Aerospace Market Review

2020 Update Q3

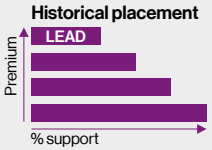
Aerospace, a supply chain to the Aviation industry, including: Manufacturers / OEMs, Airports, Air Navigation Service Providers, Refuellers, Groundhandlers / caterers, and Contractors / concessionaires.

Definitive market direction

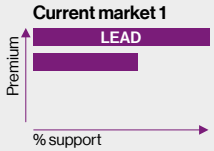
- We are now in a 'hard' market following years of rating reductions
- Experiencing significant rate increases due to contraction of market capacity combined with large aviation losses in recent years
- Cost of repairs increasing as well as liability awards and insurer operational costs (including reinsurance, people and real-estate) all affecting insurer profitibility
- Pricing above lead terms now a reality
- Composite pricing increasing faster than lead pricing
- Insurers increasingly selective when it comes to loss active accounts

Following insurer pressures and our expectations on composite pricing

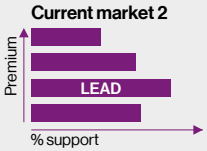
Historically, for many placements, overcapacity ensured pricing differentials could be achieved at premium terms lower than the leaders, reducing client's overall composite premiums.



Scenario 1 – follow markets seek to close differentials to meet the leaders price; downwards verticals disappearing.



Scenario 2 – follow markets seek pricing above lead. Reasons include poor performing portfolio and opportunistic underwriting.



Insurers appetite and focus

Particular Insurer focus on:

- Loss free aerospace business with flat exposures, typically seeing increases of between 20-25%.
- Insurers willingness to apply any form of credit at renewal for a downturn in exposures is heavily dependent on overall account profitability. For a substantial number of Aerospace accounts, underwriters continue to seek significant increases despite considerable reductions in exposures due to COVID-19 outbreak
- For more distressed accounts, insurers are looking to quickly return to acceptable/profitable 5-year loss ratios; being 50-65% at least
- Aerospace accounts are being reviewed differently at renewal depending on their exposures, limits and loss history

Market Capacity

- Greater risk of capacity and premium volatility as 100% options reduce
- In June both Antares and Starstone confirmed they would be withdrawing from Aviation. This intensifies the pressure on capacity across the sector. As reinsurance programmes renew and Lloyds syndicates start to turn their attention to 2021 business plans, this trend will likely continue
- Other full or partial withdrawals and M&A activity expected to continue
- New capacity has shown appetite; both Convex and Helvetia have deployed capacity in the Aerospace sector and have scope to grow
- Recognised leaders are limited and as a result can impose premium increases with greater confidence of retaining business

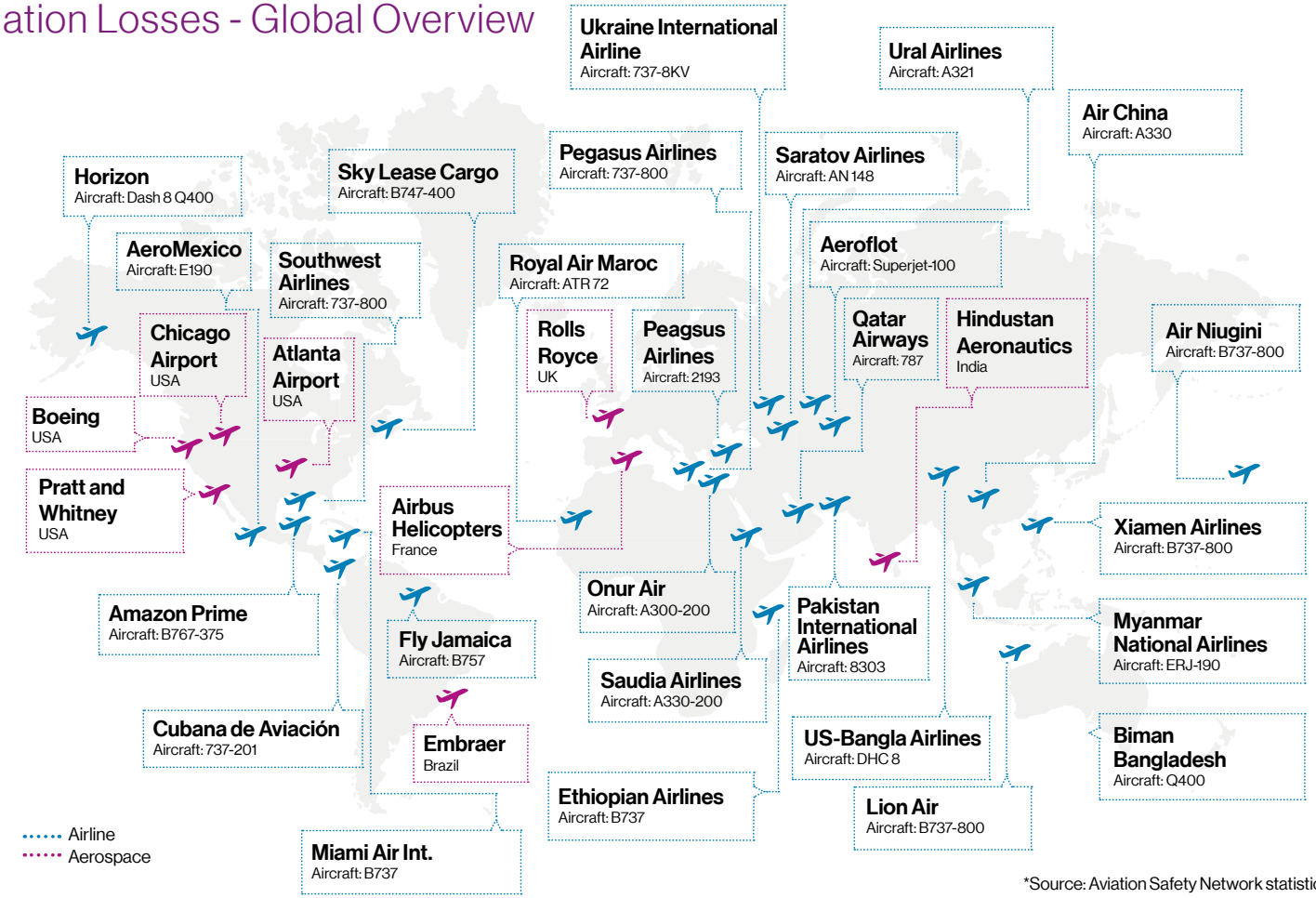
Coverage

- Grounding limits under scrutiny. Insurers seeking to reduce grounding limits. Change in wording to Global 350 and 352 in Q4 2019 amended
- Excess non-aviation liability receiving particular focus. Alongside reducing limits offered, insurers are now looking to apply a COVID-19 exclusion to this coverage and are insisting upon adequate underlying limits. COVID-19 exclusions are, so far, not being more widely applied to aerospace placements
- Premium payment terms being reviewed with insurers tightening the timeframe and penalties for delay or non-payment of premiums. Prompt payment discount slowly disappearing
- LIIBA Data Event Exclusion Clause AVN001 now a market standard clause on all Aerospace placements

Covid19 Market Environment

- Return premiums for reduced exposures are still not being entertained for non-adjustable aerospace business as underwriters battle to protect core premium on the airline side of their portfolio
- Q4 airline premium income is anticipated to be reduced, indications that this could impact underwriters resolve to generate premium in the Aerospace sector, this could be;
- Positive for buyers; if this translates to appetite for new business, growing existing shares.
- Negative for buyers; if underwriters focus on pushing rate on existing business to make up the shortfall.
- Reinsurers attempts to implement COVID-19 insurance exclusions, now on the whole limited to excess non-aviation liability coverage.
- Underwriter flexibility remains around premium instalments and terms

Aviation Losses - Global Overview



*Source: Aviation Safety Network statistics 2019

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