

The rise of drone risks



As the market for drones takes off, there is a need for underwriters to start looking at all elements of emerging risks related to the technology that might not be covered under traditional aviation insurance policies.

By Zuhara Yusoff

The market for drones in the GCC could reach \$1.5bn by 2022 as drone technology has rapidly expanded beyond its original military purposes and has now entered the commercial sector, according to a report by consulting firm Strategy&. In the UAE alone, the drone market is expected to reach \$122m by 2023 as demand for military and commercial drones takes off, supported by the legal infrastructure devised by regulators such as the General Civil Aviation Authority (GCAA) and Dubai Civil Aviation Authority (DCAA).

The booming drone industry has the potential to transform the future of transportation. Zipping around in flying vehicles like the characters in *The Jetsons* – an American animated sitcom in the 1980s – is no longer a pipe dream if Dubai’s autonomous flying taxis become a reality in the next couple of years, following a successful early prototype testing in September last year.

The rise in the use of drones or unmanned aerial vehicles (UAVs) is good news for insurers. Commercial drone operations in the UAE come under strict regulatory guidelines. All drones must be registered with the GCAA in order to fly them legally in the UAE. The GCAA has created an app called ‘UAE Drone Fly Zone Map’ to help drone users ascertain in which areas they could operate their drones. In October 2017, third-party liability drone coverage became mandatory.

Emerging commercial market

“We have been writing drone insurance all this time – from large military drones to those used for surveillance purposes,” said Mr Tom Chamberlain, UW manager aerospace and general aviation – London, Allianz Global Corporate & Specialty (AGCS). Although the global commercial drone market started over 10 years ago, with AGCS writing drone



Mr Tom Chamberlain

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Mr Walid Sidani of Kay International AMEA

insurance particularly in the US, “the insurance market has only really grown in the last few years”, he said.

“We’re starting to see more business coming from globally, including the Middle East,” Mr Chamberlain said. “We’re getting more enquiries as people are switching from using helicopters and other means to using drones to do surveying or inspections.”

The emerging global market for business services using drones is valued at more than \$127bn, of which approximately \$6.8bn is insurance-related, according to a study by PwC.

Kay International AMEA, which has a partnership with Tokio Marine Kiln (TMK) to offer a complete quote-to-bind reinsurance facility designed for UAVs (drones), is also witnessing growth in Asia, the Middle East and Africa.

“Our clients are primarily in the Middle East – the UAE is becoming a significant market in the region due to its emphasis on innovation,” said Mr Walid Sidani, managing director & CEO of Kay International AMEA.

“Companies have different uses for these drones. For example, in the UAE, drones are used primarily in the construction and real estate industry for surveying purposes. Of course, there are other uses such as for events management, traffic control, surveillance, etc. In fact, in some parts of Africa, drones are now used to transport essential medical supplies to remote mountainous areas,” he said.



Mr Walid Sidani

Underwriting considerations

What then are the major considerations from an underwriter’s view, especially since this is an emerging industry?

“The biggest risk with drones still remains the things that it can collide with,” Mr Chamberlain said. “Mid-air collisions with another aircraft, collisions with objects or people on the ground are the major risks.”

Privacy is another issue. “As most of the drones in use now have powerful cameras and video recorders mounted on them,” said Mr Chamberlain, “you could be filming something for your own business purpose but unintentionally capturing something in the background which you’re not supposed to.”

He added that noise pollution is another factor to

consider as “these drones, particularly the big ones, make quite a racket, and when used around farming and agriculture areas, they could cause disturbances to cattle and sheep... and there may be potential claims from that side”.

“We believe that beyond the immediate business opportunity that comes from insuring drone hull and third-party liability, there will be other risks emerging from this transportation sub-industry, namely cyber crime as well as sabotage and terrorism,” said Mr Sidani.

He added, “Depending on the quality of data and backup systems used by UAVs, drones may still be susceptible to being hacked. Who will be liable in such cases – the operator or the manufacturer? These are some of the important questions being asked as the transportation industry embraces the use of UAVs and unmanned land vehicles (ULVs).”

Mr Sidani pointed out that underwriting philosophy will have to develop in line with the innovation and technology that are powering UAVs and ULVs.

“From my experience in this region, the focus and expertise of aviation underwriters have been primarily on large commercial planes because that’s where the revenue has been generated in the past.”

He added, “Most of the large aviation accounts are supported by large MNC reinsurers abroad, so there is not much learning or knowledge transfer to the local insurance market. There is a need for local underwriters to better understand the new risks that come with this emerging product and create products and services customised to this industry.”

AGCS underwrites aviation risks for the Middle East out of its London office, which Mr Chamberlain considers an advantage. “Underwriting in a more central manner is more expedient, as while we don’t always know the exact drone regulations for every different country – though we can look this up – and where the risks are coming from, we can draw from the experience of operators that we write insurance for all over the world. The emerging risks are relatively similar globally.

“For example, what affects a drone operator in the Middle East will most likely affect those in the UK, France or Germany. Emerging risks are always more difficult to anticipate, but we’re working with other companies to understand them better.”

Mandatory or not?

When it comes to regulations, Mr Sidani believes that the UAE has taken on the leadership role for the region with clear laws regulating the drone industry. However, he added, “I would like the regulations to be strengthened further to include comprehensive insurance for drones, not just compulsory TPL.”

Mr Chamberlain said, “I think the most important cover is the TPL. If the operator wants to insure the drone itself because it’s an asset for the company, it’s also good. As for whether comprehensive coverage should be made compulsory, I don’t really see the need for it.”

One thing both Mr Chamberlain and Mr Sidani can agree on is that the technology is developing so quickly that it’s going to transform not just the transportation landscape but many other industries as well. ▣