



Image:

Total Limit Distribution awards

ICAO Civil Aviation Legal Advisers Forum (CALAF/2)

Muscat, Oman, 21st to 23rd February 2023

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1. Principles and structure of aviation liability (re-)insurance
2. Three scenarios
 - Complete withdrawal
 - Downsizing of capacity
 - Reduction of limits
3. Conclusions

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1. Principles and structure of aviation liability (re-)insurance

- To cover the **Legal Liabilities** of the Insured for Bodily Injury or Property **Damage** arising out of their entire operations
- The concept of aviation liability insurance is to compensate for damage caused by an aircraft accident
- Third-party liability insurance would change to an accident type lump-sum payment solution

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1. Principles and structure of aviation liability (re-)insurance

Primary liability layer

Limit USD 1.5 Bn (a.o.O)

- Exclusive high primary limit for aviation insurance
- Available any one Occurrence (a.o.O.)
- Other LOBs (P&C) limits are USD 20M to USD 100M
- Consortium of 20 - 30 coinsurers required
- Limit shares of coinsurers between 0.2% and 17.50%

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Sample Aviation Reinsurance Program of USD 250M line

RI Layer	Limit	Priority	Reinstatements
Cat Layer	USD 200M XS	USD 200M	(1 Reinstatement)
4 th Layer	USD 100M XS	USD 100M	(1 Reinstatement)
3 rd Layer	USD 50M XS	USD 50M	(2 Reinstatements)
2 nd Layer	USD 30M XS	USD 20M	(2 Reinstatements)
1 st Layer	USD 10M XS	USD 10M	(3 Reinstatements)
20% Quota Share	USD 200M net retention before XOL		

USD 190M

Number of fatal accidents

- Accident rate of 1 per 3.97 Mio. Flights (5 years moving average 2017-2021)*
- Fatal accident rate of 15.3 (annual average 2010-2019)*
- Fatal accident rate of 6 (5Y annual average 2017-2021)**
- Global passenger aircraft fleet 25.448*

*Source: Ascend by Cirium / ** ICAO Safety Report 2022

Airline Premiums (w/w)

- Estimated w/w annual airlines insurance market premium of USD 1.750,000,000*
- Includes hull and liability premiums

*Source: Marsh Specialty

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Scenario one – (Re-)Insurers discontinue

- Insurers discontinue to provide aviation insurance and allocate risk capital to more profitable lines of business (LOB)
- Aviation insurance LOB might be sent into run-off
- Complete global withdrawal of aviation insurance unlikely
- Market collapse post high loss accumulation could not be ruled out
- Insurance market collapse was deemed possible post 9/11
- Historic high spike increases of premiums

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Scenario two - Reduction of capacity

- (Re-)insurers reduce their line sizes
- Higher retentions for insurers
- Airline insurance capacity could deflate below 100%
- Potential for insurance placement failures
- Mandatory insurance requirement could no longer be met
- Aircraft fleet groundings
- High increase of insurance premiums for air carriers
- Increased costs for passengers

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Scenario three - Reduction of limits

- High primary limits would no longer be available
- Primary limit range of USD 20M – 100M maximum
- Various excess layers required at high additional cost
- Legally (e.g. EC 785/2004) or contractually required minimum limits might no longer be available
- Mandatory liability insurance requirements could not be met
- Aircraft fleet groundings
- High spike increase of insurance premiums

- Unprecedented impact on aviation liability (re-)insurance
- High primary liability limits will disappear
- Potential of airline insurance placement failures
- Historic high spike increase of insurance premiums
- Significant additional costs for air carriers, passengers and other stakeholders
- Detrimental effects would be completely disproportionate to the benefits
- Amendment would introduce an unequitable imbalance of interests



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