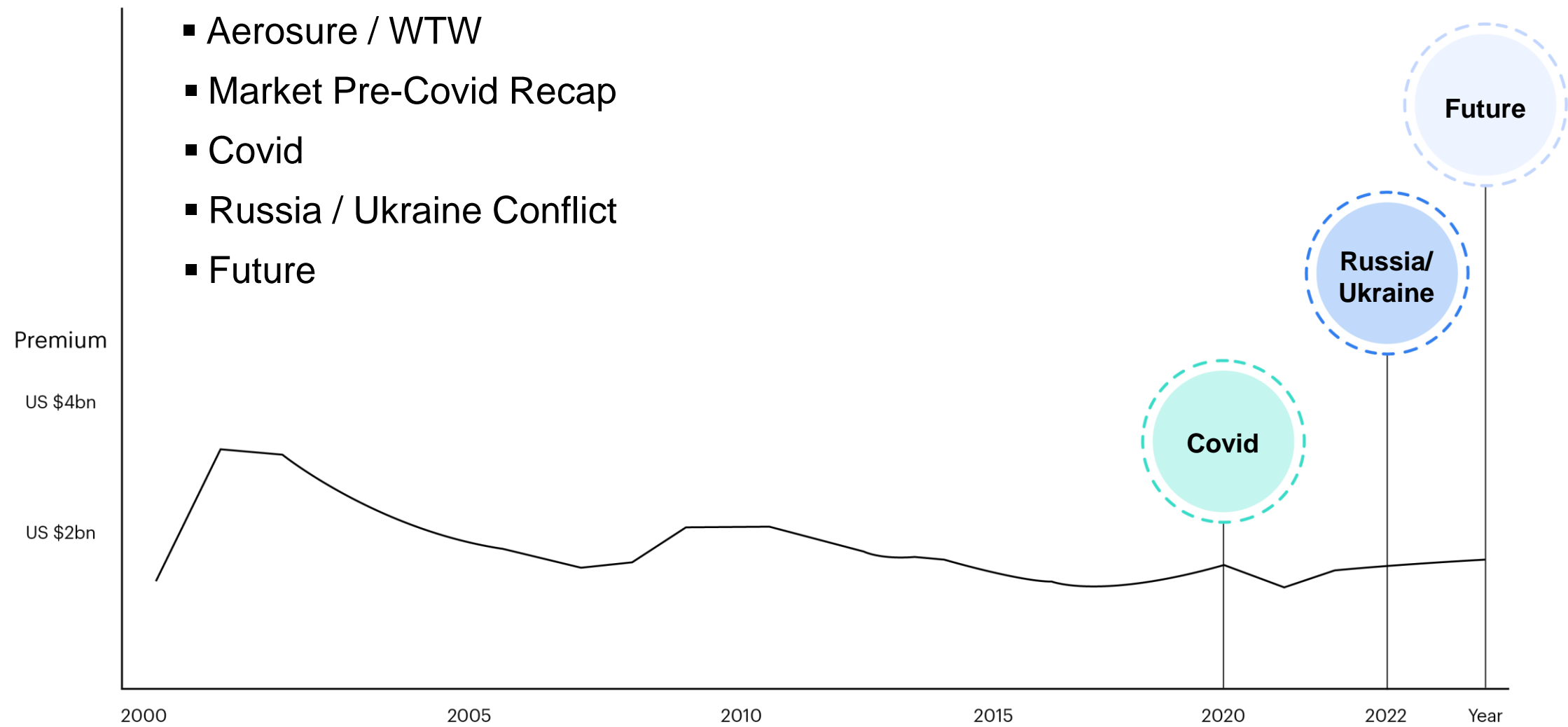
ASPA

74th General Session Global Insurance Market Update

September 2022

Aerosure
A WTW Company

Introduction



Aerosure – A WTW Company



Origins back to 1828



45,000 employees in more than 140 countries



World's leading aviation insurance broking and risk management provider

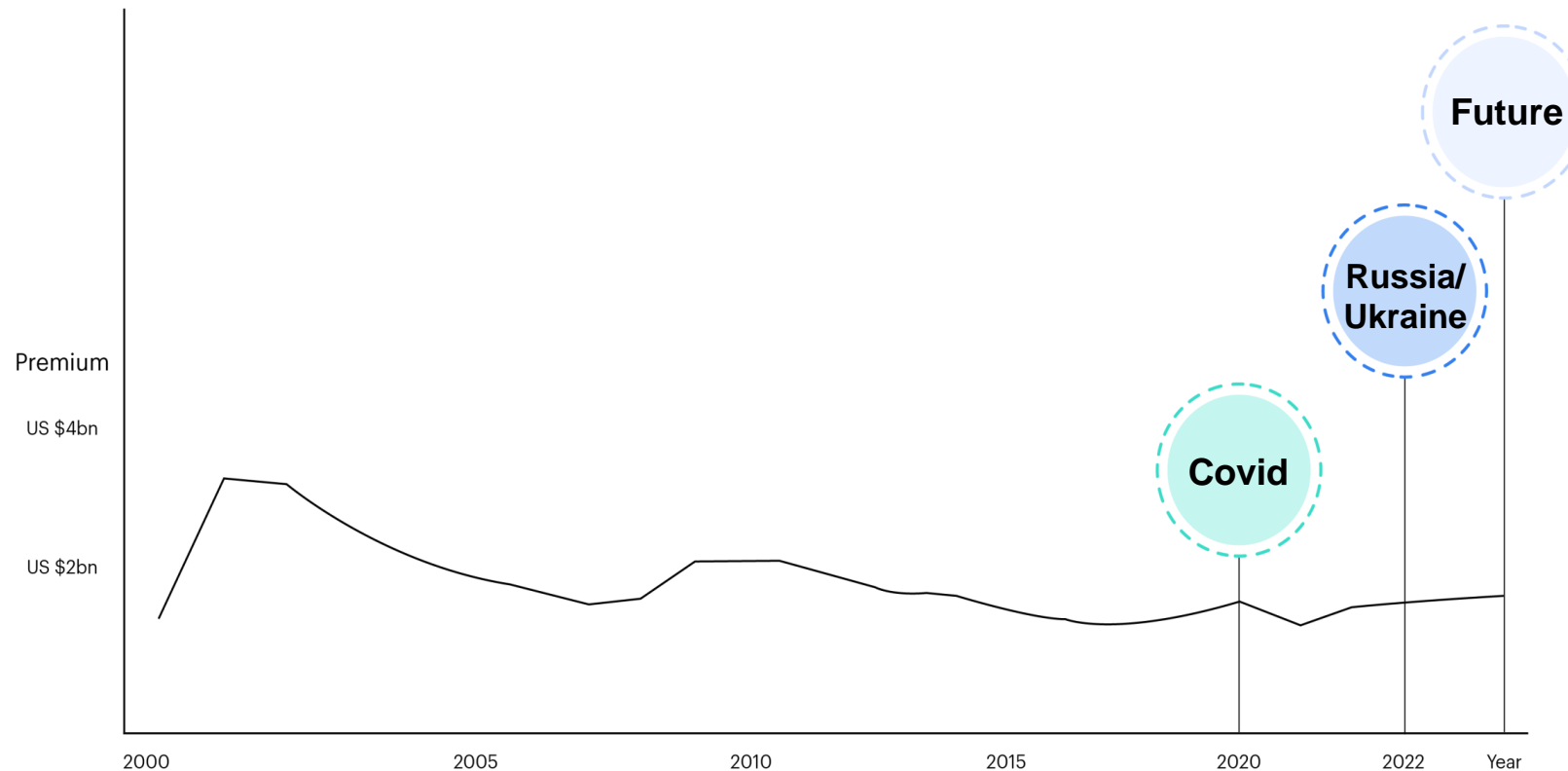


Serving more than 5,500 clients, including

- 300+ Airlines
- 200+ Airport and Airport Related Service Providers
- 150 Manufacturers
- 150+ Rotor Wing Operators
- 40 Space Organisations

Market Recap - Pre COVID-19

- Premium Increases
- Capacity Reductions
- Focus on Profitability

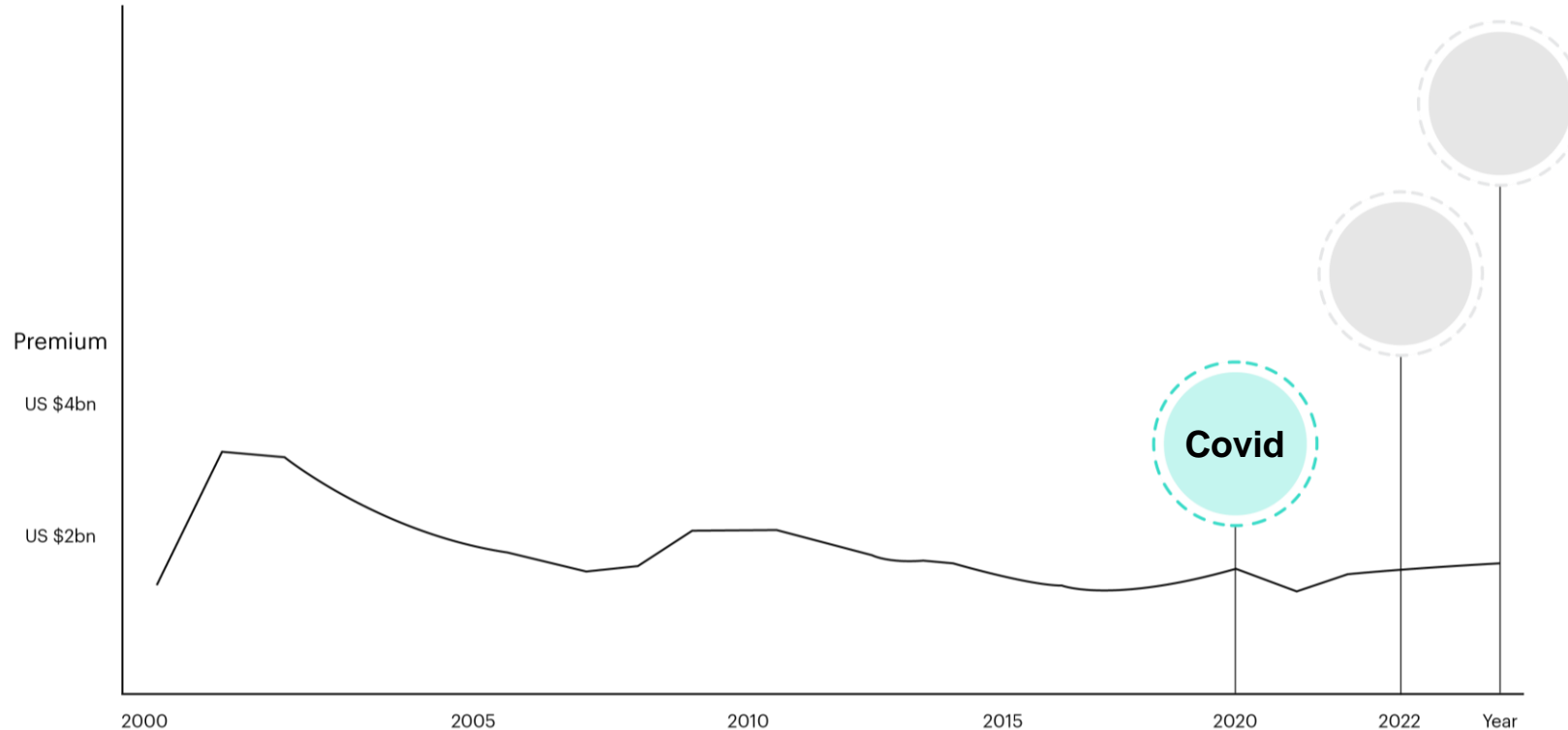


Historical soft market conditions hardened

- 16 year downward cycle trend in rates & premium began correction in 2018/2019
- Long period of reducing rates combined with increasing costs of attritional claims had negatively impacted insurers' loss ratios
- Significant aerospace losses sustained in prior years including losses from occurrence and non-occurrence liability coverage
- Market capacity reductions – withdrawals / M&A activity

Market Recap - COVID-19

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Refresh

- Operational exposures – minimum / non-existent - Rates were still increasing!
- Covid uncertainty impacting the market – fear of the unknown
- Capacity deployment playing its part
- Years of unprofitability still the main driving factor
- Global HSL premium pool - US\$1.2Bn to \$1.6Bn
- Connectivity with both markets and clients paramount - the role of the broker as the “Glue to bind” all parties was never been more important (the world of virtual partnerships!)
- Rate increasing 25% - 40% (**Pacific pricing plus 5%**)

Close of 2021

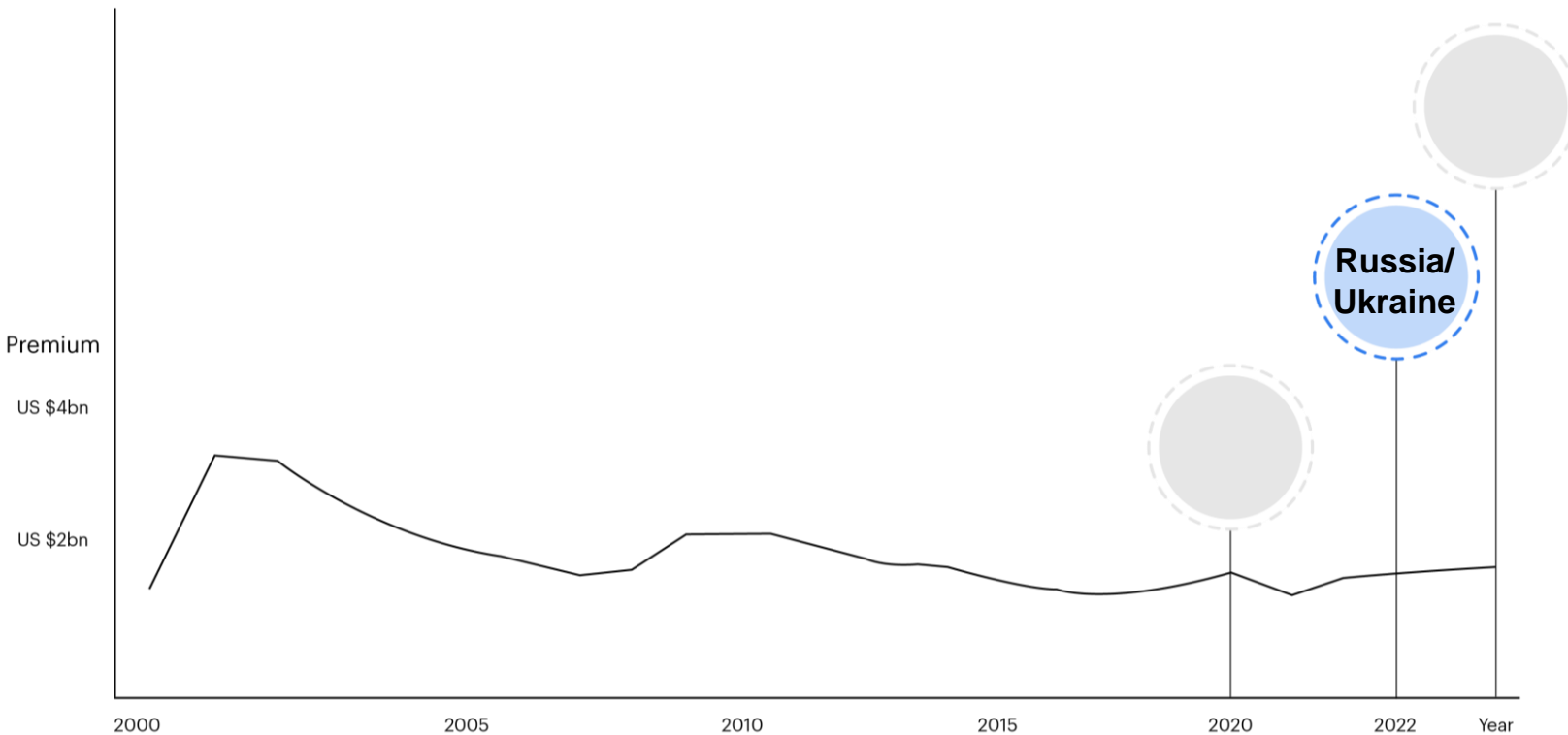
- Signs that we have reached the top of the insurance market cycle
- Rate increases started to level off
- Low claims activity
- Green shoots starting to show in terms of increased available insurer capacity

Russia / Ukraine Conflict

Nice aircraft.....we will take it



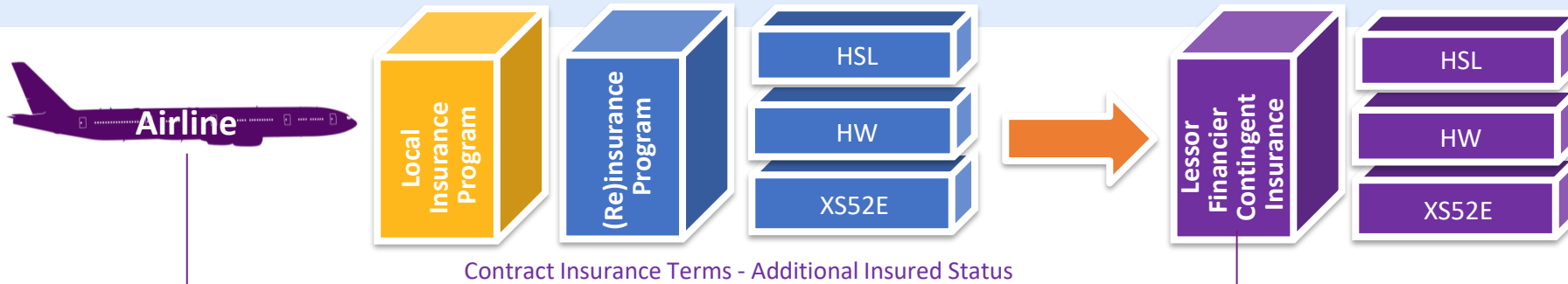
Russia / Ukraine Conflict



Impact

- Sanctions imposed – broad and ill-defined
- No longer possible to insure or lease aircraft to Russia
- Financiers began repossession efforts
- Some aircraft were successfully retrieved however 400 – 500 still remain
- Confiscation/seizure claims triggered

Russia / Ukraine Conflict



Conflict Exposure Events

Aircraft grounded in Ukraine damaged or destroyed: effectively a Hull War event (LSW555D)

Aircraft suffers non-conflict hull damage in Russia (e.g. heavy landing or bird-strike)

Aircraft overflying Russia forced to land in Russia due to in-flight technical issue or emergency

Airline lessee refuses to allow lessor/financier to repossess aircraft asset - loss of access

Russian government nationalises Russian airline(s) - asset loss through confiscation

Sanctions

- On Russia, Ukraine, Crimea & Belarus - airlines, owners, SDNs | potential Russian nexus.
- Illegal for re/insurers to provide cover for sanctioned risk exposure
- Insurers' & OEMs' inability to support aircraft event/accident in event sanctions applicable.

Notice of Cancellation (Russian nexus)

- To remove cover for Russia, Ukraine, Crimea & Belarus exposure.
- Reliant on AVN111(R) - Sanctions & Embargo Clause.
- Insurers' initial written advisory that sanctions likely disable cover for Russian nexus; amendment possibly forthcoming.

Existing / Past Russian Program Security

- If your program currently (or formerly) includes Russian insurers, they will not now be able to pay any claims or receive or pay due premium



H&L Policy

- Aircraft Damage
- Accident

HW Policy

- Attack
- Malicious Act
- Terrorism Event

Contingent HL Policy

- Main program failure
- Cover loss - Sanctions

Contingent HW Policy

- Main program failure
- No Aircraft Access
- Repo / Seizure
- Nationalisation

Claims

- Main program loss of cover
- Contingent policy becomes primary responder to cover
- Contingent insurers not sanctioned as claimants have no Russian nexus
- Non-war damage & liability

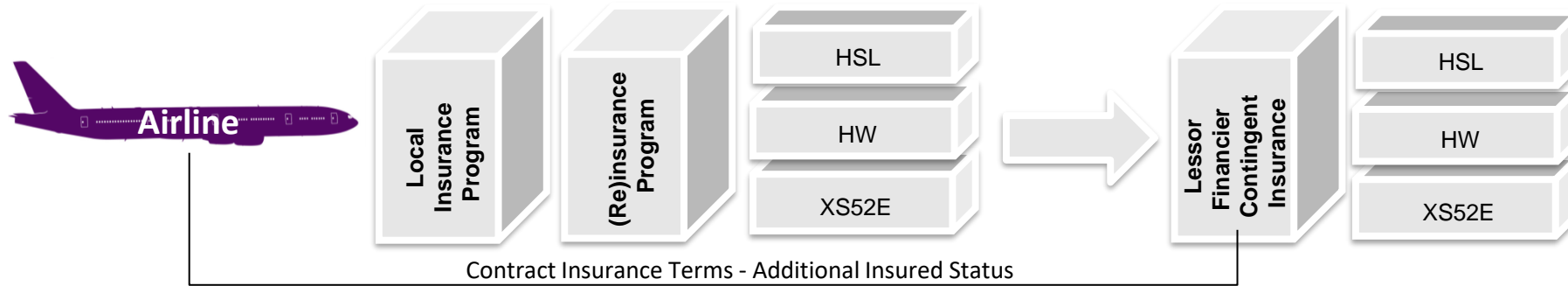
Claims

- Aircraft damage due to conflict
- Loss of access to asset(s)
- Confiscation of assets

Claim Cost Potential

- 500+ lease/financed aircraft in Russia
- Approximate total value US\$20bn

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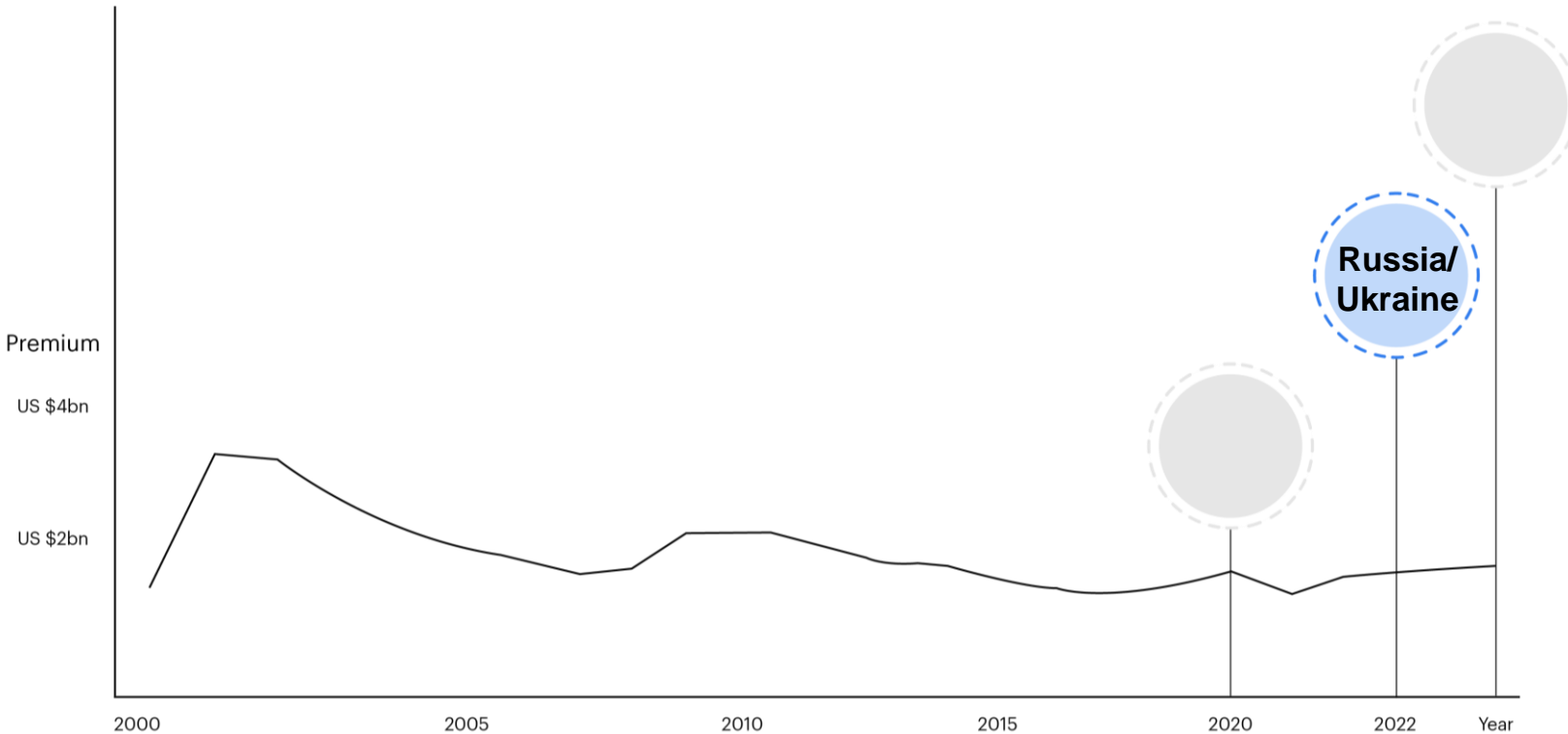
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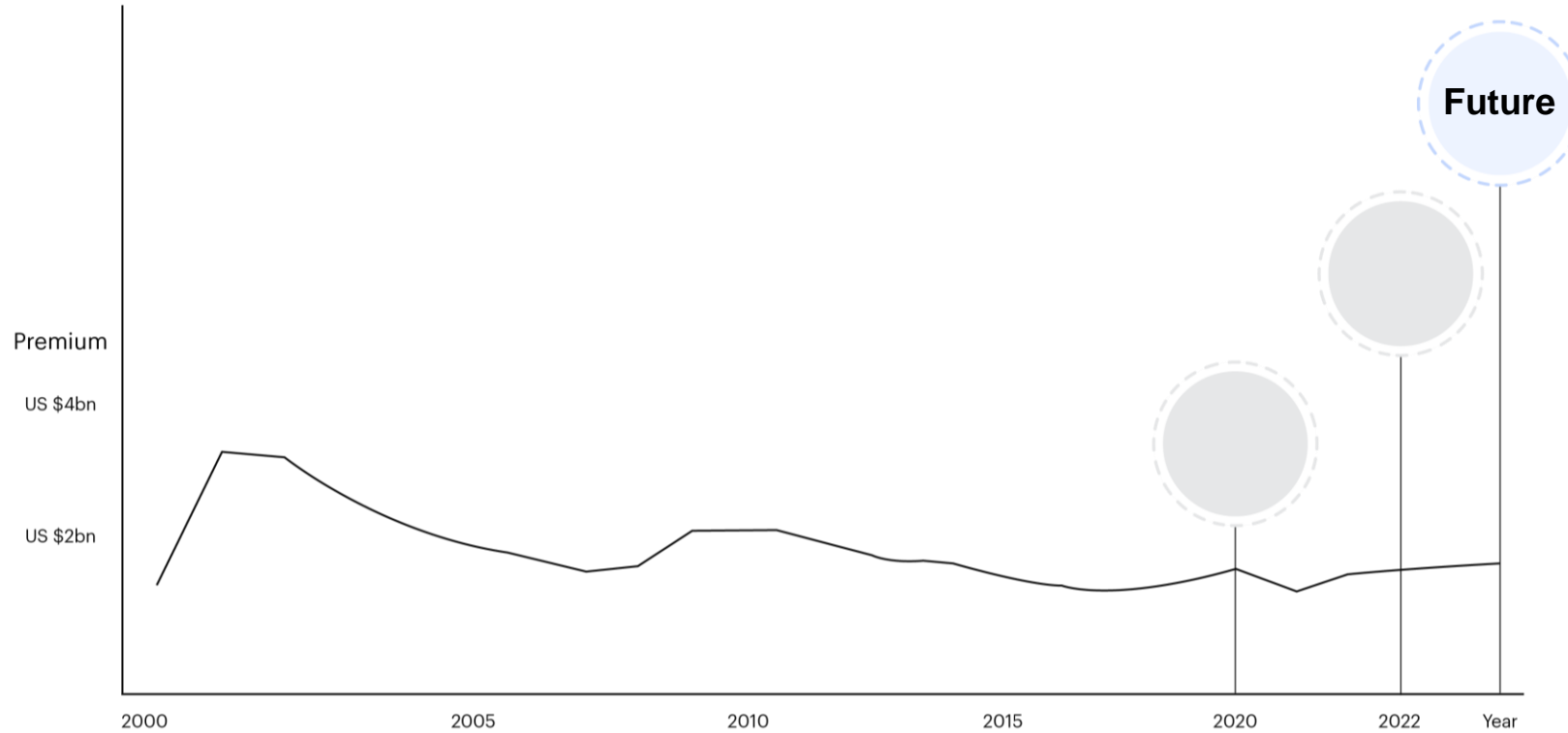
Potential Claims

- Multiple claims being pursued
- Our current base case is circa US\$10BN
- Doomsday scenario is circa US\$20BN
- Legal action in play
- Potential quantum of the loss is somewhere from significant to market changing – loss estimate is significantly greater than 9/11
- Ukraine direct hull war losses – US\$500M++??

Market Reaction

- Capacity withdrawn
- Coverage curtailed
- Reinsurance coverage & pricing impact
- Scale of potential losses will mean this loss would need to be “mutualised” amongst the wider global aviation portfolio, therefore all aviation premiums will inevitably increase
- Price implications

The Future



Key industry challenges

- Safety
- Risk Management
- Pilot training / experience
- Match fitness
- Supply chain / labour shortages
- Geo-political
- Financial / operational recovery

Insurance focus

- Timely and specialised renewal strategy
- Connectivity with the market – constant!
- Accurate and concise information provided by Airlines remains crucial
- Leverage in the market including ASPA remains paramount
- Personal representation / Tripartite relationships



Save the Date | WTW Aviation Conference

Le Méridien Phuket Beach Resort - Thailand

21-24 March 2023

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