

# Putting risk into perspective

We are all more than aware that the world is experiencing a credit crisis but how is this affecting the global insurance industry and those who assess the risk of space-based assets. Philippe Montpert, Managing Director of Paris-based Willis Inspace generously agreed to speak to Helen Jameson from the point of view of the insurer.



**Question: Can you please begin by giving our readers some background on Willis Inspace?**

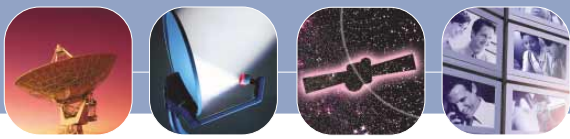
**Philippe Montpert:** Willis Inspace is a division of Willis - the global insurance broker. We specialise in designing space risk management plans and placing space insurance coverage on the worldwide insurance market. We have 26 associates working in five different countries (UK, USA, France, Malaysia and Spain). Willis Inspace has a worldwide market share of about 30 percent and works for very prestigious clients present in the Middle East and Asia like Thuraya, Yahsat, Measat, Sinosat, China Great Wall Inc., NTT DoCoMo, Asian Broadcasting Satellite but also present in the rest of the world like Eutelsat, EADS Astrium, Space Systems Loral, Digital Globe, XM Sirius, Paradigm, Hispasat and many others.

**Question: From the point of view of the insurer, what toll is the current economic**

**climate taking on the satellite industry?**

**Philippe Montpert:** There is a direct link between the insurers and the economic crisis in so far as insurers will have to choose which class of business to underwrite in the future. In these moments where the insurers have a natural reflex to come back to fundamentals, the space risks are clearly not considered a must-do class of business. It is by essence very volatile and cannot by any stretch of mind represent more than a fraction of the portfolio of the large insurance companies. If they decide to keep on insuring space risks it is because it works according to a different cycle than the other classes of risks (like the natural disasters or the trade credit) and therefore does not accumulate with potential other claims; it is a "short tail" commitment and the premium rates are, comparatively to other classes, extremely high.

In 2008, the total space community allocated just enough capacity to space risks to



maintain some competition between insurers. This resulted in modest rate reductions, in particular for the in-orbit insurance coverage.

**Question: Building and launching and then maintaining a satellite is an extremely risky and expensive business and the pitfalls can be hugely damaging. What do you look for within an operator's business before you take steps to provide them with insurance?**

**Philippe Montpert:** When designing a risk management plan together with the client, it is of the utmost importance to review all contracts and agreements which were signed or planned to be signed, to understand the risks philosophy of the company as well as – when applicable - evaluating the quality control procedures in place.

There is nothing like “one fits all” solution for the space clients.

Once the ad hoc plan is agreed to by the operator, the proposed customised insurance coverage will be presented to the insurance community in order to get their strong and unconditional support. In order to achieve this, all the positive points will be highlighted and the high degree of consciousness of the operator to risks matters will be demonstrated.

Willis Inspace works closely with each operator in order to craft the most adapted protection. For instance, some operators have a sufficiently large number of satellites to adopt a global vision and approach of their space failure risks while others don't. This global vision can lead to a risk retention of part of the exposures, in turn leading to massive reduction of premium.

The ultimate goal is to provide the cheapest premium with the widest protection.

**Question: What impact do launch failures have on insurance premiums?**

**Philippe Montpert:** Launch failures have an immediate impact on the insurance premium quoted by the insurers. The day after a launch failure, the premium rates will increase. The range of that increase in premium rates depends upon the claim amount, the number of previous failures of the rocket and the current financial status of the market.

In the past when all parameters were playing in the wrong direction, i.e. high claim amount, unreliable launcher and a space insurance market already in the red, the premium rates had increased by several points over night.

However, as long as insurers have a reasonable confidence in the launch vehicle, history shows that after three to six successful launches the premium rates start to normalize again.

**Question: Reverting back to the current global economic situation, what is your**

**general assessment in terms of the Asian satellite industry, and also the health of the global satellite industry?**

**Philippe Montpert:** In Asia, the crisis seems to hit the satellite operators more severely as most of them are struggling to achieve adequate financing for their new ventures. We can still reckon on new projects being developed in Hong Kong, China, Australia, Japan, and Korea.

**Question: There is concern that the smaller, regional operators will be hit to a greater degree than the larger operators. What can they do to lower their risks and see this crisis through?**

**Philippe Montpert:** The difference will not be between regional and global operators but simply between smaller and larger operators and between private operators and government funded projects. The credit crunch will affect more directly smaller private operators if they want to get access to funding through project financing techniques.

Large operators being funded through corporate financing will most probably suffer less from the severe credit crunch.

For those private operators having to go with the project financing techniques, lowering their technical risks will not help. Only lowering their financial risks, like for instance finding some investors ready to put several hundreds of millions of dollars of equity on the table, may ease the process.

Although most of the classical telecom satellite projects reach break even within five years from launch, hence leaving another 10 years for generating profit, the sector still encounters many difficulties to get access to proper financing. This is probably because of the unusual high fail rate and the relatively limited customer base (compared to terrestrial networks).

**Question: The satellite industry, at present, seems to be weathering the financial storm reasonably well with companies still reporting profits. Do you believe that it can continue in this way?**

**Philippe Montpert:** I will answer your question from the operators' standpoint, not from a manufacturer standpoint. I think there are multiple reasons why there is relative immunity of the sector to the financial storm.

First, the satellite operators enjoy long-term contracts with their clients. This situation puts them in a better position than the other high tech industries and the risk of having a sharp drop in the turnover is much lower.

Second, there is time delay between the moment the crisis hits the general economy and the moment the satellite operators suffer. The turmoil shall first affect the pay-TV channels or the open signal channels which in turn will affect the TV broadcasters/packagers which will then reduce their need

for space broadcasting capacity.

Third, the high EBITDA recorded by most of the satellite operators allow them – if they decide to withhold capital investment i.e. ordering new satellites - to generate high profit margins during several years. This strategy can of course not be kept going too long, as there is a danger of not having replaced the aging satellites on time or having missed an opportunity of development.

However, there is one important factor that may impact on the profitability of the operators, and that is the cost to get to space. The price of the launch vehicles has significantly increased recently as has, to a lesser extent, the price of the satellites themselves.

**Question: Finally, do you think that the credit crunch will actually work in a positive way, and ensure that operators consider their financial habits more carefully in the future?**

**Philippe Montpert:** Generally speaking I do not think that the credit crunch may be a good thing for anybody. I have not spotted that operators have “bad” habits in terms of financial behaviour.

Generally speaking, I trust the satellite operators constantly refresh their business plans, taking conservative approaches to customer prediction levels. ■

