



A BROKER'S VIEW OF THE RUSSIAN
AIRLINE REINSURANCE MARKET
JLT SPECIALTY - AEROSPACE

FEBRUARY 2015



THE PAST



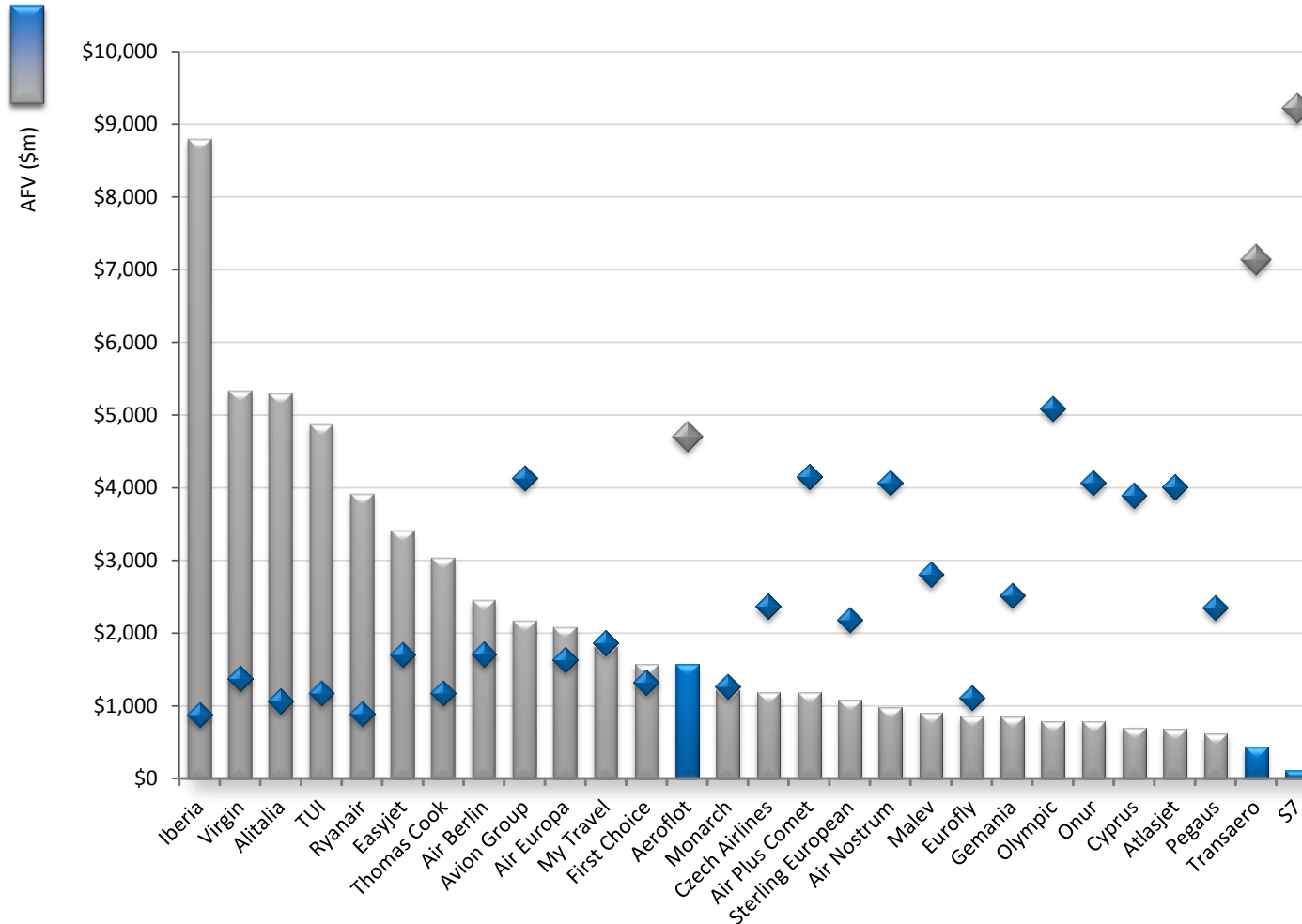


Looking back (2005)

- 2005 Russian built aircraft in operation outnumber western built aircraft by 4 to 1
- Number of passengers carried by Russian airlines in 2005 - 26.5 Million
- Number of accidents involving Russian carriers resulting in fatalities - 1
- Ranked 15th by ICAO for number of passengers carried annually
- Generally rated higher than their European peers



Peer Grouping 2005



Hull Rate Comparison



The Present Day



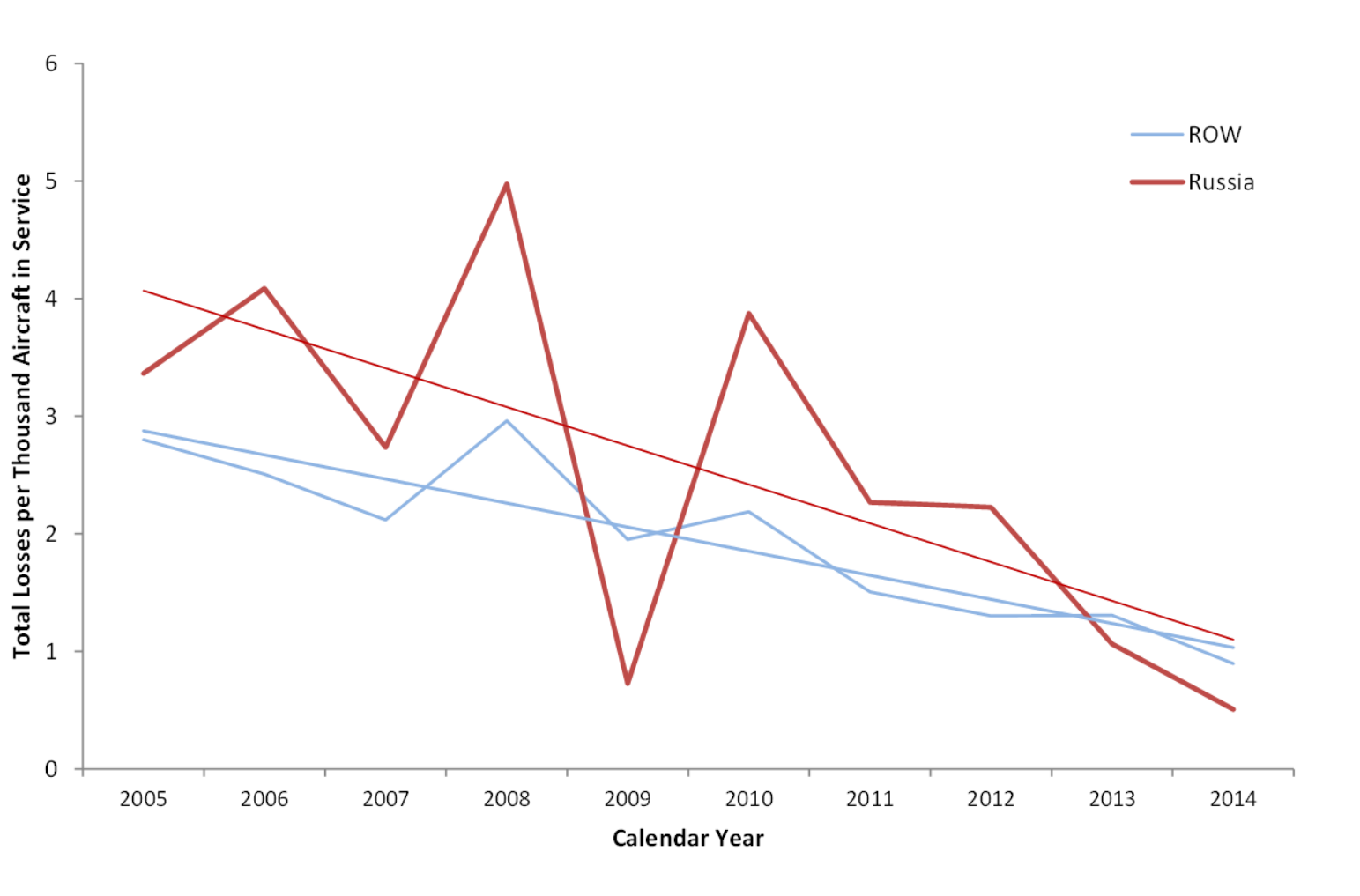


The Present Day

- Western built aircraft outnumber Russian built aircraft by over 3 to 1
- Number of passengers carried by Russian airlines in 2014 – Over 94 million
- Number of accidents involving Russian carriers resulting in fatalities - 0
- 5th fastest growing market for passenger travel since 2005
- Ranked 14th by ICAO for number of passengers carried annually



Airline Total Loss Statistics (per departures)



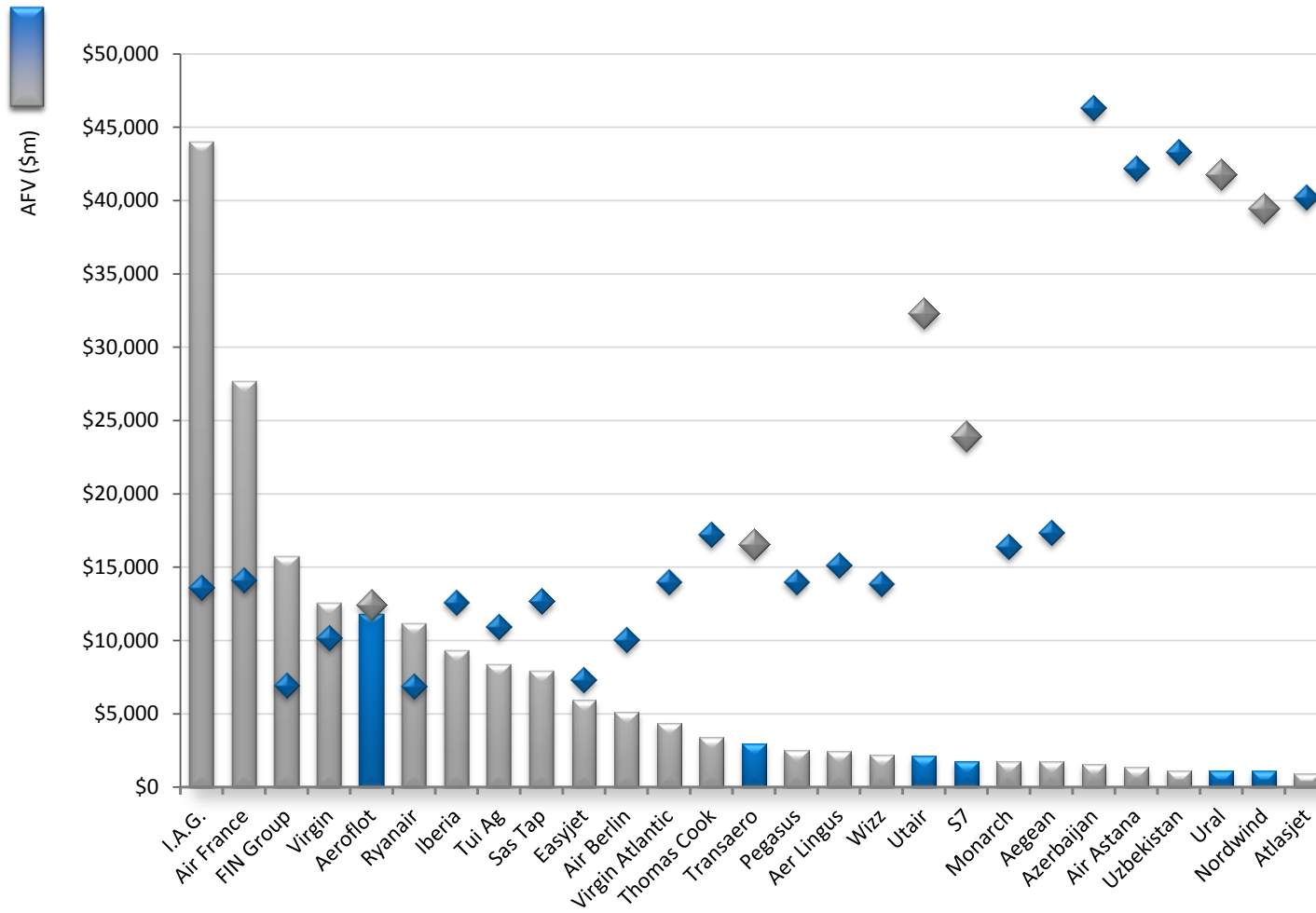


Average Passenger Settlements

Region	10 Year Average Settlement
USA	USD 5,500,000
Europe/ Australia/ Canada	USD 1,200,000
Asia-Pacific	USD 4,400,000
China	USD 620,000
Latin America	USD 1,250,000
Middle East	USD 635,000
Russia	USD 275,000



Peer Grouping 2014

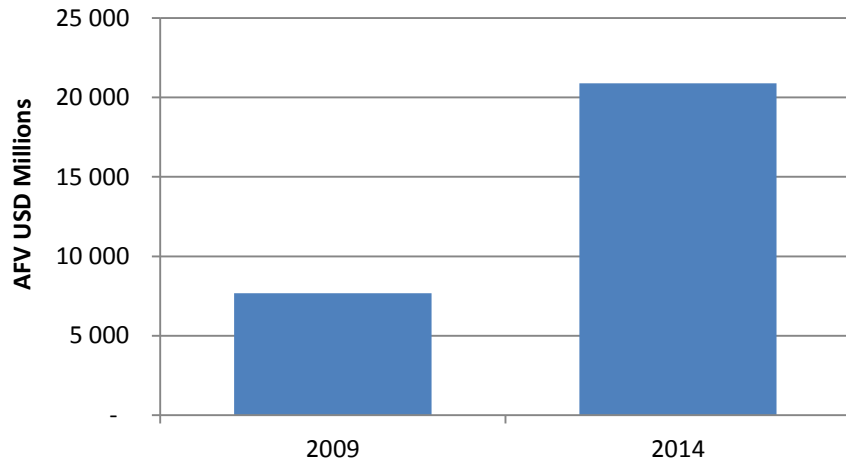


Hull Rate Comparison

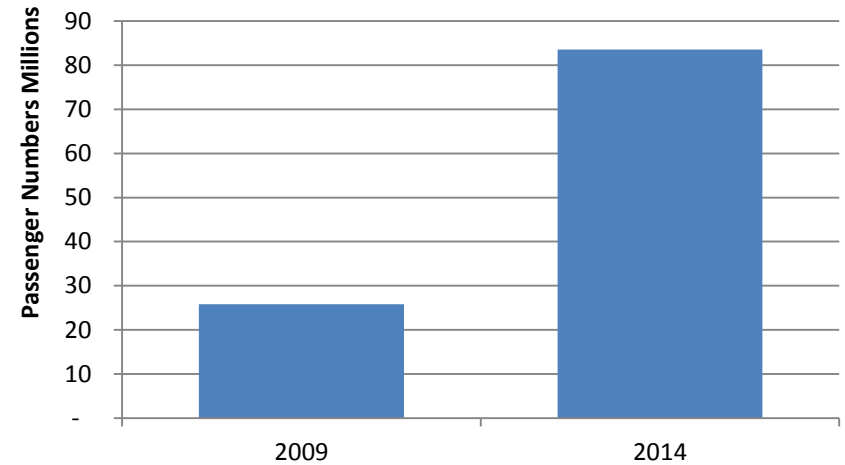


Premium / Exposure Progression

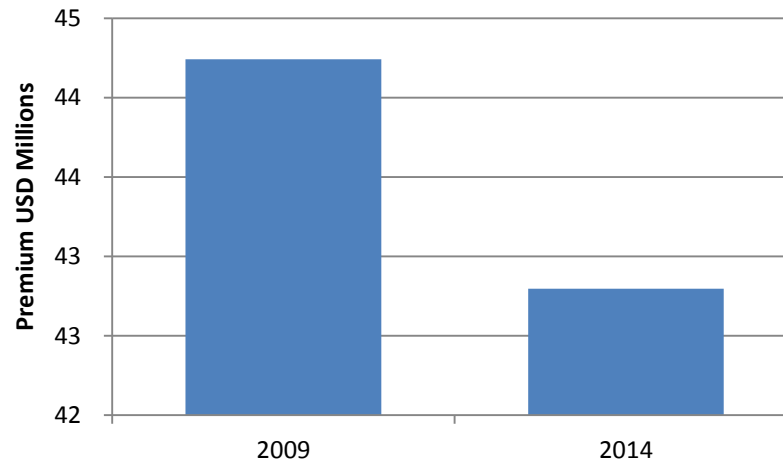
AFV



Passenger Numbers



Premium



**Based Top 6 airlines
in Russia by number
of Passengers carried**



The Present Day

- Russian Airlines now rated in line with their European peers
- Now viewed as operating mainly modern western fleets
- Exposure growth has seen falling accident rate
- Accident rates now in line with world average
- Liability regime still relatively low compared to Western Europe



The Airline Market

Based upon a liability limit of USD1.5bn we estimate the typical maximum non-US airline market capacity to be in the region of **215%**.

This figure may increase with rumoured new entrants set to join the market in 2015.

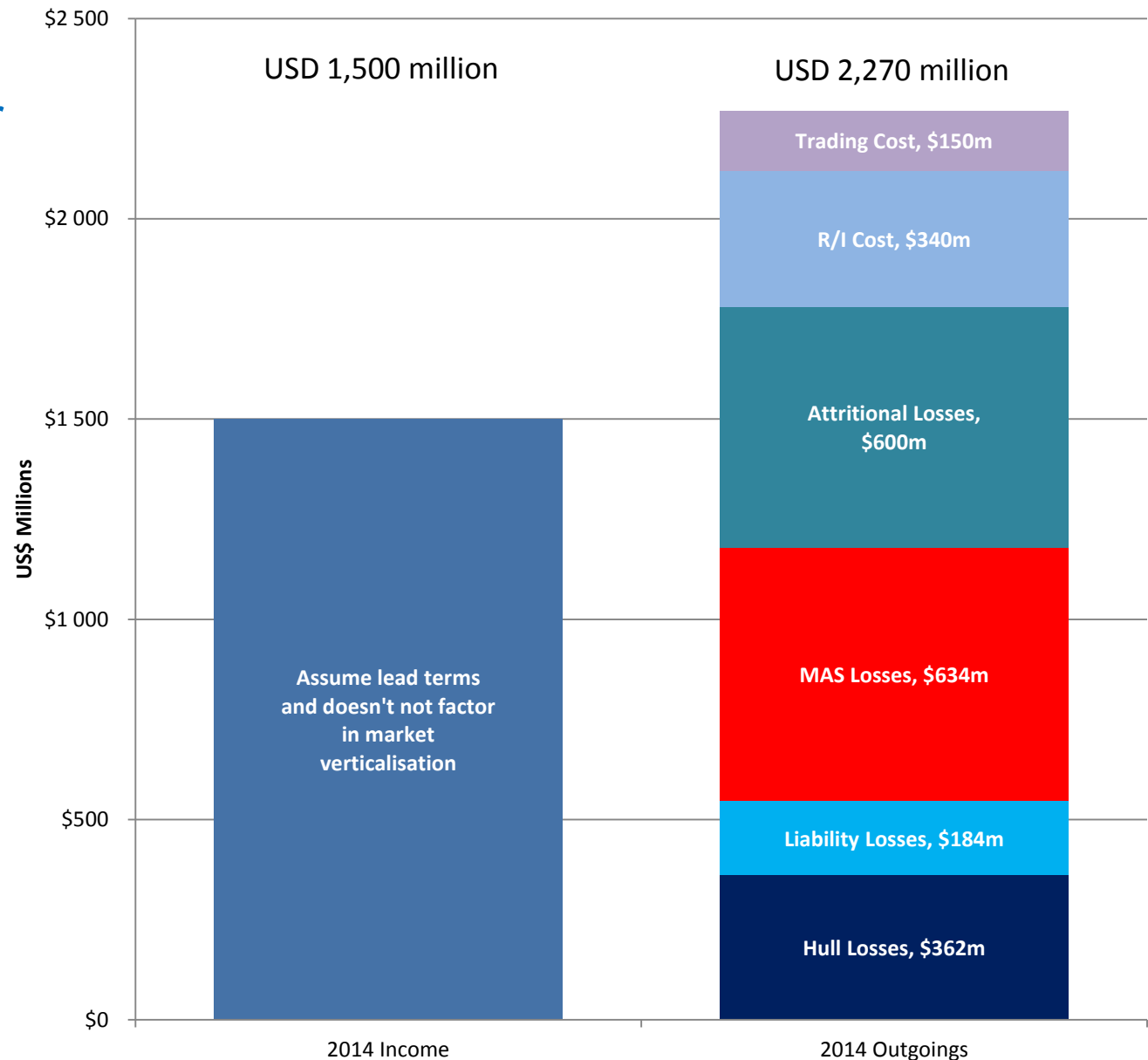
Market	Typical	S&P Rating
ACE Global Markets	10.00%	AA-
ADNIC	1.00%	A-
Africa Re	1.00%	A-
AIG	12.50%	A+
Allianz	10.00%	AA
Allied World Europe	1.50%	A-
Altitude Risk Partners	5.00%	A (Pool)
Amlin Syndicate	6.00%	A+
Antares	1.50%	A+
Apollo Aviation	2.00%	A+
Argo Syndicate	1.00%	A-
ARK Syndicate	2.00%	A+
Asia Capital Re	5.00%	A-
Aspen	3.33%	A
Atrium	2.00%	A+
Aviabel	1.00%	A-
AXA Corporate Solutions	10.00%	A+
Axis Bermuda	1.00%	A+
Beazley	6.67%	A+
BRIT	5.00%	A+
Cathedral	2.00%	A+
Catlin Syndicate	5.00%	A
Chaucer	3.00%	A+
CV Starr Syndicate	2.50%	A+
Faraday	3.00%	AA+
GICI	2.00%	A- (AM Best)

Market	Typical	S&P Rating
Global Aerospace	5.00%	AA- (Pool)
Hardy Syndicate	2.00%	A+
HDI Gerling	1.50%	A+
Hiscox	3.00%	A+
Houston Casualty Co.	3.33%	AA-
Inter Hannover	3.00%	AA-
Kiln	1.00%	A+
KRIC	2.00%	A-
La Reunion Aerieenne	13.00%	AA
Liberty Mutual	4.00%	A+
Mapfre Global Risks	5.00%	A
Mitsui	5.00%	A+
Munich Re	10.00%	AA-
New India	2.00%	A- (AM Best)
Oman Insurance Company	2.00%	A-
Partner Re	5.00%	A+
Pritchard	3.00%	A+
SCOR	2.00%	A+
Sirius	2.00%	A-
Swiss Re	10.00%	AA-
Talbot	7.50%	A+
Tokio Marine & Fire	2.00%	AA-
Torus Insurance	4.00%	A- (AM Best)
Travelers Syndicate	2.50%	A+
W.R. Berkley	3.33%	A+
XL Syndicate	5.00%	A



Capacity remains high despite loss making year

Statistically the safest year on record with a global fatal Accident rate of 1 per 2.38 Million flights





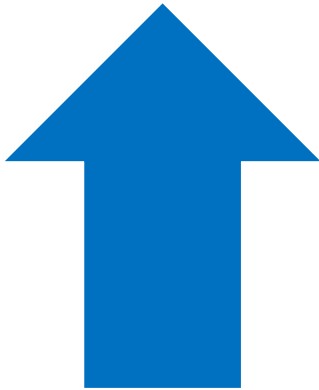
Good time to be a buyer?

- The end of the insurance market cycle!
 - Capital does not appear to be leaving the Insurance market
- Losses can see capacity withdraw but losses cannot drive rates upwards alone
 - Hull War market saw rates as expiring within 2 months of the Tripoli airport attack as capacity actually increased after the event
- Excess capacity will continue to drive the market - but how long can Insurers sustain losses?
- Underwriters looking to maintain premium base
 - However competition has led to a number of recent lead changes
- Early renewals in 2015 have continued to see rate reductions

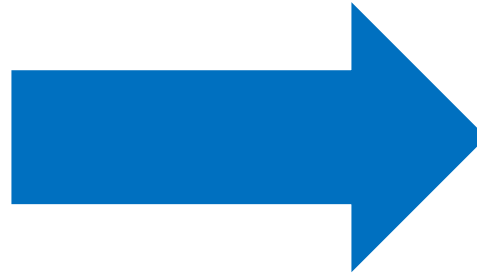


Good Time to be a buyer? – Rating Movements

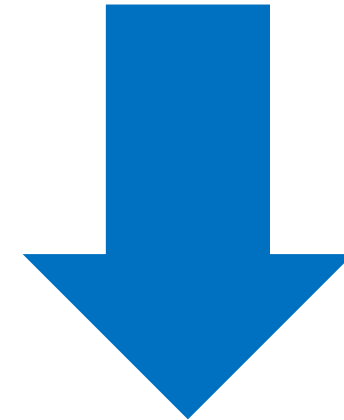
Poor Loss Record
Reduced Exposures
Sanctions



Flat or Reduced Exposures
Reasonable Loss History



Slightly Reduced / Flat / or
Increased Exposures
Good Loss History





Considerations for the future

- Reduction in capacity will see rates increase
 - Samsung, China Re, Nissay Dowa have all stopped writing airline business
- Volatility still exists to some degree
 - Airline renewals immediately after MH17 saw double digit increases as the market found its level
- Planning for such an eventuality will help mitigate the effects
 - Long term policies / from select markets
 - Quality of security and claims paying ability
 - Long term relationships with core markets
- Reductions may only be sustainable if reinsurers costs reduce



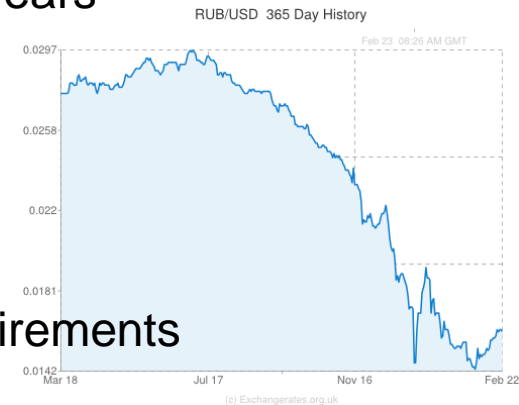
Considerations for the future

- Insurer Consolidation could potentially see reduced capacity in the insurance/reinsurance market
- XL's recent acquisition of Catlin, Axis Capital Merger with Partner Re
- "Given current industry dynamics, we think it is most likely there is more consolidation to come" - UBS
- Lancashire, Amlin, Beazley, Hiscox and Novae have all rumoured to be targets in the UK press
- Brit have recently accepted bid from Canadian private equity fund who recently purchased QBE's Eastern European operations



Considerations for the future

- Russian GDP in Nov 2014 contracted for the first time in 5 years
- Rouble has fallen in value against the USD and EUR
 - Airlines lease costs tend to be in USD
 - More expensive for people to travel abroad
 - Most airline policies are in USD/EUR due to lease requirements
- Number of Russian tour operators have collapsed as demand for international travel has fallen
- Numerous press reports of airlines struggling financially due to downturn
 - Will we see some airlines cease operations?
 - Could raise concerns over cash flow – premium payments
 - Is this the right time for the LCC model in Russia?





Sanctions

- Biggest issue facing Russian reinsurance policies at this time
- Ukraine situation can lead to new sanctions being imposed by western governments on Russian individuals/businesses
 - Which makes the situation very fluid from an Reinsurer's point of view
- Four most dangerous letters in the English Language to a Reinsurer currently – **O F A C**
 - Office of Foreign Assets Control – Division of the US Treasury
 - EU Sanctions exist and tend to follow the US in scope but not in severity
- OFAC fines totalled USD 1,209,298,807 in 2014 which was up from USD 137,075,560 in 2013



Sanctions

- All reinsurance policies carry AVN 111 (R) Sanctions and Embargo Clause
 - If, by virtue of any law or regulation which is applicable to a Reinsurer at the inception of this Policy or becomes applicable at any time thereafter, **providing coverage to the Reinsured is or would be unlawful because it breaches an embargo or sanction, that Reinsurer shall provide no coverage and have no liability whatsoever** nor provide any defence to the Reinsured or make any payment of defence costs or provide any form of security on behalf of the Reinsured, to the extent that it would be in breach of such law or regulation.
 - In circumstances where it is lawful for a Reinsurer to provide coverage under the Policy, **but the payment of a valid and otherwise collectable claim may breach an embargo or sanction, then the Reinsurer will take all reasonable measures to obtain the necessary authorisation to make such payment.**



Sanctions

- Unfortunately OFAC will provide no clarity on what counts as a breach of sanctions
- Various interpretations exist between insurers/reinsurers/brokers
- Risks will now tend to be reviewed/rated on geopolitical basis rather than actual exposure
- US backed companies especially cautious
- NO is the easy option for any compliance department when situation is unclear



Sanctions

- Crimea specifically mentioned under recent US Executive Order 13685
- Existing Reinsurance/Insurance issues with flights to sanctioned countries/regions
 - Iran, Cuba, Sudan etc
- Reduced capacity for these territories has direct impact on rates
- Potential issues with claims involving flights to sanctioned regions, in which no physical damage or Liability occurred within the sanctioned territory.
 - Could lead to Reinsurers seeking approval to pay valid claims
 - No set timeline for governmental approval
 - Potential for delays in returning aircraft to service



Sanctions

- Not only applies to Insurers/Reinsurers but could impact Third Party providers
 - Leasing Companies
 - Major leasing company holds specific quarterly review
 - MRO / Ground Handling agents
 - Money transfers between International Banks
- Potential impact on exposures - future aircraft deliveries and passenger traffic
 - Direct impact to growth plans
- Overall capacity drives Reinsurance pricing
- **Sanctions will continue to impact capacity and has the potential to impact cover**