

RAASI 3rd International Aviation Insurance Conference

Update 2012:

Are the Russian Airlines being treated fairly by the International Reinsurance Market?

21 February 2012

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Willis

- **Brief Market Overview**
- **2011 Global Premium**
- **5 Year Global Premium Movement VS Russia/CIS**
- **2011 Safety Record in Russia**
- **Treatment of Russian Airlines by the Market in 2011**
- **What Next?**

Hull and Liability

2011 Market Environment

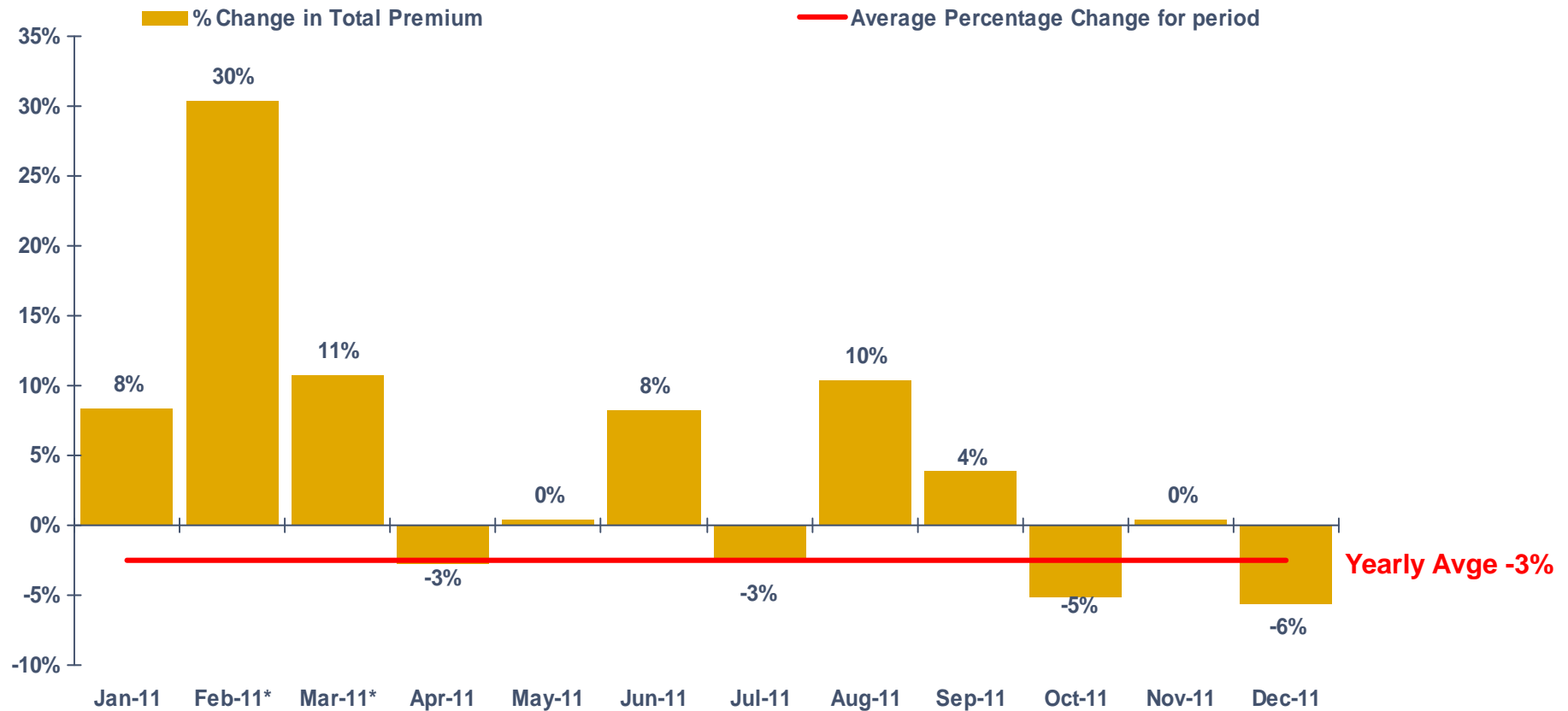
- While Capacity levels remained high, there was a significant difference between the theoretical capacity available for any given risk and the actual level of competitive capacity deployed
- Underwriters continued to use a risk selective approach to renewals. Airlines requiring significant coverage limits had less capacity available to them
- Underwriters were willing to absorb much of the industry growth being displayed by renewing airlines, with rate reductions being counter-balanced by premium levels remaining as before
- Renewals with poor loss ratios continued to be charged increased rates and premiums
- Leaders on certain highly competitive risks remained more competitive than following markets who were adopting a more independent approach to pricing. As such, some Airline placements had a significant proportion of the risk placed above leaders terms

Hull and Liability

2011 Market Environment

- Buyers aspirations needed to be tempered by the fact that in the prior four years the Airline market as a whole has made a loss. As a result the market environment was characterised by Underwriters as being 'delicate', 'sensitive' and subject to change
- The premium income for 2011 as a whole is estimated at US\$1,905m at leaders terms
- 2011 losses were at the lowest amount since 2004. This factor, combined with over-capacity meant that average market premiums were unable to rise outside of a narrow trading range
 - 2011 loss reserves currently stand at US\$1,097m
- The 2011 year was a good year for Underwriters, with a profit of approximately US\$800m.

2011 Net % Premium Movements



***Significant exposure growth in February and March distorted the overall premium increases.**

Hull & Liability 2011 Major Airline Losses (In excess of US\$10m)

Date of Loss	Operator	Aircraft Type	Location of Loss	Passenger Fatalities
January 10	Air Asia	A320	Kutching Airport, Malaysia	Nil
February 11	MANX 2	Fairchild (Swearingen) Metro III	Cork Airport, Cork, Ireland	6
February 16	Saudi Arabian Airlines	B747	Mohammad Bin Abdulaziz Airport, Madinah, Saudi Arabia	Nil
March 11	Ibex Airlines (Japan Tsunami)	Spares	Sendai Airport, Japan	Nil
April 4	Air Zena Georgian Airlines	CRJ 100ER	N'Djili International Airport, Kinshasa, Congo	28
April 14	China Cargo Airlines	B777	Kastrup Airport, Copenhagen, Denmark	Nil
May 7	Merpati Nusantara	MA-60	Kaimana Airport, Indonesia	27
May 16	Cathay Pacific	A330	In flight, returned to Changi Airport	Nil
July 28	Asiana Airlines	B747-400F	Just off Jeju Island, South Korea	Nil
July 28	SpiceJet	B737	New Delhi International Airport, India	Nil
July 29	EgyptAir	B777	Cairo Airport, Egypt	Nil
July 30	Caribbean Airlines	B737-800	Georgetown Airport, Guyana	Nil
August 29	Gulf Air	A320	Kochi International Airport, India	Nil
September 16	TAME	EMB-190	Mariscal Sucre International Airport, Ecuador	Nil
November 1	LOT	B767-300	Warsaw Okecie Int'l Airport, Poland	Nil

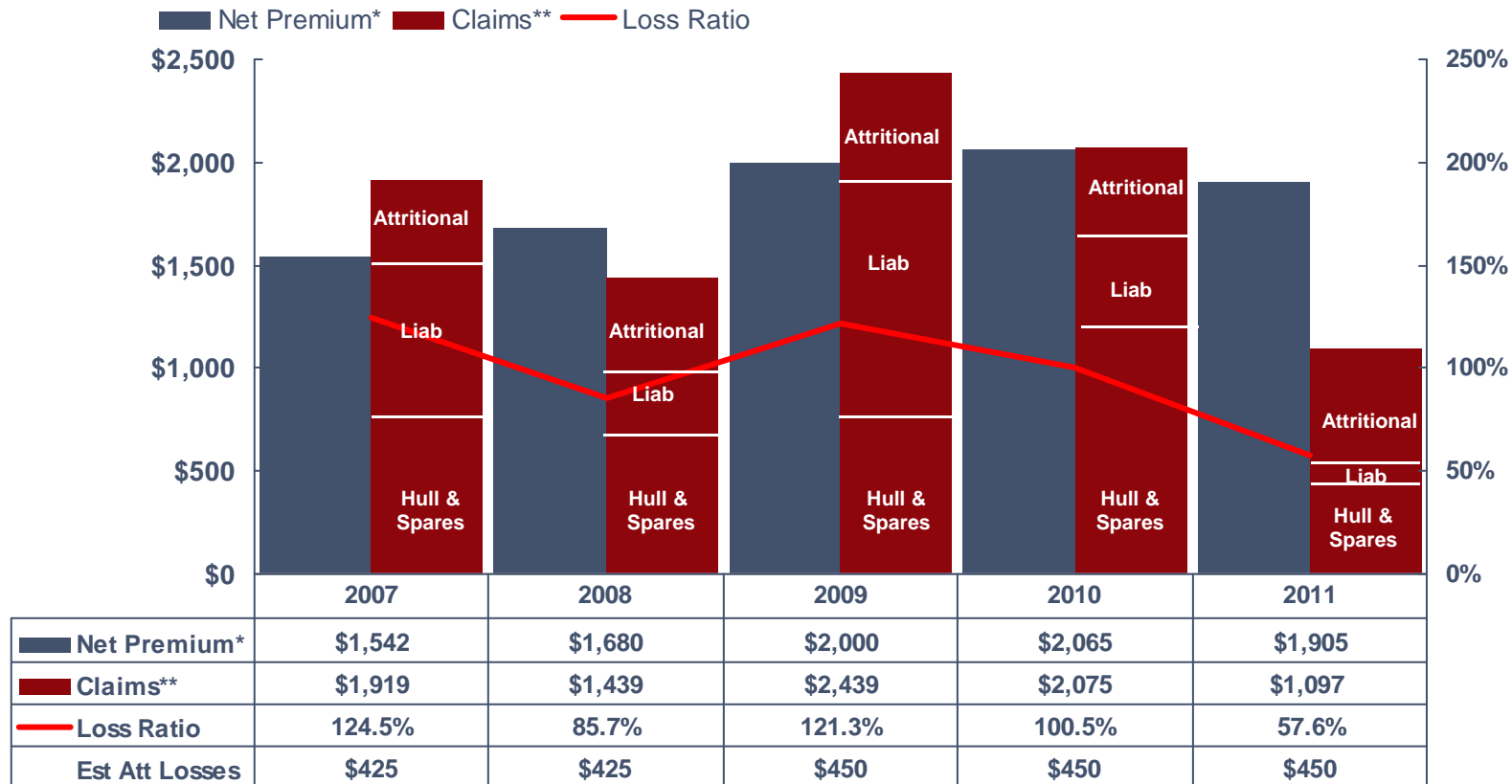
Hull & Liability 2011

Major Hull & Spares Losses

(In Excess Of US\$10m)



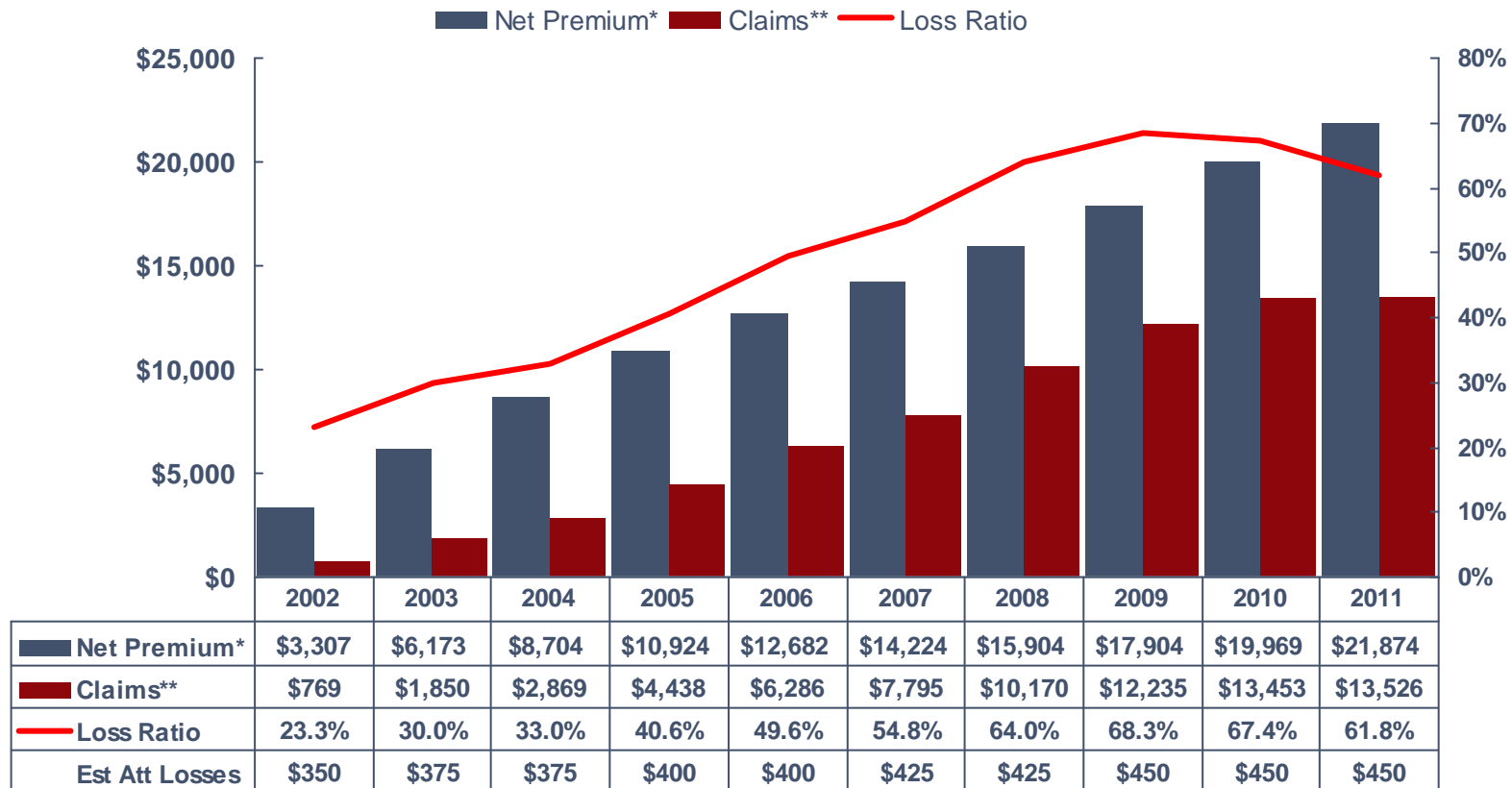
World Wide Airline Hull & Liability Premium and Claims on a Calendar Year Basis 2007 – 2011 (Net Leaders Terms US\$M)



* Premium includes all known airlines with an AFV in excess of US\$100m and is based on Net London Lead Terms; it is subject to change as more information becomes available.

** Claims shown include the estimated figure for attritional losses. Claims are updated as more information becomes available.

World Wide Airline Cumulative Hull & Liability Premium and Claims on a Risks Attaching/Underwriting Year Basis 2002 - 2011 (Net Leaders Terms US\$M)



* Premium includes all known airlines with an AFV in excess of \$100m and is based on Net London Lead Terms; it is subject to change as more information becomes available

** Claims shown include the estimated figure for attritional losses on expiring years, but not shown on 2011 year until underwriting year end

Western Reports on Russian Aviation Safety

Russia – Once a global aviation power has become the most dangerous country in which to board an Airliner.

*Wall Street Journal
7th December 2011*

2011 List of Major (Insured) Losses

Date	Operator	Details	Fatalities
01/01/11	KolAvia	Tu-154B fire in Surgut	3
05/03/11	VASO	An148 crashed during training flight	6
04/04/11	Air Zena	CRJ crashed during landing	28
15/03/11	AeroGeo	Mi-8 crashed during training flight	0
18/06/11	AeroGeo	Mi-2	0
20/06/11	RusAir	Tu-134 crashed while approaching airport Besovets in bad weather	47
23/06/11	MOD	MiG29 crashed during test flight	2
05/07/11	UtAir	Mi-8 turned over while unloading with rotors in motion	2
06/07/11	Silkway Airlines	IL76TD	9 crew
11/07/11	Angara	An-24 ditched in River Ob' following engine fire in flight	7
12/07/11	Komiavia trans	Mi-8T hard landing	0

Continued 2011 List of Major (Insured) Losses

Date	Operator	Details	Fatalities
15/07/11	Bilibino Avia	Mi-8T burned on the ground	0
19/07/11	Uktus	Mi-8T crashed while overflying the gas pipe	1
25/07/11	ChukotAvia	Mi-8T crashed while landing	2
25/07/11	KatekAvia	An-24 hard landing	0
08/08/11	IrAero	An-24 overran the RWY and was damaged beyond repair	0
09/08/11	Avis-Amur	An-12 fire or explosion	2
29/08/11	PANH/Rosneft	Mi-8AMT landed hard and rolled over injuring several passengers	0
07/09/11	Yak-Servis	Yak-42 with Lokomotiv hockey team on board crashed after take off	44
14/10/11	Yamal Airlines	Tu134 take off aborted	0
20/12/11	Utair	Mi26T power loss	1 crew

Continued

2011 List of Major (Insured) Losses

Summary

- 21 Major Losses
 - 19 Russia
 - 1 Georgia
 - 1 Azerbaijan

Safety in Russia

- Russian fatalities and crashes adjusted for air traffic volumes, this year exceed those in less developed countries with outstanding safety problems, including Congo and Indonesia
- In 2006 the Government accepted International help to boost safety, and by 2009 Russia had no fatal crashes
- Now the situation has dramatically deteriorated, with much of the blame attributed to failures with smaller domestic carriers who appear to have been overlooked by the safety campaigns

Russian Response

- Largely reactive rather than pro-active grounding Aircraft after the event
- Interstate Committee in November 2011 called on Moscow to accelerate adoption of International safety rules for domestic carriers to mirror these applicable to International Carriers. “No double standards” Quote Tatiana Anodina
- Post Rusair 20/06/11 President Medvedev grounds all TU134’s within 3 days of the accident, before any investigation results being released, and notwithstanding probable cause being “crew error”. Quote “It’s not just because of this crash, its just the time”
- In parallel new Aviation rules drawn up which restricts new start up possibilities due to any new scheduled operator needing a minimum of 3 operational aircraft before being granted an AOC. Hence 2011 saw no new start ups

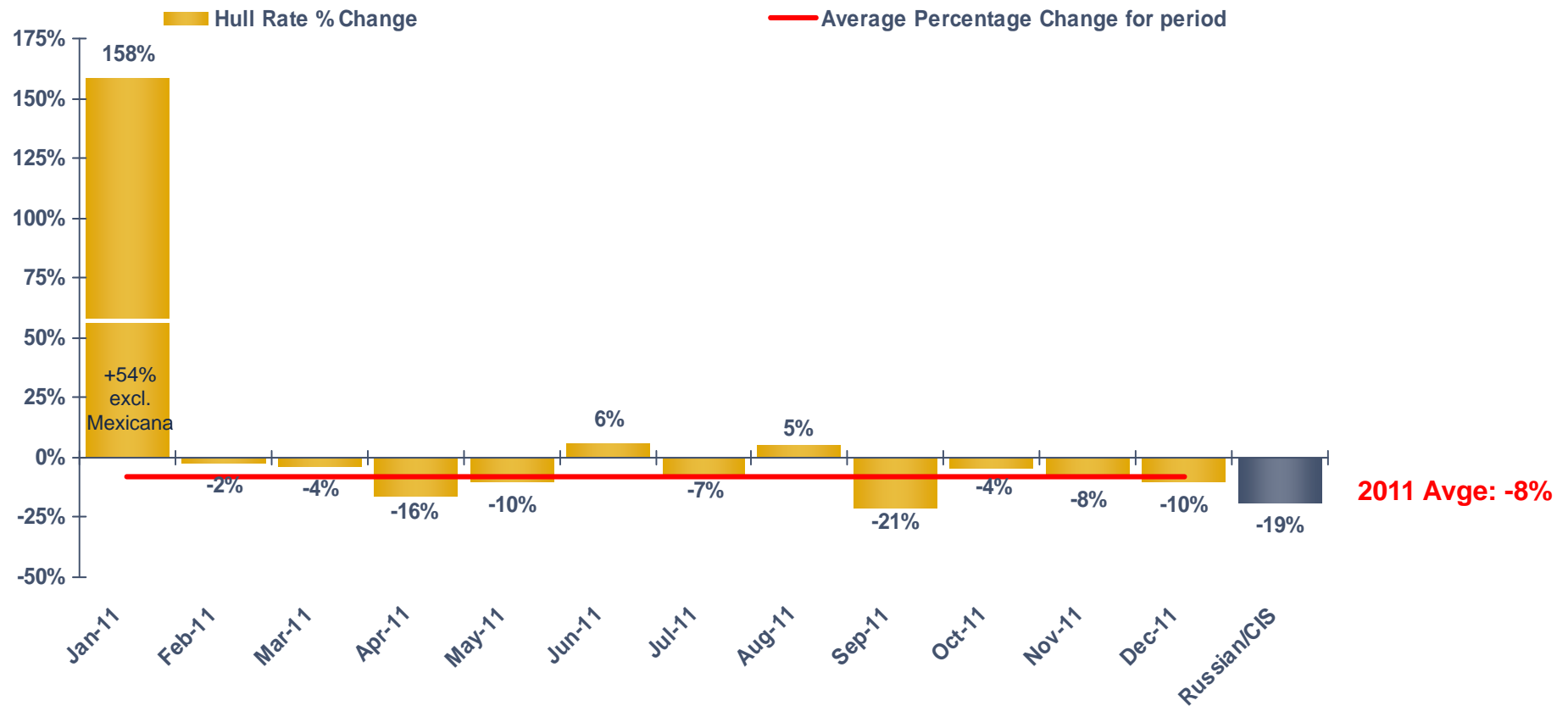
Continued Russian Response

- Rosaviatsa restricting flights to Europe of specified Carriers due to perceived Safety breaches
- 30 Airlines already losing their AOCs during 2011 and many more under threat after regulations requiring expensive upgrades, including Ground Proximity Warning Systems, come into effect during 2012
- A ban on smaller carriers performing scheduled long haul flights from Jan 2012 unless they have 8 (or 10?) similar type of Aircraft
- IOSA – only 15 Russian Airlines to date certified, but all Airlines operating Internationally required to obtain IOSA by end of 2012 and other Airlines by 2014
- Nov 2011 Mr.Putin announced Russian Govt intending to allocate RB160B or USD5.3B over the next 3 years to improve Aviation Safety. This also represents a closer strategic partnership between ICAO and Russia in Europe.

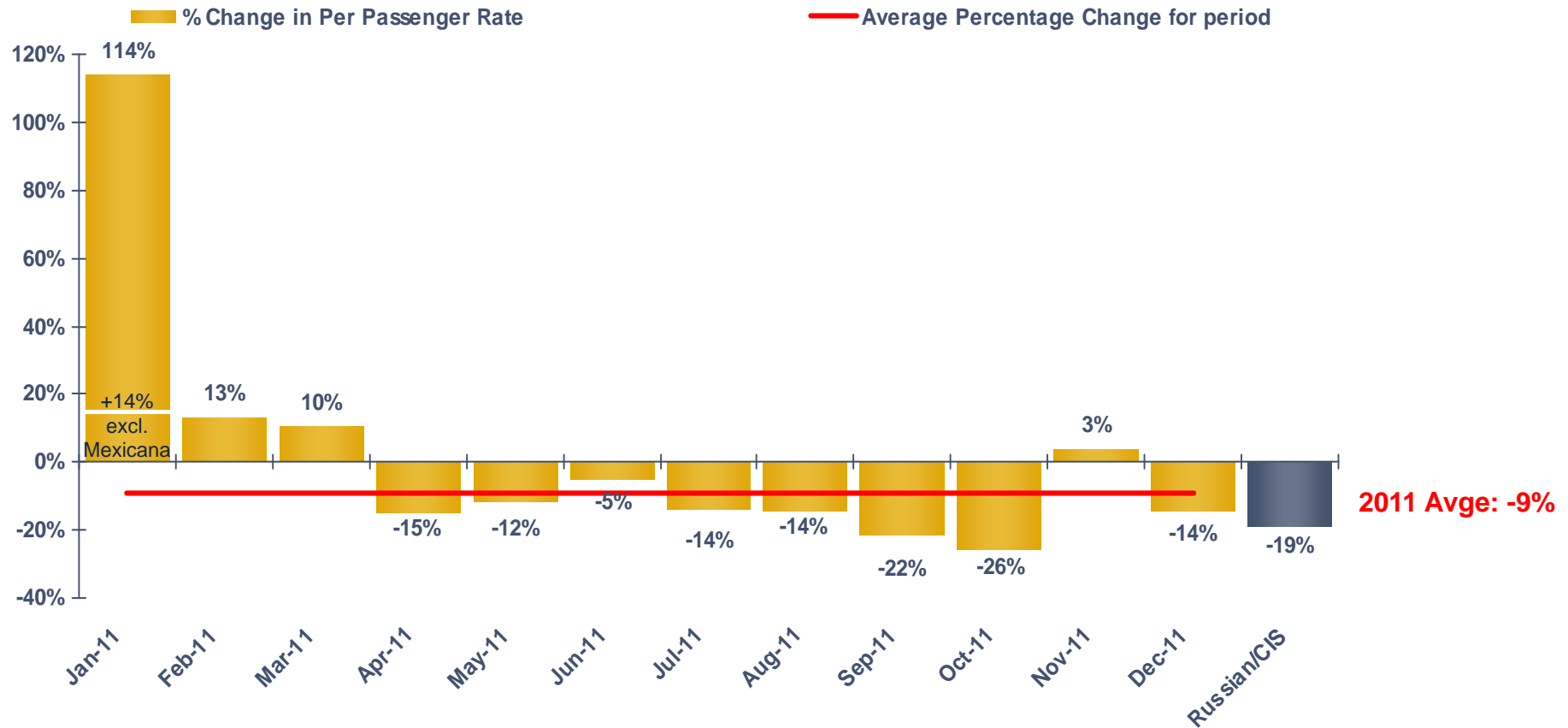
Russian/CIS Airline Renewals

- Has the largely Russian equipment dominated frequency of losses in 2011 affected Russia/CIS Airline Insurance renewals?
 - Appreciating that most, if not all of the reported losses have been retained in the domestic market or reinsured via Treaty Programmes then the poor safety year for Russia does not appear to have been reflected in the renewal rates of the top Russian Airline renewals.
 - Indeed according to our database then whilst the Average Rate Reductions on a global basis for 2011 are:
 - Hulls -8%
 - Liabs -9%
- Then the rates for Russian Airlines have far exceeded these :
- Hulls -19%
 - Liabs -19%

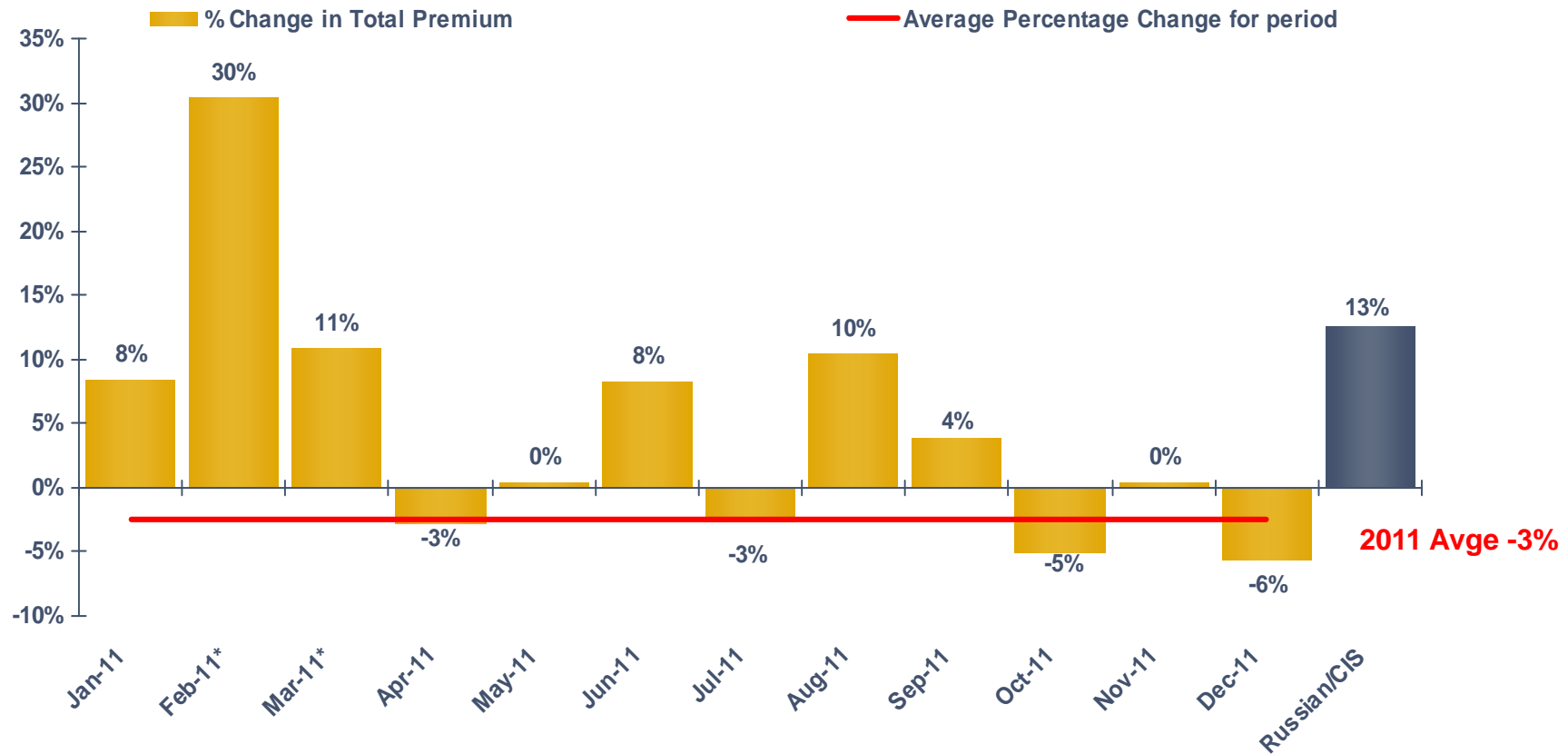
2011 Net Hull Rate % Movements



2011 Net Liability Rate per Passenger % Movements

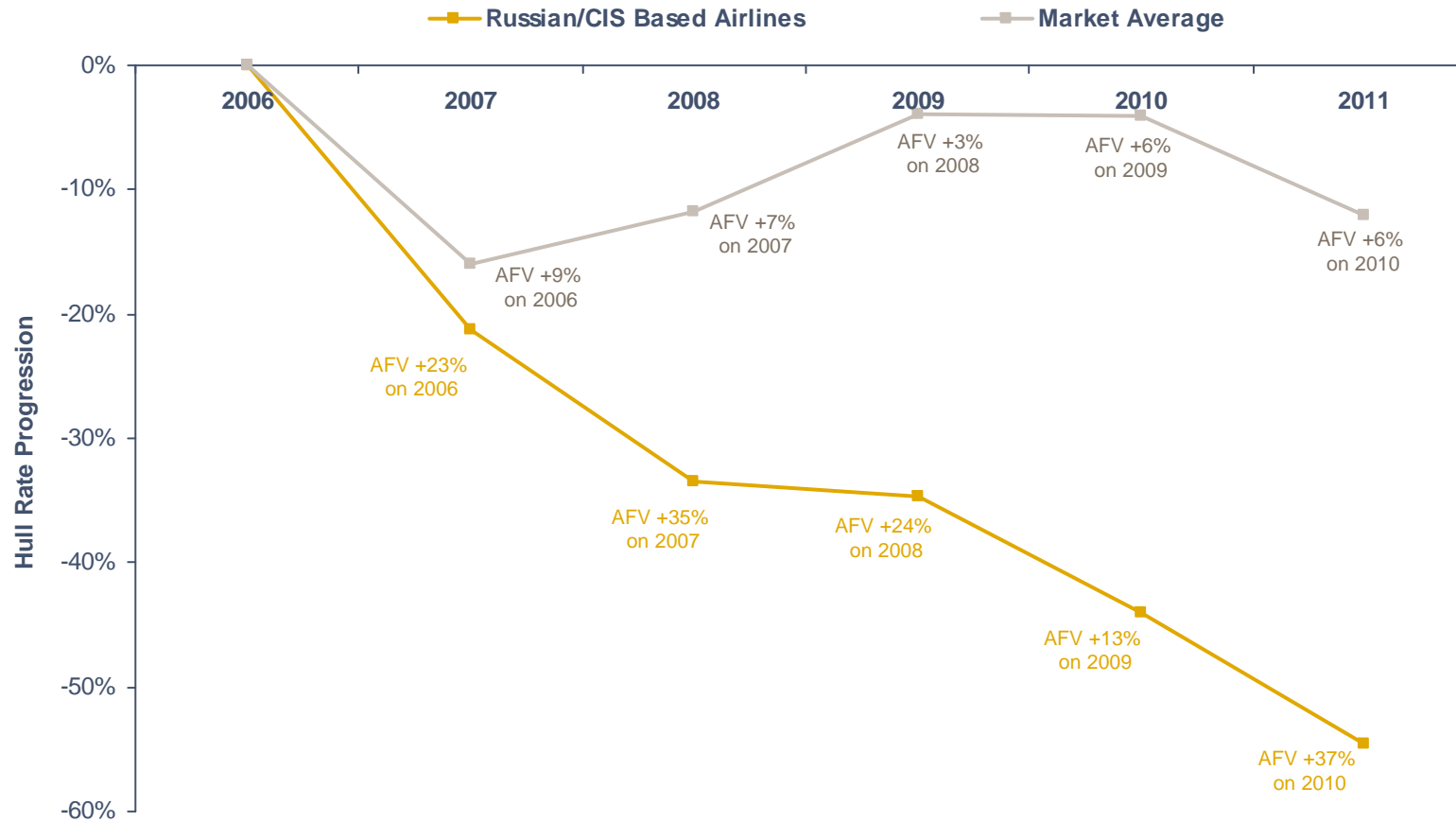


2011 Net % Premium Movements

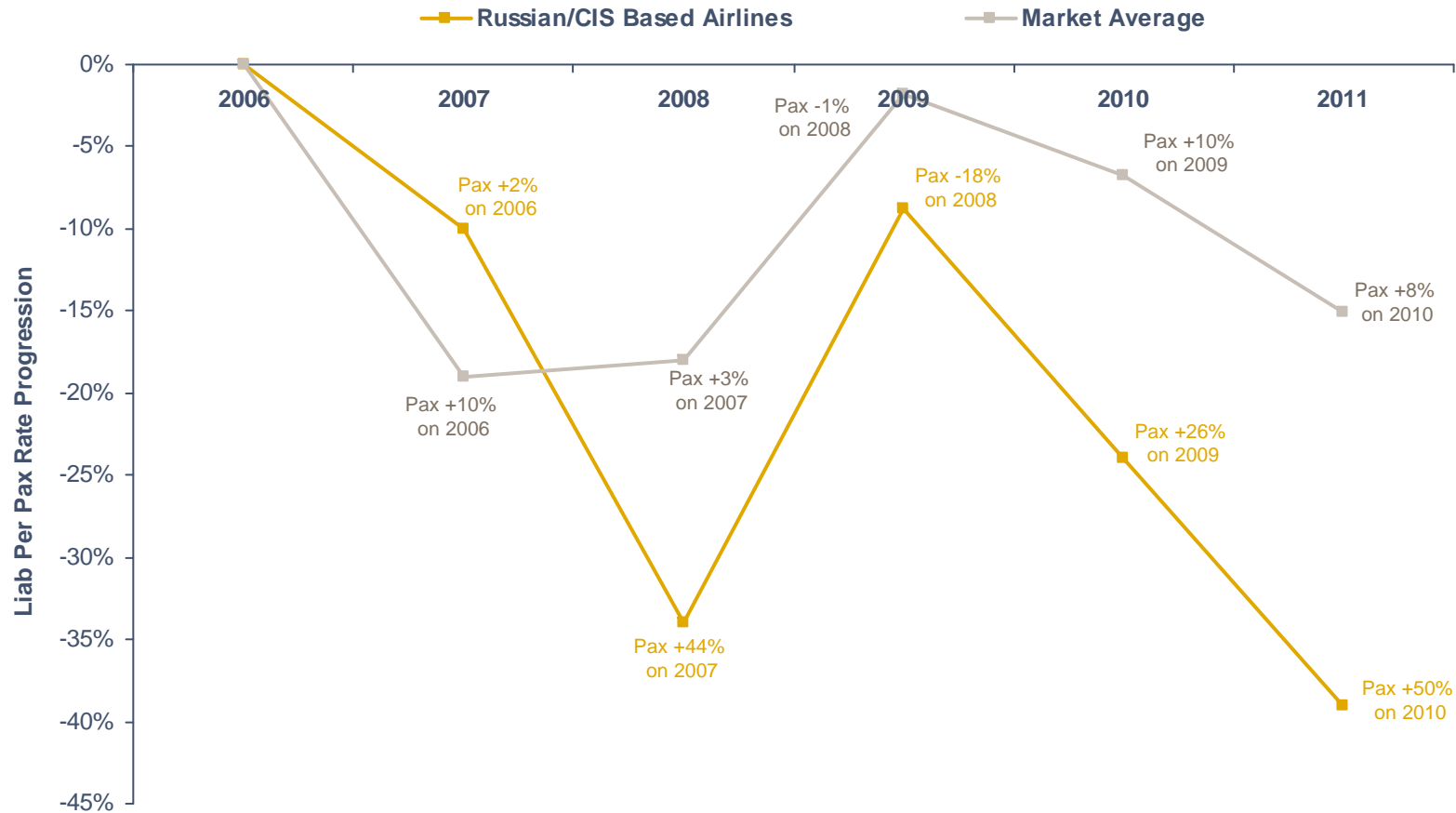


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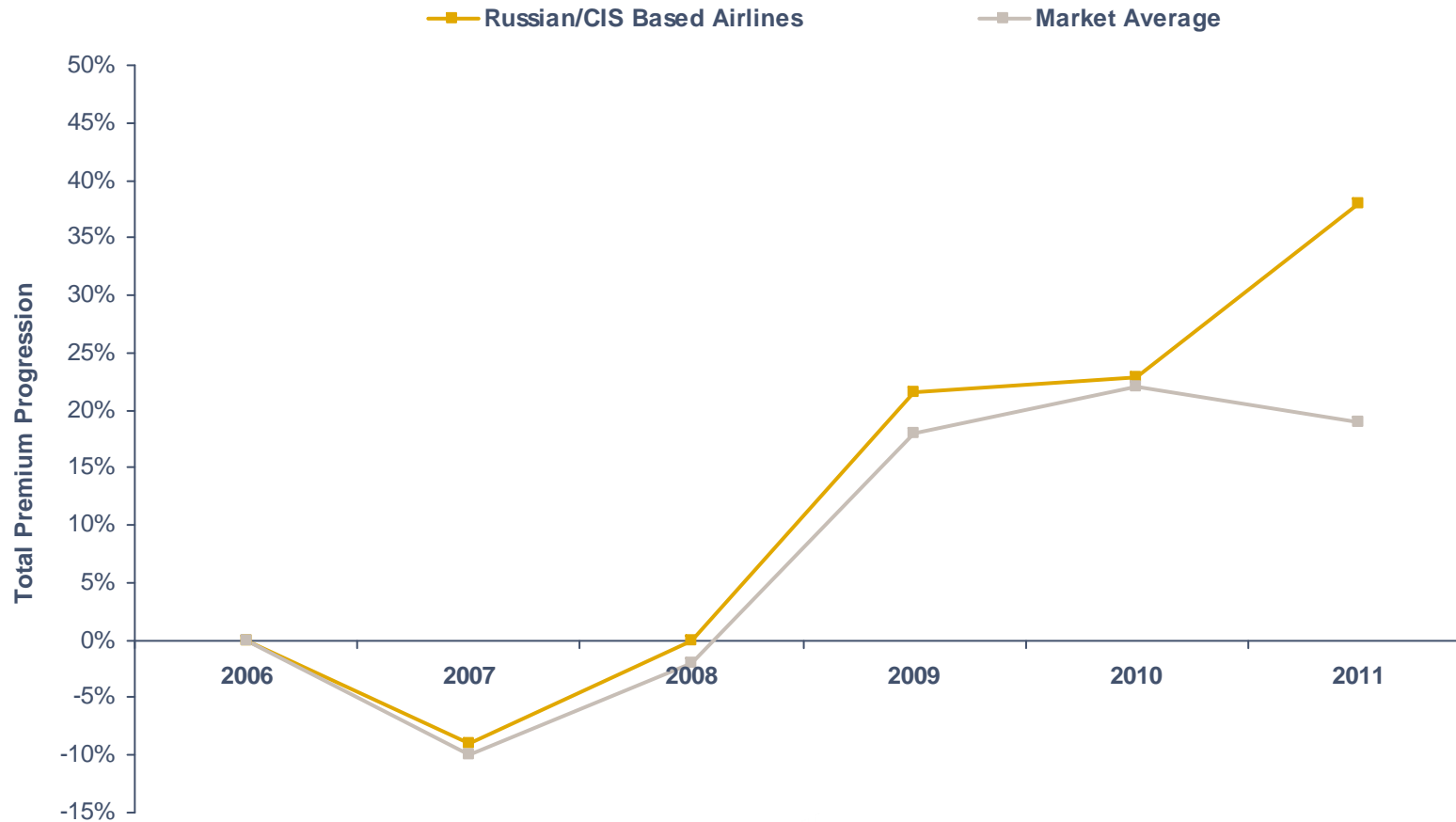
Russian & CIS Airlines 6yr Hull Rate Progression Compared the Market Average



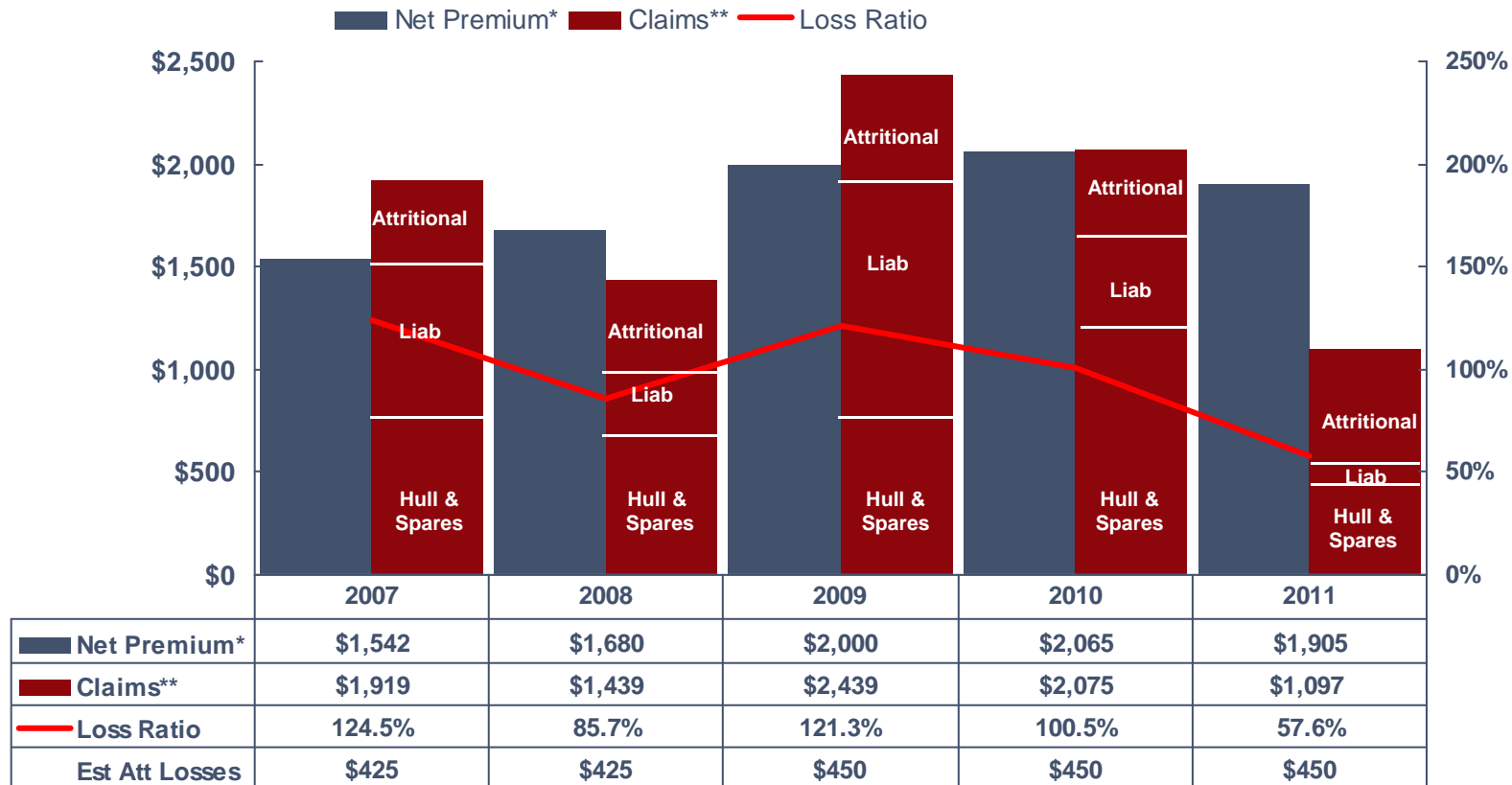
Russian & CIS Airlines 6yr Liability Pax Rate Progression Compared the Market Average



Russian & CIS Airlines 6yr Total Premium Progression Compared the Market Average



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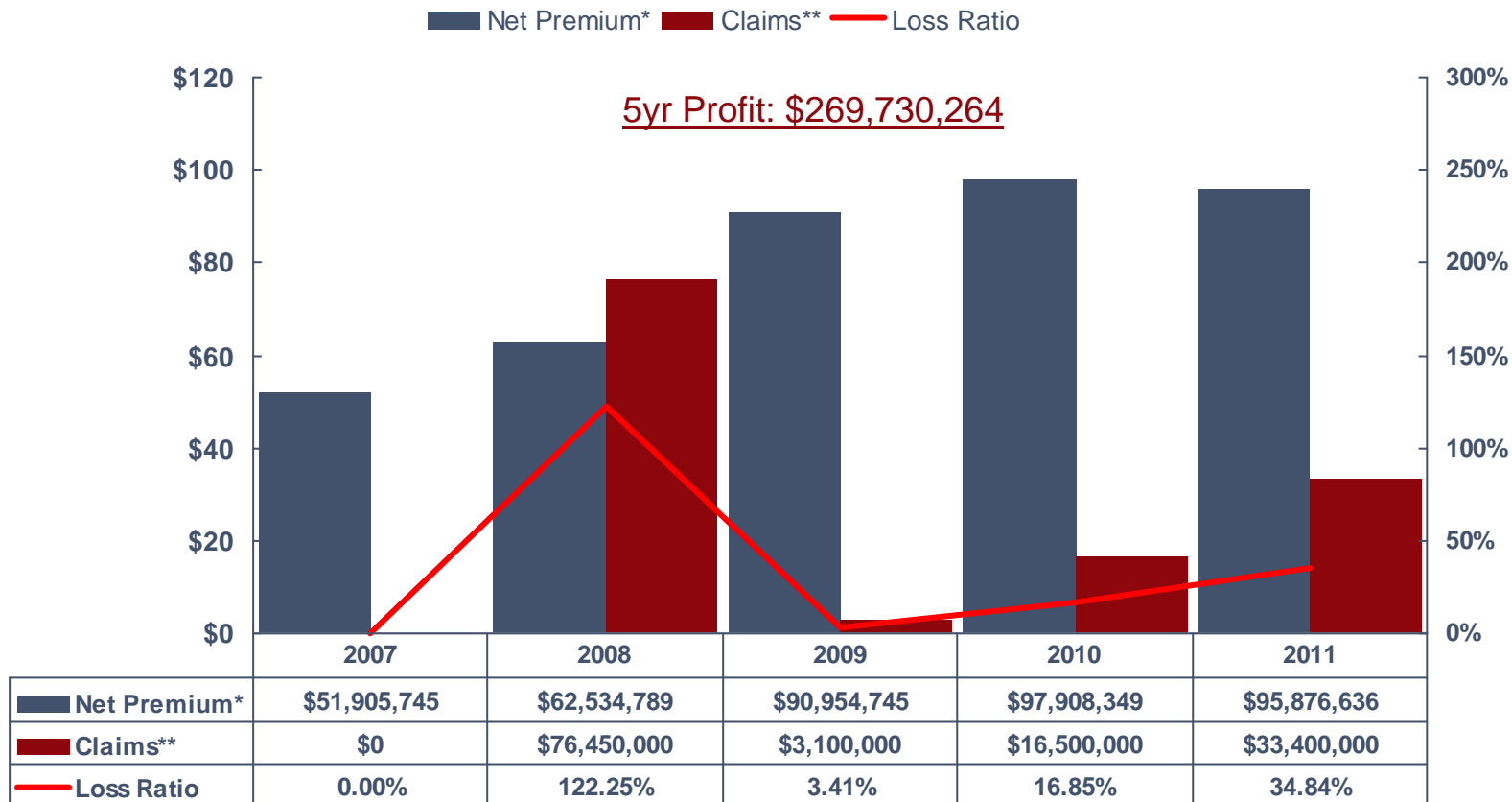


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Russian/CIS Airline Hull & Liability Premium and Claims on a Calendar Year Basis

2007 – 2011 (Net Leaders Terms US\$M)



* Premium includes all known Russian/CIS airlines and is based on Net London Lead Terms.

** Claims are for western built aircraft only.

Contribution of Russian/CIS Airlines Risks to the International Market

- One year ago I reported that Russian/CIS Airline risks were responsible for 5% of the Gross Market insurance income, but only 0.795% of the Claims
- This figure had moved from 3% of the Gross market income in 2006, but 10.63% of the claims.
- In 2011 then whilst the Russia/CIS has experienced a poor year in safety these accidents have had only a minor impact on Reinsurers providing facultative capacity. Hence the income has now developed to 5.35% of Global Airline Gross income against 1.49% of claims paid.
- 2011 Gross Market Income USD 2,228,728,348
- 2011 Russian/CIS Gross Market Income USD 119,271,000
- 2011 Claims USD 33,400,000

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Contribution of Russian/CIS Airlines Risks to the International Market

- Whilst these figures appear to depict unconcern by the International market, the levels of reduction mask a growing unease by many Underwriters that under the surface all is not well.
- For 2011 this unease has been offset by significant development in AFVs and Passenger Numbers declared by most Russian Carriers insured in the International market which has enabled the Insurance market to quote above average reductions in rates but still maintain or increase Premium levels.
- Even so capacity for many Russian risks remains below that of its European/Asian contemporaries and this hinders Brokers abilities to extract the maximum “deal” from the market.
- Professional Reinsurers providing capacity to many Russian Insurance Companies to help them support domestic risks/Russian equipment have greater concerns and capacity is also affected there.

Conclusion

- Larger Russian Operators demonstrating growth in fleet and passengers and this is assisting in insurance rates outperforming the Global average
- Top 20 Russian Airlines retain a good safety perception within the Insurance market and Underwriter visits to Airline home bases enhancing this.
- Concern remains regards operators outside of these top 20, whether operating Western or Russian equipment and improvement in Safety record now awaited.