AIRLINE INSURANCE MARKET OVERVIEW

HOW POSITIVE IS NO NEGATIVE?

The airline renewal season is now in full swing and it is clear that of the two market drivers, capacity continues to defeat the influence of a poor year for claims in the battle for power. The insurance market press talks of “capitulation” from insurers but it is simply market forces at work and the level of capacity suppressing the desire of the market to achieve significant premium increases.

The insurance market in general remains awash with capital and the aviation market therefore continues to have the excess capacity with which brokers can accentuate competition. As a result there has been a slide in the scale of premium increases that are being achieved. There does however remain a resilience from the lead markets not to reduce rating whilst in the wider market a stretching of vertical differentials is being witnessed.

There is a clear division in individual airline’s approach to the market. Some programmes have looked to go early and secure their terms while the market was in a state of flux. Others have sought to wait until their renewal process would normally commence with the assumption the market would calm, and soften. Some airlines have extended their programme to maximise the opportunity of such a softening.

As outlined in our previous publication, the vast majority of programmes are coming to market as improved risks, with newer fleets, improved records and safer operations, but are being asked to pay more premium. Yes the losses of the few are paid for by the many, and a sure strategy of insurers was to at least receive premium commensurate with growth in risk exposures rather than giving growth for free as in the past. There remains a clear continuing improvement in the industry’s safety record and coupled with growth in exposures and insurers needing premium income for claims many airlines with strong insurer relationships presented compelling arguments as to why increases in rate should, for them, be negligible.

As a result of these conditions for the most part the renewals recently and currently being negotiated are showing lower levels of premium increase than was generally expected going into the renewal season.

Insurers have an extreme thirst for premium income. This is in a bid to balance against significant claims this year and of course to pay for reinsurance and trading costs in a market of low margins and increased losses. We are witnessing insurers returning to business they declined in previous years suggesting income is king rather than the study of risk.

It is clear that there needs to be more premium in the airline insurance market to pay for the unfortunate, inevitable and costly accidents that will occur. The challenge has and always will be to determine how much this premium volume needs to be in order to continue to deliver a sustainable market whilst satisfying or at least pacifying all market stakeholders.

The table on the next page highlights the different level of increase achieved in October, in comparison to the subsequent changes being experienced by the early November renewals. Always worthy of note is that these are “lead London terms’ averages, and can be misleading as each programme will have experienced differentiation in result based on their numerous specific risk factors.

The NewsleTTer for The AirliNe iNsurANce iNdusTry | deceMBer 2014
The Hull War market has always been a reactive sector. The level of losses this year have outstripped premium nearly tenfold and as a result this market, perhaps more expectedly and understandably reacted with initial calls for 200% - 300% increases in premium. Like the Hull and Liability market, there exists an excess of capacity and recent renewals have witnessed a significant moderation of rate and premium increases so that they are now well below those expected ahead of the final quarter renewal season. There have also been some airline buyers who, in certain circumstances and in return for a premium consideration, have been able to secure a form of non-cancellable cover.

**EXCESS WAR THIRD PARTY AVN52**

The facts for the Excess third party legal liability (AVN52E) market remain those of no claims since this policy was first introduced in 2002, high levels of capacity and therefore ever-decreasing industry volumes of premium. Being war risk coverage, and after the events of July 2014, insurers signalled an end to the trend of reducing premium though there were few market voices pronouncing that premium would increase. Airline’s renewal premium at the outset of quarter four remained stable but like the hull & liability market a thirst for premium income created the competition that has more enabled more recent renewals to achieve reduced rating though the premium levels are largely being maintained. Airlines offering the largest individual premium volumes, due to scale of risk values, will have performed the best and those underwriters able to offer increased shares has further softened renewal pricing.
EXCLUSIVE TALKS BETWEEN WILLIS AND MILLER

Recently, we have issued a press release announcing that ourselves and Miller have entered into exclusive talks to create the leading London wholesale specialist broking firm. The proposed transaction would combine Willis’s respective wholesale businesses to trade under the Miller brand, governed and regulated as a standalone legal entity.

If the transaction is agreed, wholesale activities encompassing a series of units will transfer from Willis to Miller, while existing Miller treaty reinsurance and more retail-orientated activities will transfer to Willis. You can read more details in the release.

This is a very exciting development in the future of our company, especially for those of us who work in the London market. Miller is highly regarded by clients and carriers alike, with a culture and professional approach that aligns very closely with our own values-based client service and heritage. The proposals under discussion would confirm Miller as the leading London wholesaler, allowing Willis and Miller to draw on each other’s professional strengths. This will further demonstrate our deep commitment to London and the London insurance market.

Talks between our two firms are continuing and there is no certainty a transaction will be forthcoming. Any proposed transaction between our two organisations would be subject to regulatory and other relevant approvals.

Please see below for the press release.

WILLIS GROUP AND MILLER IN EXCLUSIVE TALKS TO FORM LEADING LONDON WHOLESALE INSURANCE BROKING FIRM

London, UK, 20 October 2014 – Willis Group Holdings (NYSE: WSH) and Miller Insurance Services LLP announce that they have entered into exclusive talks to create a leading London wholesale specialist broking firm. The proposed transaction will combine their wholesale businesses to trade under the Miller brand, governed and regulated as a standalone legal entity and separate Lloyd’s broker.

Wholesale activities encompassing a series of units will be expected to transfer from Willis to Miller, while existing Miller treaty reinsurance and more retail-orientated activities will be expected to transfer to Willis.

Miller will utilise its existing client service capabilities and rich 112-year heritage, enhanced by Willis’ wholesale industry and specialist skills to continue to serve the global independent wholesale specialty and MGA client base.

Willis will become a partner of Miller Insurance Services LLP with a majority interest. Partners of Miller will retain a significant partnership interest that will be transferred across generations of new partners as Miller develops and prospers. Miller will continue to operate under the Miller brand out of its new London HQ with continuity of management and will continue to interact directly with clients and markets.

Dominic Casserley, CEO of Willis Group, commented, “Miller is a pre-eminent independent specialist broker in the London wholesale market, highly regarded by clients and carriers alike, with a culture and professional approach that aligns closely with Willis’ values-based client service and heritage. The proposals under discussion would confirm Miller as a leading London specialist wholesaler, allowing Willis and Miller to draw on each other’s professional strengths, and further demonstrates Willis’ deep commitment to London and the London insurance market.”

Graham Clarke, CEO of Miller, said, “The proposed transaction will give Miller access to Willis’ global reach and scale, its industry and product capabilities, and outstanding client support operations, while maintaining the Miller brand and ethos. It will also enable both firms to serve their clients more effectively through improved access to the breadth of their services, markets, and analytical capabilities. This transaction will accelerate our growth strategy and enhance our current platform.”

Exclusive talks between the two parties are advanced but there is no certainty a transaction will be forthcoming. Any proposed transaction between the two organizations will be subject to regulatory and other relevant approvals, including the final approval of the Willis Group board and the partners of Miller. Willis and Miller do not intend to comment on this matter further unless and until a transaction is agreed, and specifically disclaim any obligation to provide further updates to the market.

ABOUT MILLER INSURANCE SERVICES LLP

Miller Insurance Services LLP (Miller) is a specialist insurance and reinsurance broker, operating internationally and at Lloyd’s. It handles reinsurance, complex large commercial insurance business and programmes & facilities.

Founded in 1902, the partnership today has over 580 people and eight international offices in the world’s key insurance markets. Miller holds Chartered Insurance Broker status, demonstrating professionalism, a client focussed approach and commitment to excellent service standards.

For more information, please visit www.miller-insurance.com

ABOUT WILLIS GROUP

Willis Group Holdings plc is a leading global risk adviser, insurance and reinsurance broker. With roots dating to 1828, Willis operates today on every continent with more than 18,000 employees in over 400 offices. Willis offers its clients superior expertise, teamwork, innovation and market-leading products and professional services in risk management and transfer. Our experts rank among the world’s leading authorities on analytics, modelling and mitigation strategies at the intersection of global commerce and extreme events. Find more information at our website, www.willis.com, our leadership journal, Resilience, or our up-to-the-minute blog on breaking news, WillisWire. Across geographies, industries and specialisms, Willis provides its local and multinational clients with resilience for a risky world.
WILLIS GROUP – FORWARD LOOKING STATEMENTS

Willis Group have included in this document ‘forward-looking statements’ within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. These forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts that address activities, events or developments that we expect or anticipate may occur in the future, including such things as our outlook, future capital expenditures, growth in commissions and fees, business strategies, competitive strengths, goals, the benefits of new initiatives, growth of our business and operations, plans and references to future successes, are forward-looking statements. Also, when we use the words such as ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘plan’, ‘probably’, or similar expressions, we are making forward-looking statements.

There are important uncertainties, events and factors that could cause our actual results or performance to differ materially from those in the forward-looking statements contained in this document, including the following: the ability to consummate the proposed transaction; the ability to obtain requisite regulatory and other approval and the satisfaction of other conditions to the consummation of the proposed transaction; the impact of any regional, national or global political, economic, business, competitive, market, environmental or regulatory conditions on our global business operations; the impact of current global economic conditions on our results of operations and financial condition, including as a result of those associated with the Eurozone, any insolvencies of or other difficulties experienced by our clients, insurance companies or financial institutions; our ability to implement and fully realize anticipated benefits of our new growth strategy and revenue generating initiatives; our ability to implement and realize anticipated benefits of any expense reduction initiative, including our ability to achieve expected savings from the multiyear operational improvement program as a result of unexpected costs or delays and demand on managerial, operational and administrative resources and/or macroeconomic factors affecting the program; changes in the tax or accounting treatment of our operations and fluctuations in our tax rate; volatility or declines in insurance markets and premiums on which our commissions and fees, business strategies, competitive strengths, goals, the benefits of new initiatives, growth of our business and operations, plans and references to future successes, are forward-looking statements. Also, when we use the words such as ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘plan’, ‘probably’, or similar expressions, we are making forward-looking statements.

The foregoing list of factors is not exhaustive and new factors may emerge from time to time that could also affect actual performance and results. For more information see the section entitled “Risk Factors” included in Willis’ Form 10-K for the year ended December 31, 2013 and our subsequent filings with the Securities and Exchange Commission. Copies are available online at http://www.sec.gov or www.willis.com.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and therefore also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included in this document, our inclusion of this information is not a representation or guarantee by us that our objectives and plans will be achieved.

Our forward-looking statements speak only as of the date made and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document may not occur, and we caution you against unduly relying on these forward-looking statements.
AIRPORT RISK MANAGEMENT CONFERENCE
On 9th October, Willis Aerospace held a one day conference on airport risk management. The event took place at Birmingham International Airport, who had kindly agreed to host, and was attended by a broad range of both clients and prospects. Attendees included some of Europe’s largest airports, major providers of ATC and ANSP and service companies as well as medium sized and smaller regional airports in the UK.

Our agenda was to address issues far broader than just insurance. Birmingham Airport is soon to take over provision of ATC services from NATS and they spoke about this transition, as well as how they have significantly developed the airport with investment in a longer runway, enabling them to be unlimited in terms of aircraft size and range. The importance of regional airports to the UK was a focus of their talk. The Air Accident Investigation Bureau discussed the type of minor incident that can become a major problem, and discussed ways in which such losses might be prevented.

Norman Shanks, a highly respected airport security consultant, examined ways in which security can be improved and showed us his view of how security will look in the future.

Paul Clark, from Willis, spoke on claims defensibility and how airports (indeed any company) can manage their day to day hazards and have means to defend claims, particularly slip and fall, with good procedures and good documentation.

Media management was the focus of Blakes Emergency Services presentation. What to say and what not to say to the media in the event of an incident, and how to use social media such as Twitter to best advantage. Numerous examples of each, good and bad, made the point very clearly.

Roger Bathurst, from Willis, spoke on the importance of understanding and managing contractor relationships for airports, particularly those driving vehicles airside, and asked participants to recognise the increased exposure they face if close control of these entities is not maintained.

Finally, we had a question and answer session with Simon Abbott of Global Aerospace and Simon Toms of AIG. In keeping with the issues of the day, we did not discuss premiums, but rather focussed the debate on risk assessment, the values of leadership, ATC risks, and how underwriters do what they do.

LOSSES OVERVIEW

At the time of writing the loss total for the year is US$1,354m. This is made up of US$261m for hulls and US$718m for liabilities with a pro rata estimate of our attritionals being US$375m.

The underlying trend of the industry continues to improve but this remains a catastrophe market and things could change swiftly and severely.
Looking Ahead

Mid November and December continue to see the largest share of the premium come to market and the few weeks to the end of the year will be the determining factor in the annual premium result. The largest programmes in the market are yet to impact our figures and with the economies of scale that exist in airline insurance purchasing already evident, any thirst for premium will dampen increases further.

If the resolve of the market conditions continue to develop then there is a possibility that the annual percentage premium increase could be in single figures!

There is still more than US$1billion of premium to be placed and therefore, much can happen, but in the absence of any further major losses the market forces will dictate the final level of premium achieved.
This is the Willis Airline Insurance Insight, which is our vehicle to keep our clients and others informed of developments in the airline insurance market. We welcome any comments or suggestions you may have to improve this publication. All data and analysis within this newsletter includes all known information at the time of production and is based on the net lead terms of airline insurance programmes renewing with fleet values in excess of US$100 million. The analysis does not take into account any coverage changes and is not weighted in relation to the size of the programme’s exposure or volume of premium paid. Loss information includes western built equipment and our attritional loss threshold is below US$1 million. These figures are based on a like for like basis and exclude those risks that incepted in 2011 and are no longer in operation and those risks that have commenced operations in 2012 as these will distort the percentage change figure.

This newsletter offers a general overview of its subject matter. It does not necessarily address every aspect of its subject or every product available in the market. It is not intended to be, and should not be, used to replace specific advice relating to individual situations and we do not offer, and this should not be seen as, legal, accounting or tax advice. If you intend to take any action or make any decision on the basis of the content of this publication you should first seek specific advice from an appropriate professional. Some of the information in this publication may be compiled from third party sources we consider to be reliable, however we do not guarantee and are not responsible for the accuracy of such. The views expressed are not necessarily those of the Willis Group. Copyright Willis Limited 2014. All rights reserved.

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