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

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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.

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