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Global Aerospace exposed on $500mn Boeing product cover

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Photo: Boeing

Aviation specialist Global Aerospace (GA) leads the product liability policy likely to respond to claims arising from the grounding of over 100 Boeing 737 Max 8 aircraft by regulators in China and Indonesia and elsewhere, *The Insurance Insider* can reveal.

GA is understood to write at least a 10 percent line on the Marsh-brokered insurance programme, which is in the spotlight following the Ethiopian Airlines 737 Max 8 airliner crash on Sunday – the second such disaster in six months.

Boeing's policy has a sub-limit of about $500mn per grounding occurrence and a total limit in the region of $2.5bn, according to market sources.

Sources speaking to ***The Insurance Insider*** raised concerns that widespread grounding of the 737 Max 8 aircraft could lead to a major new manufacturer's liability loss for the aviation market, following another loss-making year in 2018.

Sources said that it was too early to estimate the scale of the likely losses, but that they could be sizeable. They added that if the loss breached the $150mn-$200mn mark, it would start to find its way into non-proportional treaties.

Aviation product liability cover is a type of insurance bought by aerospace manufacturers to offset legal liability arising from damage or injury caused by product failure.

Unless otherwise specified the policies are usually triggered by the issuance of a grounding notice from a civil aviation authority.

Investigations are ongoing and an enquiry into the causes of the fatal crash has started.

The Civil Aviation Administration of China on Monday ordered airlines to suspend use of the Boeing 737 Max 8 aircraft. Indonesia also instructed its domestic airlines to stop flying the airliner. Other countries to have grounded the aircraft include Australia and Singapore.

Thirteen Chinese airlines operate 737 Max jets, the *Wall Street* Journal reported.

Ethiopian Airlines and Cayman Airways have also grounded their fleet of the Boeing aircraft.

The latest disaster follows the loss of a Lion Air-operated 737 Max 8 plane in October, which crashed into the Java Sea, killing 189 people.

An investigation conducted by Indonesian and American aviation authorities determined that the plane's abrupt nose-dive may have been caused by updated Boeing software.

According to investigators the software is meant to prevent a stall but can send the aircraft into a sudden descent if the altitude and angle information being fed into the computer system is incorrect.

The Lion Air crash cost the market in the region of $100mn and the account is also led by GA.

Manufacturer's liability insurance has become a major concern in the international aviation insurance market following a spate of large losses that have hampered the market's return to levels of technical profitability.

In spring last year the aviation market braced for a product liability loss set to stretch as high as $500mn arising from defects with certain models of the Trent 1000 jet engine manufactured by Rolls-Royce for use in some iterations of the 787 Dreamliner aircraft.

This was compounded by similar losses including a $31mn claim arising from defects with engines manufactured by Pratt & Whitney for use in the Airbus A320neo aircraft and a $130mn claim stemming from the loss of a new model of military aircraft produced by Embraer.

The Ethiopian Airlines crash investigation will be conducted in conjunction with officials from Boeing, the Ethiopian Civil Aviation Authority, Ethiopia's transport authority and other international bodies.

Global Aerospace and Marsh declined to comment.

In a statement Boeing said a technical team would be travelling to the crash site to provide assistance under the direction of the Ethiopia Accident Investigation Bureau and US National Transportation Safety Board.

Boeing's stock was worth $400.01 per share at close of markets on Monday, down 5.4 percent on Friday's close.