

AON AVIATION MARKETING A RISK

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WHAT DOES AN INSURER REQUIRE TO MARKET A RISK EFFECTIVELY?

Complete information about the airline

This should include as a minimum:

In respect of Hull All Risks / Hull War Risks

- Fleet at inception
- Anticipated additions and deletions during the period
- Valuation changes that may occur

In respect of Spares All Risks

- Total spares value at inception
- Where the spares are stored and how much is held in each locations
- What are the hangers constructed of and do they have fire suppression systems

WHAT DOES AN INSURER REQUIRE TO MARKET A RISK EFFECTIVELY?

In respect of Liabilities

Number of passengers and if relevant split between domestic and international carriage

Numbers of departures and if relevant split between domestic and international carriage

Estimated split of the nationality of passengers

Route structure

Flights to sanctioned countries

WHAT DOES AN INSURER REQUIRE TO MARKET A RISK EFFECTIVELY?

Additional information

Pilot information including minimum flight hour requirements.

Where is the training carried out – Own facilities or at a third parties?

Maintenance / Engineering work – Own only or Third Party as well?

Do you perform ground handling operations – Own only or third party

Catering services

Operational standards – Which authorities standards do you operate to?

Number of employees?

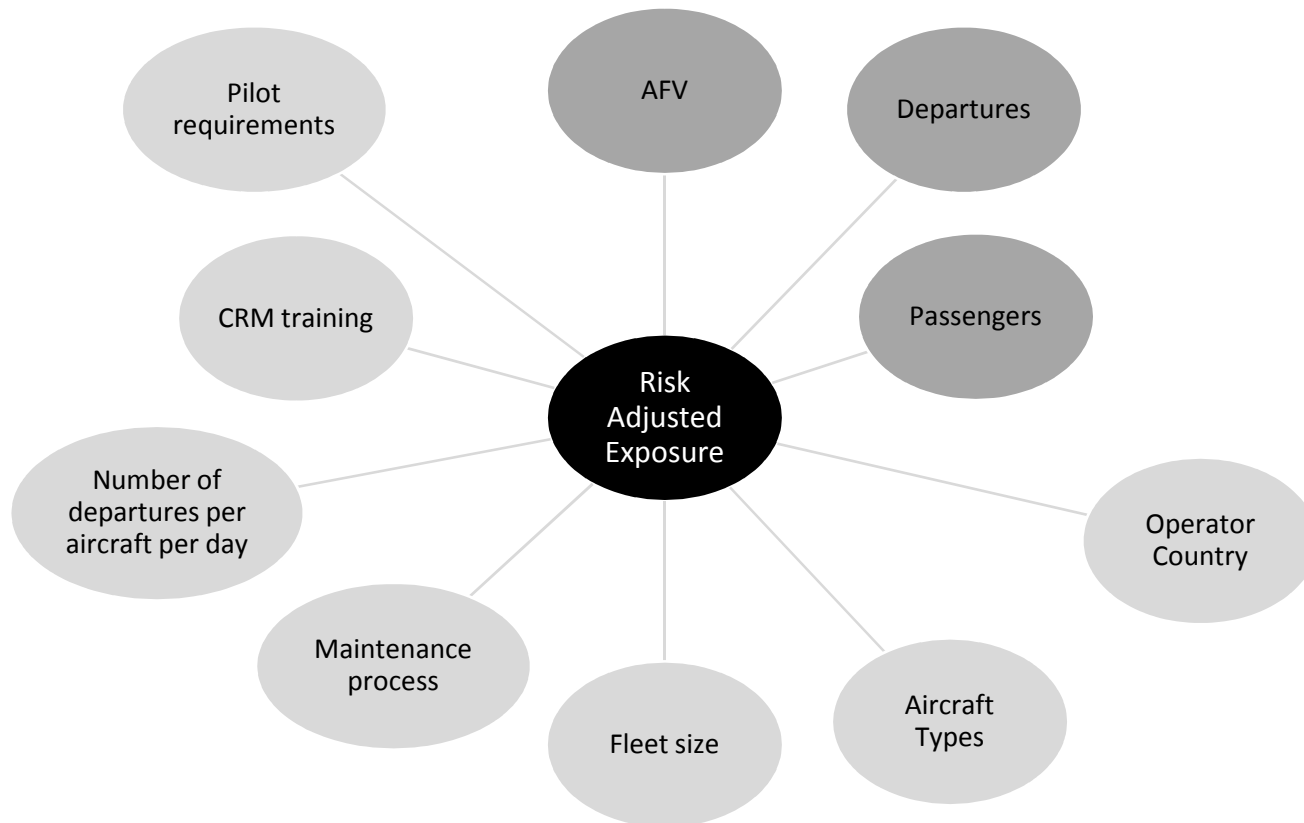
WHY DOES AN INSURER REQUIRE COMPLETE INFORMATION?

- They are required to rate a risk using a financial model to give a technical pricing / rating
- They use their experience and judgement to evaluate the risk and any output from the model
- They want to understand the risk and its place within the insurance market place and balance the risk/exposure in order to achieve a commercial pricing

THE MODEL CONCEPT

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

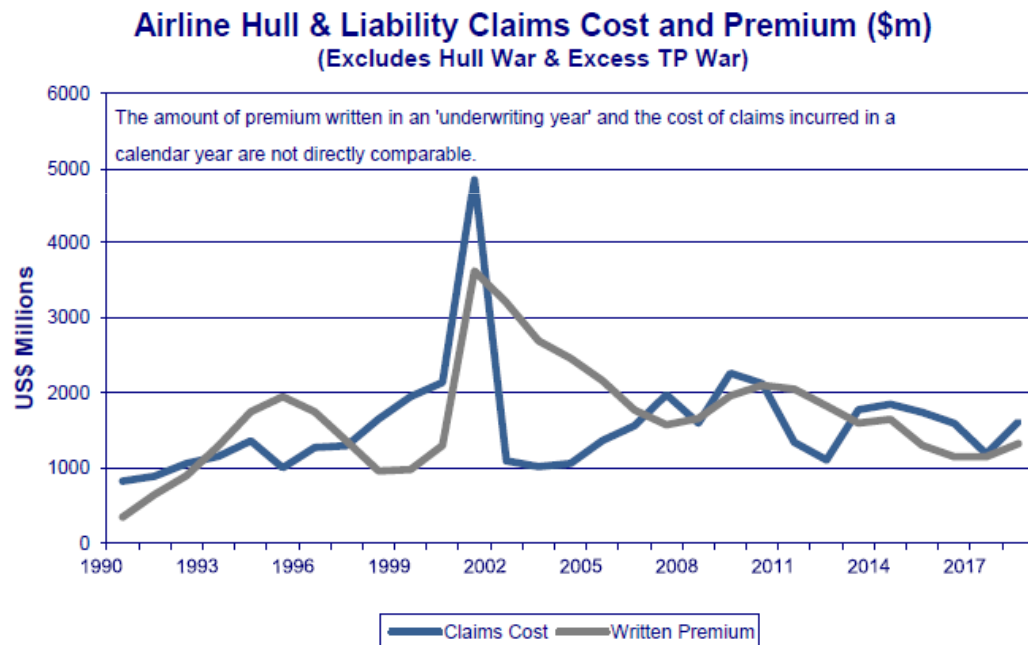
THE MODEL – CONT.



WHAT OTHER FACTORS DOES AN INSURER TAKE INTO ACCOUNT – AIRLINES OWN CLAIM RECORD

- 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

WHAT OTHER FACTORS DOES AN INSURER TAKE INTO ACCOUNT - OVERALL MARKET RESULTS?



- 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 Insurers valued losses

HOW DO INSURERS CALCULATE THE LEVEL OF PREMIUM FOR A RISK?

- How do Insurers 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

WHAT DOES A LEAD INSURER DO?

- 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

MARKETING INFLUENCES

- 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

Any Questions?