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A NATION AT WAR: INSURANCE; Extra Rates Are Charged For Flights To Mideast

By JOSEPH B. TREASTER

Responding to the first sparks of war in Iraq, insurers in London have begun charging extra for war insurance on commercial airline and charter flights into parts of the Middle East, the insurance broker, Aon, said late yesterday.

Aon said Kuwait was among the countries where higher rates were being imposed. It did not name other countries, but insurance executives and brokers said that additional charges were probably being levied on flights into most countries in the region.

The additional costs would be highest, they said, for the countries immediately bordering Iraq -- Kuwait, Saudi Arabia, Jordan, Syria, Turkey and Iran -- as well as nearby Israel.

There were few details on pricing, but one insurer said that the surcharge on one evacuation flight out of Kuwait yesterday had been \$100 a passenger in addition to the usual premium paid on the airplane annually.

Robert E. Karl, an aviation specialist at Aon in Houston, said there appeared to be no consensus yet on which countries the insurers would require surcharges and how much the charges would be. "That will be sorted out over the next few days," he said. "There are going to be certain areas where they won't provide coverage, certainly within the war zone. And I would assume Kuwait would be one of the hotter spots."

For most of the day, aviation insurance brokers and insurers in London, the center for airline and ship coverages, said in telephone interviews that the first strikes against Iraq and its response of three Scud missiles did not seem to justify increasing prices for coverage. But the situation changed swiftly.

At about 10:30 A.M. yesterday, for example, executives of China Airlines phoned their insurer at Lloyd's of London to see if their scheduled flight later in the day to the United Arab Emirates on the Persian Gulf was going to cost them more in insurance premiums or require any special safety measures.

Rod Dampier, the chief aviation underwriter for Amlin Underwriting Ltd., a unit of Lloyd's, told them that it was business as usual.

"Just fly in and fly out," he said. "You haven't got a problem."

But by nightfall, other brokers and insurers said that extra charges appeared to be almost certain for flights into the United Arab Emirates, which is roughly 600 miles from Iraq, as well as other gulf states.

Contracts for the war insurance that the airlines routinely purchase provide for cancellation and renegotiation seven days after a war begins. Those policies are for unexpected acts of war. But once the shooting starts and risk is no longer a potentiality but a reality, the insurers are free to raise their prices.

Over the last few days, insurers and brokers in London said they would probably not issue cancellation notices, but would more probably charge additional premiums for flights into the area, as they did during the Persian Gulf war in 1991.

For the insurers, pricing is a delicate balancing act. As their risk rises, they must increase prices or put their own companies in danger. But they are deeply aware of the financial troubles of the airlines and that rates for all types of airline insurance have jumped sharply since the attacks on the World Trade Center. The insurers do not want to create more shocks, partly out of fear of driving the airlines to seek insurance from governments or to form their own nonprofit insurance companies. They have already lost a huge chunk of business: all of the United States airlines. Washington stepped in to relieve the airlines of costly commercial premiums as part of a broad bailout package shortly after the terrorist attacks in 2001 put the airline business into a tailspin.