

Aviation / war risks update - October 2023

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The number of claims being issued in respect of leased aircraft that remain under Russian control continues to rise, with at least 25 more having been issued in the High Court in recent weeks. If successful, these claims - which already total around US\$10bn - could have significant ramifications for the insurance/reinsurance industry.

- More cases involving aircraft leased to Russian entities filed in the High Court
- Agreement reached on Aercap claim a possible framework for future settlements.

However, a landmark deal reached by **Aercap** could serve as a possible template for future settlements, thereby significantly reducing the insurance industry's overall losses arising from the Ukraine conflict.

Aercap, one of the world's largest aircraft lessors and one of the parties involved in the 'mega trial' being heard in the High Court in October 2024, has reportedly reached an agreement in respect of a number of its aircraft that had been leased to the Russian flag carrier, Aeroflot. The deal, thought to be worth US\$645m, has been approved by both the Russian and US authorities and is reported to be 'consistent with other applicable sanction regimes'.

It has been reported that the Russian entities paid around two-thirds of the value of the aircraft to Aercap which then retained its 10% maintenance reserves. This reduced the insured loss to around 25% of Aercap's claim. It is expected that Aercap will now seek to reach a commercial settlement with insurers in respect of the remaining sums.

Aercap is the world's largest aviation lessor and is understood to be pivotal in reducing the overall loss. Aercap was the first to issue proceedings and is responsible for the highest combined total of losses. It is hoped that this settlement could serve as a model and framework to try to resolve similar claims that have been issued against other Russian airlines and operators. If successful, it could see the overall losses reduced from circa US\$10bn to US\$2.5bn.

It is understood that there is a general commonality in wanting to reach an agreement. The Russians want to keep hold of the aircraft, the lessors want to dispose of assets which have been unmaintained and unaccounted for over the past 12 months and the insurance industry wants to see the losses reduced to a more manageable sum.

Until a wider agreement can be reached on other claims in the market, the claims continue to progress through the English court. There is a joint trial taking place in October 2024 dealing with the issues of contingent and possessed coverage and it is anticipated there will be a further combined hearing in London next February 2024 dealing with the issues of jurisdiction and the reinsurance disputes.

We shall continue to monitor developments.

Key contacts

Colin Peck

Partner



colin.peck@brownejacobson.com

+44 (0)20 7337 1016

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