



The Cape Town Convention Space Protocol

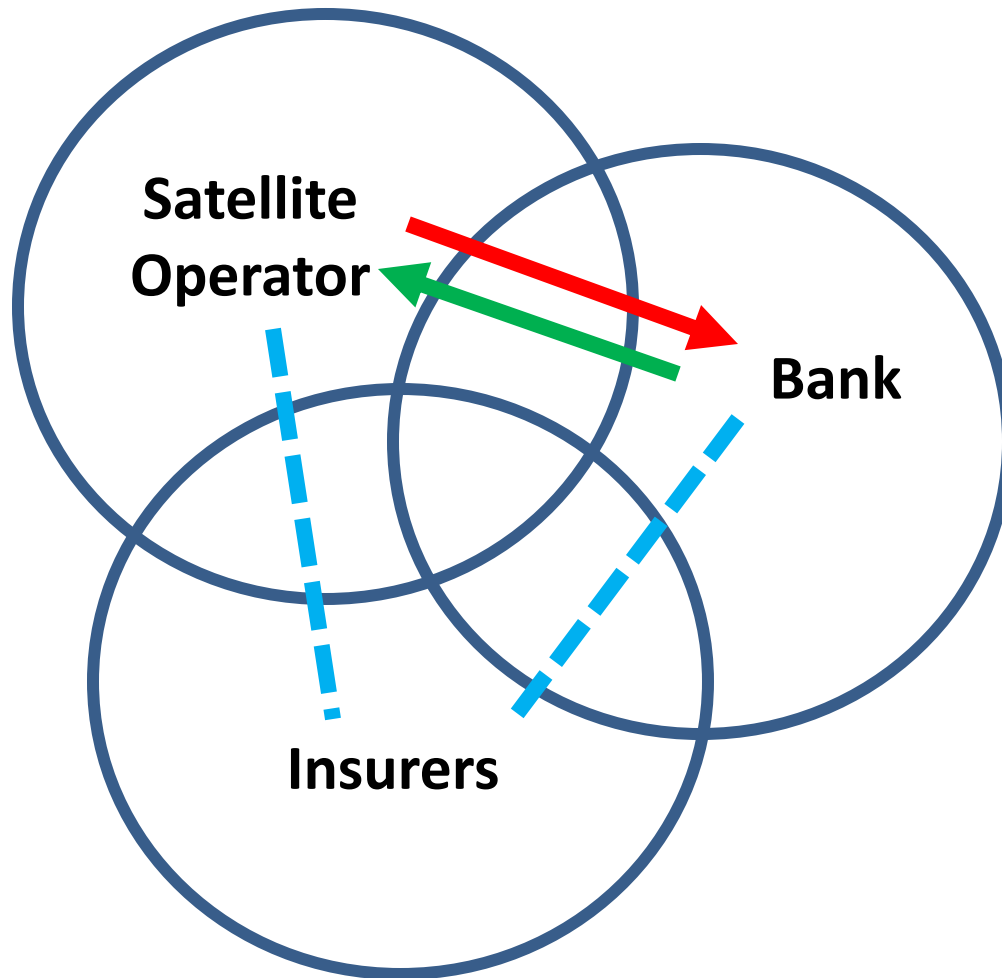
An Insurance Underwriter's Perspective

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Space Insurance

- Global market generates USD700m in premium income
- Third largest cost in a project
- London Market (mainly Lloyd's based) has between 30-40% of the global market
- Atrium Space Insurance Consortium is the leading space insurance market at Lloyd's
 - Underwrite on behalf of 9 Lloyd's syndicates
 - USD30m capacity any one risk
 - Recognised as a global market leader based on technical competencies in law and engineering

The Role of Insurance



**Banks and
Satellite
Operators rely on
the availability of
insurance**

Basis of Cover

- Pay for loss damage or failure of satellite
- Historically 50% CTL Point based on
 - 4 year build time
 - 8 year life
- Standard is presently 75% CTL point based on
 - 2.5 year build time
 - 15 year life
- Policy pays agreed value for CTL /TL to build and launch new satellite
 - Triggered at 75% of agreed value
 - Payment is 100% of the agreed value
 - Insurers take salvage on remaining capability

Importance of CTL Points

- Allows Operator to finance new satellite from proceeds of impaired satellite at an early stage
- Comfort for lenders to repay debt from impaired satellite
- Important for subscriber based projects where maintaining service means life or death for the project
- Subject to agreement, operator can drop hands and walk away from impaired satellite and transfer salvage rights to underwriters

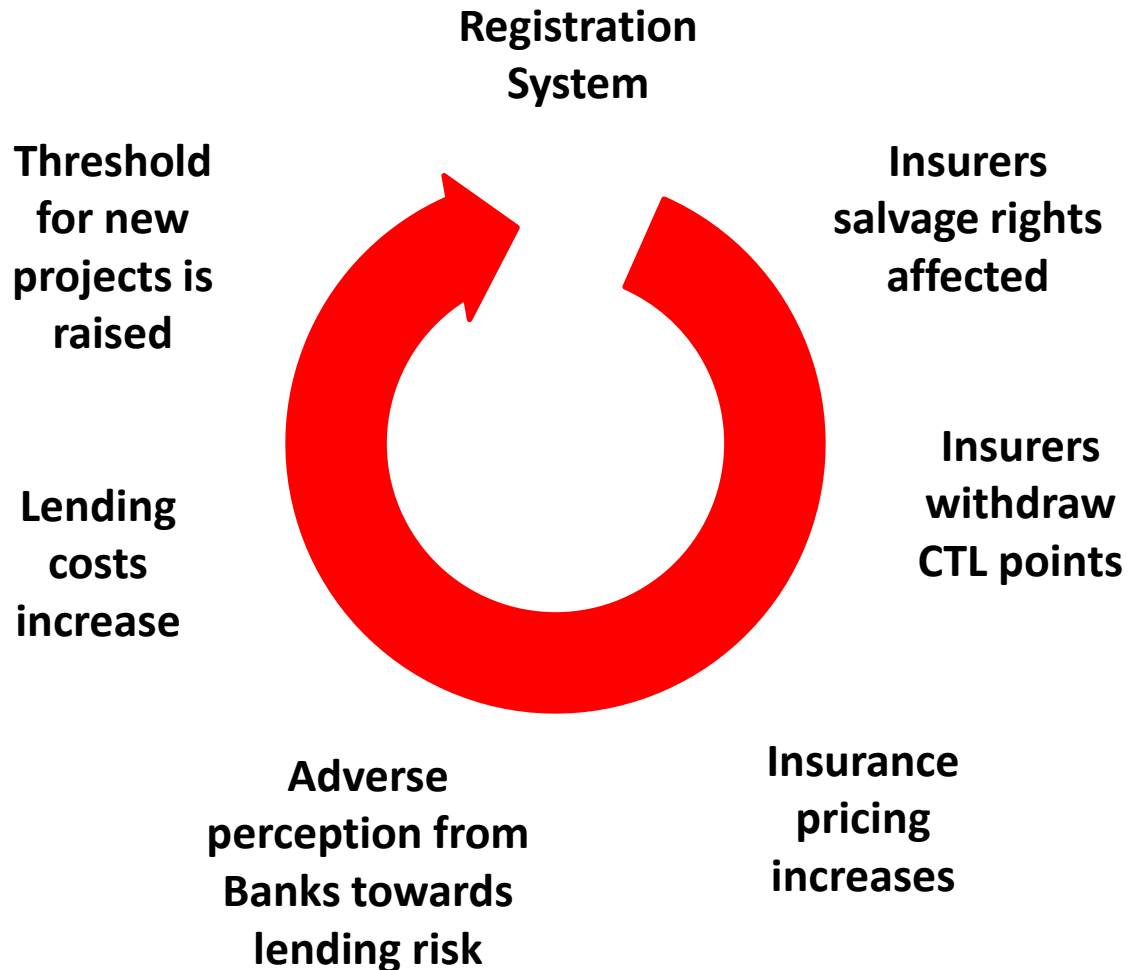
Observations on Space Protocol

- There is no support for the Protocol amongst insurers
- Insurers have grave concerns over consequences for salvage
 - Affects coverage
 - Affects pricing
- UNIDROIT has not provided independent evidence of support from banks, operators or other stakeholders
- Banks are unlikely to benefit or have an interest
 - Lending focuses on project based financing rather than asset based financing (licensing issue)

Insurers reaction

- The Protocol has only recently recognised the problems that insurers face
 - Demonstrates a lack of understanding of stakeholder needs
- The likely impact of the Protocol on the space insurance markets
 - Price rises/restrictions on coverage
 - Perception that salvage recovery will be more difficult/complex to deal with so insurers may react by pricing for cover without salvage opportunities
 - CTL points will be lost
 - Insurers reaction will impact on lender requirements

Impact of the Space Protocol



Stakeholder Salience

Classification of Relevance

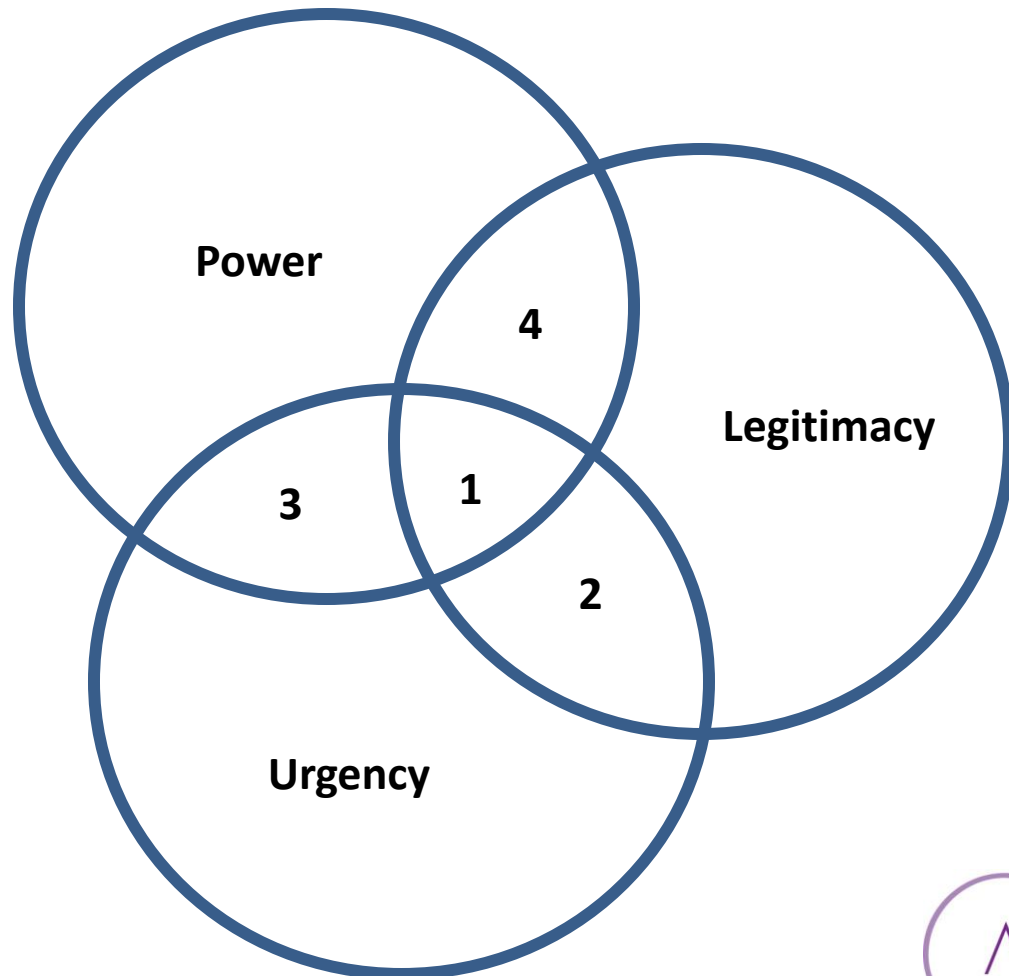
- 1 - Definitive
- 2 - Discretionary
- 3 - Demanding
- 4 - Dominant

Stakeholders

Satellite Operators

Banks

Insurers



Economic Impact Study?

- Economic impact study should be undertaken to consider whether the benefits of the Protocol outweigh the burdens
- Lack of clear support for the Space Protocol from those in industry clearly demonstrates that it will burden commerce
- External perception from many is that UNIDROIT feels it must deliver the Protocol regardless of its impact and merits
- Understood that call for economic impact study was raised in Rome but that UNIDROIT will not commission this
- An impartial economic impact study would be useful for all concerned

Conclusions

- The Space Protocol is not wanted by the space insurance market
 - Even if the salvage issue can be addressed the likely consequence is that insurers will reduce cover because salvage will become uneconomic to administer
- The Space Protocol will likely cause insurance rates to rise
- The Space Protocol will raise the threshold for accessing lending
- The Space Protocol will increase the overall cost of running a satellite

Conclusions

- The Space Protocol brings no economic benefit to the space community and UNIDROIT has not shown independent evidence that it does
- The Space Protocol is an academic solution to a perceived problem that does not actually exist in the commercial arena