

As the majority of the world's airlines and their insurers enter final quarter renewal negotiations, it is hard to imagine a scenario where the value of partnership has been of greater importance to our community.

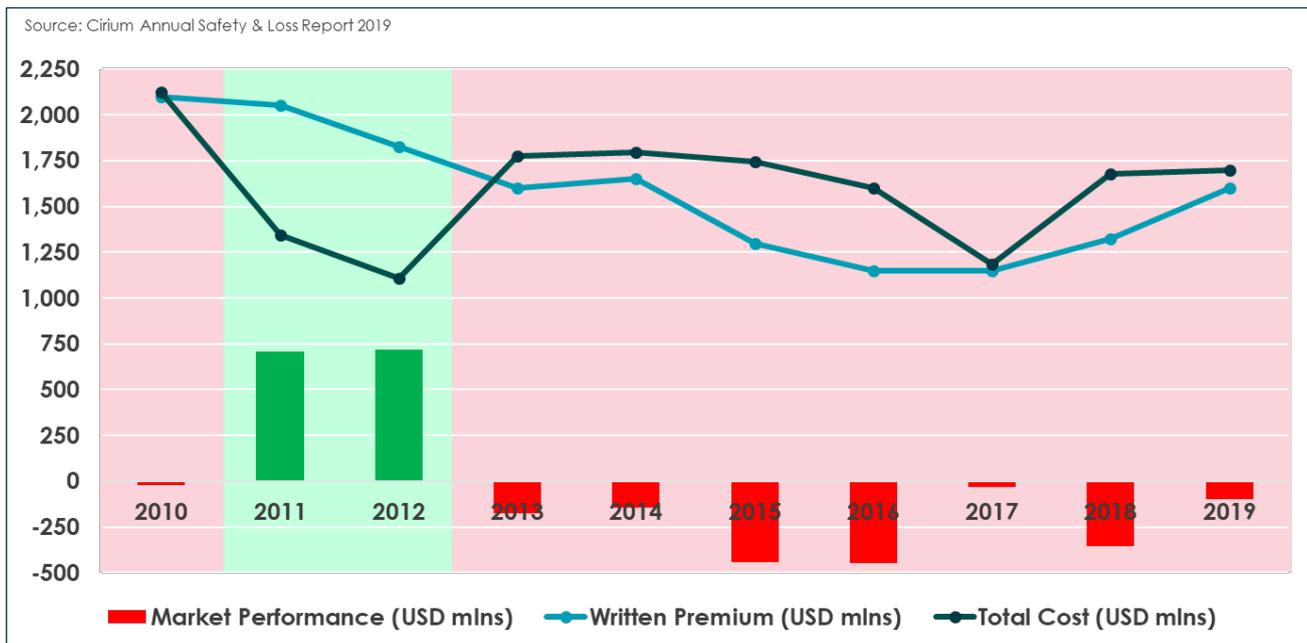
The challenge faced by the airline industry is stark. Since the sporadic re-opening of borders in June, results outside of some notable domestic markets remain challenged and IATA estimate that Industry-wide revenue passenger kilometres (RPKs) contracted by 75.3% year-on-year in August. With the Northern Hemisphere winter bearing down upon us, a second wave rippling through many countries, a continued dearth of corporate travel and inconsistent international response/regulation; it is clear that the industry remains in crisis.

Airline priorities centre around survival and the focus of attention is on cash preservation, liquidity, asset utilisation and financial restructuring, either with Government support or

in the private market to shore up the balance sheet as best as possible. There remain, however, a small number of airlines who are looking to turn the industry crisis into their opportunity

It is natural for airlines to turn to their partners for help. Typically for insurers this has led to requests for premium deferral and relief under the existing policies and the insurance market on the whole has responded positively. That said, against a backdrop of a market that has lost money for the last seven years, there is both a limit to what insurers can be realistically asked to provide and a priority for them to regain the market premiums estimated at the outset of 2019 as soon as possible.

Airline insurance market performance



Timing is key

Piiq's strong recommendation is that clients get in front of insurers as soon as possible to discuss ways to mitigate the premium implications. Timing and pro-active communication are absolutely key. A recent Airmic survey where the majority of clients surveyed cited poor communication and lack of pro-active advice as fundamental problems pose challenging questions to brokers in particular.

There needs to be a balance between premium adjustments and exposures for the aviation market to be sustainable. We believe this can be done by pro-active transparent communication between clients, brokers and insurers.

The longer the crisis, the greater the potential for tensions and breaking points to emerge. This is where partnerships will be tested.

“The value and definition of a partnership is truly tested during times of extreme stress to the business. The ones formed for the right reasons will continue to strengthen and will ultimately be beneficial for all parties concerned. Which is why choosing the right partners is key”

Paul Cooper
Convex

The power of partnership

It is appropriate to stop and reflect on what the essential ingredients of partnership are. We asked colleagues at Piiq to give their opinions of what makes strong and enduring partnerships in three words. An opportunity for self-reflection, as we are, after all, Piiq Risk Partners together!

The three words that came to the fore were **trust, communication and understanding.**



COVID presents an additional layer of risk to be catered for and in the rating context makes accurate forecasting of exposures incredibly difficult. Insurers need to **understand** these difficulties, **trusting** that airlines will make their best endeavours to provide responsible estimates.

Communication through the process is critical and each account needs to be treated on its own merits. We believe that insurers will continue to provide help with some premium mechanics such as unequal quarterly instalments and deposit premiums but they will also continue in many cases, to impose minimum premium requirements to ensure a baseline of premium is generated.

Airlines need to regain the confidence and **trust** of passengers to fly safely. **Communication** here is critical. IATA reports that in a recent 11-market survey, some 83% of travellers said that they will not

travel if there is a chance of being quarantined at their destination. Insurance products are now available to provide denial of travel cover due to COVID-19 and can be extended to include medical expenses for passengers. Airlines are using these new products as an effective way to demonstrate empathy and **understanding** regarding their customers concerns about flying by offering a derivative of this product within the ticket price.

The power of Partnerships between airlines and their passengers has resulted in extraordinary returns in the world of frequent flyer programmes and associated loyalty schemes. United Airlines recently led the

way, pledging as collateral their MileagePlus programme to raise US\$6.8bn in the largest capital transaction of its type in history. Other airlines have followed suit.

The role of the Broker is often characterised as being one **of trusted** adviser. There is no doubt that airlines are relying heavily on their brokers for advice and recommendations as to how to proceed into market negotiations. The fact that several notable airlines have decided to move brokers, regardless of COVID and 'restrictions to travel' only goes to emphasise the value placed on quality advice. The concept of client centricity is important here, as brokers need to show an **understanding** of clients' needs and priorities and then effectively **communicate** dynamic strategy and execute effective market engagement. Honesty is critical as there will be no prizes for brokers who over promise and under-deliver.

Understanding client needs and priorities has to extend beyond the mandatory insurance transactions that tend to absorb attention.

“In a fast-changing industry, such as aviation, vertical and horizontal partnerships are critical. They are the means to access markets, talents, technology and much else besides. Developing enduring partnerships, however, requires vision of purpose and investment in time and resource. But, those that are successful will have their returns”

Jeffrey Goh, Star Alliance

Looking beyond Covid

“It's critical that when travel restrictions begin to ease, that airlines are able to return to full operations and insurers are there to transfer the risks, without each other neither can survive”

Dan Crispe, CV Starr

reminder out of this list. With rates going through the roof, airlines need to be fully briefed about why and counselled, way in advance, as to what the strategic marketing alternatives are.

At Piiq we are investing in time and talent to extend our value to airlines into integrated finance and insurance linked solutions. Communicating our value 'beyond insurance' is a critical element of our client proposition. COVID-19 preoccupation syndrome has also served to keep a lid on other risk elements which were becoming increasingly visible pre-pandemic. Cyber, D&O, reputational risk, supply chain, geo-political risk have not gone away, these risks and others are still there and need to be understood and addressed. Communication is also key here, with D&O being the starkest

Shared future

There is one added ingredient within partnership to be noted and that is 'a future shared'. Airlines, brokers and insurers destinies are inextricably linked and we all share a common ambition – to ensure the aviation industry doesn't just survive but thrives in the future.

A shared future and ambition has drawn our team together to create Piiq Risk Partners. **We believe in the power of partnership to unlock future potential and we will provide our clients with a competitive edge.**

AUTHOR

Mark Hue Williams - SENIOR PARTNER

Mark joined Piiq Risk Partners in April 2020 following a 29-year career at Willis Towers Watson (WTW). Throughout his career, Mark has focused on the aviation industry. Previous roles at WTW included CEO Aerospace, International; Global Head of Transportation Industry, and most recently Global Client Relationship Director.

As a Senior Partner at Piiq, Mark will be focusing on delivering differentiated value to aviation Clients, driving innovation and ensuring we consistently reflect Industry needs with our bespoke range of solutions.

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