



Air France Crash May Be Most Expensive Since 2001 (Update1)

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By Andrew Frye



June 10 (Bloomberg) -- The **Air France** crash that killed 228 people may be the most costly airline disaster since 2001 as insurers led by **Axa SA** compensate victims' families and pay for the loss of the plane.

The families are entitled to the equivalent of at least \$150,000 for each of the passengers, and Axa is ready to begin negotiations for additional payment, said **Patrick de La Morinerie**, who oversees aviation at a subsidiary of Paris-based Axa. The insurer is notifying relatives this week they can receive an initial payment of about \$24,000 per victim, an offer

mandated by an **international treaty** on air travelers' rights.

The cost to **Air France-KLM's** pool of insurers, which includes **Allianz SE** and **American International Group Inc.**, will depend on estimates of the travelers' nullified lifetime earnings and any negligence demonstrated by the airline. Insurers covering plane manufacturer Airbus SAS and servicing contractors may also be liable once officials determine why the A330-200 dropped into the Atlantic Ocean.

"It's going to be an expensive claim," said **Stephen Riley**, executive director of Global Aerospace Underwriting Managers Ltd., which has 7.5 percent of the plane's coverage. "This will be the largest loss to the insurance market arising from an aircraft accident since that loss in late 2001," when a flight from **AMR Corp.**'s American Airlines crashed in Queens, New York killing 265 people and costing about \$600 million, he said.

Buffett, AIG, Allianz

Riley has said his firm is backed by **Warren Buffett's** Berkshire Hathaway Inc. AIG, the insurer that received a \$182.5 billion government bailout, has 12.5 percent of the coverage on the Air France flight, said **Marie Ali**, a spokeswoman for the New York-based company's property-casualty unit. The insurer's net loss on the coverage is capped at \$21 million, she said. Allianz, identified by de La Morinerie as another company in the pool, had no comment, said **Hugo Kidston**, a spokesman for the insurer.

Airlines are responsible for compensating victims' spouses, children and, in some cases, parents, and can seek to claw back a portion of the awards from potentially liable parties like the plane maker.

"At the moment there is not enough indication to say where any fault lies," said **Justin Dubon**, a spokesman for Airbus. The Toulouse, France-based manufacturer is cooperating with the government investigation into the June 1 flight to Paris from Rio de Janeiro, Dubon said.

In most crashes, "the vast majority" of claims are settled within two or three years, de La Morinerie said. That time frame can stretch to a decade or more in some cases when lawsuits are filed, lawyers in the U.S. and Brazil said.

'Little Bit Slow'

Flavia Fornaciari, a lawyer at Sao Paulo-based **Clito Fornaciari Jr. Advocacia**, said she has clients who lost relatives in Brazilian crashes in 2007 and 1996 who are still waiting for compensation.

"In Brazil it's a little bit slow," Fornaciari said. Airline **Tam SA** has offered 230,000 reais (\$118,380) base compensation for each victim of the 2007 accident, while families have received double that amount in lawsuits, she said. The airline said in a statement it compensated families of most of the victims from the 2007 crash and had no immediate comment on the 1996 accident.

Settlements in the U.S. are often 10 times greater, according to **Justin Green**, a lawyer with **Kreindler & Kreindler LLP** in New York. Awards can vary according to the victim's earnings and the social programs available to the family members left behind, he said.

\$2.7 Million Average

Green, who is representing families of **travelers killed** in a crash near Buffalo, New York, in February, estimated the average U.S. award at about \$2.7 million. That figure is less in Europe, he said.

"That's in part because in the U.S. we don't have national health coverage and most people have to pay for their educations," Green said by phone from Buffalo. "There's not the same social safety net that there is in a lot of European nations."

Unreliable data from speed sensors may have triggered a chain of events leading to the crash last week, France's chief crash investigator has said. Officials are still searching the waters off the coast of Brazil for debris that may shed light on what happened in the minutes before the disaster.

Axa may begin to settle claims before a reconstruction of the events is completed and blame apportioned among Air France, Airbus, a unit of **European Aeronautic, Defence and Space Co.**, and any subcontractors, said de La Morinerie, who is deputy chief executive officer of AXA Corporate Solutions.

'Sully' Sullenberger

Insurance rates may jump this year after fatal crashes and near disasters, including the Buffalo-area accident that killed 50 and Chesley "Sully" Sullenberger III's splashdown in the Hudson River, which was survived by all on board. Crashes this year including the Air France disaster and Buffalo accident, which occurred on a flight operated on behalf of Continental Airlines Inc. by Pinnacle Airlines Corp.'s Colgan unit, could produce claims of \$1 billion, according to **Roman Beilhack**, head of aviation insurance at **Munich Re**.

"Major fleet insurance is still priced way too low," Beilhack said in an interview. Rates will rise at least 20 percent this year, on average, Beilhack, said.

The number of fatal airline accidents last year rose 36 percent to 34, the fourth-most in the past decade, according to **Flight International** magazine. Insurers probably lost money on airplane coverage for the second straight year in 2008 after profits from 2002 to 2006, according to **Aon Corp.**, the world's largest insurance broker. Prices dropped for about five years from their peaks after the Sept. 11, 2001, terrorist attacks.

\$7.1 Million Award

Families of U.S. victims who died in the attacks received a minimum of \$250,000 from the government's **compensation fund**. The awards were based in part on income and the number of dependents, with the maximum award of \$7.1 million, according to the Department of Justice. The average was more than \$2 million.

Most major airlines have coverage of about \$1.5 billion, with the majority for liability, said Riley, of Global Aerospace. The insured value of the Air France plane is about \$100 million, he said.

The Air France crash "is going to very much focus the minds of the underwriter on the potential catastrophic losses," said **Magnus Allan**, an Aon Aviation analyst based in London.

Minimum compensation requirements for death or injury on flights between two countries are set by the Montreal Convention of 1999, which also addresses flight delays and lost baggage. **Award amounts** are set in units pegged to major currencies and calculated by the International Monetary Fund.

The passengers on the doomed flight came from more than 30 **countries** and included 61 French and 58 Brazilians, according to Air France.

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Last Updated: June 10, 2009 07:37 EDT

