

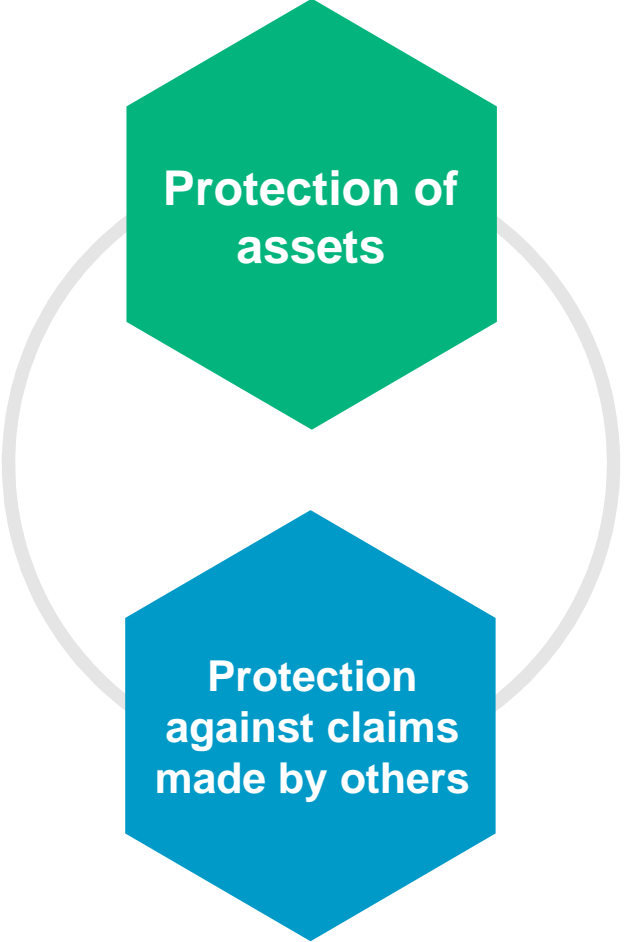
Aviation Contracts & Re-Insurance

Workshop CCR 25th April 2018

Algiers



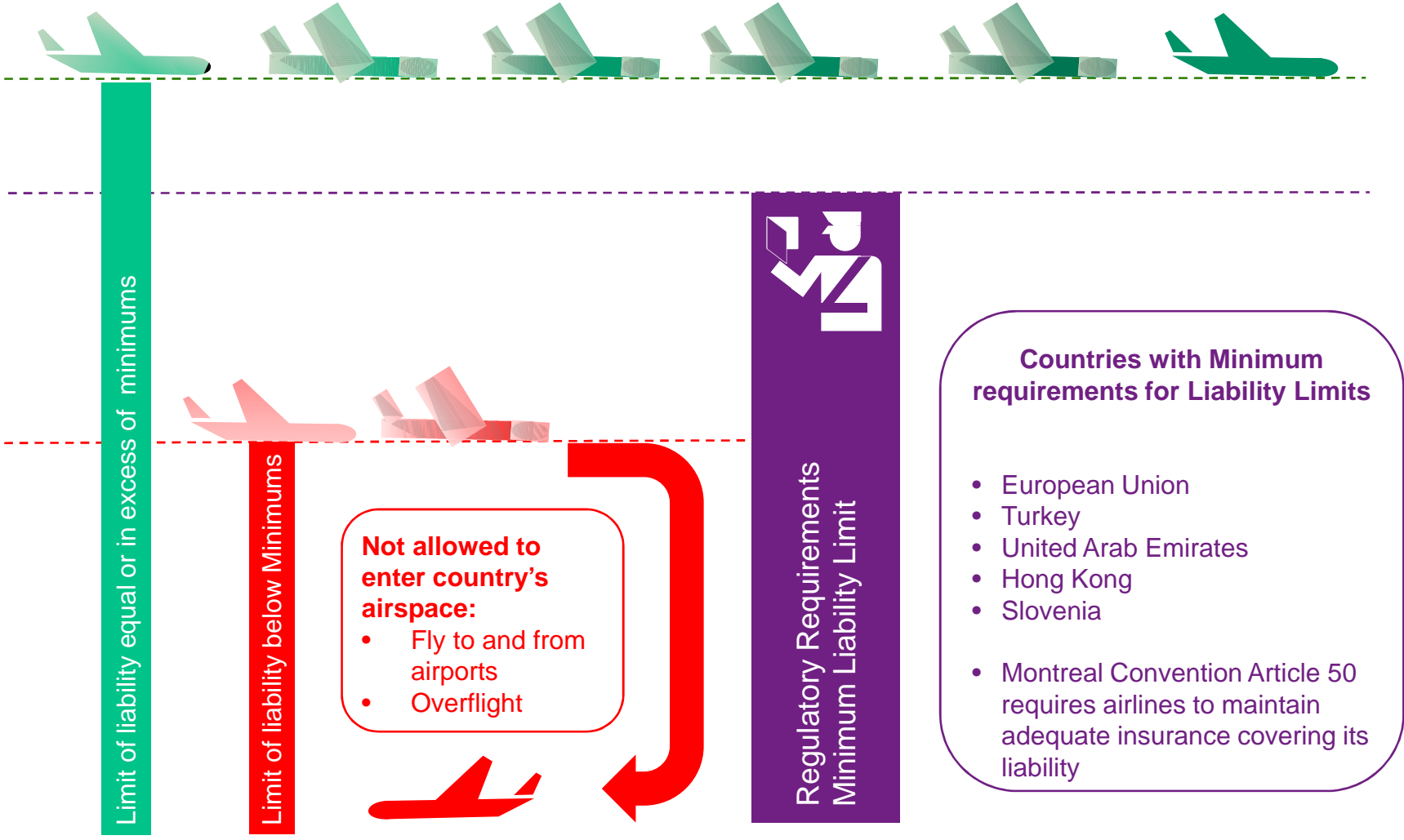
Why Buy Insurance?



Liability – Outside Influences

-  **Regulator and Authority Requirements**
-  **Aircraft Purchase Agreement & CGSTA**
-  **Aircraft Leasing**
-  **Ground Handling**
-  **Maintenance and Support Contracts**
-  **Core Airline Coverages**

Regulatory Requirements (Minimum Limits of Liability)



Regulatory Requirements (Minimum Limits of Liability)

An example of limit size EC785/2004

Passenger Liability
SDR250,000
Per Passenger

Baggage Liability
SDR1,000
Per Passenger

Cargo Liability
SDR17
Per Kilogramme

Third Party liability		
Cat	MTOW (kg)	SDRs
1	< 500	0.75M
2	< 1,000	1.50M
3	< 2,700	3M
4	< 6,000	7M
5	< 12,000	18M
6	< 25,000	80M
7	< 50,000	150M
8	< 200,000	300M
9	< 500,000	500M
10	> 500,000	700M

Practical Example

B737-800 operating in the EC
Maximum Take-off Mass: 79,000kg
Passenger Seats: 182

Passenger Liability	182 x 250,000	SDR45,500,000
Baggage Liability	182 x 1,000	SDR182,000
Cargo Liability	XXX x 17	SDRXXXXXXXX
Third Party Liability	Cat 8	SDR300,000,000
Minimum Liability Limit		SDR345,682,000
USD Equivalent (ROE 1.60)		USD553,091,200

Introduction to Contracts

Airlines enter into a wide variety of contracts with **financiers, lessors, service providers** and **partner airlines**

Contracts contain **indemnity provisions**

§ Such provisions **affect the potential risk exposure** of the airline

Contracts contain **insurance provisions** to support the indemnity

§ Airlines are required to **arrange suitable insurance**

§ Airlines must **evidence that they comply** with their contractual obligations

Indemnity and insurance provisions are mostly **negotiable** and may be **improved** for the **benefit of the airline and their insurers**

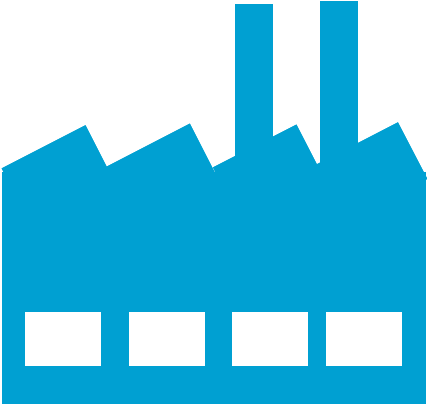
Contractual risk management is fundamental, it can **save premium** and potentially **protect** the Insured's **loss record**



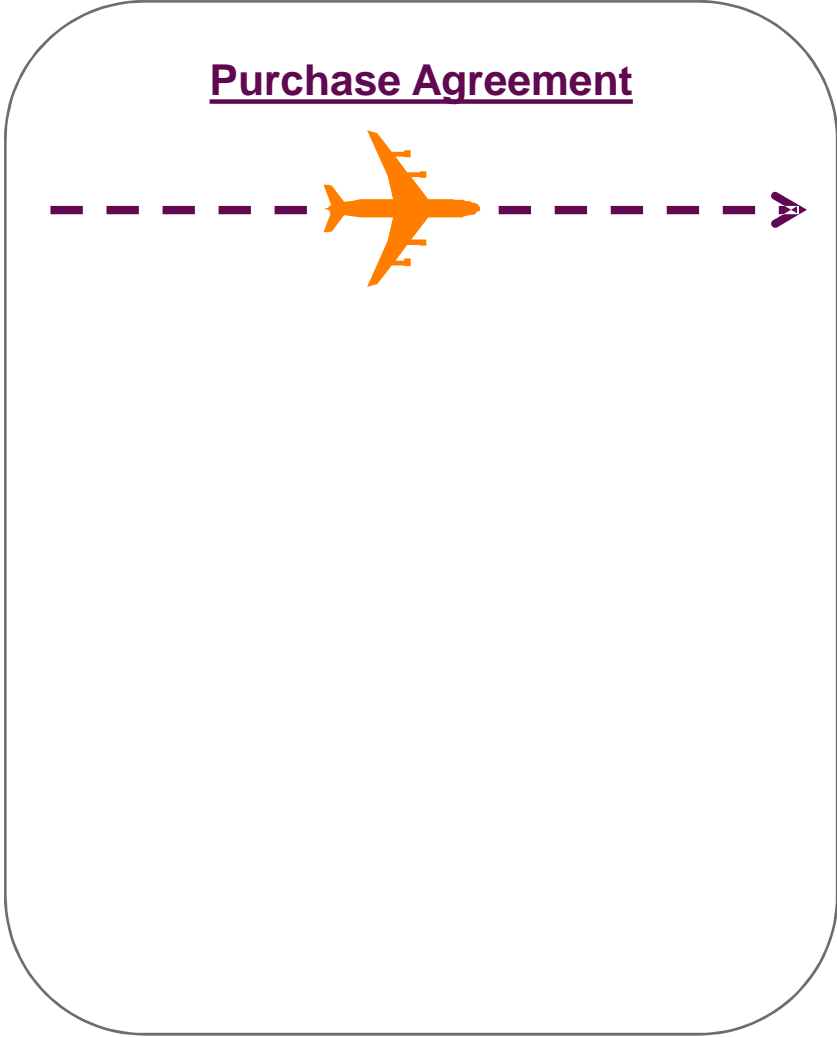
**Aircraft
Purchase
Agreement &
CSGTA**

Aircraft Purchase Agreement & CSGTA

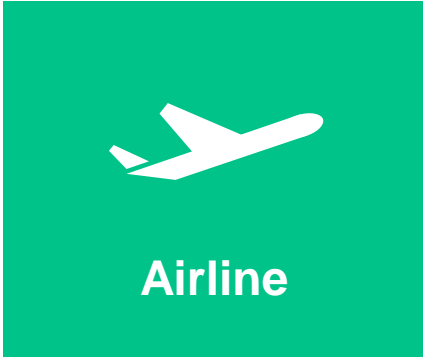
Manufacturer



- § Boeing
- § Airbus
- § ATR
- § Embraer
- § Bombardier

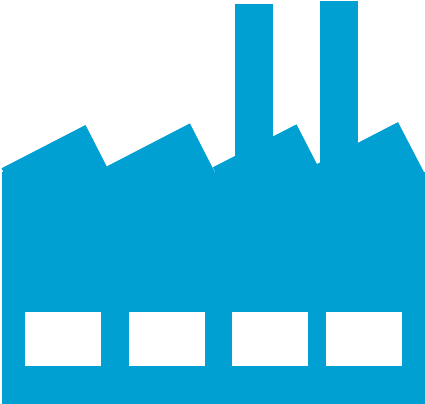


Buyer

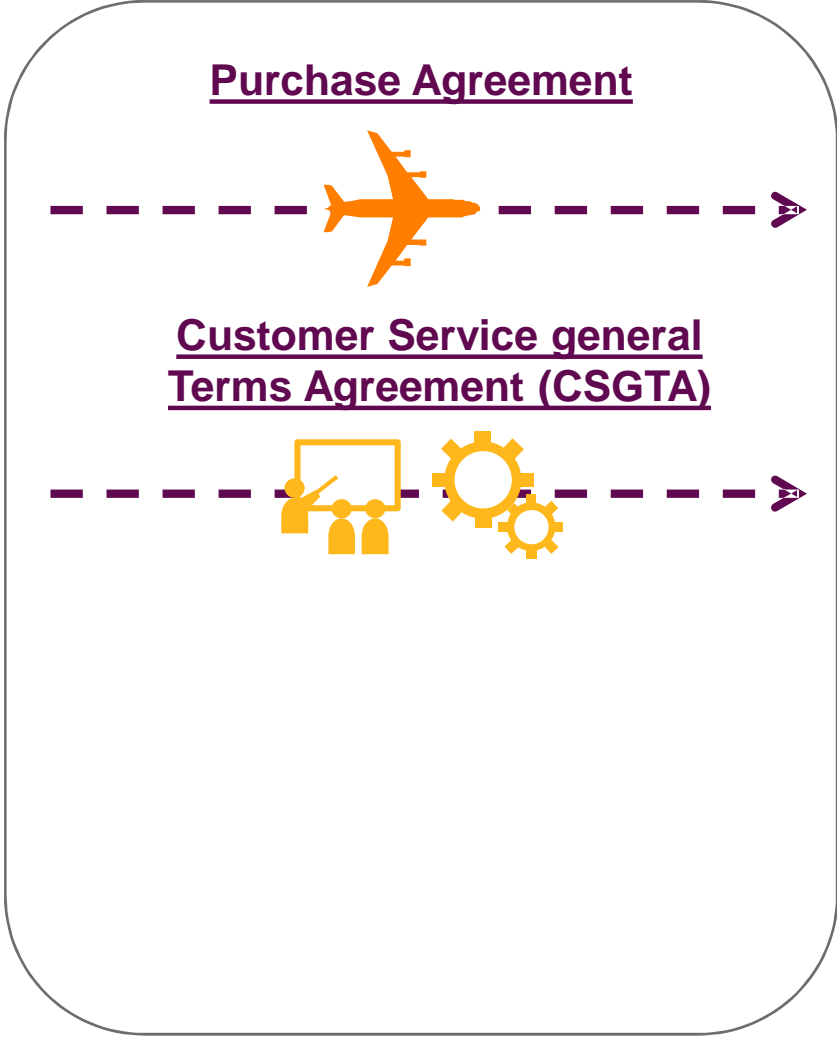


Aircraft Purchase Agreement & CSGTA

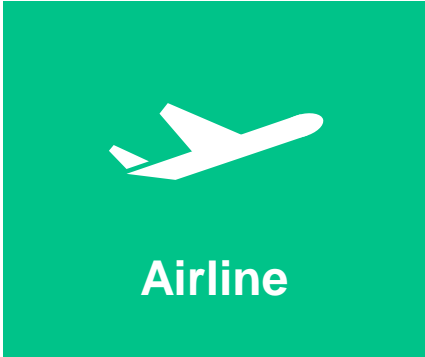
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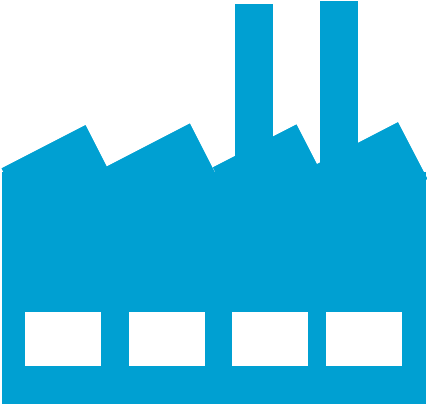


Buyer

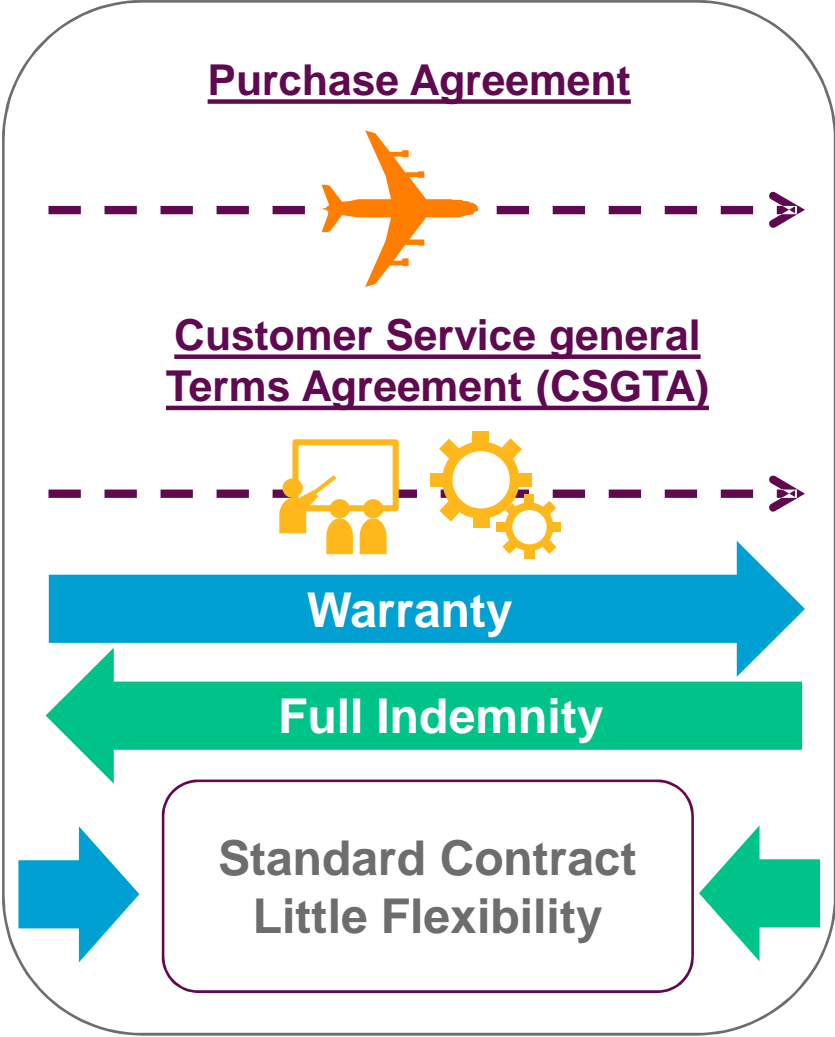


Aircraft Purchase Agreement & CSGTA

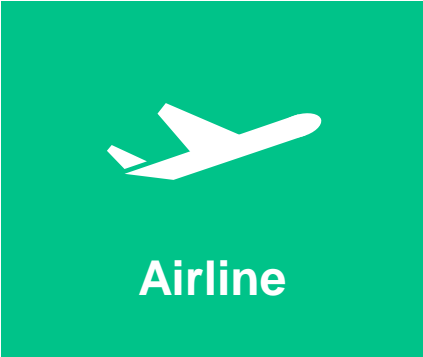
Manufacturer



- § Boeing
- § Airbus
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- § Bombardier



Buyer





Aircraft Leasing

Aircraft Leasing

Leasing Aircraft from a Financier

Leasing Aircraft from an Airline

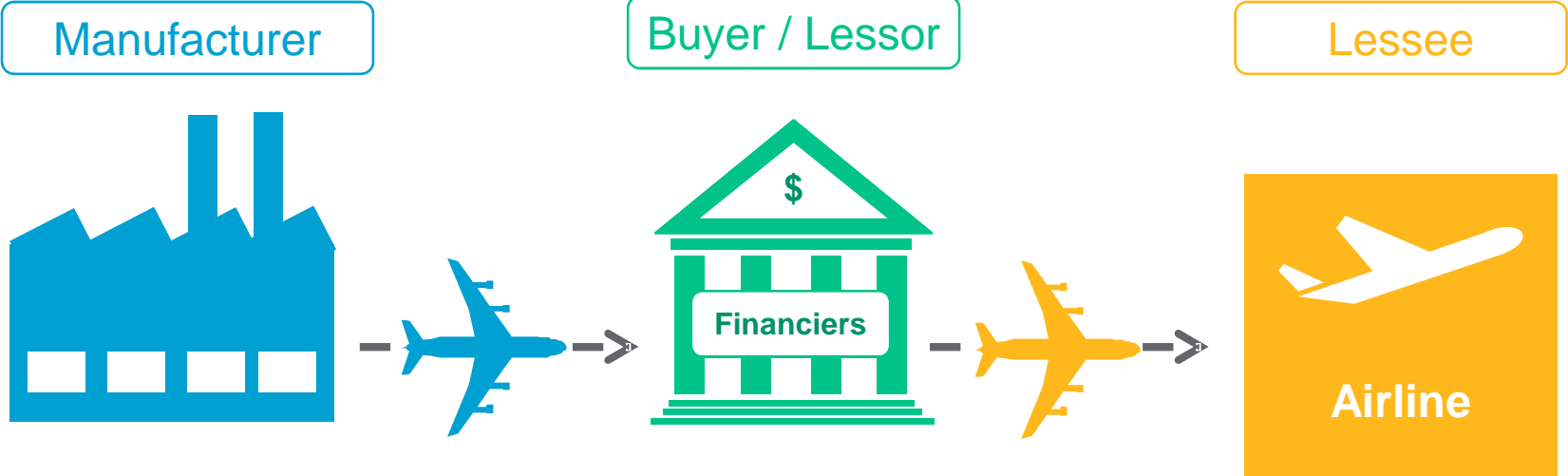
Dry Lease

Wet lease

Charter

Code Share

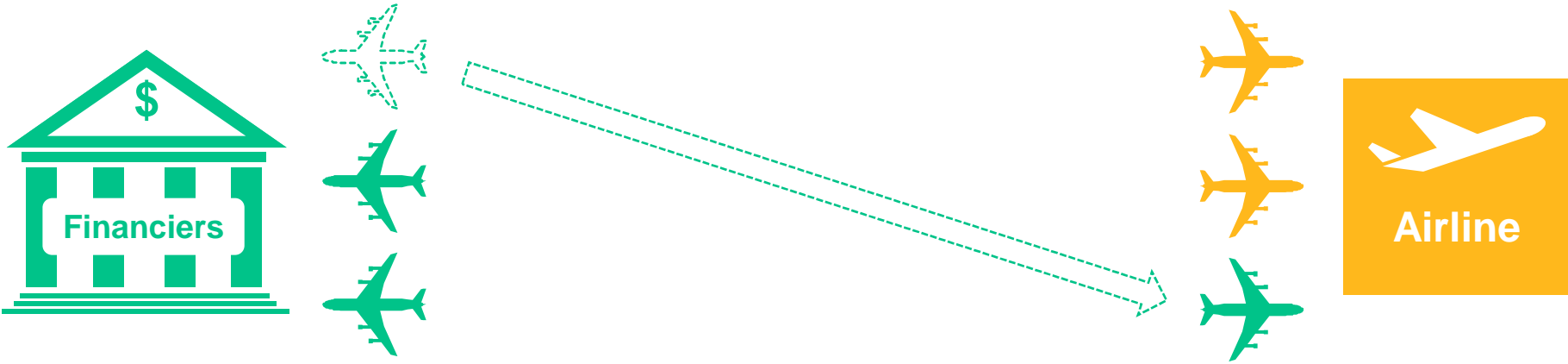
Aircraft Procurement



Aircraft Leasing from a Financier



Aircraft Leasing from a Financier



Financiers have no operational interest in the aircraft
Owners are looking for protection of their asset

Lessor requires a full indemnity from the carrier from delivery, supported by comprehensive insurance throughout the lease term, including:

- Hull and Spares All Risks / Hull War Risks / Comprehensive Liability / Excess AVN52E / Hull Deductible
- Requires “on-going liability” for two years or until next major overhaul after Lease termination (residual products liability)

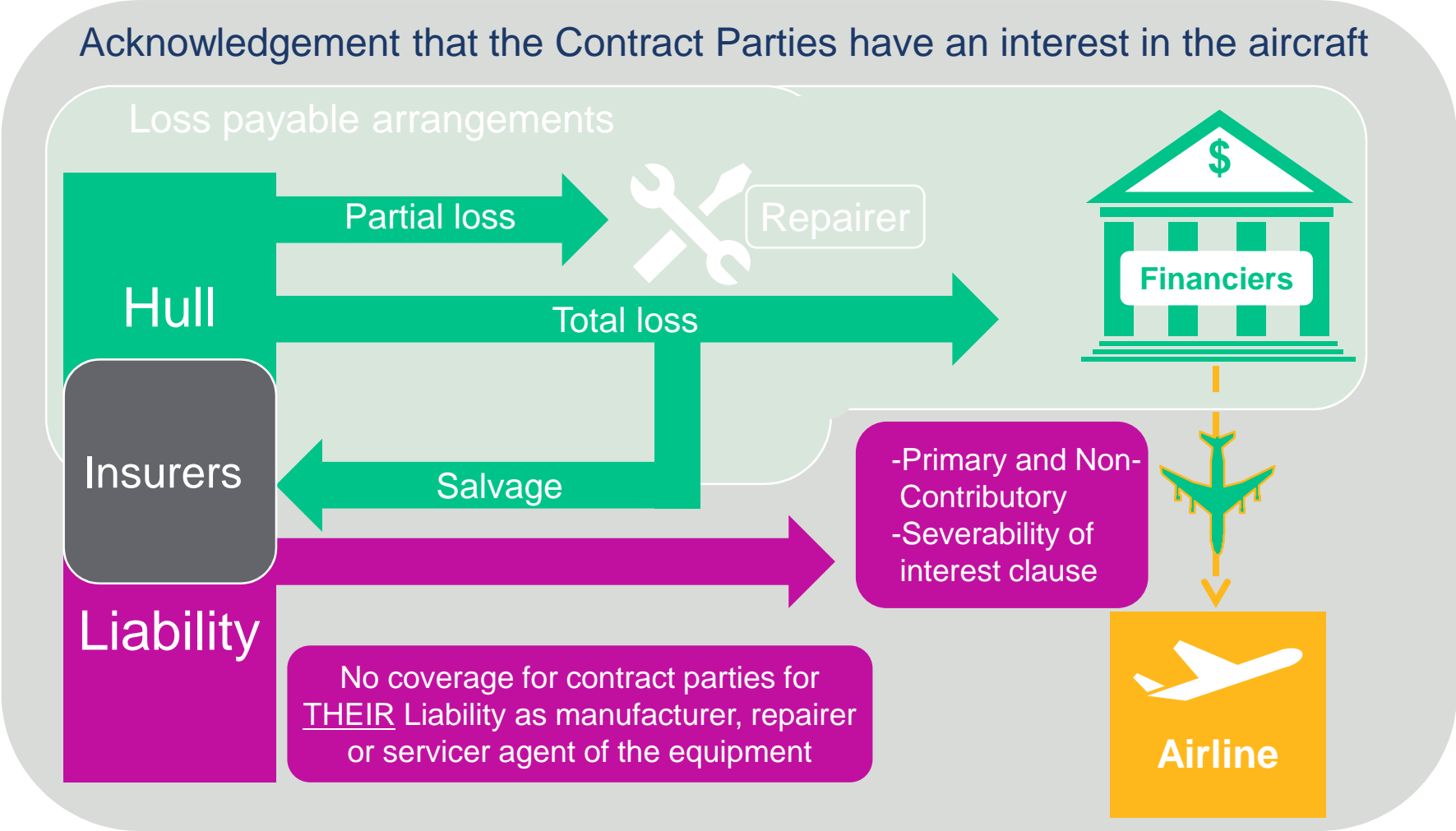
Aircraft Leasing from a Financier - AVN67 General Provisions

AVN67

All Insurances

- § 3.1 Contract Parties included as additional insureds
- § 3.2 Breach of warranty coverage
- § 3.3 This contract endorsement covers interests of financial lessors only
(ie. warranted no operational interest)
- § 3.4 No responsibility for premiums. Waiver of set-off/counter claim
- § 3.5 Allows for subrogation by insurers
- § 3.6 Cancellation / Material alteration notice clause

Aircraft Leasing from a Financier - AVN67 – What it does



Aircraft Leasing from a Financier – What to look for in agreements

Ins

Insurance

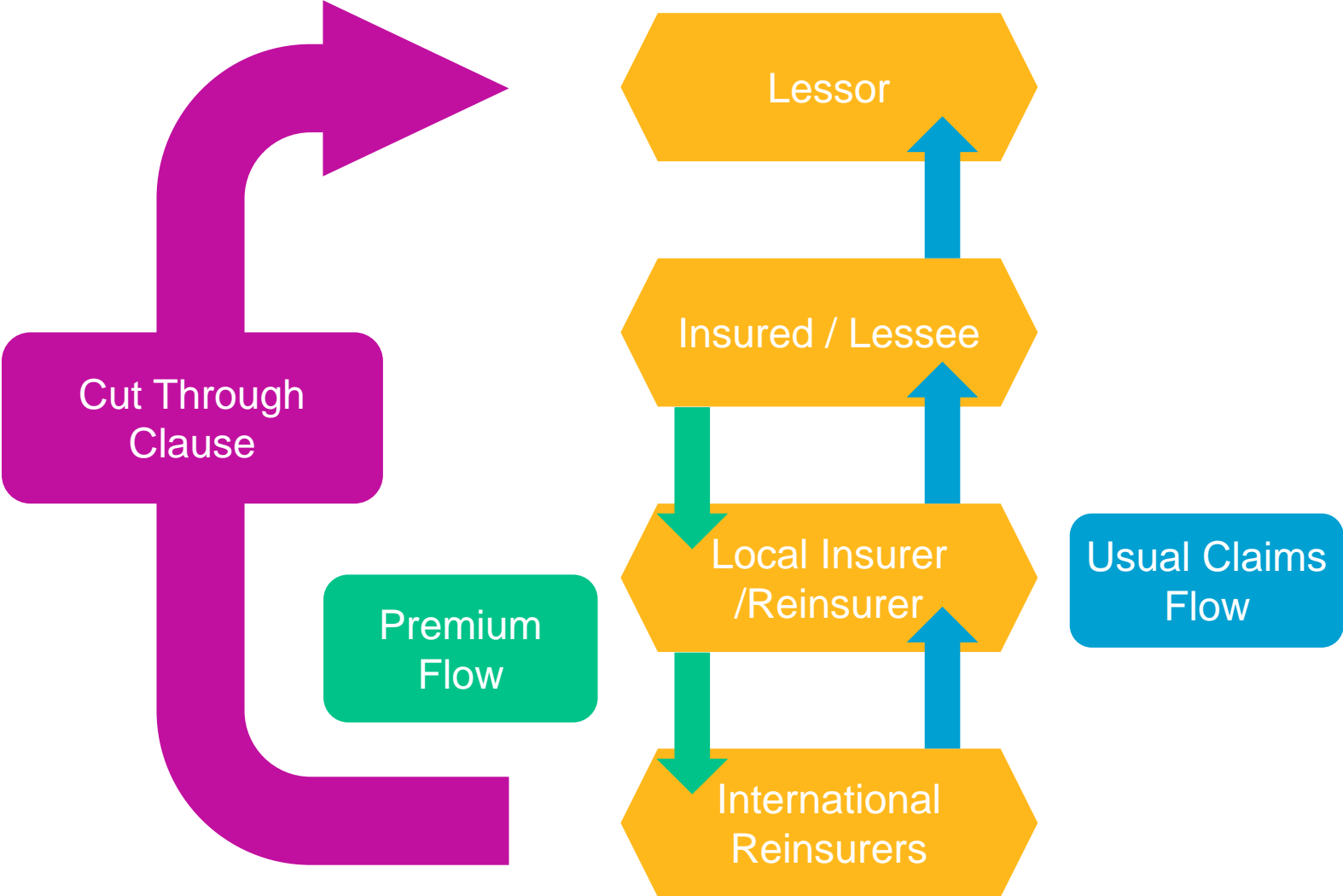
- § check definitions (For example: event of loss (time stipulations), aircraft/airframe, indemnities)
- § limit of liability – is it justified for aircraft type
- § Continuing Liability – not more than 2 years!
- § Are directors, officers, employees required to be included as additional insureds on hull
- § Lessor requires copy of Policy, market security and percentages
- § Loss payee provisions
- § Insured in Internationally recognised markets (New York & London)
- § right to instruct own counsel/adjustor
- § no additional insurances in relation to aircraft (Deductible/ TLO)

Re

Reinsurance

- § Minimum percentage of reinsurance (i.e. local retention)
- § Lessor to approve broker/Insurers
- § Reinsured in London, New York, Paris Munich (+ International Markets)
- § Cut Through Clause (Hull and Spares only)
- § Same provisions as insurances

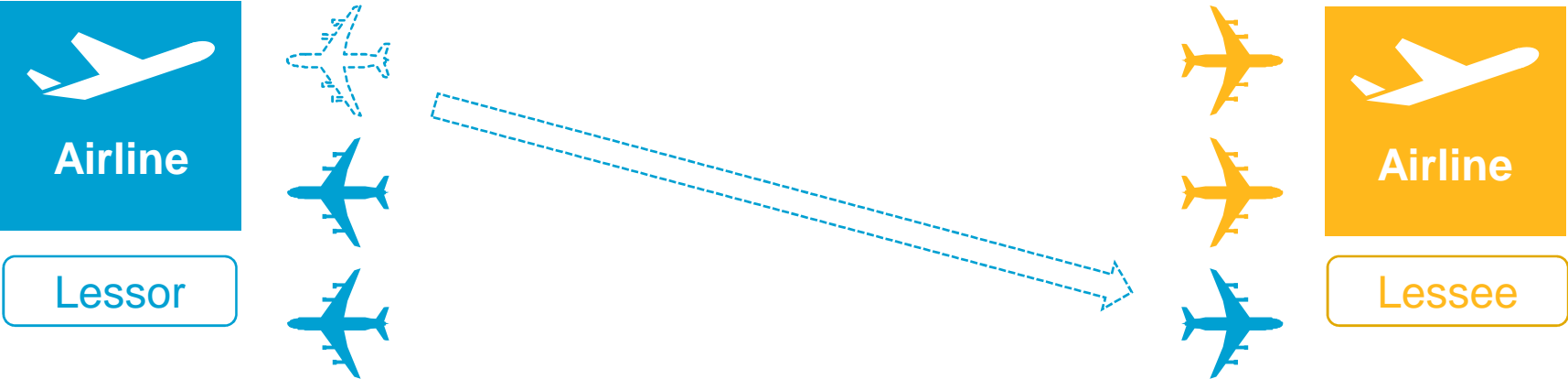
Cut Through Clause



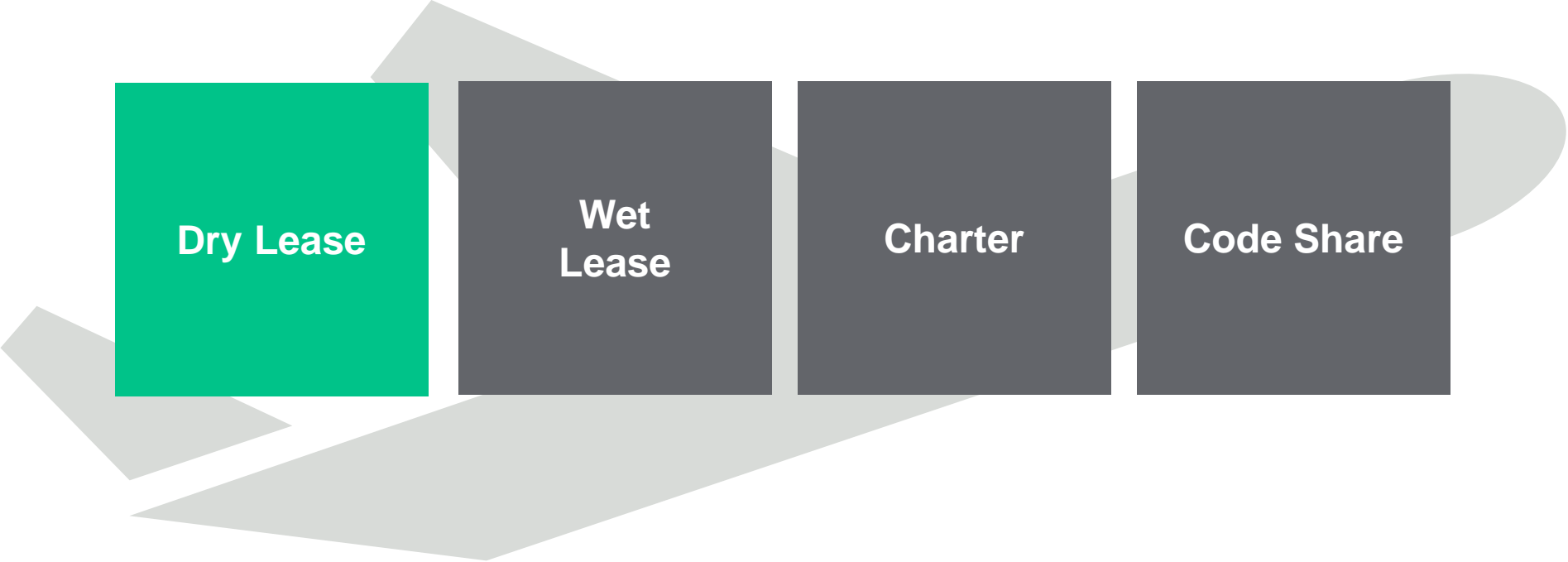


Lease
Airline
To
Airline

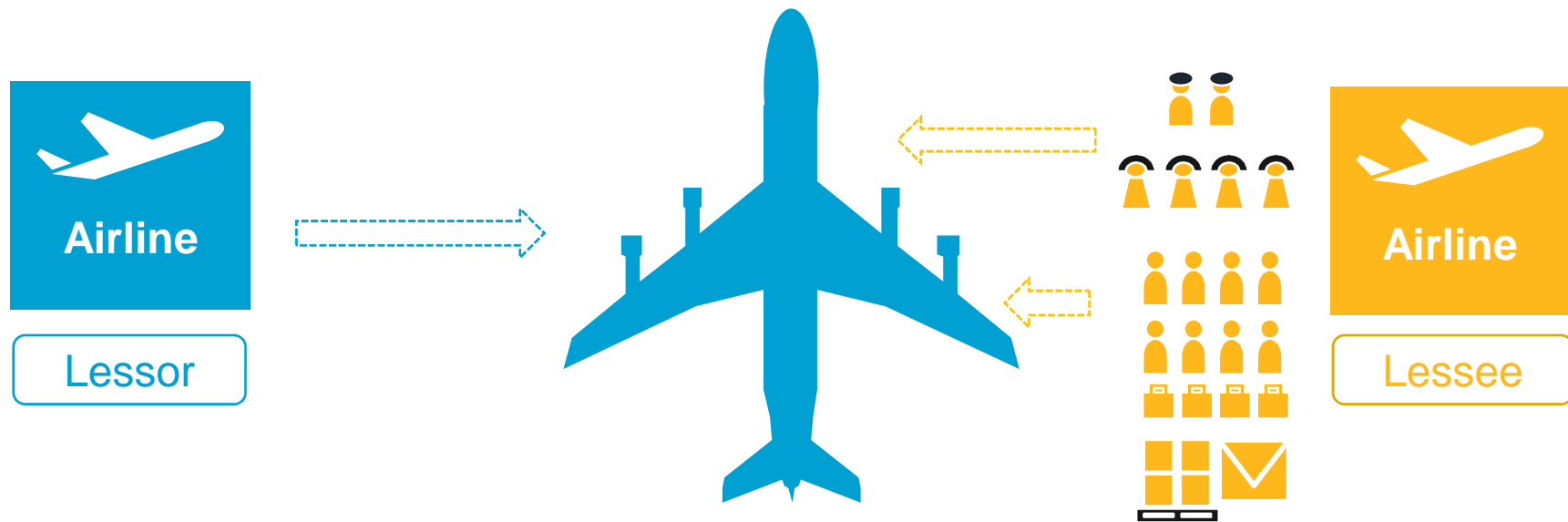
Leasing - Airline to Airline



Lease – Airline to Airline



Dry Lease



Dry Lease



- | | | | | |
|---------------------|---|--------------------------------------|---|----------------------------------|
| Standard provisions | § | Loss Payee (Hull) | § | Severability of Interest (Liabs) |
| | § | Waiver of subrogation (Hull) | § | Breach of Warranty (All) |
| | § | Additional Insured (All) | § | Notice of Cancellation (All) |
| | § | Primary and non-contributory (Liabs) | | |

- § Similar to operational lease (generally shorter)
- § Entered into between two carriers
- § AVN67B/C not applicable due to operational interest of lessor (Servicing, repair and overhaul)

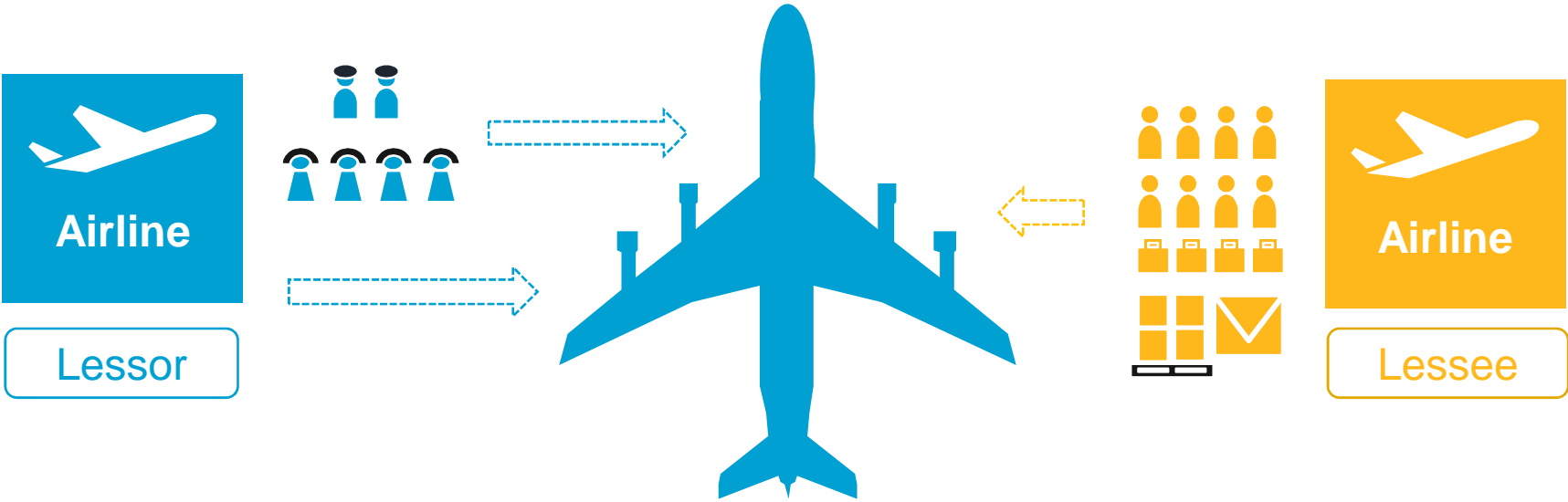
Dry Lease

Wet Lease

Charter

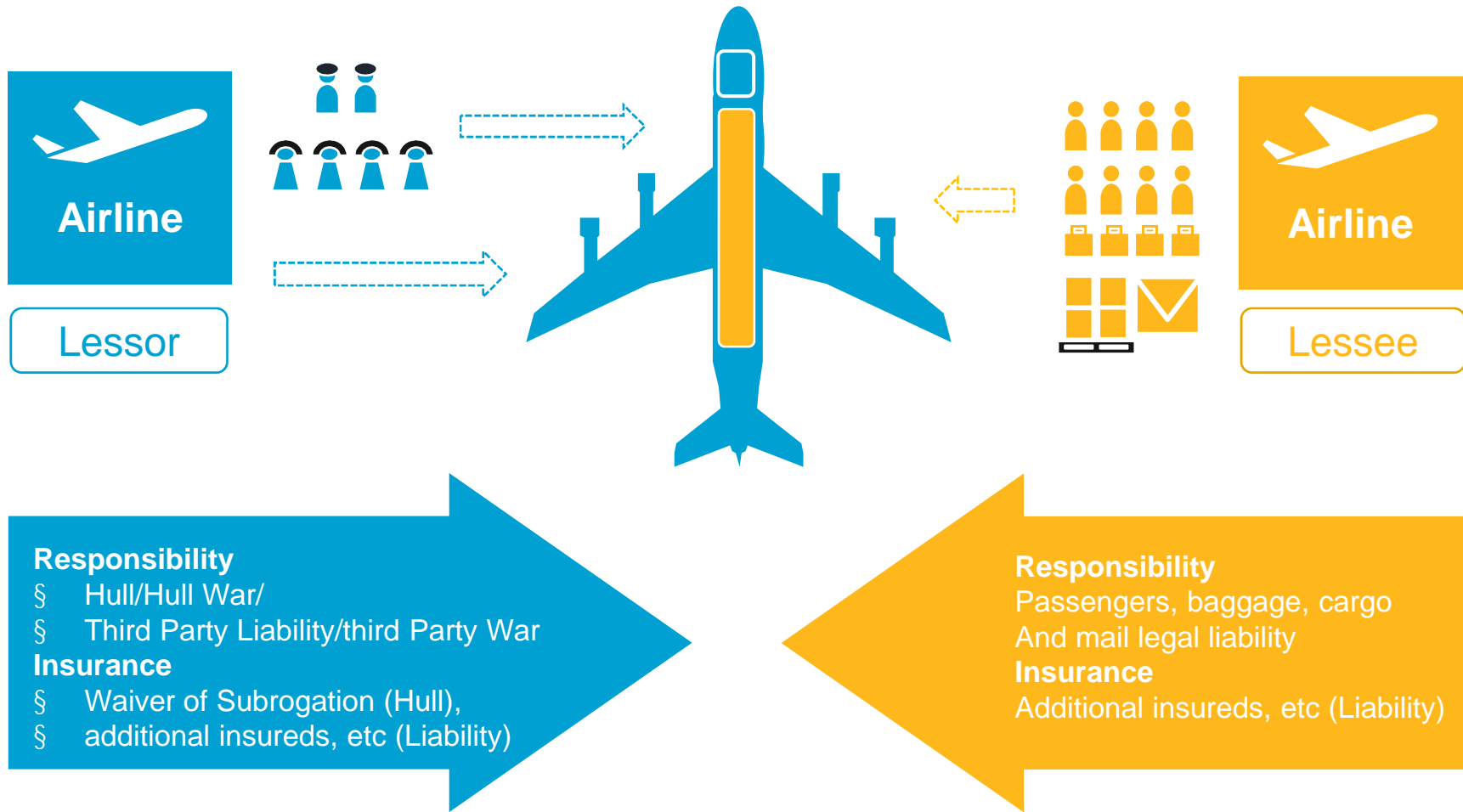
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Wet Lease



Wet Lease

Split indemnity / Split insurance provisions



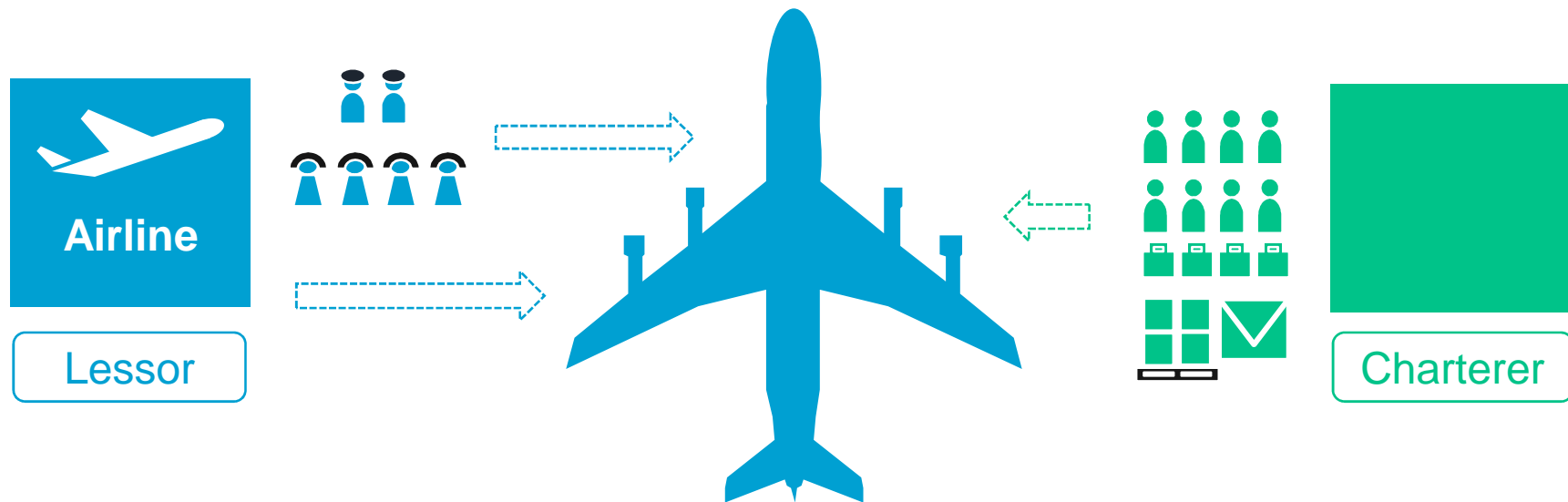
Dry Lease

Wet
Lease

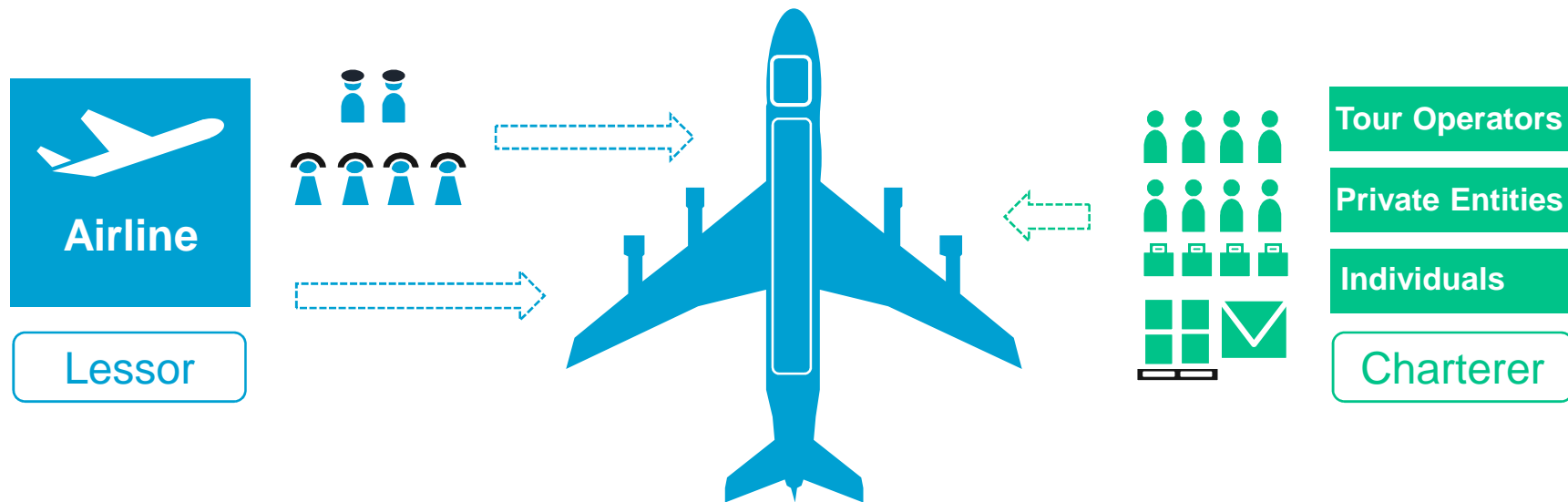
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<p>Airline provides all insurances Hull and liability</p> <p>Normal coverages required</p> <ul style="list-style-type: none"> § Hull All Risks § Hull War Risks § Aviation Liabilities 	<p>Charterer covered under airline' s policy</p> <p>Hull Insurance</p> <ul style="list-style-type: none"> § Waiver of subrogation <p>Liability Insurance</p> <ul style="list-style-type: none"> § Additional Insured
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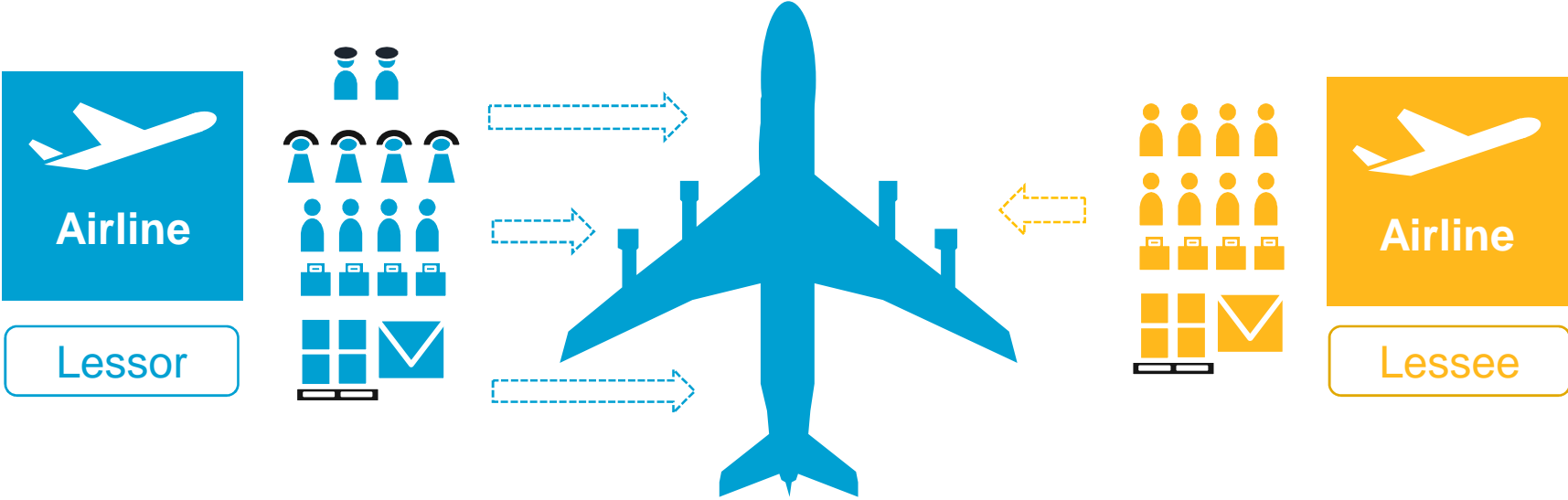
Dry Lease

Wet
Lease

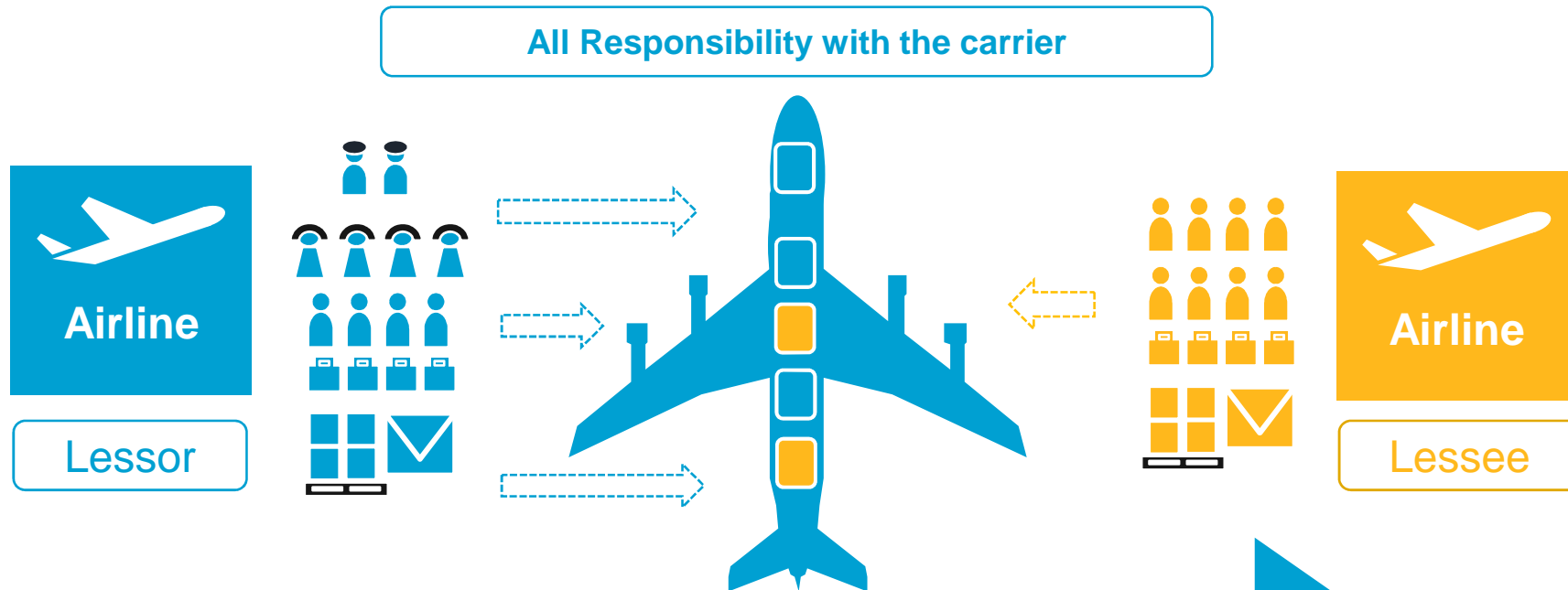
Charter

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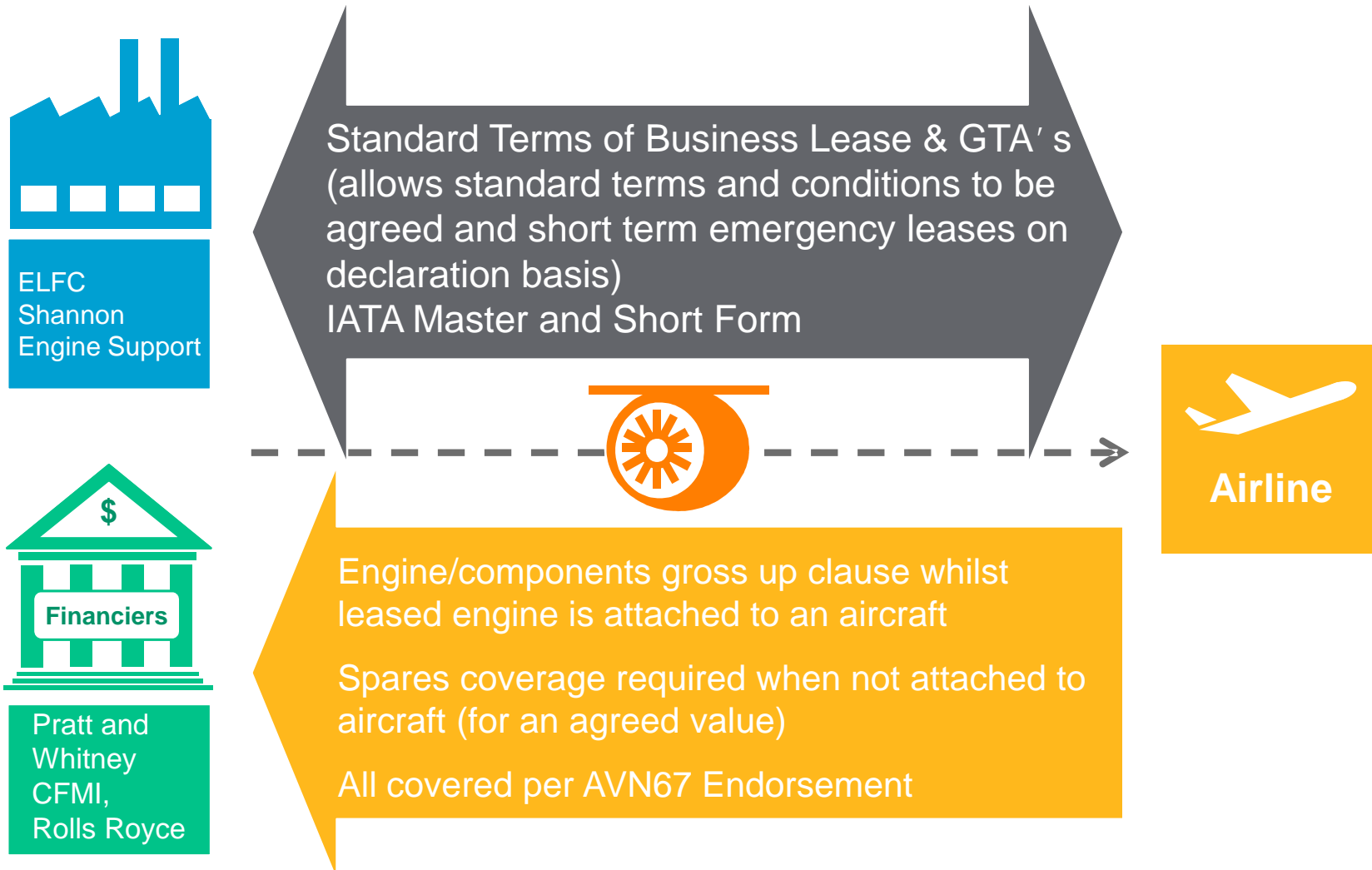


<p>Operating Carrier</p> <ul style="list-style-type: none"> § Provides all Insurance, including § Marketing Carriers' passenger liability § Indemnifies and Hold Harmless Marketing Carrier against all losses unless <ul style="list-style-type: none"> • Gross negligence or wilful misconduct • Ticket error • Difference in conditions of carriage 	<p>Insurance Provisions (Operating Carrier)</p> <ul style="list-style-type: none"> § Hull insurance provision: waiver of subrogation § Liability insurance provisions: additional insureds, primary and non contributory, severability of interest, breach of warranty § All insurance provisions: notice of cancellation
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**Leasing
Engines**

Engine Leasing

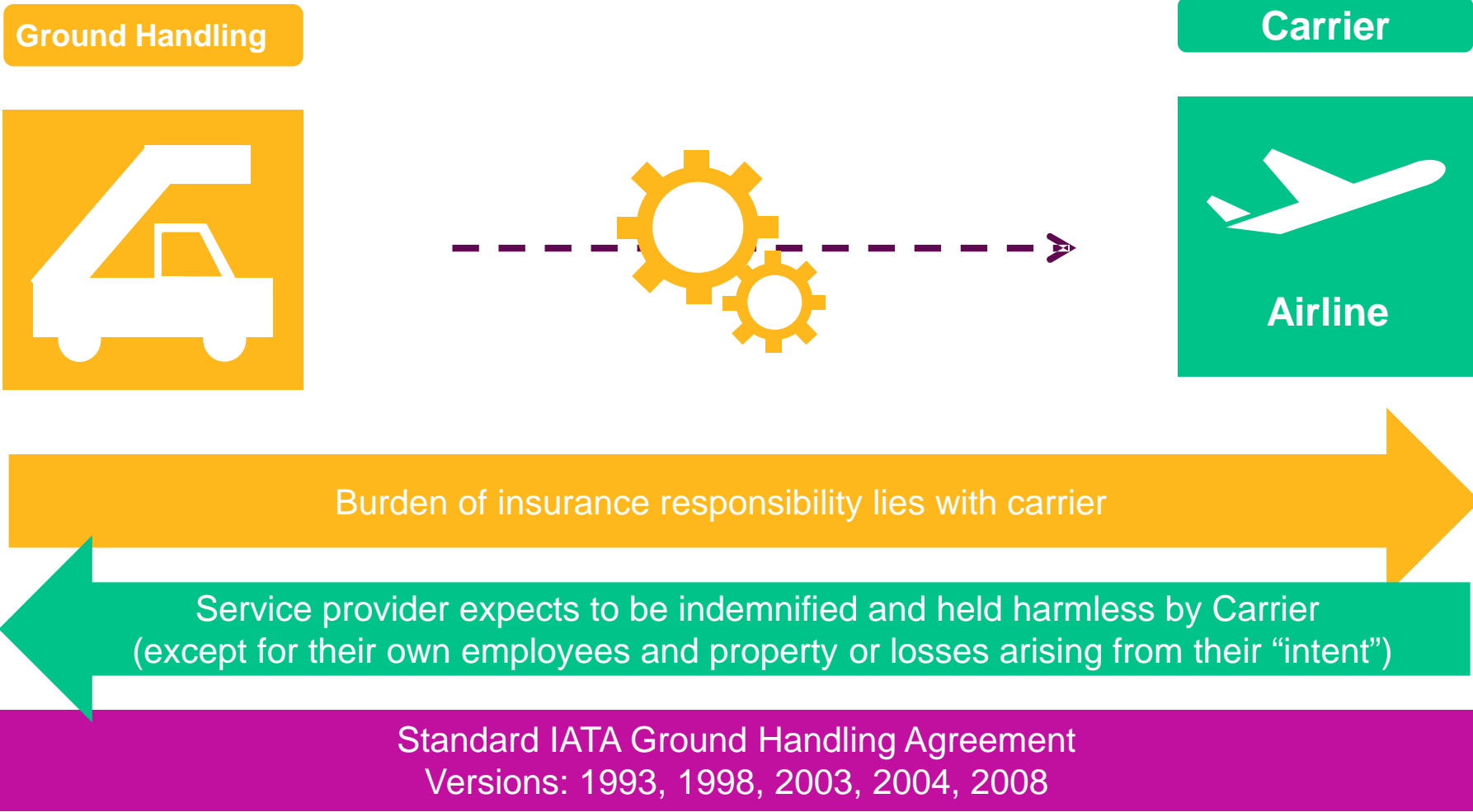




Ground Handling Agreements

Ground Handling (Including Refuelling)

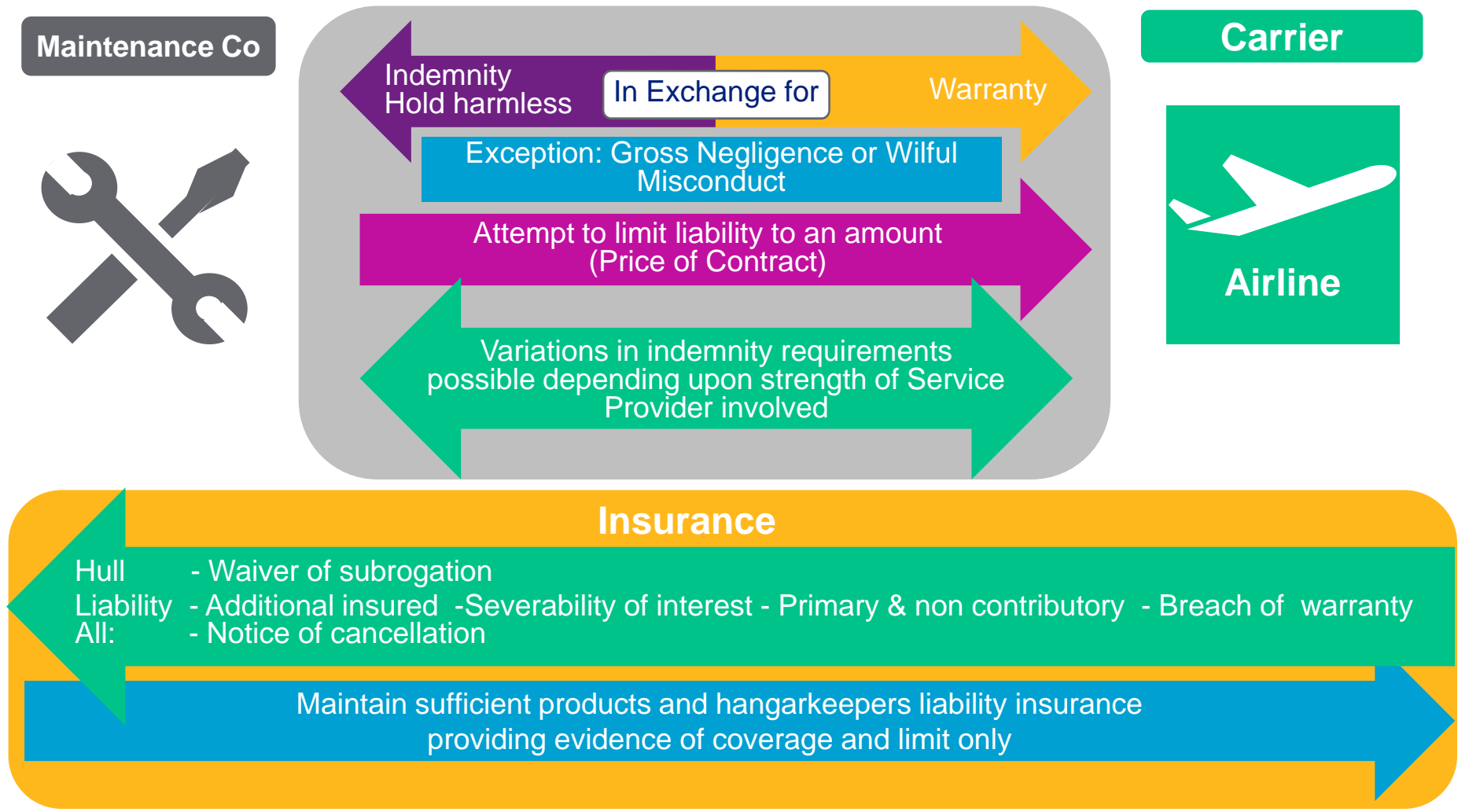
Standard IATA Agreement AHM 810



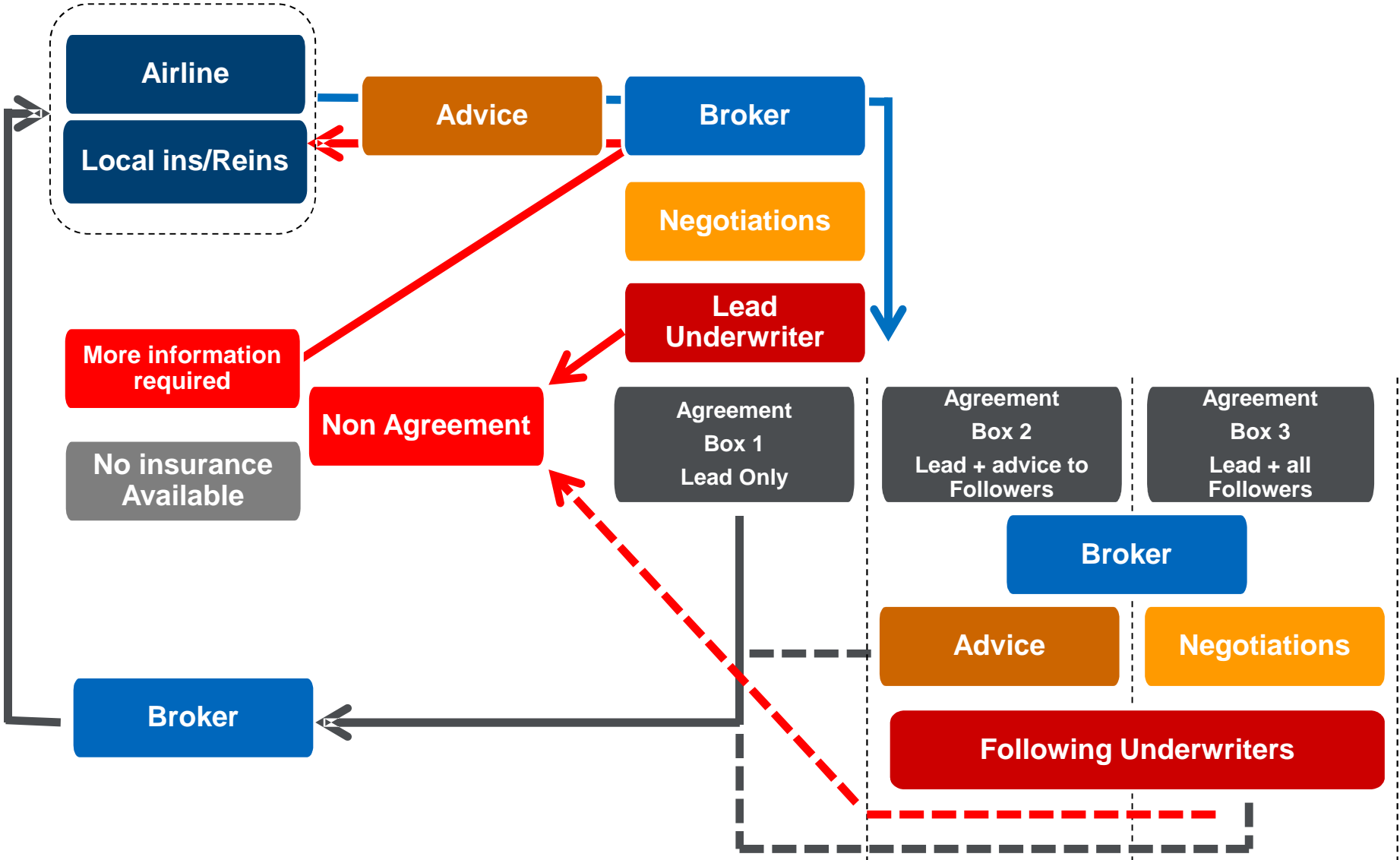


**Maintenance &
Support
Agreements**

Maintenance and Support Contracts



Negotiation process



What are the Core Airline Policies?

Programme Structure



Property (Assets) and Liability Risks



What Is Excluded?



How Is This Addressed?



What we can cover

Coverage - Aviation Insurance Programme

Passenger Legal Liability War	Passenger Legal Liability	Hull All Risks	Hull War
Baggage Cargo Liability War	Baggage Cargo Liability	Hull Deductible	
Third Party Legal Liability War	Third Party Legal Liability	Spares	Spares War
Primary TPL War			

What we cannot cover

Deductibles

