

AIRLINE INSURANCE MARKET OVERVIEW

Q1 2019

GENERAL INSURANCE MARKET

WHAT IS HAPPENING IN THE GLOBAL INSURANCE MARKET?



2017 insured catastrophe losses were substantial



With around USD 150 billion of insured catastrophe losses, 2017 was a record-breaking loss year.



Losses wiped-out annual profits for many insurers and led to some substantial losses for 2017/18.

Losses halted the long term downwards trend and soft market



Insurers under strong pressure to harden pricing across all lines and focus on profitability.



In aviation rates began to flatten and 2018 saw upwards pressure with rates increasing.

What happened in 2018?



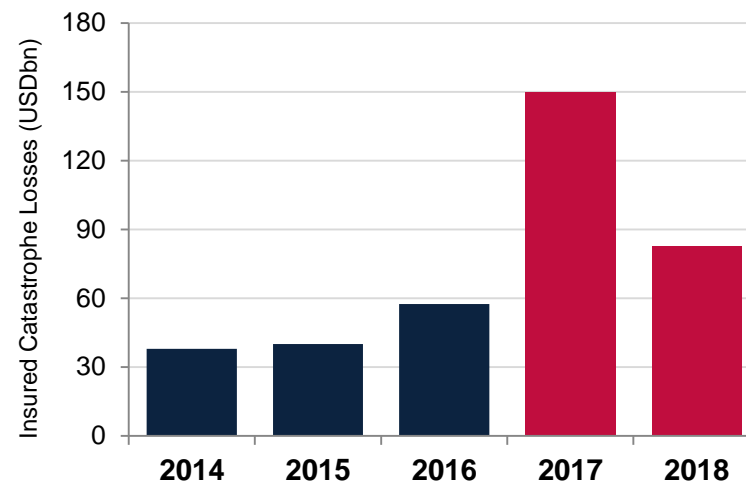
Insured catastrophe losses for 2018 are estimated at over USD 80 billion.



Many insurers suffered a second consecutive loss making year.

GLOBAL CATASTROPHE LOSSES

(Global Insured Inflation-Adjusted Catastrophe Losses)



Together, 2017 and 2018 represent the costliest two-year period ever for insured catastrophe losses (estimated at USD 230 billion).

Following continued losses, insurers have underlined their aspirations for further rate improvements in 2019.

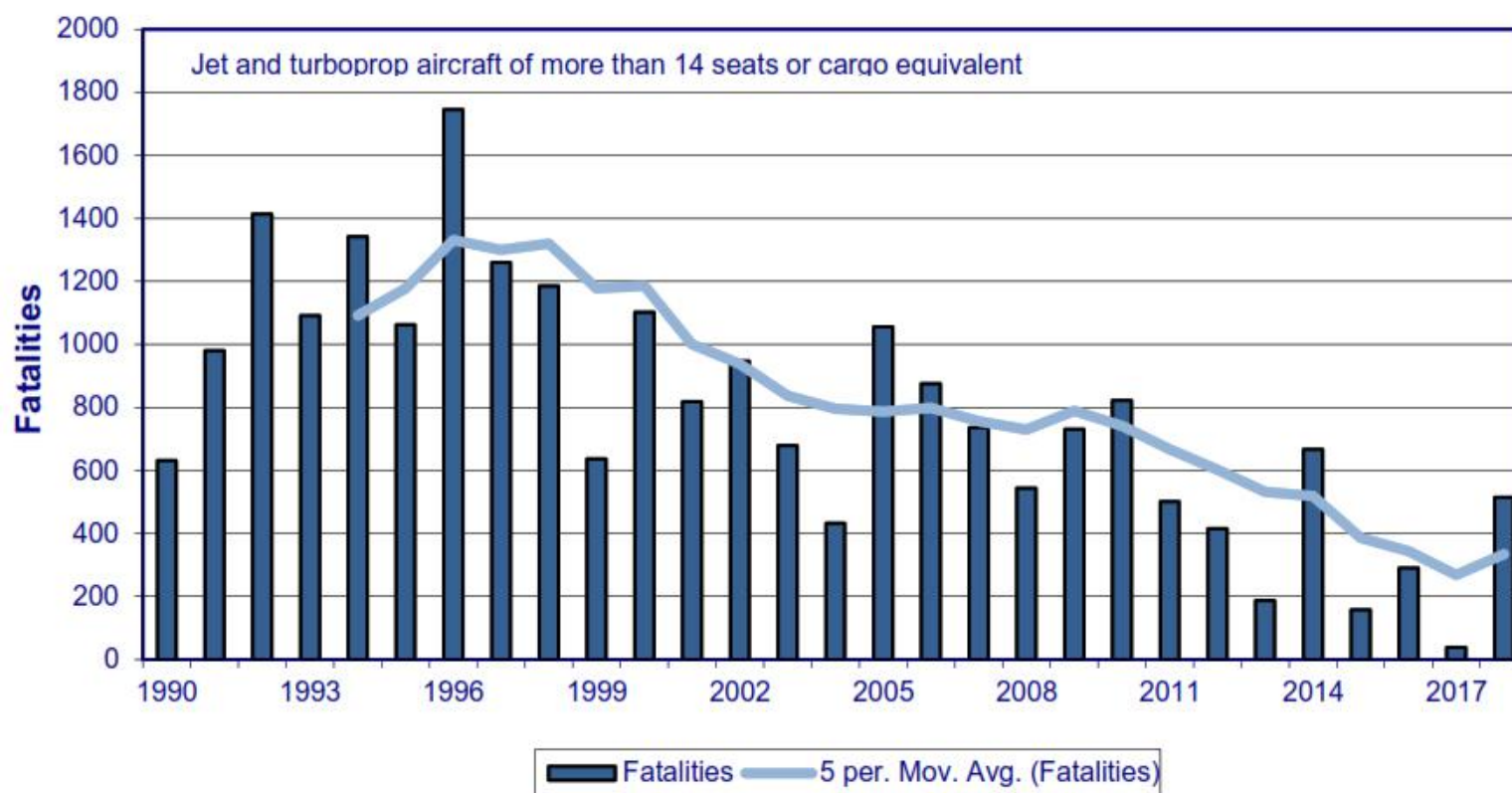
Source: JLT Re analytics and publicly available information, figures are for indication purposes only.

AIRLINE SAFETY AND LOSSES

2018 REVIEW



Airline Annual Passenger and Crew Fatalities
(Excludes Acts of Violence)



Source: FlightGlobal.

AIRLINE SAFETY AND LOSSES

2018 REVIEW



Western-Built Jets

Annual Fatal Accidents (western-built jets) – 2009 - 2018										
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fatal Accidents	9	8	5	3	5	3	0	5	1	5

Fatal Accidents (western-built jets) – Decade Averages					
Period	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2009	2010 - 2018
Annual Average	12.1	10.5	10.5	7.7	3.9

Source: FlightGlobal.

AIRLINE SAFETY AND LOSSES

2018 REVIEW



Western-Built Jets

Cost of Major Hull Losses \$m (western-built jets) – Decade Averages					
Period	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2009	2010 - 2018
Annual Average Total Losses	121.0	194.2	415.6	351.6	288.4
Annual Average Major Partial	31.1	92.6	202.1	227.6	279.1
All (including spares)	152.1	286.8	617.7	580.7	597.4

Source: FlightGlobal.

AIRLINE SAFETY AND LOSSES

2018 REVIEW



Western-Built Turboprops

Annual Fatal Accidents (western-built turboprops) – 2009 - 2018										
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fatal Accidents	8	10	9	5	12	8	5	4	3	2

Fatal Accidents (Western-Built Turboprops) – Decade Averages					
Period	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2009	2010 - 2018
Annual Average	15.8	15.1	17.6	9.8	6.4

Source: FlightGlobal.

AIRLINE SAFETY AND LOSSES

2018 REVIEW



Western-Built Turboprops

Cost of Major Hull Losses \$m (Western-Built Turboprops) – Decade Averages					
Period	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2009	2010 - 2018
Annual Average Total Losses	24.9	48.8	70.8	56.9	71.1
Annual Average Major Partial	2.9	11.1	25.7	22.3	27.2
All (including spares)	27.8	59.9	96.5	79.2	99.1

Source: FlightGlobal.

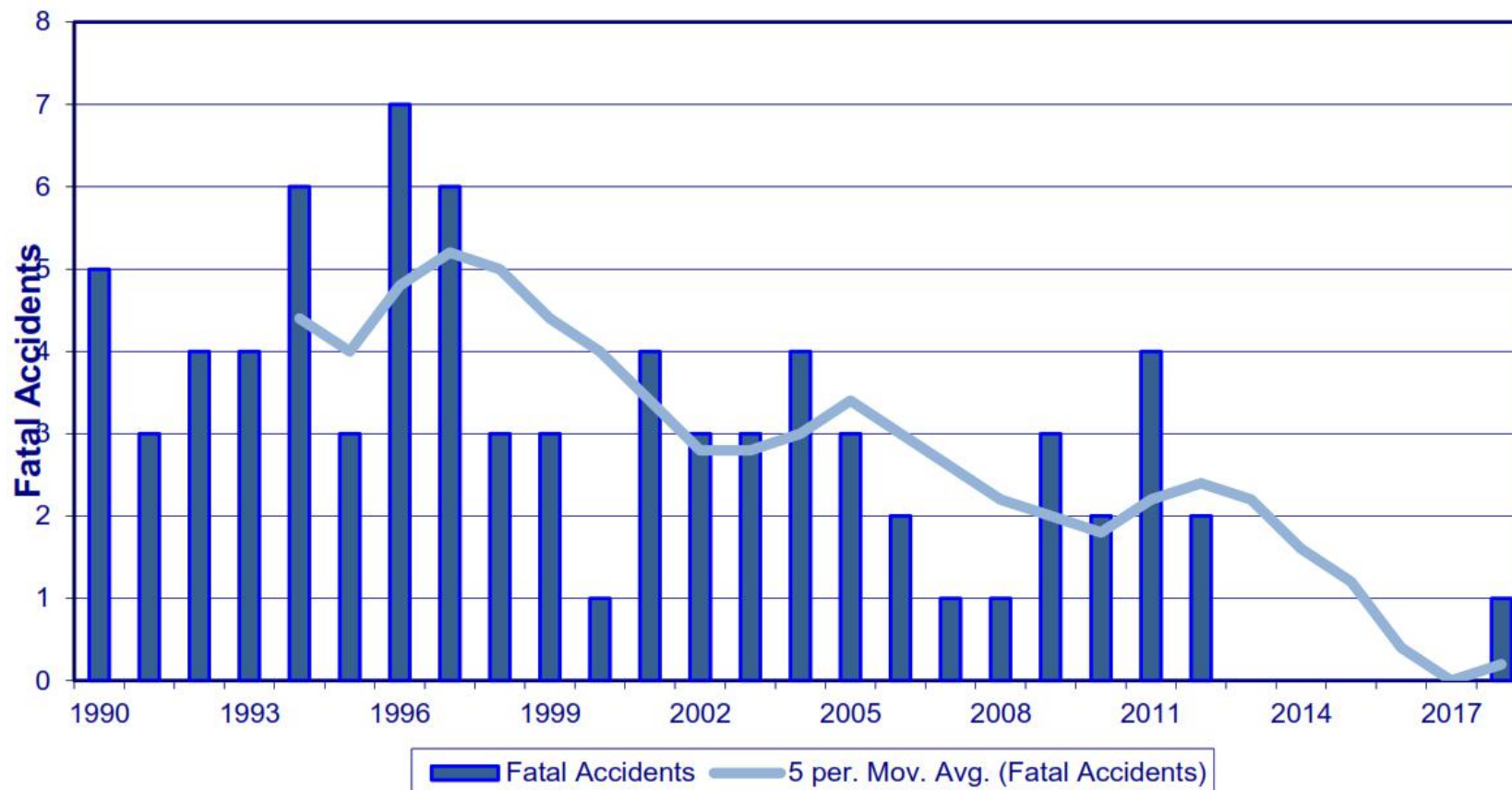
AIRLINE SAFETY AND LOSSES

2018 REVIEW



Annual Fatal Accidents - Eastern-Built Jets

(Excludes Acts of Violence)



Source: FlightGlobal.

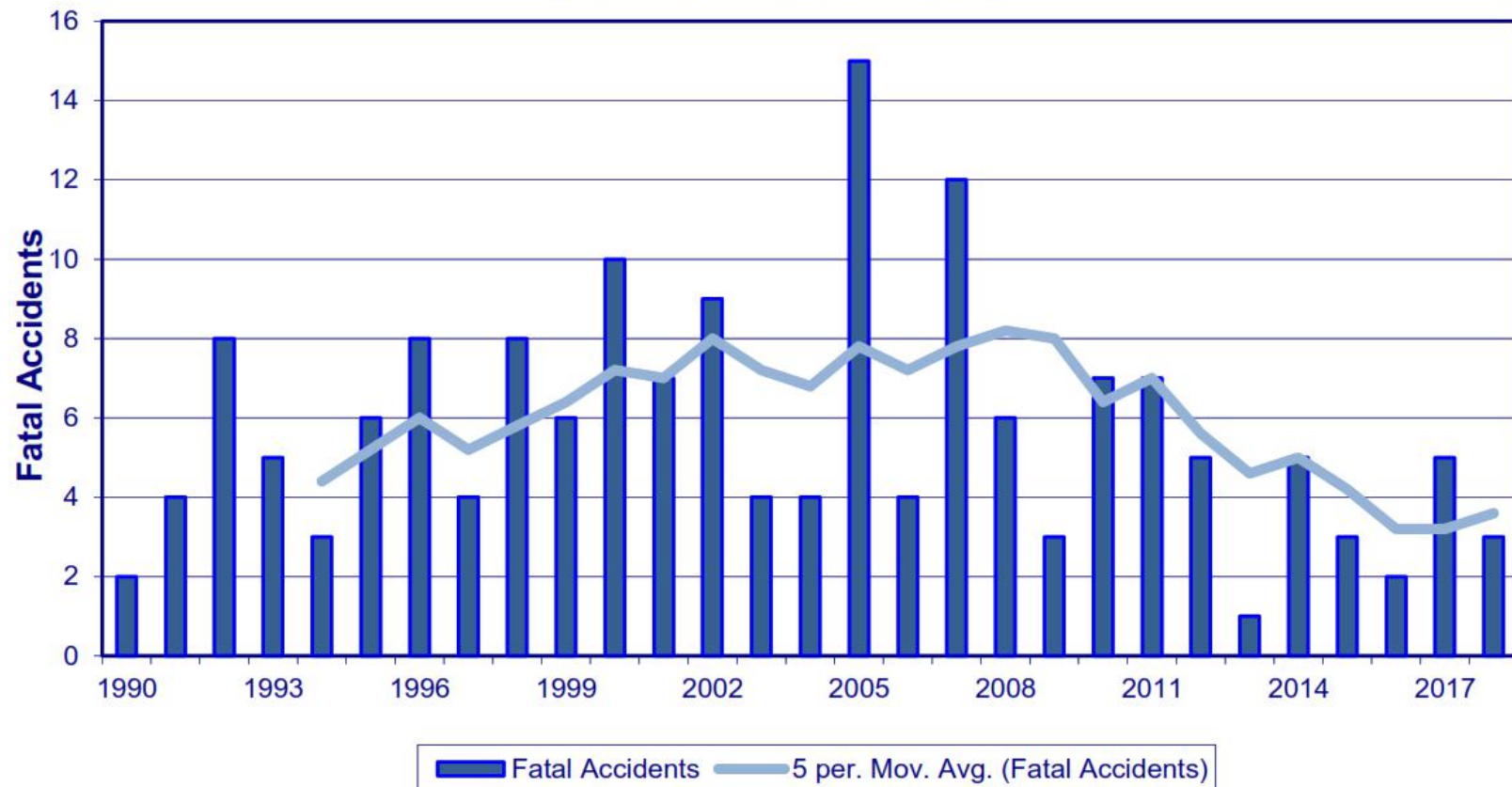
AIRLINE SAFETY AND LOSSES

2018 REVIEW



Annual Fatal Accidents - Eastern-Built Turboprops

(Excludes Acts of Violence)



Source: FlightGlobal.

FATAL AIRLINE LOSSES

2018 HULL & LIABILITY



2018 FATAL AIRLINE LOSSES

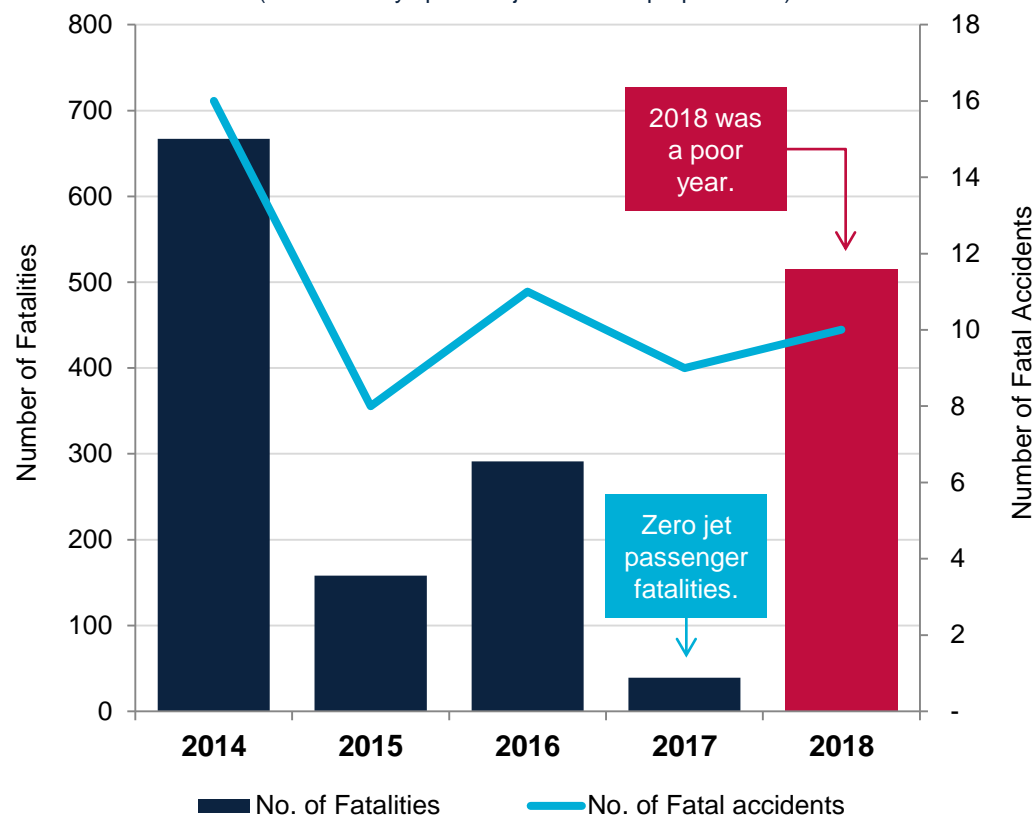
Loss Date	Operator	Aircraft Type	Fatalities
11/02/18	Saratov Airlines	AN-148-100B	71
18/02/18	Iran Aseman Airlines	ATR 72-212	66
12/03/18	US-Bangla Airlines	DHC-8-Q400	51
17/04/18	Southwest Airlines	B737-700	1
18/05/18	Global Air/Cubana	B737-200	112
24/06/18	Eagle Air	L-410 UVP	4
09/09/18	Slaver Company	L-410 UVP	20
28/09/18	Air Niugini	B737-800	1
29/10/18	Lion Air	B737 Max 8	188
09/11/18	Fly Jamaica Airways	B757-200	1

Ten fatal airline losses in 2018 which accounted for some 515 fatalities.

The number of fatalities recorded for 2018 was the highest since 2014.

AIRLINE FATAL ACCIDENTS VS. FATALITIES

(commercially operated jet and turboprop aircraft*)



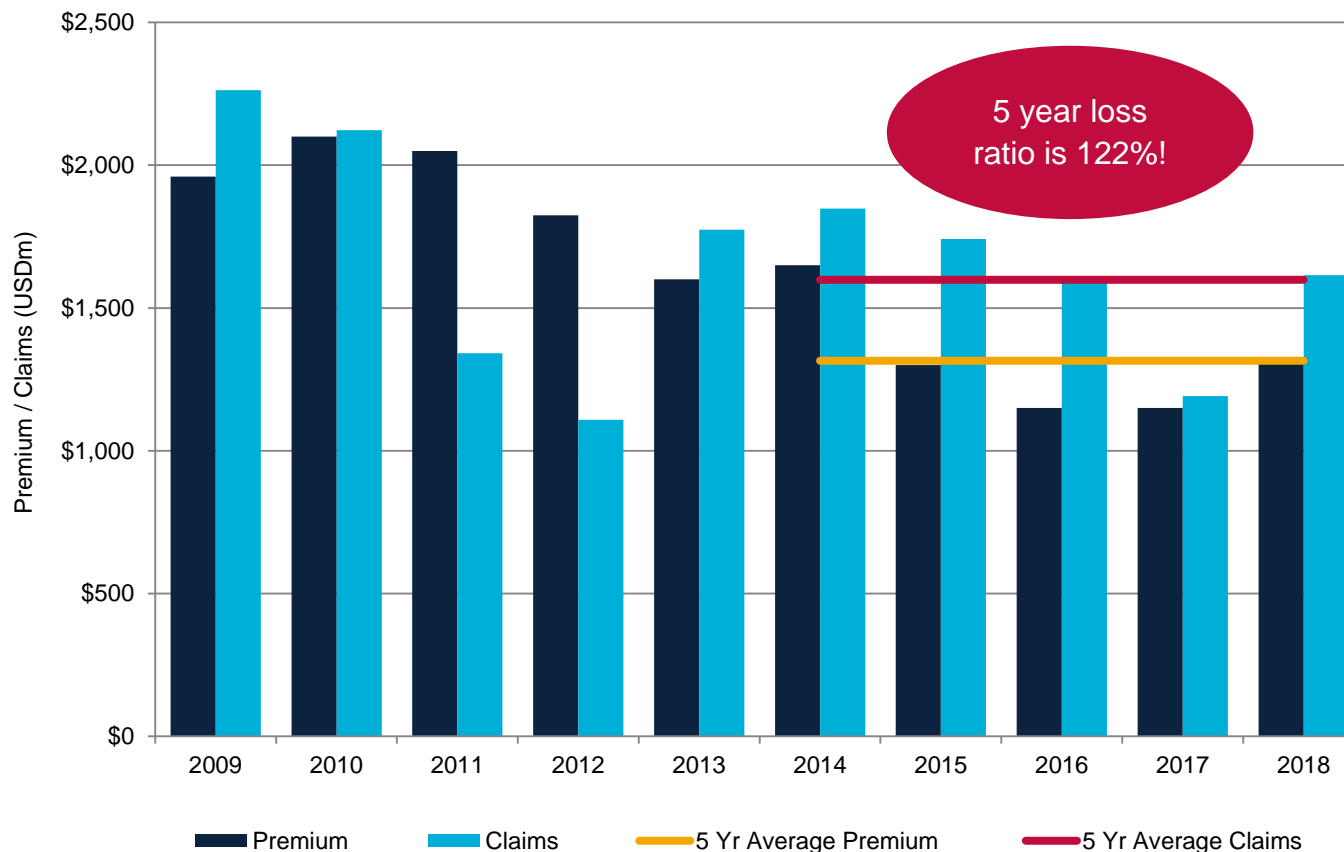
*Figures are on a calendar year basis and are shown only as a guide. They include commercially operated jet or turboprop aircraft of more than 14 passenger seats or their cargo equivalent and exclude operations by piston engine aircraft, helicopters or smaller jet or turboprop aircraft. Source: FlightGlobal and JLT data.

AIRLINE HULL & LIABILITY PREMIUM & CLAIMS

10 YEAR GLOBAL MARKET POSITION



GLOBAL AIRLINE PREMIUM AND CLAIMS (HULL & LIABILITY)



Despite few major airline catastrophes, attritional losses remain frequent and continue to erode premiums.

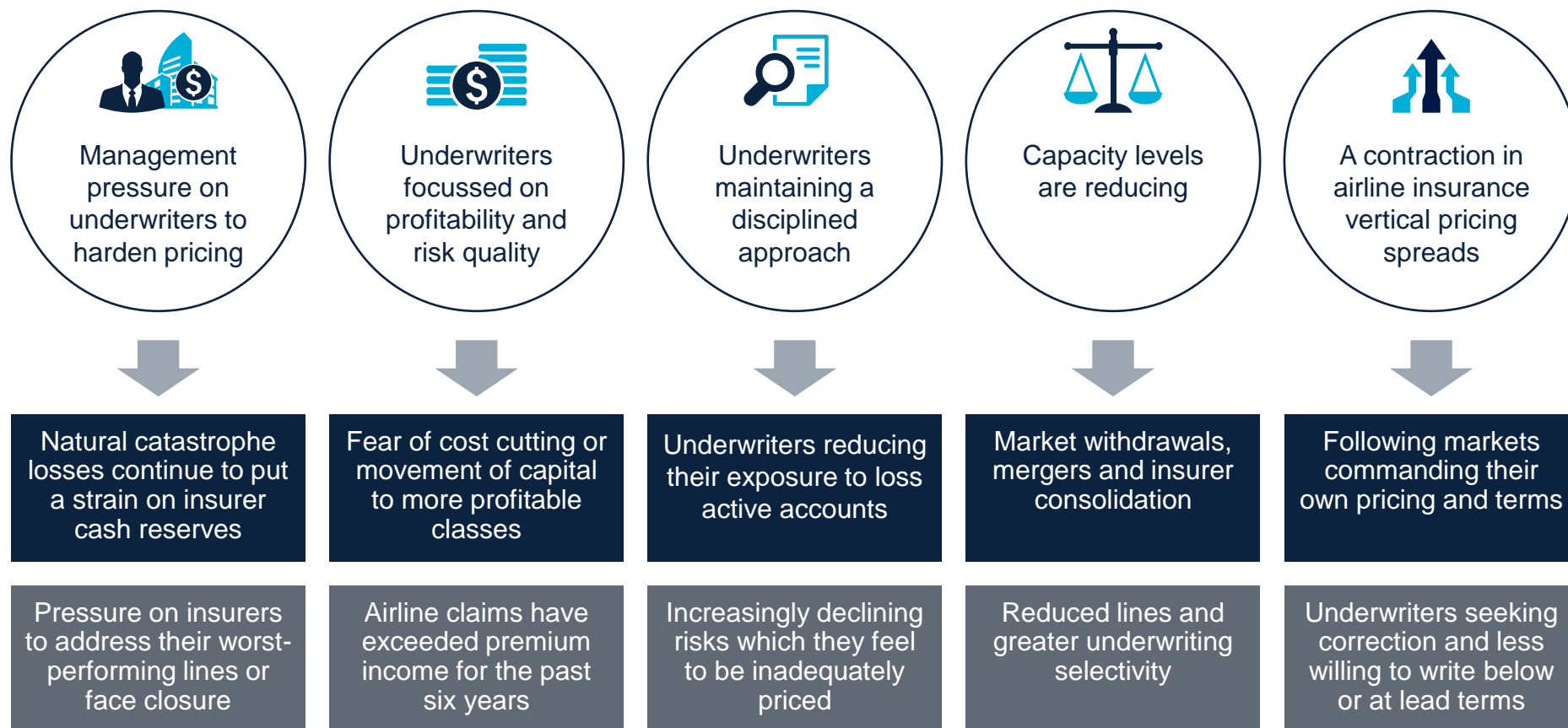
The airline market has been unprofitable for the past six consecutive years on a premium vs. claims basis.

This position is before insurer expenses and any reinsurance costs are factored in.

Note: Figures are on calendar year basis, excludes Hull War and General Aviation. Source: JLT and FlightGlobal data.

AIRLINE INSURANCE MARKET

WHAT IS HAPPENING?



We are experiencing a tougher environment than in prior years and the market is hardening.

HULL & LIABILITY MARKET TREND

GLOBAL AIRLINE PREMIUM AND RATES - CURRENT POSITION



Rates had been on a long-term downwards trend and market conditions were soft

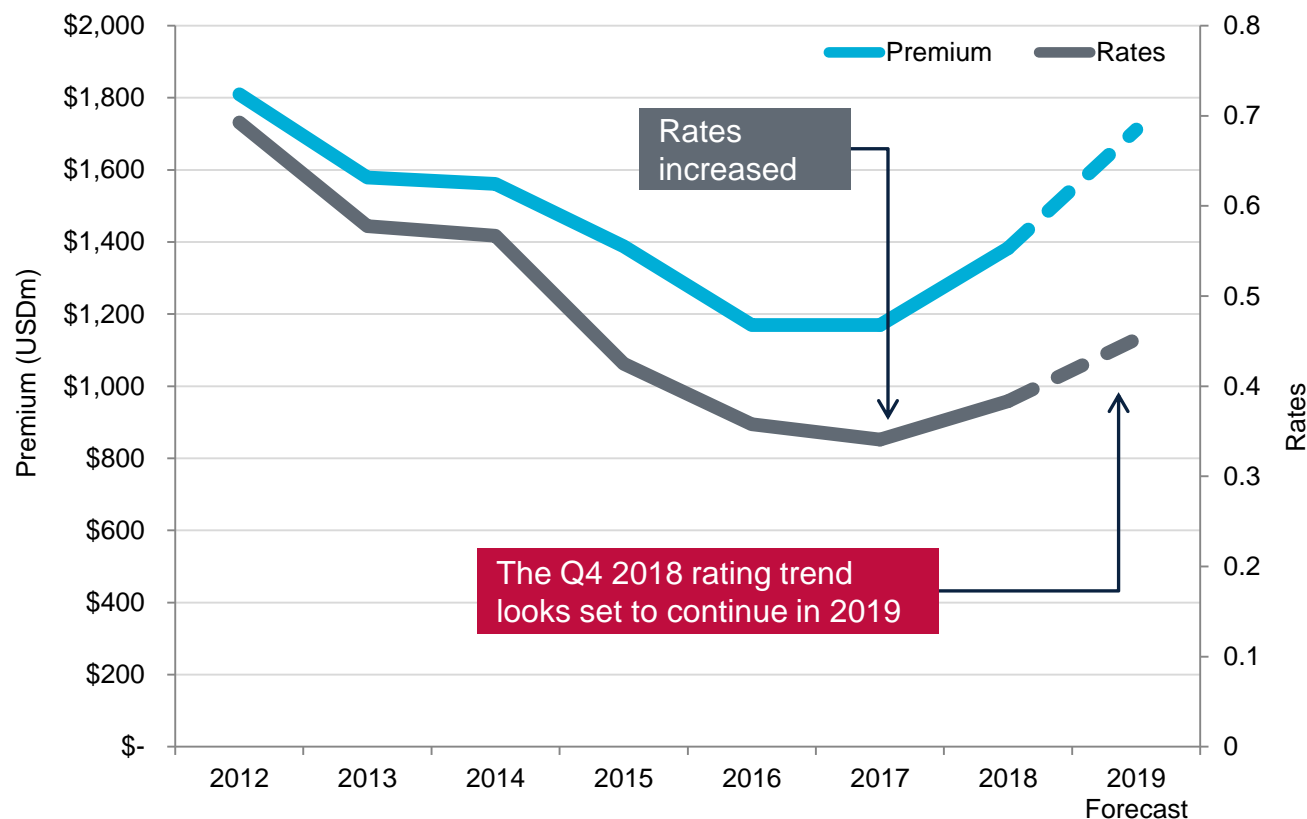


However, 2017 saw a flattening out of rates as underwriters pushed to increase premiums



2018 experienced upwards movement and we expect this trend to continue in 2019.

Global Airline Premium and Rates



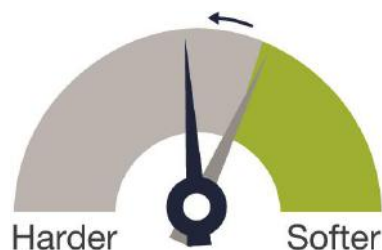
Source: Information is based on JLT/ Flightglobal data and is for indication purposes only.

HULL & LIABILITY MARKET TREND

A THREE-TIER MARKET

The 'three-tier' market remains evident with a divide exhibited between the renewal results.

TIER A



Airlines with:

- Low limits and values
- Typically high fleet / traffic growth
- Typically smaller aircraft types

Rate increases can be expected.

TIER B



Airlines with:

- Higher limits / values
- Typically low fleet / traffic growth
- Typically mixed aircraft types

Rate increases becoming more significant.

TIER C



Airlines with:

- Poor attritional loss records
- Suffered a major loss/losses
- Adverse loss ratios

Rate increases are significant.

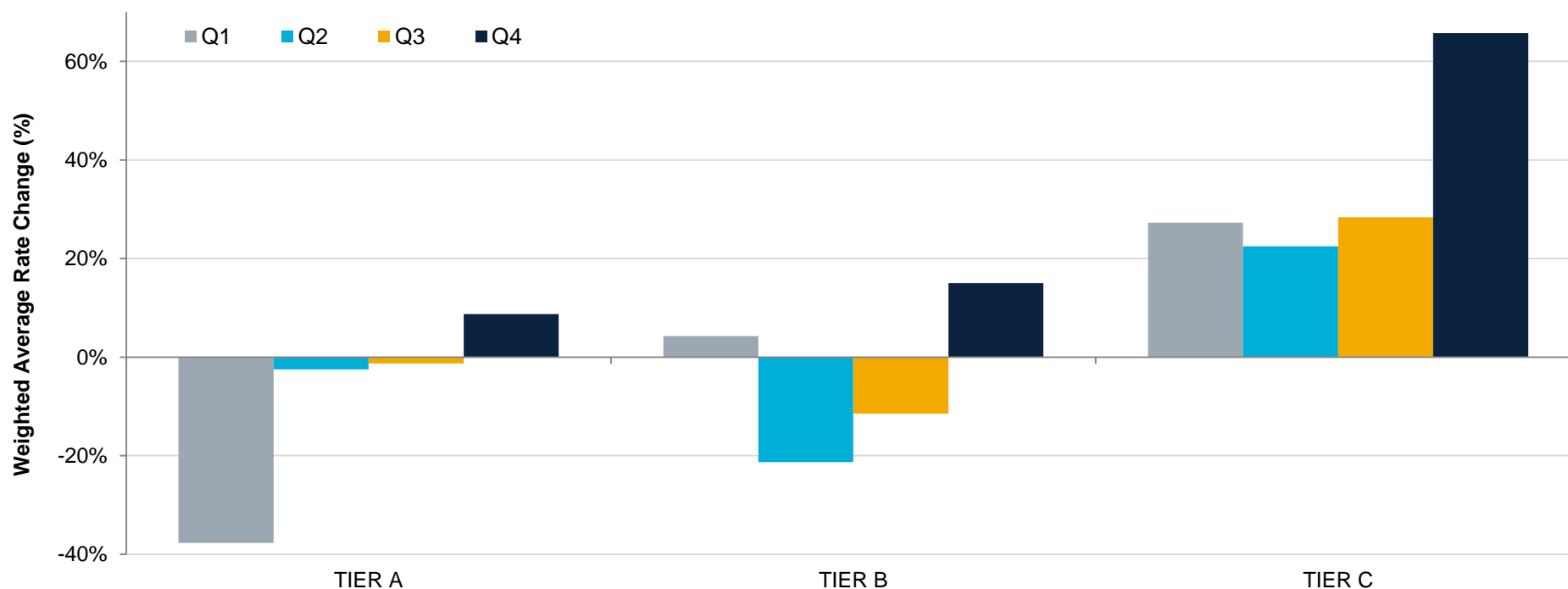
However the variation between the results of tiers A and B has narrowed significantly.

HULL & LIABILITY MARKET TREND

QUARTERLY RATE CHANGE TREND



The market hardened throughout 2018 as underwriters targeted rate increases across all airline business.



Rates across all tiers are now showing upwards movement and we anticipate that this trend will continue in 2019.

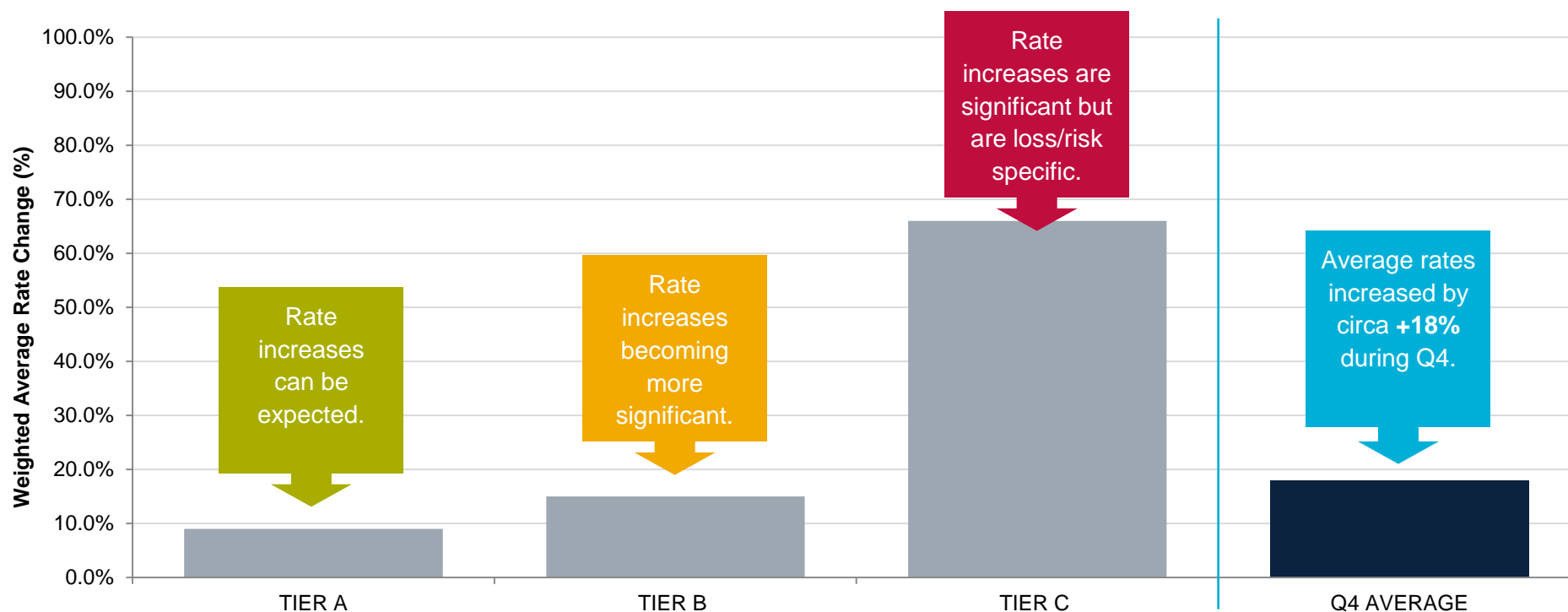
Source: Information is based on JLT data, broker opinion and market knowledge and is for indication purposes only.

HULL & LIABILITY MARKET TREND

FOURTH QUARTER (Q4) 2018 AVERAGE AIRLINE RATE CHANGE



The market hardened further during Q4 as underwriters targeted rate increases across all airline business.



Rates across all tiers are now showing upwards movement and we anticipate that this trend will continue in 2019.

Source: Information is based on JLT data, broker opinion and market knowledge and is for indication purposes only.

AIRLINE MARKET UPDATE

WHAT HAS BEEN HAPPENING IN THE MARKET?



MARKET WITHDRAWALS (Last 3 years)	MERGERS & ACQUISITIONS (Last 3 years)	NEW MARKET ENTRANTS (Last 3 years)	OTHER NEWS
<ul style="list-style-type: none"> Aegis Allied World Europe AmTrust (2018) Arch Ark Argo Ascot Aspen (2018) Brit (2018) Canopus Channel Generali Hardy HDI Global HDFC Ergo Hiscox (2018) Markel Navigators Ortac (2018) WR Berkley (2018) 	<ul style="list-style-type: none"> AIG/Validus (2018) ACE/Chubb AXA/XL Group (2018) AXIS Capital/Aviabel/Novae China Re/Chaucer (2018) CFC/MSF Pritchard (2018) EXOR/Partner Re Hannover Re/HDI Global Liberty Mutual/Ironshore Mitsui/Amlin Nexus/Altitude (2018) Sompo/Canopus/Endurance Tokio Marine/HCC/Kiln XL/Catlin 	<ul style="list-style-type: none"> Elseco Hive Aero (2018 Hull War) Trust Re 	<ul style="list-style-type: none"> Lloyd's has imposed strict new measures on its syndicates which aim to reverse underperformance in 2019 Starr bought the renewal rights of Aspen and WR Berkley's aviation business Enstar Group are reported to be looking to sell Atrium and Starstone Elseco has acquired MGA Malakite and Zurich-based Airlines & Products portfolio from StarStone
		PERSONNEL MOVES (Last 3 years) <ul style="list-style-type: none"> Over 100 aviation underwriting personnel moves More than 60 senior aviation broker personnel moves Staff redundancies in both the underwriting and broking sectors 	
<p>Further industry consolidation and withdrawals are expected in the coming months and therefore we would anticipate some change in future dynamics and capacity levels.</p>			

Source: JLT, market and publically available information.

THEORETICAL AIRLINE CAPACITY

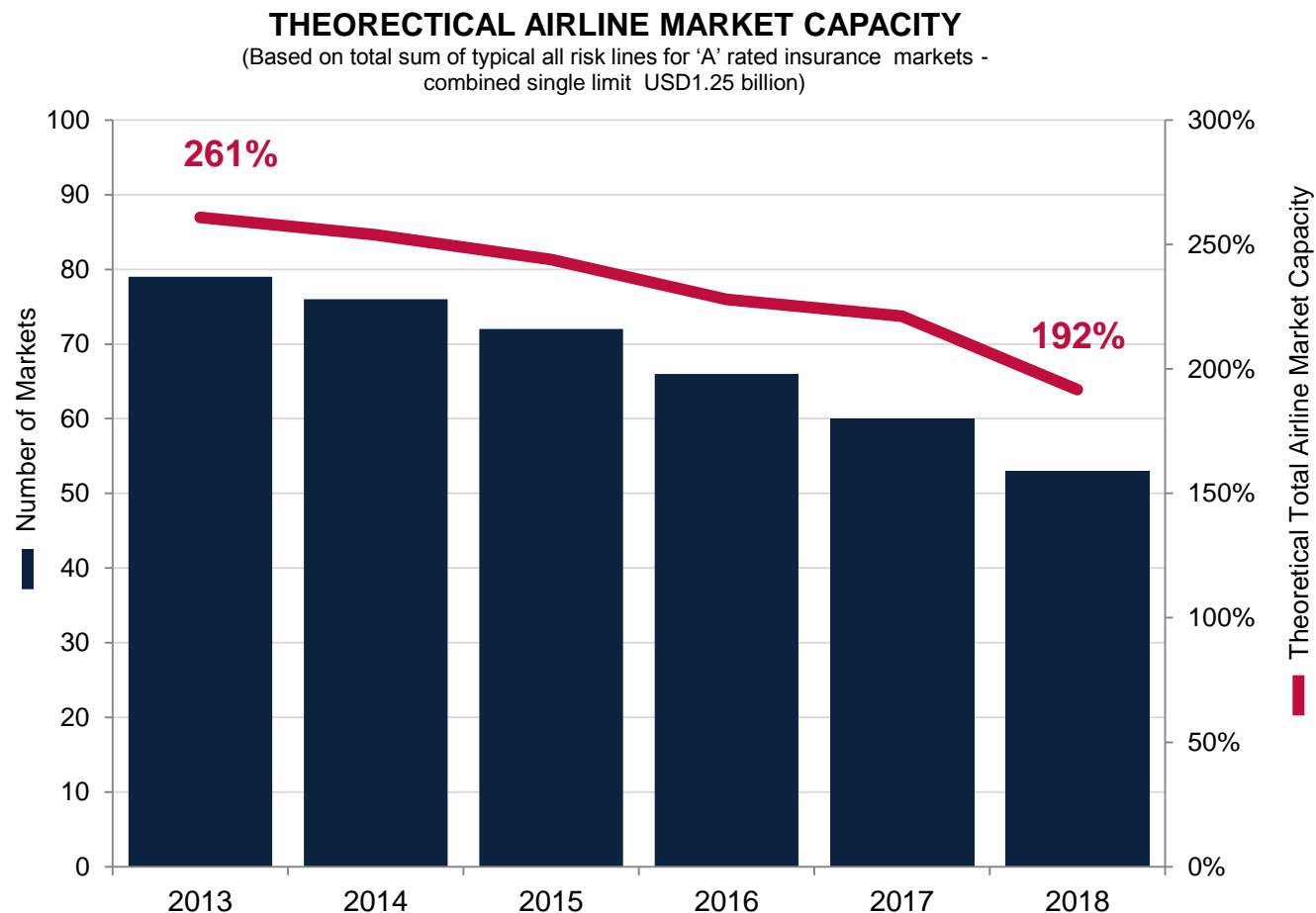
HULL AND LIABILITY (2013 - 2018)



Since 2013 airline capacity has reduced from circa 260% to circa 190%. The poor profitability of the class during this period has been the key driver behind this.

We have experienced withdrawals and insurer consolidation as well as reduced risk appetite and line size participation.

All insurers are under strong pressure both internally and by external influence, to address their worst-performing lines which for many includes aviation.



Source: Information based on JLT data and publically available information, figures are estimates and are for indication purposes only

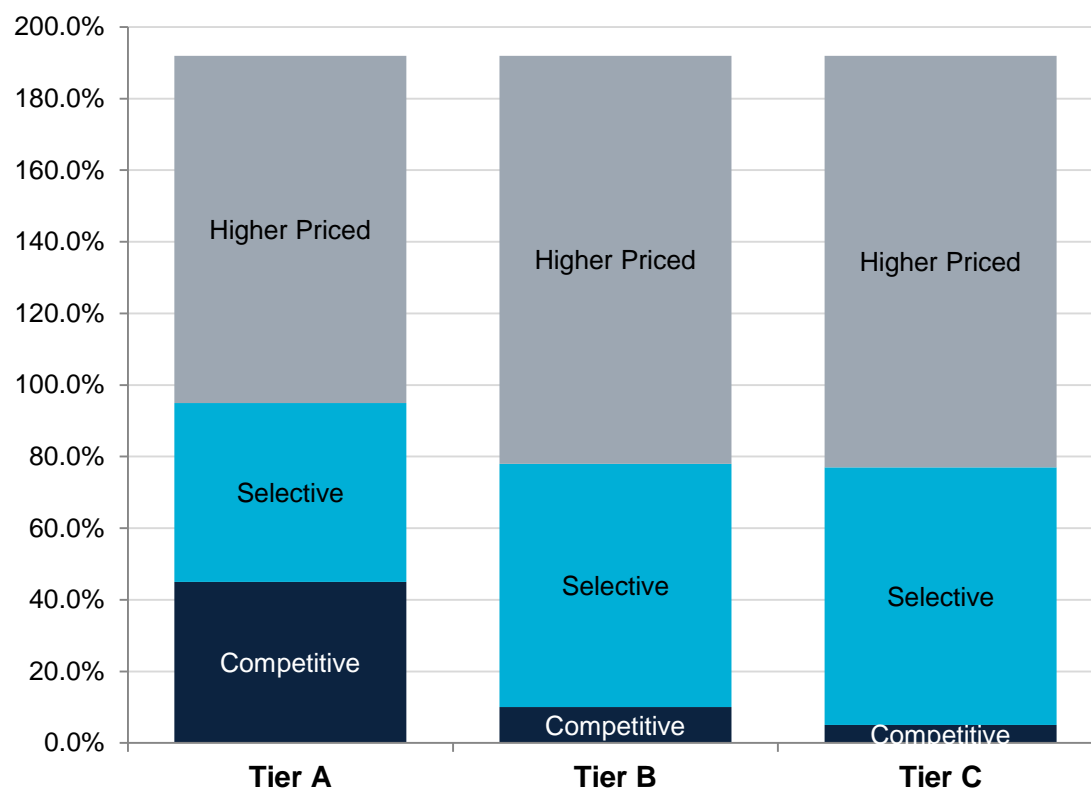
THEORETICAL AIRLINE CAPACITY

THEORETICAL VS. ACTUAL WORKING LEVELS (HULL AND LIABILITY)



THEORETICAL AIRLINE MARKET CAPACITY

(Based on total sum of typical all risk lines for "A" rated airline insurance markets - combined single limit USD1.25 billion)



Higher priced

- No reductions
- Higher pricing required
- Typically offers terms above lead pricing

Selective

- Will only write certain types of risks
- Restrictions on regions, limits, values, aircraft type
- Higher level of pricing required

Competitive

- Generally able to write most types of risks
- Most flexible
- Can be competitive on pricing

This group continues to shrink.

Source: Information based on JLT data and publically available information, figures are estimates and are for indication purposes only

HULL & LIABILITY MARKET

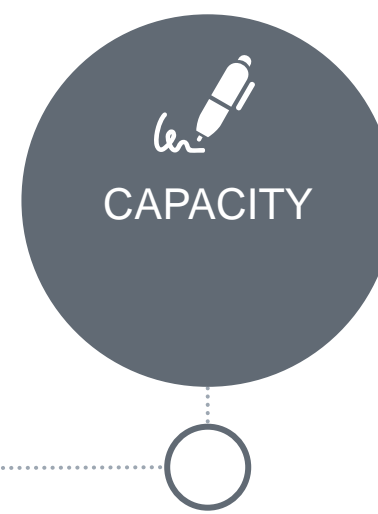
CURRENT MARKET CONDITIONS



- The 2018 loss position was poor in comparison to 2017
- 2018 is now the sixth consecutive year where airline claims have exceeded written premiums
- Underwriters strongly focussed on attritional levels and loss active accounts



- Rate increases are being targeted by underwriters across all airline business
- However, airlines continue to be assessed individually
- Vertical pricing is contracting as following markets continue to push for higher pricing



- Capacity continues to reduce through withdrawals and consolidation
- Many markets have also reduced their line sizes and become more selective
- Further consolidation is rumoured which could reduce capacity levels further

HULL WAR MARKET

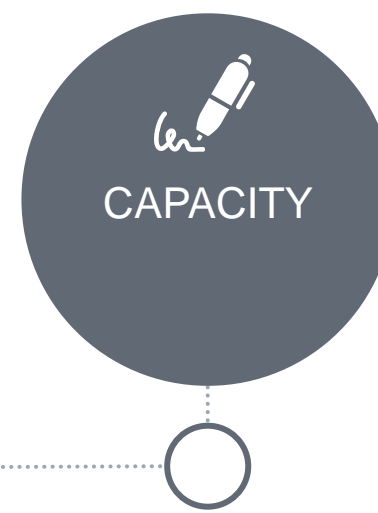
CURRENT MARKET CONDITIONS



- 2018 loss position was poor having suffered a number of airline claims
- Notable losses over the past five years and the market is in a clear loss making position
- General aviation class also experienced costly hull war losses in 2018



- Renewals are challenging and pricing is showing upwards movement
- Underwriters pushing to increase rates
- Accounts which purchase high-limits and or operate in 'hot spots' are experiencing the greatest pricing pressure



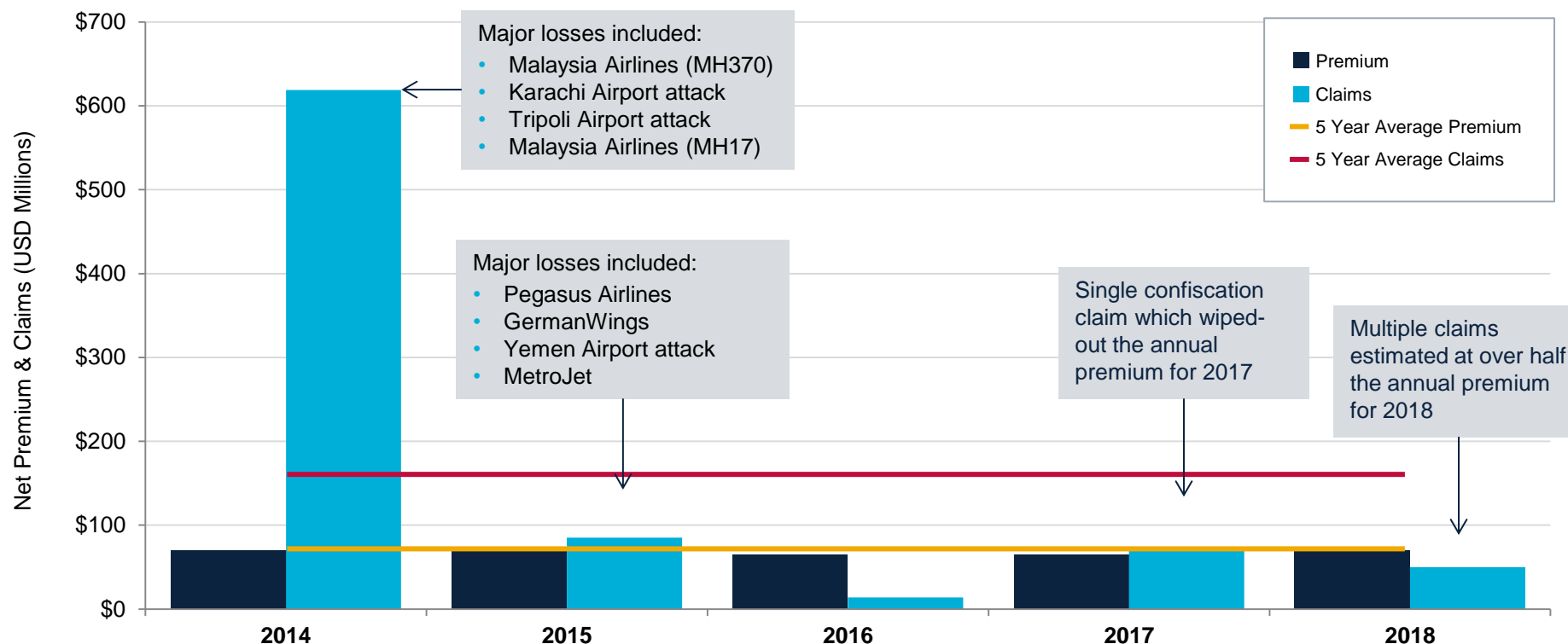
- Capacity continues to reduce through withdrawals and consolidation
- Many markets deem this business unprofitable
- Some markets have reduced their line sizes and become more selective in their participation

HULL WAR MARKET

GLOBAL AIRLINE HULL WAR PREMIUM & CLAIMS



The Hull War market is in a clear loss making position over the last five years on a premium vs. claims basis.

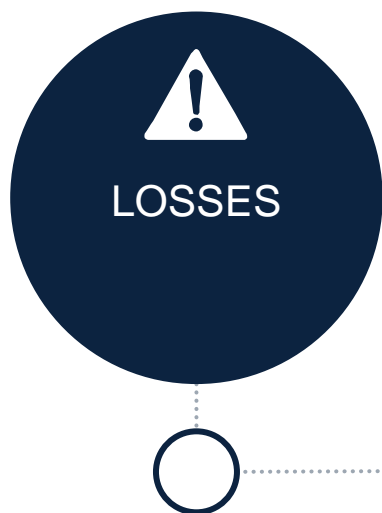


The 2018 loss position was poor having suffered multiple airline claims.

Source: Information based on JLT data and publically available information, figures are estimates and are for indication purposes only (excludes general aviation losses).

EXCESS AVN52 MARKET

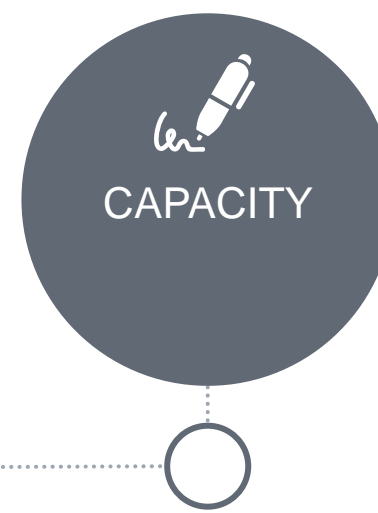
CURRENT MARKET CONDITIONS



- No losses since its formation in 2001 following 9/11
- Underwriters wary that aviation remains a high profile target for terrorists
- Virtually all participating insurers also write Hull War business which has suffered significantly in recent years.



- Both premiums/rates are widely regarded by underwriters to be insufficient
- Continued hull war losses and a decline in capacity, are having a knock-on effect on this class
- Renewal pricing is showing some upwards movement.



- Capacity levels have reduced following the withdrawal of several aviation markets who also wrote this class
- Underwriters focussing more on risk profile i.e. limits, values, areas of operation
- Looking to subsidise their other poor performing lines.

HULL DEDUCTIBLE MARKET

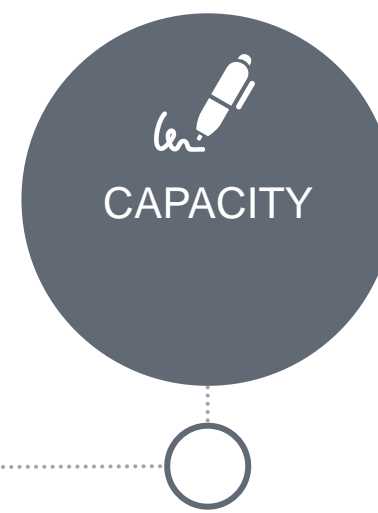
CURRENT MARKET CONDITIONS



- Losses in this coverage are varied and frequent
- Self insured retention, excess and aggregate limits vary from policy to policy
- Many carriers are regularly incurring claims far in excess of their premiums.



- Pricing is extremely claims sensitive
- Typically the five year average claims will determine premium level
- Many markets that write other aviation coverages (i.e. all risks) will now only be competitive on deductible pricing if participating on a wider basis.



- Capacity has reduced following the withdrawals of Aspen, AmTrust, ACR and Faraday
- Few markets left that now solely specialise in this business
- Many of the remaining deductible markets are now very selective in the risks they write

LOOKING AHEAD

FUTURE TRENDING



Looking ahead, all indications seemingly point to a continuation of the current trending, including:



Challenging
renewal
negotiations



Underwriters are determined to remain resilient and address the poor profitability of the class.



A further
reduction in
capacity levels



Further market consolidation is rumoured which could prove highly influential on future dynamics and pricing.



Underwriters
maintaining their
pricing discipline
and selectivity



We expect the current three-tier market to continue with risks being assessed on an individual basis.



Underwriting
focus on quality,
profitability and
loss levels



Underwriters reducing their exposure to loss active accounts and those which they feel to be inadequately priced.



A push to
increase rates
and premiums



Underwriters targeting rate increases across all airline business in order to increase their overall premium income.

Underwriters are determined not to revert back to the previous downwards rating trend and soft market conditions.

LOOKING AHEAD

FUTURE CONSIDERATIONS



Start your renewal process earlier.

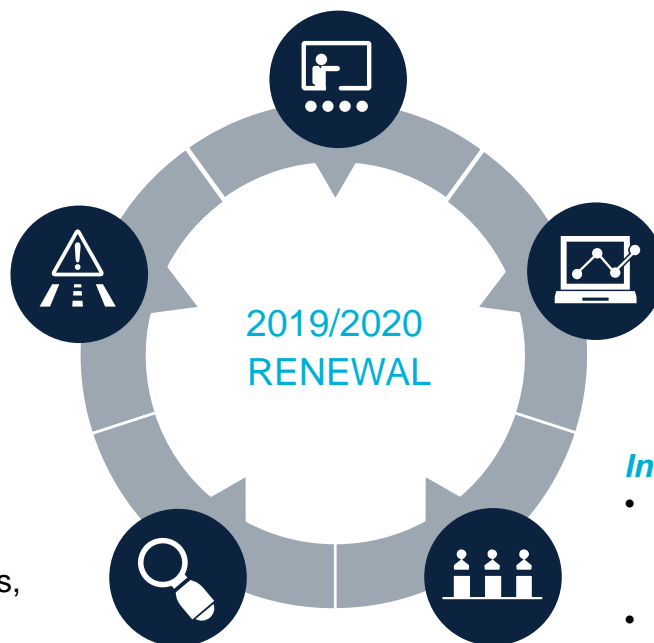
Early preparation with your broker will be hugely beneficial to developing the most effective strategic plan and achieving the best renewal outcome. It will also help remove some of the stress and allow for more accurate budgeting.

Focus on losses and safety.

From an operational point of view, we suggest a focus on attritional losses with an objective to minimise these with all necessary risk management initiatives where possible. Attritional losses are now one of the biggest influences on an underwriter's judgement of your risk.

Explore all alternative options.

- Consider all strategies
- Explore new markets
- Review coverage requirements i.e. limits, values, retentions, deductibles
- Consider other options i.e. long-term policies / hedging



Present the right information.

- The more information you can provide underwriters about your operation and exposures the better
- A detailed submission will help differentiate you from your peers and will further educate underwriters on your individual risk.

Insurance carrier relationships.

- Seek to retain key partners that have shown long-term commitment to your operation and have performed well
- These carriers understand your operation
- Continuity of key relationships can assist greatly in renewal negotiations

JLT is well prepared and have some great strategies and innovative solutions to deal with challenges that may lie ahead.