

Wide-Angle View

Recently was part of a very impressive safety meeting in Mexico City, hosted by the Latin American and Caribbean Air Transport Association (ALTA). First, I have to commend the operators and the regulators in that region for making real progress in aviation safety. Working side by side to improve safety, they have been doing all of the right things, targeting their high-risk issues and acting on them. It is clear that nobody in this region takes safety for granted.

Second, it was heartening to see that the safety focus extends all the way to the top of the airlines. In an impressive and insightful presentation, Enrique Beltranena, the chief executive officer (CEO) of Volaris Airlines in Mexico, spoke for more than an hour on safety, insurance and their relationship to the bottom line. I don't know many CEOs who can talk about safety in that depth, and with passion.

He discussed in detail the cyclical nature of the global and regional insurance market, making the point that rates and underwriting standards are likely to tighten soon. He presented an in-depth financial analysis showing that airlines in Latin America spend 2-3 percent of their operating costs on insurance, versus about 1 percent for airlines in the United States and Europe. In a market with tight profit margins, that expense differential has a serious impact on competitiveness, he said. In addition, "airlines with recent catastrophic events have incremental hits that at least double the hull premium," he said. He also noted that younger airlines are penalized by the underwriters even more than the airlines that have had catastrophic events.

I think the most important point from Beltranena's analysis was his discussion of the "contagious nature" of catastrophic events. The numbers show that an airline's insurance rate can be impacted by things that are outside the

company. Risk is pooled across carriers in a region, so an accident in any carrier's aircraft can impact the insurance rates across that region. Likewise, an audit downgrading a civil aviation authority can have a significant effect on the rates for airlines in that nation. Insurers want to know that good surveillance is going on in a given country and across a region.

Beltranena's observations were music to my ears, clearly making a hard business case for investment in safety that goes beyond the boundaries of individual companies. Freeing up a safety manager to write a paper or make a presentation at a seminar may not prevent an accident in your own airline but may prevent an accident in another. Ultimately that is good business, for, as Beltranena explained, a rising safety tide does lift all boats.

Likewise, lending a hand to your regulator makes financial sense, especially if there is a risk that it may be downgraded by the United States or the European Union. Keep in mind that regulators often are underfunded and have less political clout than the big airlines. Using a little of your airline's political capital is a cheap way to protect against the potentially devastating business consequences of a downgrade.

In our business, always focused on the bottom line, it is good to see that leaders are taking a wide-angle view of the business consequences of making the industry safe. It makes our job a little easier.



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