

Aerospace



The Role of an Underwriter

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Algiers, 25th April 2018

Which one would you insure?



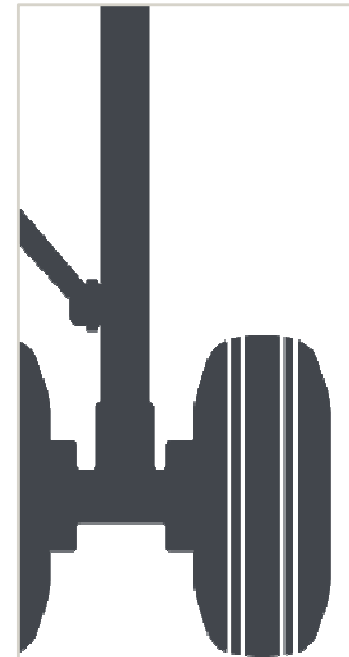
What is the safest aircraft in the world?

Frequency v Severity



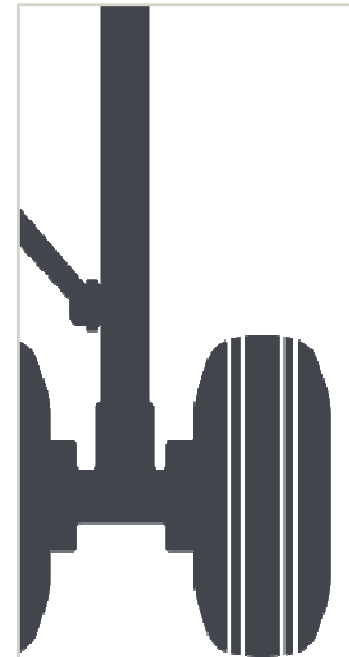
How do we price a risk?

- Take information and data submitted by a broker
- Use a financial model to give a technical pricing / rating
- Use experience and judgement to evaluate the risk and any output from the model
- Understand the insurance marketplace and balance between risk/exposure and a commercial pricing environment

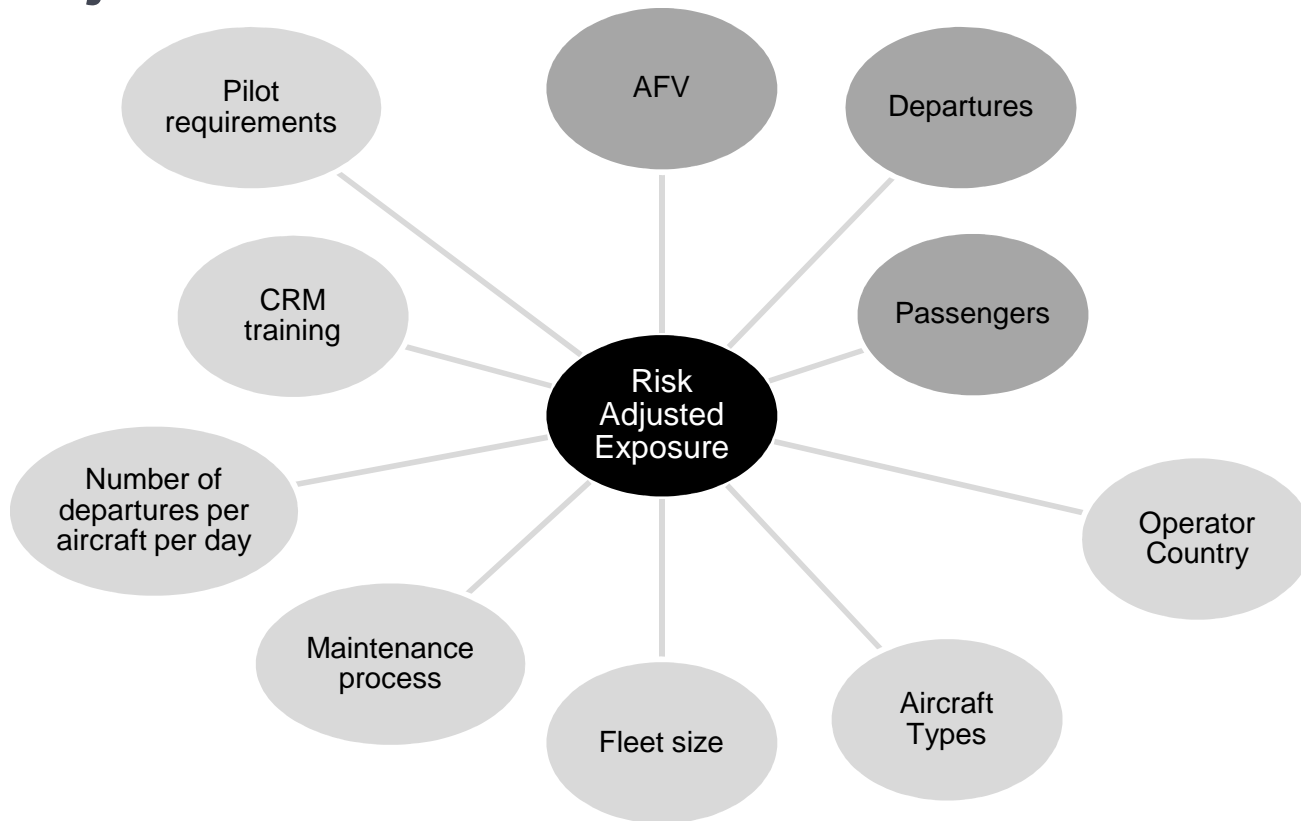


How do we price a risk?: Technical Pricing

- What is a model?
 - A database of airline data both past and present
 - Snapshot of the profitability of the risk/book
 - One of the many tools used by Underwriters in making decisions

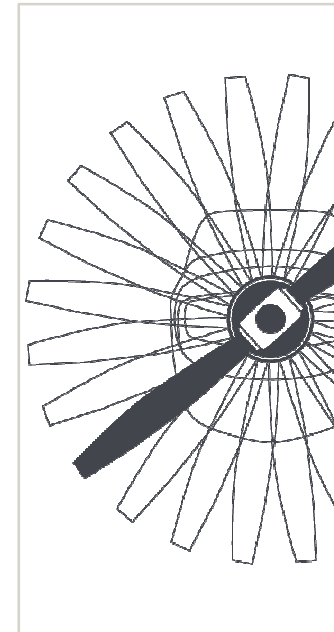


How do we price a risk?: Risk adjusted



How do we price a risk?

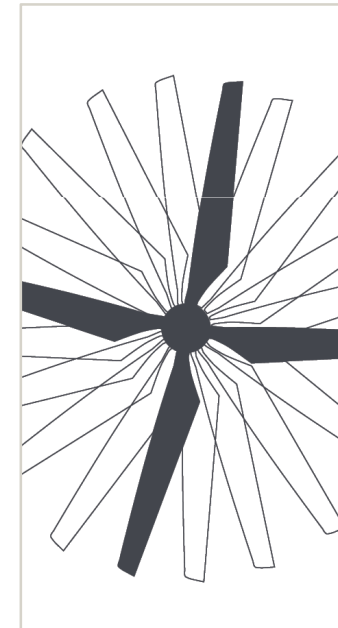
- Minor Partialsl
 - Losses < \$10m
 - Use airline's own data when possible
 - Adjust for claims inflation, development patterns, unusual losses
- Major Partialsl
 - Losses > \$10m
 - Estimate loss pot for the market



How do we price a risk?

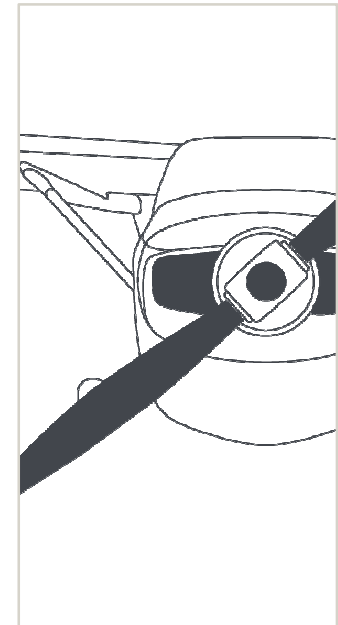


- Total Losses - estimated number of total losses and fatalities
- Hull - average aircraft value
- Liability - expected awards, based on actual passenger mix and Insurer's view of award levels by country
- Catastrophe (Cat) Loss
 - Market loss in excess of \$1bn
 - Subjective
 - Assumptions for frequency of varying size loss in excess of \$1bn
 - Extrapolated from frequency of lower valued losses



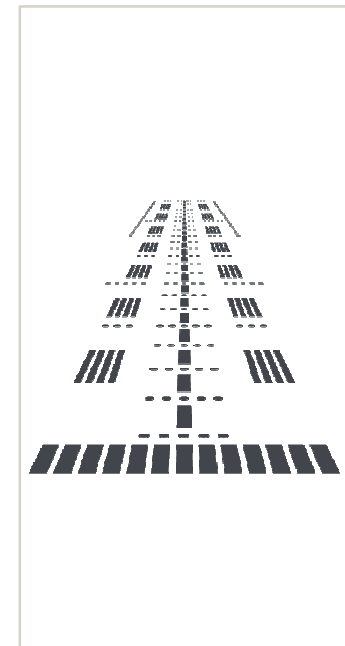
How do we price a risk?

- How do we calculate level of premium for a risk?
- Loading contains:
 - Expenses
 - Profit
 - Offset by investment income
- Loading varies depending on type of insurance
 - Volatility
 - Accumulation with other classes of business



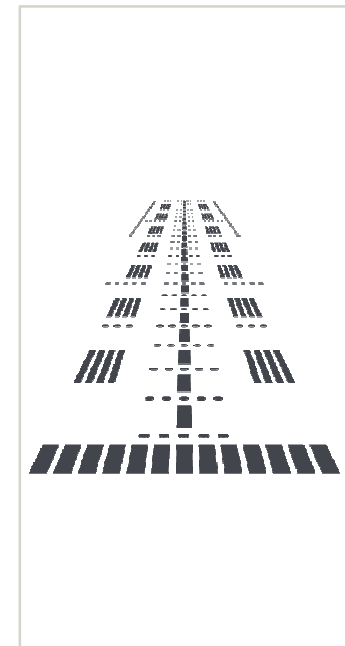
Role of the Underwriter

- Knowledge and Experience
- Understanding client needs
- Model used as a pricing tool - but only a guide
- Understanding the market dynamics
- Managing expectations
- Client presentations and operational visits
- Regular meetings with brokers and key stakeholders
- Sanctions



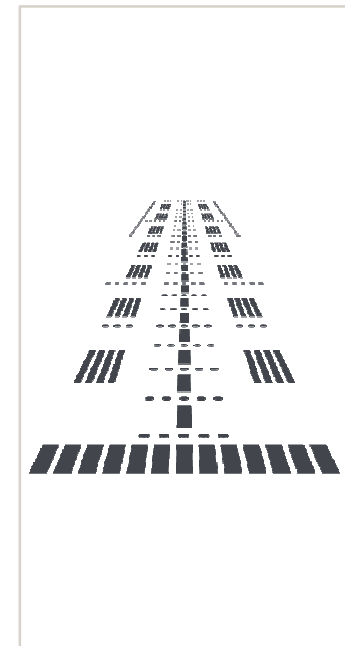
Role of a Lead Underwriter

- Set the lead price
- Review coverage, terms and conditions within the slip
- Agree a policy wording and contract
- Agree changes to contract via endorsements and agree any pricing for future changes, additions, deletions, material change
- Agree any bursary expenditure is within the expectations of the contract
- Has a responsibility to protect the interests of the following market as well as their own

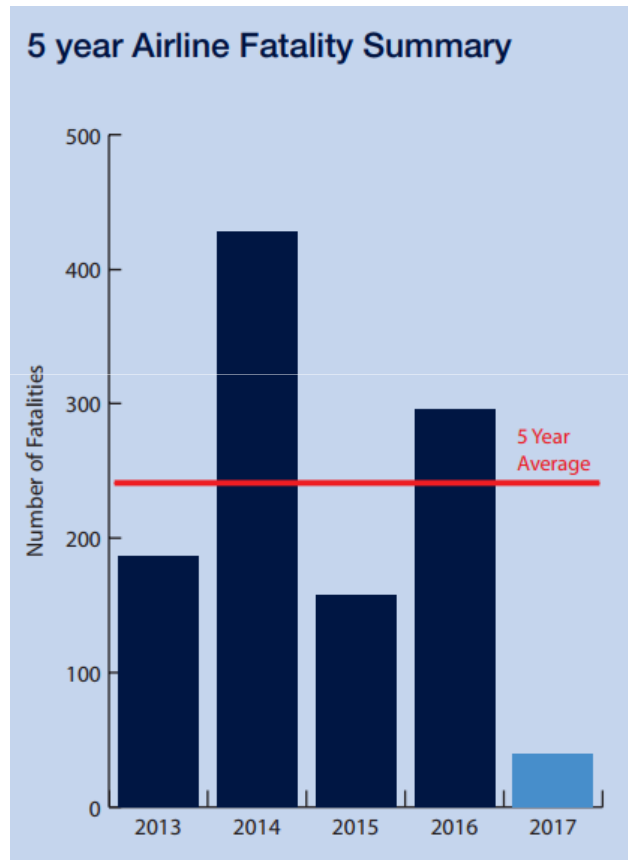


Basics for all Underwriters

- Provide good financial security
- Good service - Ability to price and understand risk
- To PAY CLAIMS



Major Airline Losses

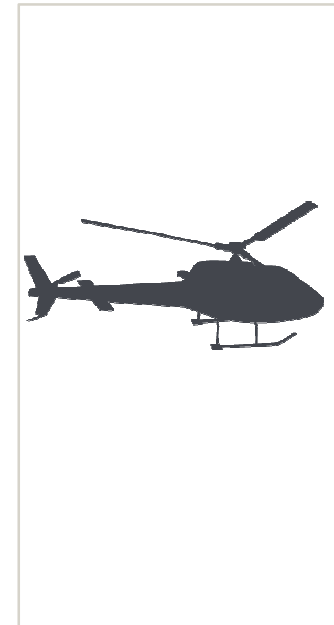


- Lower frequency of major losses
- 2017 officially the safest on record
- No fatal accidents (more than 15 seats)



Changing times

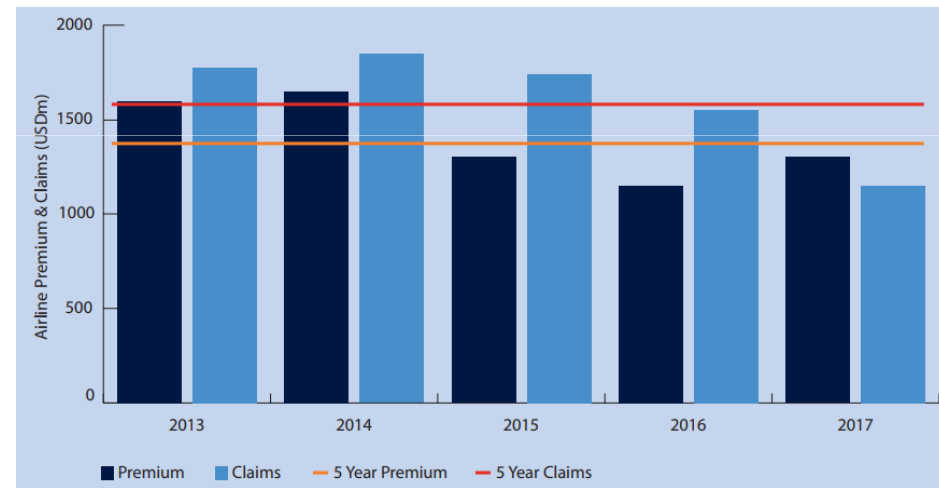
- Increasing costs of repair on new generation aircraft
- Increased awareness of passenger rights and entitlements
- Rising claim costs, clean-up operations, environmental damage
- Increased volatility in certain regions



Theoretical Underwriting Result Hull & Liabilities



- The airline insurance market theoretical income, (nett lead premium) is currently estimated at US\$1,275,000,000.
- Combined operational loss expenditure, nett of costs is currently estimated at US\$1,620,000,000.
- The theoretical year is therefore running at a US\$345 million shortfall, and a 127.06% loss ratio based on accidents and incidents alone.
- Expenditure unrelated to claims, such as market trading costs, Underwriters reinsurance costs also need to be taken into account.
- Overall the market expenditure figure increases to US\$2,140,000,000 and income increases to US\$1,369,000,000 – a shortfall of US\$771 million, resulting in a 156.32% loss ratio.

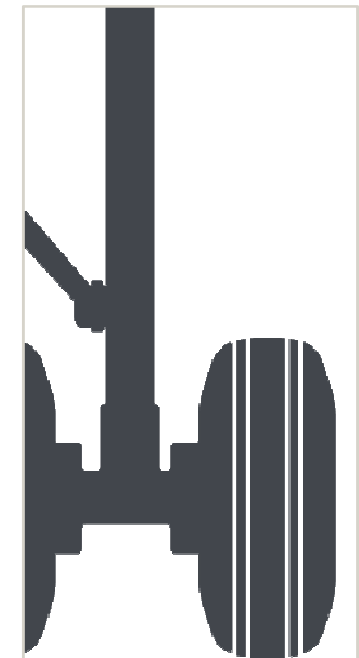
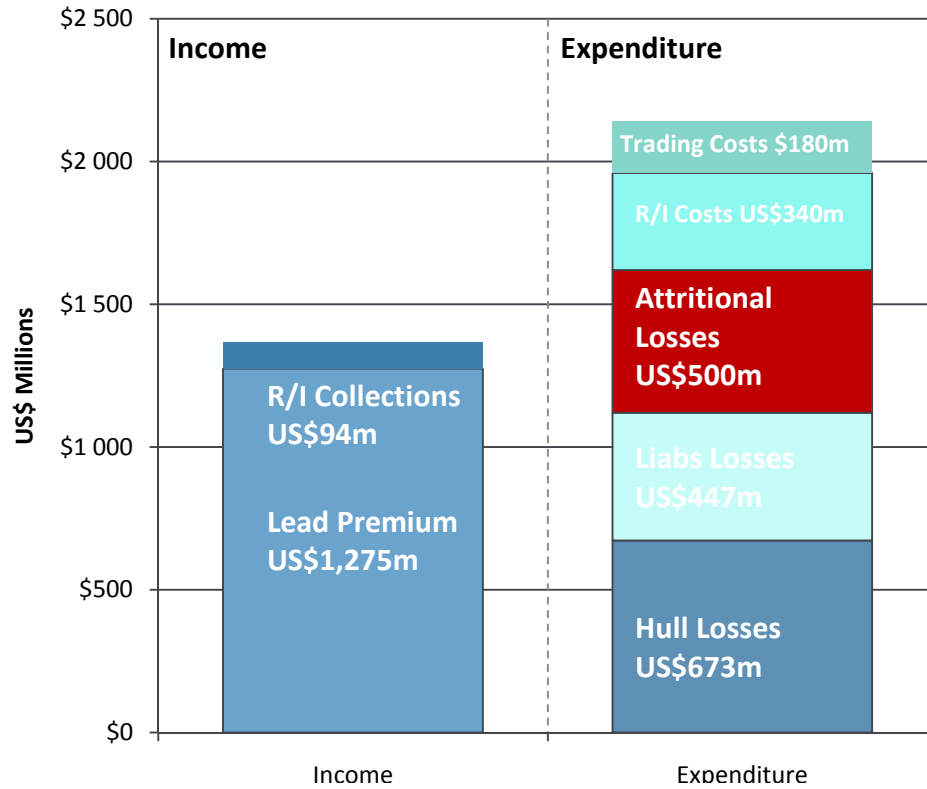


Aviation doesn't stand alone

- Hurricanes
- Earthquakes
- Wildfires
- Terrorism



Current trends



Attritional losses



- A321 – faulty wiring
- Circa \$50m

Attritional losses

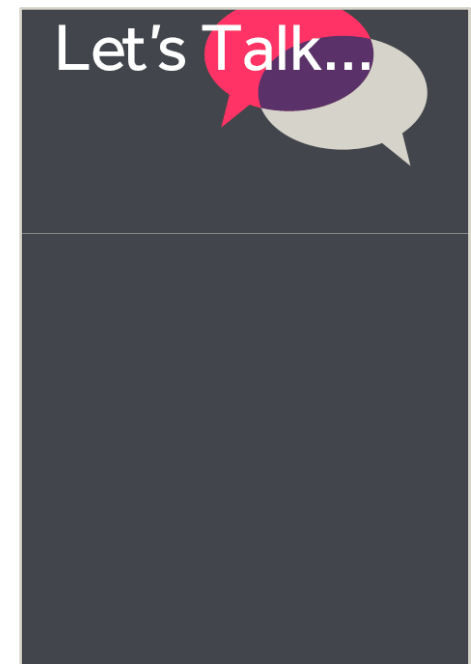


- A320 collided with parked A319
- Ground handling
- Circa \$15m



Thank you

Any Questions?.



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