

Aviation Insurance Clauses Group

Second Statement of Activities – July 2006/June 2007

Overview

AICG operates under formal Terms of Reference (ToR) agreed between the International Underwriting Association (“IUA”) and the Lloyd’s Market Association (“LMA”) with the European Commission in March 2005. Under the Terms of Reference, the Chairman is required to produce an Annual Statement of Activities, “summarising the key developments relating to the AICG and the wordings, clauses and variants considered by the AICG during the course of the preceding year.”

The background to the establishment of AICG and the formal requirements contained in the Terms of Reference were summarised in the Annual Statement produced in August 2006.

Activities

There was less pressure on the Group during the review period following the publication in August 2006 of a suite of Clauses extending AVN 48B to exclude cover for the hostile use of weapons of mass destruction and variants providing for the write back of certain parts of the excluded cover. As a result, it proved possible to conduct the business of AICG through 9 meetings between July 2006 and May 2007. AICG operates in a completely transparent way, and all agendas, detailed minutes, and Consultation Drafts have been made publicly available on the AICG website. Accordingly, there is no need for this Report to describe in detail the Clauses considered and published during the review period.

Apart from the suite of “war clauses” referred to above, the following clauses were considered by AICG:

- 1) AVN 52P. The “war clauses” dealt with policies issued to aircraft operators and service providers, but there is no specific suite of clauses designed for use in product manufacturers policies. A write back clause designed for use with AVN 48B on these policies was produced, and the Working Group has considered further changes, which may lead to further consultation drafts providing more specific exclusion and write back clauses for these policies.
- 2) AVN 98. This is a full revised wording, being a model policy for Aviation Products, Grounding and other Aviation Liabilities Insurance. The original policy wording, known as the SBAC wording, had been used in the market for

- many years, having originally been designed for use in relation to a limited range of risks in the UK. Its use has developed into an international form and amendments were made to modernise the policy and to make it more suitable for use internationally. The consultation process produced a large number of comments, many of which were in conflict. The Working Group, which included two wordings experts from brokers and one from an underwriter, were able to resolve the conflicts without the need to resort to variants, which in a very detailed and long policy form would not have been a viable alternative.
- 3) AVN 67B. The Working Group includes representatives from the Aviation Working Group as well as from LMBC and underwriters. It has produced for consultation a updated draft of the long standing AVN 67B concerning cover for lessees of aircraft and components - AVN 67C. The WG has produced a balanced clause which incorporates provisions requested by insureds and insurers, again without the need for variants. The process has also enabled a further, separate, draft endorsement to be published for consultation dealing with tail cover. Comments from consultation are awaited.
 - 4) AVN1C (FRANCE). This is the only AVN published in a language other than English. A Working Group has been formed comprising French speaking members of AICG, and the policy wording has been revised to reflect French legislative changes. It remains work in progress.
 - 5) AVN 52K. Revisions have been made to this clause after it was discovered that, in certain circumstances, the clause published in August 2006 might not have reflected one of the principles on which the clause was based. The revised form was published as AVN 52R after seeking comments on the proposed changes through consultation.

Commentary

AICG has built on the foundations laid last year and has begun to operate effectively in its new environment. It has provided a catalyst and a forum in which representatives from all sides of the market can be heard on matters concerning Aviation policy wordings. A reasonable balance is emerging about the clauses requiring AICG's attention, and proposals for change have been received from Insureds, brokers, underwriters and Trade Associations. This is healthy, and so long as AICG can respond constructively, will provide a base for the future.

I firmly believe that the specialised nature of Aviation Insurance, and the policy wordings that support it, require an expert body to provide clauses which can be used as appropriate by all sectors. The nature of the risks and of the market do not lend themselves entirely or at all to multiple forms of individually negotiated wordings. Accordingly it is important that AICG should continue and that it is perceived to be sufficiently useful to deserve support.

We have developed a method of operating on detailed drafting matters through the Working Group system, and this enables brokers and insureds to participate directly in the drafting process. This has led to a satisfactory working relationship between

underwriters, brokers and industry representatives. The size of AICG itself precludes debate of detailed drafting except in closely defined areas, and the Working Group system has served AICG well in fulfilling its T of R.

I have referred in the past to the difficulties created by the absolute obligation imposed on AICG members to ensure that there is no significant imbalance between the rights and obligations of insurers and insureds arising from the published AVN Wordings and Clauses. (T of R Clause 4.2 and 4.5). AICG has little or no control over proposals submitted to it, and if this phrase is construed narrowly, in the context of a particular clause, it can be literally impossible to achieve. We have endeavoured, with some success, to approach the issue of balance in a broader context, by balancing conflicting views in the Working Groups, and by avoiding the production of variants so far as possible. A similarly broad approach has been taken to the requirement for consultation. On all clauses sent out for consultation, the response from market participants has been constructive, and changes have been made in all cases to reflect their comments.

Membership has remained highly satisfactory, with 14 of the founder members of AICG continuing to participate actively in the Group. Size has remained constant at 20, plus 2 joint secretaries.

Having completed two years as Chair, I will be handing over to Mr Mick Noble at the end of September. Mr Stephen Matthews has also been appointed as Deputy Chair from the same date. I wish them both well in their new roles, and once again would like to place on record my personal appreciation for the support and expert guidance which I have enjoyed from AICG members during my association with the Group.

K J M Walder
Chairman. 18th September 2007

AICG Members September 2007

Name	Organisation
Ken Walder	(Chairman)
Mike Davidson	Amlin
Pierre Feuz	Talbot
Gilles Heligon	Axa
Nick Hughes	Barlow Lyde & Gilbert
Roland Kuesters	Munich Re
Mark Gimson	ACE
Graham Lilley	Global
Chris Jones	IUA
Thibaut de Mallmann	La Reunion Aerienne
Stephen Matthews	XCS
Marko Ninkovic	Limit
Arabella Ramage	XL
Ulla Norrhall	Hannover Re
Sébastien Saillard	Allianz
Jared Seth	Global
Jette Varnals	AIG
Peter Wakefield	Chaucer
Robert Wilkinson	Global
David Wood	Allianz