



AIRCRAFT BUILDERS COUNCIL NEWS

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President's Column

by **Ellen Wiese**

DIRECTOR RISK MANAGEMENT
SEQUA CORPORATION

At the beginning of 2001, we all saw that the aviation insurance market was hardening, but little did we know what was in store for the entire insurance market by year-end. The tragic events of September 11th have now become part of history and the impact these events have had on us continues to be widespread, personally and professionally.

As aviation component manufacturers and service providers, we have seen the effect this has had on our businesses. As risk managers, we have seen the effect this has had on our insurance renewals.

The ABC Program continues to be a stable market during these challenging times. The ABC Program faced its own challenges during its renewal negotiations. The program, with its structure of 2-leaders with automatic support from following markets, makes this program unique. Following the events of September 11th the 2-leaders agreed to the request from the supporting market to suspend their authority for the automatic binding of business. I am happy to announce that the ABC Program renewed with the 2-leaders and following market have again agreed to give automatic support. The limits of liability have been reduced to \$500,000,000, but we are hopeful that these limits will be increased.

Due to the September 11th events, the Board of Trustees with the agreement of the underwriters and chairs of the American and London Brokers Committees cancelled the 2001 Fall Conference. Although the 2001 conference was cancelled, we were able to get commitments from most of the scheduled speakers to give their presentations at our 2002 conference.

Please mark your calendars – the 2002 conference will be held at the Lodge at Rancho Mirage, CA (formerly the Ritz-Carlton), from September 15th - 17th, 2002.

Aside from our great speakers, there will be discussions on the changing aviation market, which should be of great interest to all of us.

I look forward to seeing all of you at Rancho Mirage.

Aircraft Builders Council 2002 Fall Conference

September 15 - 17, 2002

The Lodge at Rancho Mirage, California

Conference Registration and
Program Information will be mailed soon!



Valley View Over Pool – Courtesy of Rancho Mirage

Broker's Report

John H. Howes, Chair, London Brokers Committee
Kevin T. Walsh, Chair, American Brokers Committee

This time last year it was becoming abundantly clear that the aviation market, after several false starts, was beginning to harden. The long expected change in market conditions, which had been predicted over the last few years by industry commentators, was finally underway. The not so idle threat that the aviation market could not sustain the current level had at last been heeded.

THE LONG EXPECTED CHANGE IN MARKET CONDITIONS, WHICH HAD BEEN PREDICTED OVER THE LAST FEW YEARS BY INDUSTRY COMMENTATORS, WAS FINALLY UNDERWAY.

By mid-year increases in all classes of aviation business was the norm. The percentage increases in airline rates however continued to outstrip those for products liability.

By the end of August, the trend continued despite an exceptionally low number of airline accidents. There was still a degree of optimism that the aviation insurance market was on the road to recovery and progress in securing a strong financial base for the future was now a real possibility.

The tragic events of 11 September obviously severely impacted the whole insurance industry. These events have had far reaching implications. Besides the predictable reaction by the insurance markets, the aviation industry has been severely impacted by the lack

of passenger confidence which could not have come at a worse time for the already struggling airlines and has, consequently, had a knock on effect on the manufacturing sector.

The aviation insurance market was further impacted by several additional losses that occurred in the run up to the year-end. As a consequence, premium levels in just about every class of aviation business have taken a substantial leap upwards.

The immediate reaction of the insurance markets to acts of terrorism was to restrict the amount of commercial coverage available, due to its unknown and unpredictable nature. However, these actions had far reaching implications in the air transportation and many associated industries, forcing almost all Governments into the role of insurance provider of last resort over and above the commercial coverage now available from aviation insurers.

Aviation insurers continue to provide terrorism coverage to passengers up to the policy limits but have restricted the amount of coverage to third parties for injury and property damage to a maximum of \$50,000,000. Subsequently, mainly non-aviation markets were prepared to provide coverage over this amount but to date the aviation industry has believed the cost to be unsustainable.

With regard to aerospace manufacturers, products liability which it must be said does not readily lend itself to the war risks exclusions clauses most commonly in use. The direct market has nevertheless been forced to comply with the dictates of the reinsurance market which provides its protection and, as a consequence, the war exclusion clauses are now a feature of most manufacturers products liability renewals. A proviso to write coverages back for an additional premium remains available but subject

to a sub limit in the aggregate not exceeding \$50,000,000 which is included within the overall aggregate limit of the policy.

Many manufacturers' policies include risks other than the pure products liability of which the war exclusion clause was already an integral part and this position remains in tact for certain elements of the coverage which can be written back subject to a premium surcharge.

Probably the most difficult development following the 11 September situation was the withdrawal of automatic support under line slip facilities by following markets. This situation impacted the ABC facility and led to a protracted renewal negotiating period. It was felt by the broking community that the addition of a further rating underwriter or underwriters in the rating process would be unwieldy and not necessarily in the best interest of the client base.

The ABC in its history has had periods where up to 4 leaders have been involved and the rating process and administration of the Program became most unsatisfactory. Even when the number was reduced to 3 unacceptable delays were inevitable. We are therefore pleased that the 2-leader position has been retained as this system has always provided the most effective service to the client.

The ABC Program was renewed for 100 per cent of \$500,000,000 and further efforts are being made to explore market reaction to increasing the limit up to at least \$750,000,000 and possibly a billion.

As the consolidation of markets continues, the ABC remains a viable market for Manufacturer products and associated risks and becomes even more important to its clients.

The Brokers Committees are committed to keeping the ABC at the forefront of the aviation products market.

Mendes & Mount Report

by Garrett J. Fitzpatrick, Esq.
Partner in the Law Firm of Mendes & Mount, New York

CLAIMS PREVENTION: CORNERSTONE OF THE ABC PROGRAM

Over the last year, the Aircraft Builders Council Program has seen a significant influx of new insureds which provides an opportunity in this Newsletter to reconfirm the claims prevention services available to all members of the ABC Program. The leading Underwriters of the ABC have always firmly supported the concept that ABC insureds, for their premiums paid, are entitled to more than just the handling and defense of claims and litigation, but also those services that can help to prevent claims in the first place or to minimize their impact on the company.

The centerpiece of the claims prevention services are the Product Integrity Seminars that we provide to our ABC clients. These seminars are tailored to the individual needs and products of each ABC insured, and are planned in close coordination with the insured's Risk Management and Legal Departments. The subjects covered during the seminars include, among others, the following:

- Legal theories of liability
- The litigation process including pre-trial discovery and trials
- Record retention programs
- Establishing product integrity programs

The insured's employees attending the seminars cut across the whole spectrum of the company including design, engineering, quality control, manufacturing, contracts, marketing, product support and incident/accident investigation. Also, depending upon the number of employees involved, we can conduct several seminars while visiting the insured's facility.

In addition to the Product Integrity Seminars, we also work closely throughout the year with ABC insureds in providing guidance on various issues such as:

- Reviewing contracts including warranty, indemnity and insurance provisions
- Reviewing service letters/bulletins and other sensitive customer correspondence
- Responding to FAA and NTSB inquiries and investigations

With the support of the ABC Board of Trustees and the Underwriters, we strongly encourage all ABC insureds to take full advantage of these claims prevention services and you just can't beat the price: it's a complimentary service under the ABC Program.

**THE CENTERPIECE OF THE CLAIMS
PREVENTION SERVICES ARE THE
PRODUCT INTEGRITY SEMINARS THAT
WE PROVIDE TO OUR ABC CLIENTS.**

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Graham Daldry

Global Aerospace Underwriting Managers

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Lead Underwriters Column

by Martin Cox, Global Aerospace Underwriting Managers & Graham Daldry, ACE Global Markets Limited

There have been numerous articles concerning the events of September 2001 but the effect on the Aircraft Builders Council insurance program needs to be documented.

Following WTC, capacity in the insurance market reduced overnight with previously available catastrophe limits in excess of two billion dollars being impossible to achieve. Substantial increases in premiums became necessary as the insurance market sought to refinance itself following the single largest loss to the insurance industry.

Inevitably, this led to difficulties in the placing of the ABC for the year 2001-2. The ability for brokers to be able to place the traditional form of facility whereby the following markets authorise the lead underwriters to bind cover on their behalf was severely curtailed. This had the effect of reducing available capacity for this type of facility. The ABC was completed but with a lower limit of liability. It is now the intention of both the brokers and underwriters to endeavour to increase the limit of liability but the first and most important requirement was to complete a primary limit.

The aviation market has been less restricted than other markets in terms of the scope of cover that it is able to offer but in order to be able to provide the catastrophe limits required by the aviation industry it is more reliant than ever on the reinsurance market. The reinsurers have imposed various limitations on cover and as examples of this, as it relates to the ABC facility, a war exclusion is now mandatory and restrictions on space cover have been imposed. These restrictions are the subject of ongoing discussions with underwriters, brokers and reinsurers in an endeavour to ameliorate their impact to the facility.

Harder market conditions can provide the impetus for insureds to seek new markets in an effort to reduce their costs. The ABC facility has perhaps been less vulnerable to this phenomenon because of the strong emphasis placed on long term relationships and continuity of business. This is demonstrated by the fact that over half the insureds participating in the ABC qualify for the maximum continuity discount.

The ABC continues to attract new business with its ability to provide a substantial sum insured in a timely manner to participants and the added advantages of contractual advice and loss prevention seminars provided within the facility by Mendes and Mount. There have been a number of new enquires that have resulted in orders which is most encouraging.

We as the ABC lead insurers place great emphasis in working with each insured and their broker to achieve a program tailored to the individual needs and requirements of that insured. This enables the insured to maximize their ability to transfer risk efficiently and cost effectively.

Prior to the tragic events of September 11th 2001, insurers had commenced already the process of applying increases in premium. However, following the WTC loss this process has been accelerated.

The ABC facility has responded to its customers' needs by providing innovative solutions to risk in the aviation product liability field for nearly half a century. Underwriters look forward to continuing to meet the challenges presented to them by their clients and brokers in the 21st Century.

DISCLAIMER

The reader should note that the opinions, views or statements of authors appearing in the newsletter are their own, and do not necessarily represent the opinions, views or statements of Aircraft Builders Council, Inc., its Board of Trustees, committees, officers or editors.

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