

## SECTOR REVIEW

# Dogfight at airline renewals

Insurers battle to nose ahead as rates continue their descent



Singapore Airlines takes ownership of its first Airbus A380

Insurers will have to battle to protect lead status on airline accounts during the critical final quarter renewal period due to the continuing over supply of capacity in the sector.

Rates continued to fall during the key October renewals and most experts expect the trend is likely to continue, meaning the sector is perilously close to losing money even without any major losses.

Compounding the difficulties for hard-pressed carriers is the danger of losing key staff which, in the current ultra-competitive market, can also lead to accounts changing hands.

Paris-based aviation specialist La Reunion Aérienne (LRA) is thought to be vulnerable after its underwriter Alain Burguiere left to join Catlin in September.

The Qantas Airlines and Air New Zealand parallel placement has already followed Burguiere to Catlin, while Air France-KLM may change from LRA to AXA at 1 December.

But it is over-capacity that is really playing on underwriters' minds as they look to protect their accounts.

Alan Webb, managing director of Heath Lambert's aerospace division, remarks: "If insurers feel that the account is worthy of protecting they will give the necessary reduction – it is getting very tough."

And an aviation underwriter adds that the lead underwriters often feel under the

most pressure, commenting: "People are still scared to lose the lead on slips; it is very ingrained in underwriters to maintain that status. It is still seen by many as a poor reflection on an underwriter if they lose the lead, but under the current market conditions it should be seen as a positive if they refuse to protect an unprofitable market share."

In fact, it is not just lead positions that are under threat. Sources suggest underwriters still feel under pressure to reduce rates to maintain their share of important accounts.

The renewal of the flagship Lufthansa account on 1 December will again prove something of a litmus test for conditions. At over \$30bn in fleet value, it is one of the largest placements and also includes airlines such as Lufthansa Cargo, Air Dolomiti and SWISS.

Despite being cloaked in secrecy – underwriters have to sign confidentiality agreements before entering negotiations – last year's Lufthansa renewal was thought to have been accompanied by heavy discounts.

This year, Turkish Airlines has been added to the programme which means even if rates stay the same, they have effectively gone down because the total exposures have increased.

Allianz is the overall lead, with Global Aerospace Underwriting Managers the London lead.

One aviation underwriter tells *IQ*: "Lufthansa is trying to preserve that level of premium this year despite the arrival of Turkish Airlines to their fleet."

And Webb explains: "The market is nervous. There is no doubt about that, over capacity is enabling brokers to keep the pressure on."

After a brief respite in August and September, rates fell again in October – continuing a long downward trend that reaches back to early 2006.

Although not as pivotal as it once was, October is still an important time for the sector because of the number of renewals that take place. Renewals were down by an average of 19 percent against the same time last year, according to Aon.

Meanwhile, the first A380 has entered commercial service with Singapore Airlines.

Aon adds: "Brokers and insurers addressed the potential insurance implications of the new generation aircraft some time ago, and the A380 has been added to the launch customer's fleet schedules and any required limit increases have been bought with a minimum of fuss."

The year-to-date airline loss total, excluding attritional losses, was \$900mn at the end of September, above the \$778mn reported for the same period last year. Including a pro-rata figure for an annual estimate of attritional losses, the overall loss total is currently \$1.27bn, compared to \$1.13bn last year.

In addition an Egyptian AMC Aviation aircraft, which caught fire after making an emergency landing in Istanbul on 11 October, is expected to be a total loss and is valued at \$12mn.

Aon warned: "If there are no further major losses before the end of the year, adding our attritional estimate to the current loss total brings a total annual loss amount for 2007 to just under \$1.4bn. This is very close to the total annual hull and liability premium amount that we expect for the year, and would mean that the airline insurance market is straying dangerously close to becoming unprofitable."

## 2007 significant aviation hull losses

Date	Airline	Hull Value
January	Adam Air	\$20mn
January	Republik Express	\$3mn
February	Adam Air	\$14mn
March	Biman Bangladesh	\$22mn
March	Garuda Indonesia	\$21mn
April	Qatar Airways	\$54mn
May	Kenya Airways	\$52mn
June	TAAG Angola	\$3.5mn
June	Gemini Air Cargo	\$3mn
July	TAM Airlines	\$41.6mn
July	Aerorepublica Embraer	\$34.4mn
August	China Airlines	\$45mn
September	SAS	\$13mn
September	One-Two-Go	\$4.5mn
October	Egyptian AMC Aviation	\$12.5mn

Source: Aon Aviation