



Welcome!

Home > This Week's Business Insurance > Space market pricing steady despite ailing economy, but risks on the rise

Enter your email address for daily news alerts

- BI Home
Daily News Headlines
Current Issue
Directories
BIEurope
Industry Focus
Search BI
Advanced Search
News By Industry
View All Industries

Issue April 13, 2009

Subscribe to Business Insurance

Past Issues 05/04/09 GO

Space market pricing steady despite ailing economy, but risks on the rise

MICHAEL BRADFORD

Major loss as the year begins puts industry in cautious mindset

VENICE, Italy—Space insurers writing coverage on satellite projects years before they are launched are finding themselves insulated from the worst of the current global financial crisis and, barring heavy losses, are expected to provide buyers with steady rates, market experts say.

Experts, however, warn that space is becoming a crowded environment posing significant risks as satellites move in orbits increasingly littered with debris. In February, insurers recorded a loss when a defunct Russian military satellite, Cosmos 2251, collided 485 miles above the Russian Arctic with a functioning U.S. communications satellite, Iridium 33, owned by Bethesda, Md.-based Iridium Satellite L.L.C.

While the U.S. National Aeronautics and Space Administration said the collision was the first known between two satellites, space insurers have long worried about the risk of damage from debris. For the moment, though, they are enjoying a hospitable marketplace on earth.

Article Toolbox

- Print the Article
Email this Article
Write the Editor
Send News Tip

ADD THIS

Related to this Article

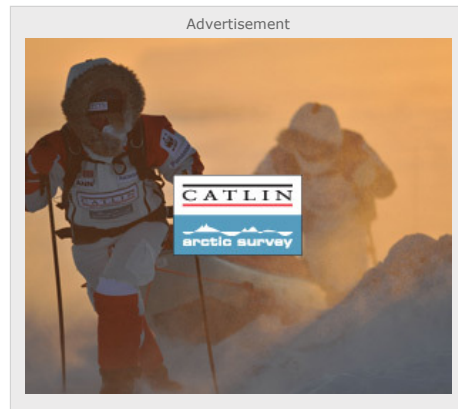
- Related Article
Related Industry News
Today's Other Headlines



- Video
Audio
Photos
Columns
Article Archives
Editorial Calendar
Webinars
Comings & Goings
Sector Briefing
Conference Extra
Questions & Answers
Knowledge Center
BI Events/Awards
Industry Events
Calendar
Search Events
Send Us Your Events

Resources

- Whitepapers
Career Center
Marketplace
Industry Links
RSS Feeds
Services
Subscription Center
Reprints
Contact Us
Services
Advertise
Media Kit



They are doing well partly because there is a significant gap between the date the coverage is written and when a launch takes place, said Christopher Kunstadter, vp and senior class underwriter-space, at XL Insurance in New York.

"Fortunately for us, the lead time for the programs that we insure is typically up to three years," he said at the 15th International Space Insurance Conference in Venice, Italy, April 2-3. That means the programs space insurers are involved in now and for the next couple of years were arranged before the financial crisis took hold, he said.

Related Stories from Business Insurance

"We really haven't seen a lot of effect on the underlying business," Mr. Kunstadter said of the crisis. In fact, he said industry sources have indicated there are more satellites waiting to be sent into space than vehicles to launch them.

But others warn the financial crisis could produce some fallout eventually.

"The satellite industry will no doubt be affected by the worsening global economy and obvious decline in consumer spending," said David Keslow, director of business operations at Orbital Sciences Corp., a Dulles, Va.-based satellite manufacturer.

Satellite operators could encounter difficulties devising business plans that attract significant investments on projects that won't pay off for several years, he said.

Large satellite operators, though, are not expected to cut back on orders for new satellites unless the financial crisis worsens, Mr. Keslow said. The four largest operators have indicated that they intend to maintain or expand their satellite fleets, he said.

"TV demand is the key to this," Mr. Keslow said, "as most of their revenues come from video and TV broadcasting."

The space insurance market is made up of a limited number of companies that appear to be on solid footing and able to access capital if necessary, said Benito Pagnanelli, president of Pagnanelli Risk Solutions Ltd., the London-based consulting firm that organized the conference.

While insurer stability is no guarantee that "the global finance tornado will not leave any sign of its violent passage" on insurers, space insurance customers should not be overly alarmed, Mr. Pagnanelli said. The problems created by the crisis largely have

Advertisement for Insuring Progress featuring a turtle and the text 'Download a free podcast on environmental risk.' and 'INSURING PROGRESS'

every dollar," Mr. Rognerson said. The problems created by the crisis largely have affected insurer investments and should make them more careful investors, he said.

The insurance market for space risks remains healthy but cautious, Mr. Kunstadter said.

During the past 10 years, premiums generally have held steady for that business, he said.

In the past two years, there have been some increases in rates for launch risks, Mr. Kunstadter pointed out, and rates for satellites in orbit also have nudged up, albeit in increments that are getting smaller.

Mr. Keslow said the loss history of satellite manufacturers and launch service providers will heavily influence their insurance costs. "We see this as a positive," he remarked, as companies with good loss records will benefit from reasonable insurance premiums.

"Losses have been all over the lot," for space underwriters, said Mr. Kunstadter. "2008 was clearly a good year for the market, but we needed a good year after 2007, which was slightly negative. 2009 has started with a loss, but we'll have to wait and see how the rest of the year develops."

In the February crash of two satellites, market sources have said Iridium has a \$500 million third-party liability insurance policy, placed by Aon Corp., to cover third-party claims arising from such a collision (*BI*, Feb. 23).

Heavy space losses occurred in 1998 and 2000 and are reminders of the risks the market faces, Mr. Kunstadter said. "Let's not forget that we did have those years of losses of between \$1.5 billion and \$2 billion. With \$18 billion in insured assets in orbit and 20 to 25 launches a year, we could certainly hit that number again. We need to be very careful."

Pricing in the space market remains soft, which can be uncomfortable, Mr. Kunstadter said. He called it "a dangerous period where we really need to watch what we do and pay a lot of attention to pure underwriting. The investment income is gone and we need to rely on sensible underwriting decisions."