MONDAY 9 NOVEMBER 2020

insuranceday

MARKET NEWS, DATA AND INSIGHT ALL DAY, EVERY DAY

ISSUE 5,717

Rate rises drive Beazley to better-than-expected premium growth

p3

Focus: Aviation

The aviation insurance market must take this opportunity to innovate and evolve

p4

ID Comment: Blueprint Two puts meat on the bones of Lloyd's reform plans

p3

The complete picture of the re/insurance market

Deep-dive analysis and trusted news by an award-winning team, answering strategic questions about the international re/insurance market.

TIMELY UPDATES

BESPOKE EMAIL ALERTS

DEEP-DIVE ANALYSIS

AWARD WINNING INSIGHT & OPINION

GLOBAL COVERAGE OF THE RE/INSURANCE MARKET

Contact us to learn more about the Insurance Day advantage

+44 (0)20 3377 3792 subscription.enquiry@insuranceday.com

insuranceday
Business intelligence | informa

NEWS

Market news, data and insight all day, every day
Insurance Day is the world's only daily newspaper for the international insurance and reinsurance and risk industries. Its primary focus is on the London market and what affects it, concentrating on the key areas of catastrophe, property and marine, aviation and transportation. It is available in print, PDF, mobile and online versions and is read by more than 10,000 people in more than 70 countries worldwide.

First published in 1995, *Insurance Day* has become the favourite publication for the London market, which relies on its mix of news, analysis and data to keep in touch with this fast-moving and vitally important sector. Its experienced and highly skilled insurance writers are well known and respected in the market and their insight is both compelling and valuable.

Insurance Day also produces a number of must-attend annual events to complement its daily output, including the *Insurance Day* London Market Awards, which recognise and celebrate the very best in the industry.

For more detail on Insurance Day and how to subscribe or attend its events, go to subscribe.insuranceday.com

Insurance Day, Informa, Third Floor, Blue Fin Building, London SE1 0TA

Editor: Michael Faulkner
+44(0)20 7017 7084
michael.faulkner@informa.com

Deputy editor: Lorenzo Spoerry
+44 (0)20 7017 6340
lorenzo.spoerry@informa.com

Reporter: David Freitas
david.freitas@informa.com

Global markets editor: Rasaad Jamie
+44 (0)20 7017 4103
rasaad.jamie@informa.com

Business development manager: Toby Nunn	+44 (0)20 7017 4997
Key account manager: Luke Perry	+44 (0)20 7551 9796
Advertising and sponsorship: Deborah Fish	+44 (0)20 7017 4702
Classified and legal notices: Maxwell Harvey	+44 (0)20 7017 5754
Head of production: Liz Lewis	+44 (0)20 7017 7389
Production editor: Toby Huntington	+44 (0)20 7017 5705
Subeditor: Jessica Sewell	+44 (0)20 7017 5161
Events manager: Natalia Kay	+44 (0)20 7017 5173
Editorial fax:	+44 (0)20 7017 4554
Display/classified advertising fax:	+44 (0)20 7017 4554
Subscriptions fax:	+44 (0)20 7017 4097

All staff email: firstname.lastname@informa.com

Insurance Day is an editorially independent newspaper and opinions expressed are not necessarily those of Informa UK Ltd. Informa UK Ltd does not guarantee the accuracy of the information contained in *Insurance Day*, nor does it accept responsibility for errors or omissions or their consequences. ISSN 1461-5541. Registered as a newspaper at the Post Office. Published in London by Informa UK Ltd, 5 Howick Place, London, SW1P 1WG.

Printed by Stroma, Unit 17, 142 Johnson Street, Southall, Middlesex UB2 5FD.

Print managed by Paragon Customer Communications.

© Informa UK Ltd 2020.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means electronic, mechanical, photographic, recorded or otherwise without the written permission of the publisher of *Insurance Day*.

Scor shares rise on earnings beat

Covid-19 losses developing favourably, analysts say

Lorenzo Spoerry
Deputy editor

Scor booked net income of €109m ($129.1m) for the third quarter, down 5% year-on-year, as it digested the impact of Covid-19 and significant natural catastrophes.

But analysts said the results were ahead of expectations.

The property/casualty (P&C) net combined ratio came in at 97.5% in the third quarter. This brought the figure down to 100.7% for the first nine months of the year, which included 6.5 percentage points of Covid-19 losses.

P&C gross written premiums rose 1.5% to €1.85bn in the quarter.

"The group continues to expand its franchise and delivers positive results despite major shocks the industry has had to face since the beginning of the year, which include the Covid-19 pandemic, as well as a series of natural catastrophes and very large-scale man-made events," Scor's chairman and chief executive, Denis Kessler, said.

Analysts said Scor's results were "materially ahead of consensus"

Sergey Nivens/Shutterstock.com

Jefferies analysts said Scor's results were "materially ahead of consensus", adding Covid-19 losses were "developing favourably".

Scor shares rose more than 6% in morning trading on November 6.

For the year to date, overall gross written premiums rose 1.9% to €12.3bn in the quarter. P&C premiums increased a similar percentage to €5.4bn.

> **'The group continues to expand its franchise and delivers positive results despite major shocks the industry has had to face since the beginning of the year'**
>
> **Denis Kessler**
> **Scor**

The estimated cost of the Covid-19 pandemic for the P&C business reached €256m so far this year, net of retrocession, reinstatement premiums and before tax. This was in line with Scor's earlier assumptions.

The Beirut port explosion generated losses of €44m net of retrocession.

Annualised return on equity for the third quarter came to 7.1%, a decline of four percentage points year-on-year. The group cost ratio came to 4.4% for the first nine months of the year, down from about 4.7% in the first nine months of 2019.

Scor delivered a return on invested assets of 2.6% so far this year.

AIG's general insurance underwriting loss widens

Global re/insurer AIG reported a 57% fall in its net income in the third quarter to $281m, *writes John Shutt, Los Angeles.*

The decline reflected in part the sale in June of its Fortitude Re legacy unit, which helped reduce adjusted investment income by $277m.

Adjusted income per share rose to 81¢ from 56¢ and beat analysts' forecast of 68¢.

> **57%**
> Fall in net income for AIG in Q3

The general insurance segment's underwriting loss widened to $423m from $249m after the company posted $790m in catastrophe losses. These comprised $605m from weather events in the US and Japan and western US wildfires and $185m in losses tied to the Covid-19 pandemic.

The combined ratio deteriorated 3.5 points to 107.2%, but the adjusted combined ratio improved 2.6 points to 93.3%, marking the ninth consecutive quarterly improvement.

For the first nine months of the year, the New York-based group swung to a net loss of $5.9bn from income of $2.4bn, reflecting in part lower investment results and the general insurance segment's underwriting loss.

The general insurance segment's combined ratio added 5.3 points to 104.9%, while gross written premiums fell 2.3% to $26.8bn.

NEWS

Rate rises drive Beazley to better-than-expected premium growth

Rate increases at a point where 'materially more business' can be written

Michael Faulkner
Editor

Beazley saw 16% growth in premium for the first nine months of 2020, ahead of expectations.

In a trading update, the Lloyd's insurer said rate increases had reached a point where "materially more business" could be written in some lines as it planned 10% net growth next year.

It also said it expects to post a full-year combined ratio of around 110%, which is worse than analysts expected, as a result of Covid-19 and other catastrophe losses, as well as cautious reserving in its cyber and casualty books.

Beazley booked gross premiums of $2.53bn for the nine-month period, up from $2.19bn in the same period a year earlier.

The increase came on the back of a combination of rate increases and increased exposures in a number of classes.

Beazley estimated the cost of third-quarter catastrophe events, including hurricanes Laura and Sally and the wildfires in California, at $80m net of reinsurance and reinstatement premiums.

The insurer's Covid-19 loss estimate remained unchanged at $340m, although it could see further losses if the pandemic extends into the second half of next year.

The company said it does not expect the recent Financial Conduct Authority business interruption test case judgment to have a "material impact" on its insurance business.

But Beazley said it will increase its cyber reserves in response to rising ransomware attacks.

Ransomware attacks have continued to rise in 2020 and are now the dominant cyber exposure faced by the company's clients. As a result, the market is in the process of repricing and restricting coverage in response to these issues, Beazley said.

The full-year projection assumes normalised claims levels for the remainder of the year.

Premium growth was achieved in most of the re/insurer's divisions, with cyber and executive risk seeing the strongest growth in absolute terms, driven by "strong" rate rises in directors' and officers' (D&O) and employment practice liability. Specialty lines also saw strong premium growth. Only Beazley's political risk, accident and contingency and reinsurance divisions were flat in premium terms.

Premium rates on renewal business increased 14%, with cyber and property seeing increases of 16% and marine up 18%.

Beazley said rates in many classes are now at levels "where the risk-reward ratio warrants writing materially more business", particularly in D&O and most marine classes of business.

But the company said it will continue to restrict appetite "where there is particular exposure to the impacts of social inflation, pandemic claims or a recession", highlighting employment practices liability and some professional and healthcare liability classes.

Beazley said its 2021 business plan for its syndicates has been approved by Lloyd's, together with the accompanying capital requirements.

The company is planning for "mid-teens" percentage growth in 2021, using reinsurance to manage growth in some of the more volatile lines. It expects growth of around 10% net of reinsurance next year.

"Pricing conditions are positive and we have the expertise and the capital in place to take advantage of these market conditions," Andrew Horton, Beazley's chief executive, said.

> **'Pricing conditions are positive and we have the expertise and the capital in place to take advantage of these market conditions'**
>
> **Andrew Horton**
> **Beazley**

Lloyd's auctions 'most liquid' since 2006

Lloyd's capacity traded in this year's three auctions reached the highest level for 14 years, *writes Michael Faulkner*.

The final auction concluded with £29m ($38.1m) of capacity traded across 17 syndicates at a value of £5.4m.

This brought the total capacity traded across the three auctions to £222m and makes 2020 the most liquid year since 2006 when £245m was traded, according to members' agent Argenta.

It comes as Lloyd's syndicates are seeking to take advantage of hardening market conditions.

Syndicate 2121, managed by Argenta Syndicate Management, saw the greatest volume traded with £69m of capacity changing hands.

This was followed by Tokio Marine Kiln syndicate 510 and Beazley syndicate 623.

MNK Re acquires majority stake in Prospect Brokers

Lloyd's broker MNK Re is to buy a majority stake in South African reinsurance broker Prospect Brokers Africa, *writes David Freitas*.

The deal brings the Lloyd's re/insurance broker closer to the regional and international markets covered by Prospect Brokers.

Prospect Brokers was set up in December 2019 by former RFIB Africa director Neesha Parbhoo.

The deal will see Parbhoo lead the newly established MNK Re South Africa as chief executive.

ID Comment: Blueprint Two puts meat on the bones of Lloyd's reform plans

Lloyd's Blueprint Two builds pragmatically on Blueprint One, while leaving some questions unresolved, *writes Lorenzo Spoerry*.

The focus on re-engineering the placement and claims process will be welcome, as will the news Lloyd's will not develop its claims platform.

Instead, Lloyd's will provide the risk placement standards a placing platform will need to use to be accredited. For PPL's rivals, such as Whitespace, and its many fans, this will be welcome news.

Blueprint Two will also see Lloyd's implement a "digital gateway", which will be the interface between the electronic placement platforms and digital processing.

A new "data store" will replace the Insurance Market Repository. The data store will only contain post-bind data.

In addition, a new Lloyd's-owned delegated authority platform will be created or outsourced.

Blueprint Two also puts a solid figure on estimated cost saving. By the end of 2022, it expects to shave £800m ($1.05bn) off expenses – about 3% of Lloyd's operating costs. Two-thirds of this is likely to benefit brokers, with the rest of the saving distributed among other market participants.

Although the figure is far from revolutionary, it does represent a significant step in the direction of addressing a fundamental competitive disadvantage of Lloyd's.

And it is hoped, of course, Lloyd's reforms will do much to improve the top line too.

The Covid-19 pandemic, which has already revolutionised the way Lloyd's works, may have come at a strangely opportune time, as Lloyd's hinted in the Blueprint Two report: "The pandemic has demonstrated we can adapt and do things differently and, if anything, has only increased our ambition for what the market can achieve."

With so many businesses with staff now working from home and working out contingency plans they never thought necessary, it may be easier for Lloyd's to encourage people to adopt new behaviours.

A year ago, it would have been almost impossible to imagine the Underwriting Room serving only as a hub for meetings, for example. Now, with the UK in lockdown, it would almost feel like a return to normality. ■

FOCUS/AVIATION

The aviation insurance market must take this opportunity to innovate and evolve

Peter Gudella/Shutterstock.com

Change is coming to the aviation sector, with environmental concerns become an increasingly important factor

With or without Covid-19, it is time for the market to reconsider the design of its policies and to create new solutions to manage and mitigate aviation risk

Jonny Burns
Oneglobal

There is no denying the pandemic has profoundly tested the resilience of the aviation industry.

At present, many aircraft are grounded and the vast majority of operators running at reduced capacity. With the resulting huge cash burn and lack of liquidity, some operators have ultimately ceased trading. This has resulted in a significant ground accumulation of aircraft and engines, which in turn leads to concern for insurers, with the potential increase in exposure to extreme weather, deterioration from lack of use and potential terrorist activity.

However, there are positive signs of recovery in a number of domestic operations in various jurisdictions, although an improvement in the trans-continental long-haul business may be a number of years off.

Aviation insurance has the opportunity to evolve. During the second half of 2019 and in common with the insurance market in general, the aviation insurance market saw a rapid transition from a market providing year-on-year rating reductions to a market looking to remain a viable, reputable and creditworthy entity able to provide long-term security for its customers. The result was an almost immediate reversal and increases in rating levels in all areas.

At the same time, during the latter part of 2019 and into 2020 capital providers to some insurers decided regardless of a market recovery they would exit this sector of the insurance market.

Tipping point

The aviation insurance market had reached this tipping point after a prolonged period of rate reductions, together with periods of substantial loss activity, with a number of substantial products and space-related losses.

As the aviation insurance market continues in this "hardening" pattern the experience of both broker and insurer becomes of paramount importance. So policies can be completed to meet the needs if customers, brokers need to demonstrate both insurance market knowledge and aviation industry experience.

Insurers likewise will need to demonstrate they have a full understanding of their customers' business as the combination of higher insurance costs, airlines under commercial pressures and the increased focus on environmental risk come under increased scrutiny.

Now more than ever is the time when the insurance market needs to further address the requirements of the customer base, be it airline, manufacturer, lessor/bank or airport and related businesses, by designing new products and pricing structures to meet the future shape of the aviation industry.

Coming down the track, Covid-19 or not, change and innovation is coming to the aviation sector. Increasingly, investors are seeking improved environmental standards before they will commit finance and this is driving demand for the development of more environmentally friendly aircraft and engines.

Regulatory pressure is also driving change. From January 2021, the Carbon Offsetting and Reduction Scheme for International Aviation will start operating. Airlines have already been monitoring emissions on international routes for the past year and at some point will have to purchase eligible emission units generated by carbon-reduction projects.

There are also environmental, social and corporate governance factors that are likely to become more prevalent when investment decisions are taken into account.

Technical innovation

Although it is possible the current crisis, combined with attractively low fuel prices, may delay or halt this process of change in the short term, technical innovation will undoubtedly be a big factor for the industry over the next decade.

This transformation will need a response from the insurance industry to reflect the changing nature of the aviation environment.

It is true past disasters and crises, both natural and man-made, have thrown up significant challenges for the aviation sector. The terror attacks on September 11, 2001 demonstrated the need for increased security and forced the aviation insurance sector to quantify the risks, costs and pioneer solutions to the problem of terrorists using an aircraft as a weapon. Those solutions included the creation of the Terrorism Risk Insurance Act, the US government backstop for terrorism risk.

In 2008 the onset of the global financial crisis resulted in a number of government bailouts, with many large US carriers filing for Chapter 11 bankruptcy and a number of airline mergers. These were changes that ultimately put the industry on a more profitable footing.

The aviation insurance community will need to continue to be responsive to the situation the industry is experiencing and there is significant flexibility and understanding on all sides as the industry navigates this difficult time.

As a market we cannot just enter into discussions with insurers on behalf of our clients and accept the market is hardening and therefore rates have to rise. Instead, we now need to look together at the design of policies, and create new solutions to manage and mitigate risk. ■

Jonny Burns is head of aviation at Oneglobal

FOCUS/AVIATION

Aviation insurers see claims volumes fall but face new risk accumulations

Carriers anticipate reduced exposure metrics as a result of Covid-19 at the next renewals, but they need to take into consideration the new risks that are emerging in parallel

Jonathan Milford-Cottam
Allianz Global Corporate & Specialty

Although a large proportion of the world's airline fleet has been grounded in the near term as a result of the coronavirus pandemic, insurers' loss exposures have not disappeared – instead, they have changed and created new risk accumulations.

Everyone is well aware of the huge impact coronavirus has had on the aviation industry around the world.

At Allianz Global Corporate & Specialty (AGCS) we see a number of developments and issues that are shaping the aviation insurance and reinsurance markets, driven both directly and indirectly by Covid-19.

Airline policies are predominantly structured with adjustable premiums based on adjustable rates charged against exposures such as average fleet value, passengers, departures and carriage of cargo.

At AGCS, we have been working with our clients and their brokers to return premiums that are due to them following the reduction in key exposure metrics versus what they estimated before Covid-19.

We are trying to do this quickly and efficiently, to provide some cashflow relief during this challenging period.

Aerospace policies, incorporating manufacturers and airports, are primarily agreed on an in-full non-adjustable basis and, as such, requests for renegotiations have been minimal despite reduced turnover.

We have observed a similar scenario with general aviation clients (including private single aircraft, business jets and large commercial fleets), where policy renegotiations have not been common because of the structure in which the policies are rated.

Loss exposures

Although many aircraft are grounded for now, loss exposures still exist. However, they have changed and have the potential to create new risk accumulations.

For example, a large proportion of the world's airline fleet is in storage, with aircraft, including high-value wide-bodied jets, parked in airports, many of which might be exposed to hurricanes, hailstorms and tornadoes. More than 2,000 planes were thought to be idle in the US alone as of the start of September 2020, with an estimated value of around $70bn.

The risk of ground incidents also increases when large aircraft fleets are parked temporarily within the airport or at other storage locations. In June, two aircraft collided on the ground at Aberdeen airport as one was being prepared for take-off. With the value of modern aircraft, such incidents could result in costly claims.

Conversely, with most of the world's fleet grounded during lockdown, there were fewer attritional incidents.

> **Although many aircraft are grounded for now, loss exposures still exist. However, they have changed and have the potential to create new risk accumulations**

As outlined in our recent Covid-19 Changing Claims Patterns report, AGCS saw a significant reduction in the frequency of claims. Slip and fall accidents at airports have declined with the massive reduction in global air traffic, which fell by a record 94% year-on-year in April 2020. However, in a small number of liability notifications, passengers have sued airlines for cancellations or disruptions.

We are in constant dialogue with our customers to address and proactively mitigate new exposures arising from the Covid-19 situation. We constantly monitor and analyse the evolving situation and will take adequate action as needed, in close collaboration with clients and brokers.

As we look ahead to renewals, we anticipate clients will present us with reduced exposure metrics as a result of Covid-19, but there are also new risks emerging in parallel that will need to be considered.

Longer-term considerations

Looking ahead, airlines are likely to face changes in risk as they emerge from hibernation and ramp up operations. Airlines are operating under exceptionally difficult conditions and are now making deep cuts to their workforce, including the loss of experienced pilots, while many who remain will not have flown for months. It is too early to tell how claims trends could develop in the new operating environment, but there are likely to be increased accumulation risks, as well as potential issues with human error.

There is a lot of uncertainty in the market about the future of aviation and travel in general because of climate change, green energy investments and the rise of home and virtual working, which will reduce business travel. In terms of Covid-19 alone, though, we do not foresee too much of an impact in the long run as we expect the industry to recover. The International Air Transport Association has predicted demand for air travel will return to pre-Covid-19 levels around 2024. ■

Jonathan Milford-Cottam is regional head of aviation at Allianz Global Corporate & Specialty

Risks have changed rather than gone away in the wake of Covid-19 and much of the world's airline fleet being grounded

People Image Studio/Shutterstock.com

FOCUS/AVIATION

A professional approach to risk management has never been more vital for the aviation industry

An empty airport departure lounge in the middle of the coronavirus pandemic
Mikhail Starodubov/Shutterstock.com

Airlines will resume normal operations more quickly if industry and political leaders work with, rather than against, public health professionals

Suki Basi
Russell Group

The aviation sector is in a bad place right now. Before the Covid-19 pandemic there were high hopes the inexorable rise of globalisation would result in massively increased demand but the best laid plans of operators and investors went awry in 2020.

Of course, there is cause for cautious optimism a return to flight will happen at some point but several things will have to happen before we get to that place.

Mass, affordable air travel has played a central role in globalisation, bringing the promise of travel to far-off destinations that used to be reserved for the privileged few to the general population. Anyone dreaming of long-distance air travel needs to put their plans on hold for the time being but the airlines and airports remain hopeful of a return, which is why they are pushing for uniform global testing guidelines to waive strict quarantine requirements that are all but killing off travel, according to a recent *Reuters* report.

With the International Air Transport Association forecasting a 66% decline in 2020 air traffic because of the pandemic, *Reuters* says: "A global aviation manual now under review by a UN body suggests global guidelines calling for the use of highly reliable tests when screening passengers to detect the novel coronavirus ahead of flights."

It seems global Covid-19 challenges require global solutions, which is why the broad availability and use of an effective Covid-19 vaccine has become so vital if the aviation sector is to be able to pick itself up again. Airlines will not see a direct benefit from vaccines until their potential customers get vaccinated. That process may take some time because it is likely first responders and high-risk populations will be the first groups to get access to any vaccine.

Creating a vaccine is not enough; it should also be effective and distributed swiftly and broadly to a population as soon as it is available. The world's civilian cargo fleet, as well as military cargo capability, would be likely to play an important role in distribution.

People risk

Another challenge facing the aviation industry is people risk – or, to be more precise, the lack of people risk in an environment in which redundancies, furloughing employees and early retired staff causes the sector to lose many skilled, experienced employees. Being an airline crew member, whether as a pilot or a flight attendant, is a professional choice and a lifestyle choice. Once that employee leaves, especially for a different lifestyle, returning to aviation may not be attractive.

In spite of the lay-offs and furloughs among airline employees around the world, there may be plenty of idle aircraft capacity to deal with a rapid upsurge in passenger demand. According to FlightRadar24, worldwide commercial traffic had its most severe reduction in late March 2020, with traffic dropping 75% compared to late March 2019. By mid-October 2020, the number of flights represented a 42% drop from the same period in 2019.

Consumer confidence regarding potential Covid-19 infection risk during air travel is another issue, with one example being passengers refusing to wear masks. While Boeing has worked with the University of Arizona to show Boeing's aircraft cleaning requirements reduce transmission risk, Boeing has an ongoing public trust issue because of the 737 Max situation, so any advice or suggestions the company gives about the safety of its product may not be seen as being as trustworthy as suggestions from an objective third party.

General trends in society, such as rising infection rates and changing public policies, may have more influence on public perception than any action an airline may take. Commercial activity, including aviation, will return to something resembling normal more quickly if corporate and political leaders work with, rather than against, public health leaders and researchers.

Business travellers will return and which airline gets their business will depend on convenience, price, previous relationship and incentives. Even if economic conditions return to pre-pandemic levels, business travellers may not be as willing to travel by air if that business can be effectively done remotely or if that traveller is in a high-risk category for contracting Covid-19.

After six-plus months of operating in a travel-restricted environment because of the coronavirus, many businesses and workers have had to learn how to conduct at least some business remotely and if the end result is as good or better than before, air travel may be less attractive.

Grounds for optimism

There are some grounds for optimism, however, as innovative technologies could play their part in making the return to flight experience a lot more pleasurable in the not-too-distant future. Connectivity and big data will play its part here, allowing airports and airlines to plan better, track technology and regulatory developments and adapt to new transportation modes.

Airline sector futurologists anticipate a new digital ecosystem can be in place and shaped to fully serve the passenger five to 10 years from now and possibly sooner with a bit of good will and collaboration between governments, manufacturers, operators and passengers.

The growing use of biometrics could render passports obsolete and create an experience in which passengers have a walkthrough airport experience. Your face would effectively become your passport, which means you will no longer have to stop at any touchpoint from check-in to boarding.

Of course, that opens up a whole new can of privacy concerns, as well as the potential for increased cyber disruption, but without new risks there would be no need for risk professionals, so it promises to be interesting times ahead for the aerospace risk sector and those wishing to re-open the gates to departure lounges around the world. ■

Suki Basi is managing director of Russell Group

Covid has far-reaching implications for aviation claims management

The airline industry is facing new types of claims as a result of the revised operation of airlines and the transformation of the risk landscape post-Covid

Trehane Oliver
McLarens Aviation

It has been a challenging year for aviation and recent media briefings from the International Air Transport Association paint a somewhat grim picture for the months ahead. Many indicators are pointing to suppressed demand for air travel for the foreseeable future and the effects on the sector – which has enjoyed consistent growth for a number of decades – are likely to continue for some years to come.

From an insurance claims perspective, these developments have a number of implications, both in terms of the volume and nature of aviation losses, as well as the way claims are handled.

There is no doubt on the back of the reduction in air traffic the number of new aviation claims has dropped off substantially. That said, we are still managing an ongoing case book across our international network. Many clients, dealing with pre-existing insurance claims, are now faced with the additional financial consequences of a global pandemic, so this has been a focus for insureds looking to complete the claims process on open files.

We have a network of offices in 21 countries throughout the world and there has been notable variation in terms of both how countries have been affected and the restrictions that have been put in place. For example, general aviation work has remained consistent in the US, while our China team were the first to go into lockdown and have been the first to come out. The team have been able to perform their normal duties since around May/June onwards with no real restrictions and domestic travel in China has recovered to about where it was pre-pandemic.

Airport operations changed abruptly and airport service companies have faced new challenges, such as how to manage the large number of parked planes. As such, in some cases, this has led to ground collision claims.

There has also been an impact on the timescale for ongoing repairs. Again, this is dependent on location, but many engine overhaul facilities have either been closed or have not been working at full capacity. Issues such as a slower supply chain and the impact on parts availability, as well as human factors like travel restrictions preventing representatives of original equipment manufacturers from collaborating with service providers in person, as they normally would, have all fed into delays. This has started to improve to some extent, although certain costs, such as shipping, have risen dramatically as a result of the pandemic.

Logistical challenges

In addition to the volume and nature of losses these developments also affect the way that aviation claims are handled. International travel is more complex, with potential quarantine restrictions in many places, so there has been a big adjustment as to how business is conducted.

At the same time tech and digital tools have been used to good effect. McLarens has a global, web-enabled claims system, electronic files and video telephony running on our laptops, which allowed the easy transition of immediately switching to remote working, but also ensures complete engagement throughout our international network with customers and other offices.

Some aspects of our job have become more challenging – for example, undertaking site surveys. However, video technology, "non-contact inspections" and "isolation visits" have been used where necessary and allowed us to continue with inspections. In some cases, we have been able to use our global network very proactively – for instance, managing a site visit in the Czech Republic via our Hamburg office because of travel restrictions.

With respect to operations in the future, a lot of older generation aircraft are likely to be retired early and this will have an impact on claims, because newer generation aircraft employ higher levels of technology, coupled with generally higher repair costs.

Coupled to the downturn in aviation in general, we may also see pressure on aircraft maintenance, repair and overhaul companies, which are dependent on the seasonal input of aircraft from many regions. Large facilities need a steady volume of work and much of this is under threat with so many aircraft grounded.

At the same time there will be new types of risk with regards to the revised operation of airlines and our risk and asset management (Ram) team has been talking to insurers about post-Covid preparation, the return to work, how to deal with new hazards and so on.

As airport operations teams turn their attention towards restoring normal aviation operations and bringing aircraft back into service, they face a number of new challenges – take staffing, for example, which has been heavily affected as operators look to manage their cost base. Whether it be training in new Covid-related safety procedures or new operational challenges such as having a large number of aircraft parked in a limited amount of space, there are new risks that have to be managed. Moreover, with pilots' flight hours having been greatly reduced, skills decay is another potential risk.

There are also challenges related to bringing dormant aircraft, equipment and infrastructure back online, particularly as we begin to recognise the implications of long-term storage. One recent airworthiness directive, for example, was issued regarding a check valve in a particular type of engine that can be affected by corrosion developing after a period of storage without use. Aircraft will have to be carefully restarted and properly tested before they can be returned to service.

Our Ram team has also been undertaking work with lessors, helping to manage the process of aircraft coming off lease prematurely because of being grounded. Although not directly related to insurance claims, it is indicative of the economic climate, plus the fact many operators have been reviewing their long-term leases, which may have an impact on insurance renewals. ■

Trehane Oliver is managing director of McLarens Aviation

The Covid-19 pandemic has seen many airlines ground aircraft and furlough staff
Avigator Fortuner/Shutterstock.com

insuranceday

Gard to hike pricing after $62m interim loss

Norwegian P&I club will seek substantial increase in ship-by-ship premium income at the next renewal

David Osler
Lloyd's List

Norwegian protection and indemnity (P&I) club Gard will seek an unspecified substantial increase in ship-by-ship premium income at the next renewal round after booking a $62m interim loss, with the pain for members offset by a 5% cut to the 2019 estimated total call.

Increases elsewhere in the International Group of P&I Clubs include 5% at Steamship, 7.5% at West, 10% at Standard and higher ship-by-ship pricing at Britannia, which its chief executive, Andrew Cutler, has conceded will be "in the same ball park" as its peers.

The clubs are portraying the pricing as a justified response to the real-term erosion of rate levels over several years, combined with falling investment returns and a spate of major casualties that has seen pool claims for the first six months of 2020-21 hit an all-time high for the halfway stage.

In a statement Gard said its interim results had been negatively affected by both pool claims and the impact of the coronavirus pandemic on both shipping and financial markets.

The results for the period ending August 20 include a loss after tax of $62m on an estimated total call basis and a technical loss of $54m, which has pushed its combined ratio out as far as 116%.

In accounting terms, the marine mutual's non-technical loss came in at $9m and was comfortably cushioned by equity that tops $1.1bn.

Gard's chief executive, Rolf Thore Roppestad, said the club's mutual business was deliberately designed to make a small loss, offset by positive returns on its commercial insurance book, which were better than expected at the halfway stage.

To support shipowner cashflow, the board has ruled mutual members will receive a 5% reduction in last year's estimated total call, with the club collecting only 75% of the final instalment, saving members $18m.

"The high level of casualties seen over the past year reminds us of the inherent unpredictability in the marine insurance industry," Roppestad said.

"Reductions in the average pricing of owners' mutual P&I in recent years have been justified by a benign claims development but this has deteriorated over the past year, with the market seeing greater severity in claims," he added.

As a result, it will be necessary to impose a "moderate" increase in estimated total call for owners' mutual P&I for the 2021 renewal.

But rather than seek a general increase, the board has elected to adjust individual members rates to reflect their risk profile and claims record.

The pricing will target a reduction in the combined ratio for mutual P&I to 102.5%.

This article first appeared in Lloyd's List, a sister publication of Insurance Day

Rolf Thore Roppestad: Gard's mutual business deliberately designed to make a small loss

Allianz group net income rises 6% in Q3

German insurer Allianz has reported group net income of €2.1bn ($2.49bn) in the third quarter of 2020, a rise of almost 6%, despite slightly lower profits at its property/casualty (P&C) business, *writes Stuart Collins.*

Operating profit for P&C business was "broadly unchanged" at €1.3bn in the third quarter, while the combined ratio rose 0.2 percentage points to 94.5%.

The P&C underwriting result was affected by further Covid-19 losses and a lower contribution from run-off, largely offset by lower claims from natural catastrophes.

Lower revenues were notable at Allianz Global Corporate & Specialty, Allianz Partners and Euler Hermes.

For the first nine months of 2020, operating profit fell 16.6% to €3.5bn as a result of a significantly lower underwriting result, with Covid-19 having a significant impact.

The nine-month combined ratio deteriorated 1.9 percentage points to 96%.

Third Point Re swings to the black as investments offset catastrophe losses

Third Point Re swung to profit in the third quarter of the year as increased investment earnings outweighed a deepening underwriting loss, *writes John Shutt, Los Angeles*.

The Bermuda-based hedge fund reinsurer, which is set to merge with Sirius Group, booked net earnings of $68m in the quarter, up from a loss of $15m loss in the same period a year earlier. Earnings per share came in at 73¢ versus a loss of 16¢.

The underwriting loss deepened to $28m in the quarter from $5.5m a year earlier, reflecting $30m in weather-related catastrophe losses and $16m in losses tied to the Covid-19 pandemic.

As a result, the company's combined ratio rose 17.2 points to 119.9%. Investment income rose to $122m.

Quarterly gross written premiums fell 36% to $61m owing to a $58m retroactive reinsurance contract recognised a year earlier with no comparable premium in the current period.

For the first nine months of the year, Third Point Re's net income fell 95% to $9.1m, as investment income fell 66% to $74m and the underwriting loss deepened to $21m.

The firm's chief executive, Dan Malloy, said the catastrophe losses were "within expectations", adding the group was well positioned to take advantage of improving market conditions.

"In particular, our recently announced partnership to form a new managing general agent, Arcadian Risk Capital, will allow us to take advantage of opportunities in excess casualty and professional lines insurance," Malloy said.

The planned merger with Sirius Group to form SiriusPoint is on track to close in early 2021, he added.

Separately, Sirius reported its operating loss widened to $101m from $65m in the third quarter despite lower underwriting losses.

The group's combined ratio improved 7.3 points to 115.5%, as the underwriting loss narrowed to $58m from $85m on lower catastrophe losses.

Its investment return fell 68% to $29m.

Gross written premiums fell 14% to $356m owing to the pandemic and client reaction to the group's rating downgrade earlier this year.