

RatingsDirect®

Re/insurers' Losses From Missing Jet Are Likely To Be Manageable

Primary Credit Analysts:

Austin Oh, Hong Kong (852) 2533-3508; austin.oh@standardandpoors.com

Dennis P Sugrue, London (44) 20-7176-7056; dennis.sugrue@standardandpoors.com

Secondary Contacts:

Philip P Chung, CFA, Singapore (65) 6239-6343; philip.chung@standardandpoors.com

Connie Wong, Singapore (65) 6239-6353; connie.wong@standardandpoors.com

HONG KONG (Standard & Poor's) March 31, 2014--The loss of Malaysia Airlines' flight 370 is a tragic event, with continuing uncertainty for the families of those onboard. The potential insurance losses are subject to several variables, but Standard & Poor's Ratings Services expects the impact on the credit profiles of the rated reinsurers and insurers exposed to this event to be limited. Based on information from public and market sources, we estimate the losses would be US\$250 million-US\$450 million, depending on potential court settlements.

"The losses will be well spread throughout the global aviation insurance and reinsurance markets, resulting in a limited credit impact on individual re/insurers," said Standard & Poor's credit analyst Dennis Sugrue. "The impact on smaller rated Asian insurers and reinsurers that have a share of the potential losses should be manageable because their reinsurance or retrocession protection is likely to keep their net loss relatively low."

We do not expect the net retained losses (after the reinsurance payment) to have a notable impact on the overall financial profile of affected global re/insurance companies. The losses should be manageable for rated life insurers in Asia. The aggregated loss exposure of life insurance coverage, predominately for the Chinese nationals, appears to be limited.

The tragedy is unlikely to trigger material changes in the pricing environment for global aviation insurance. However, it could result in claims from three

different policy types: "all risk" aviation (which covers multiple-risk elements for commercial airlines); war and political risks; and product liability.

In the past few years, prices have significantly declined in the market for "all risk" aviation policies. Such softening is attributable to strong growth in capacity in this historically profitable line of business. At the same time, the number of claims and severity of losses have been declining since 2001.

We anticipate that the losses related to the Malaysian jet will not arrest the recent decline in premium rates in the global aviation market. However, there may be implications for pricing in the aviation war risk insurance market. This is a separate insurance product that indemnifies the value of the airplane hull in the event of terrorist activity, hijacking, or pilot suicide, among others. This market is relatively small with limited players and pool of premiums (market estimates are less than US\$100 million annually globally). If the Malaysian event is classified as a war loss, then it would be one of the largest losses in this class of business since the terrorist attacks on the World Trade Center in 2001. The loss would most likely lead to rate increases in aviation war policies in coming months.

While the jet's disappearance remains a mystery, we estimate the losses associated with the value of the airplane hull at about US\$100 million. The bulk of the insured loss will be driven by liability loss payouts to family members of the passengers. The amount paid for each passenger could vary widely based on the jurisdiction in which the claim is filed and the nationality of the passenger, among other factors.

Most of the uncertainty around the final loss stems from whether a mechanical fault caused the incident, as that would fall under the product liabilities policy. It could also trigger additional claims filed against third parties, such as airplane or engine manufacturers or the airports associated with the flight.

"The uncertainty around the final loss and settlement amounts will remain for some time, but insurance protection for this event is well syndicated in the global aviation market. The credit impact on rated re/insurers should therefore be limited," said Mr. Sugrue.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

Standard & Poor's Ratings Services, part of McGraw Hill Financial (NYSE: MHFI), is the world's leading provider of independent credit risk research and benchmarks. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 23 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.