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Satellite insurance rates to rise after large losses hit market

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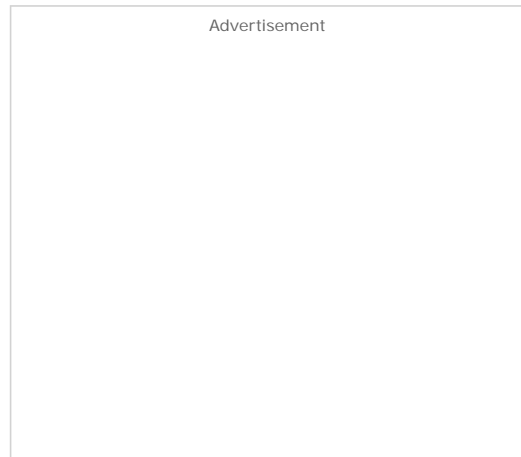
Insurers say claims outstripped premiums for most recent year

Satellite launch insurance rates are climbing this year following the \$256 million loss of a satellite for which the effective life expectancy has dropped to two years from 15 years following a launch in December.

The potential for a partial loss of another satellite insured for \$107.4 million also has increased the resolve of underwriters to raise launch rates by 10% to 20% this year.



Satellite launch insurance rates rose 10% to 12% this year, with another increase expected next year. Experts say another loss could put the industry over the edge. PHOTO: REUTERS



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"There has been a gradual softening of satellite launch insurance rates for the past three or four years with some brief periods of hardening after various losses," said one London space broker. "There is talk of hardening rates and firming rates, and I think it is a bit of firming of rates with some fine-tuning. But if there is another loss, then rates will definitely harden for a while."

"It is very quiet at the moment," said one European space insurance underwriter. "I think that nobody wants to be the first into the market following the last loss....But they are gambling because if there is another loss now, then waiting was the wrong decision. If there is no other loss, then perhaps waiting is the right one."

"Rates have already gone up," added another underwriter. "There hasn't been anything bound yet, but that is what underwriters are quoting and what they want."

The space insurance market turned frosty following the December launch of the RASCOM-QAF1 pan-African communications satellite operated by Regional African Satellite Communication Organization and built by European space systems manufacturer Thales Alenia Space in Cannes, France, a unit of Paris-based Thales Group. The satellite, which was insured under coverage arranged by Thales Alenia Space as part of a turnkey contract with the operator, was to provide telecommunications services over Africa for 15 years.

Brokers and underwriters say satellite launch insurance rates, which include coverage for launch plus one year in orbit, will increase to 13% to 14% of insured value this year from an average of 10% to 11% last year.

Whether the rate rise is a blip or a trend is yet to be seen, say space insurance brokers and underwriters. The space insurance market is quiet at the moment as many insurance programs are already in place for this year's satellite launches and others are waiting to see what kind of premium rates will be offered, they say.

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Following a successful launch, however, the satellite became marooned in geosynchronous transfer orbit because of a helium leak in its fuel tank pressurization system. After four weeks, Thales Alenia was able to lift the satellite to its proper geostationary orbit, but the extra fuel used and the leak meant that the satellite will last only two years, the company said.

Total loss

Underwriters confirm that the RASCOM-QAF1, insured for \$256 million for a launch plus one year in orbit through broker Willis Inspace—a unit of London-based Willis Group Holdings Ltd.—has been declared a "constructive total loss" as a result of the satellite's shortened lifetime.

The loss takes the satellite launch insurance market into the red for 2007, said the European underwriter, "and I think this will have an effect on insurance rates."

Space analysts at Ascend Worldwide Ltd. in London calculate that for year-end 2007, satellite launch insurance losses totaled \$754 million while gross premiums totaled only \$654 million. Losses include the \$180 million JCSAT-11 satellite that failed last September following a launch on a Proton Breeze M rocket; and the Jan. 30, 2007, explosion of a Sea Launch rocket carrying the \$200 million SES New Skies NSS-8 satellite that was built, owned and insured by Chicago-based Boeing Co.

Another potential loss that could push the space insurance market over the edge is the Express-AM22 telecommunications satellite operated by the Russian Satellite Communications Co. Designed to cover the Middle East, the satellite's primary and backup stabilizing gyroscopes have failed. The satellite is insured in the Russian insurance market for \$107.4 million, but \$95 million is reinsured in the global space insurance market, underwriters confirmed. The coverage was placed by broker Willis Inspace. Underwriters have been notified of the problem, but no claim has been submitted as of yet, they say.