

## *A Mini Market Report*

*by Thomas H. Chappell*

In the last issue of *Aviation Insurance and Risk Management*, I wrote about the many recent changes in the aviation insurance industry. New companies are now beginning to compete for market share. With the new companies has come increased demand to hire underwriters from a shrinking pool of talent. What will be the effect of all this new demand on the aviation insurance industry?

If the rules of capitalism hold true, increased demand for market share will cause underwriters to lower premium quotations to attract new business. Shortages of underwriting staff should result in increased salary offers to attract underwriting talent. I have written about it before, but now we are seeing it firsthand, the birth of a soft market. This time it has come about very quickly.

What are the long term effects on you the consumer? By the third quarter of this year, you will see your premium renewal prices begin to move down slightly. By the middle of 2007, select sectors of the industry will see significant premium reduction. With this uncertain market, agents and brokers must shop each risk more stringently to assure they are obtaining the best pricing for the consumer. This increased demand for premium quotations will put additional pressure on the underwriting community resulting in increased workload.

Currently the underwriting community is understaffed. The new companies are now competing for skilled underwriting talent driving salaries up. Lower premiums and increased overhead coupled with normal losses and the industry will be operating in the red. If history repeats itself, these bottom line losses will cause some of this new industry vigor to waver and some companies and reinsurance capacity to pull out of the race.

My Crystal Ball Says,

By the end of 2008 to mid 2009, you will begin to see signs of a hardening market. The companies will again remember that profitability is more important than market share and will begin to move their pricing up.

It is a herd mentality you know.

As this mood manifests itself, the quoted premiums will increase throughout the industry. The underwriting arrogance of the past ten years will return. This will be very evident as the underwriters become uncooperative and very dictatorial.

And the cycle will begin all over again. ➔