

The recent engine failure incident on 20th February brings into sharp focus again the sometimes misconstrued and very relevant topic of Grounding Liability. The preliminary examination and statements by the NTSB describe damage to the low-pressure compressor (LPC) blade consistent with metal fatigue.

Much has been written about the incident, age of the aircraft and engines. This certainly calls into question the previously commonly held supposition that the potential for 'grounding' is focused on new platforms/ equipment/engines or production techniques.

This event may yet be an anomaly; however, discussion is ongoing about whether the re-entry into service of previously reliable equipment could lead to similar issues. As we see it, any potential for broader applicability makes the grounding liability topic one of increased relevance and importance for the entire aviation community including major manufacturers, their supply chain, airline customers and consequently insurers and reinsurers alike.

A brief look back

After a long period without grounding losses since the coverage was first introduced in the 1950s, several recent major grounding losses resulted in a market deficit that led to many markets questioning the scope and available limits of cover.

A notable grounding loss for full policy limit served to confirm to insurers that an immediate change needed to be made and saw some markets withdraw from providing non-traditional grounding cover plus a significant reduction in limits for all types of grounding.

In addition, some coverage restrictions were put in place (see [Piiq Perspective Volume 1](#) issued in March 2020 where we previously detailed some of these changes and the potential impact).

“The potential for broader applicability makes the grounding liability topic one of increased relevance and importance for the entire aviation community including major manufacturers, their supply chain, airline customers and consequently insurers and reinsurers alike”

The role of the reinsurance market in these developments cannot be underplayed. When reinsurers decline to accept certain coverages or limits, the market tightens. In this case a number of grounding coverage terms and conditions were diminished, particularly for non-occurrence grounding coverage.

It became exceedingly difficult and often impossible for direct markets to obtain reinsurance coverage for any non-traditional grounding coverage, meaning partial or non-occurrence grounding.

Where available, costs to the direct insurers were prohibitive. This severely impacted the direct insurers' willingness to provide the previously available limits that are now written on a net retained line basis.



Buyers would be right to ask the following questions:

- Are the current lower limits of liability and scope of coverage sufficient in the event of a major grounding?
- Does the current 'standard' industry language adequately provide for the likely scenarios (For example, is the current definition of Regulatory Authorities sufficient in light of the recent incident?)
- Does the current definition of Grounding cover the triggering events of the type we can anticipate today?
- Do the limitations to Loss of Use wording present major challenges to recovery from insurers?

The Piiq perspective

Questions persist as to the nature and extent of claims that will arise from this unfortunate event, and the sources of insurance that will respond.

There have been flight bans in certain territories and whilst the FAA has now issued an Emergency Airworthiness Directive, it remains unclear what further actions may follow.

What is clear is that the market has sustained an unprecedented level of grounding claims, both in terms of frequency and severity in recent years, and the reality is that the exposures have not gone away for aerospace manufacturers. Regulatory dynamics across the globe are also evolving and airlines continue to confront the potential for loss of use of aircraft.

We commend the market for striving to continue to offer sustainable insurance solutions, however the scope of coverage and depth of capacity remain limited with the pricing of the product still rather opaque.

As the frequency of incidents appear to be on the rise, is it time to call for a more metrics-driven and exposure analysis approach to grounding coverage which may also lead to increased transparency and accuracy in pricing?

We believe that a more sustainable and transparent approach that better meets clients' demands will start to emerge, even if from alternative solution providers.

AUTHORS



DEBRA FANJOY
SENIOR PARTNER

Debra is the Piiq Risk Partners US Aerospace Leader, focused on thought leadership on the aerospace front and supporting the

development of a robust complex risk offering. Debra has held aviation broker and underwriter roles throughout her 25-year career. Most recently, she led a large Chicago-based aviation broker team for Marsh in Chicago, and she helped drive the strategy for the US aviation practice.

Debra joined the industry with a passion for aviation and armed with a degree in Aeronautical Science from Embry-Riddle Aeronautical University. She holds Commercial Pilot and Certified Flight Instructor certificates, and she earned CPCU, ARM, and CAIP (Certified Aviation Insurance Professional) designations.

T: +1 312 469 7527

M: +1 312 285 3356

E: debra.fanjoy@piiqrp.com

222 West Adams, Suite 1900, Chicago, IL, 60606, USA



OYIN HEATH
SENIOR PARTNER

Oyin is a senior partner in the Piiq UK team based in London. She is responsible for driving the international client engagement strategy as

well as developing and delivering a differentiated and compelling client value proposition to Aerospace clients.

Before joining Piiq in February 2020 Oyin was the UK Aerospace Practice Leader at Marsh. This role involved leading a dynamic team and managing the risk and insurance requirements of some of the Aerospace sector's leading companies.

During her 25-year career Oyin has successfully worked in all sub-sectors of the aviation insurance market and in doing so has cultivated strong relationships with key stakeholders. She is focused on delivering favourable outcomes for aviation clients in the current insurance marketplace.

Oyin is an Associate of the Chartered Insurance Institute (ACII).

T: +44 (0)20 81481614

M: +44 (0)7850914801

E: oyin.heath@piiqrp.com

288 Bishopsgate, London, EC2M 4QP

The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

Piiq Risk Partners Limited is registered in England (No. 856973) at 288 Bishopsgate, London EC2M 4QP and authorised and regulated by the Financial Conduct Authority (FCA Register No. 313041).

Piiq Risk Partners Inc at 222 West Adams St. Suite 1900, Chicago, IL 60606

420-0321