

Impact of the Soft Market on Aircraft and Helicopter Insurance

By Thomas H. Chappell

The soft aviation insurance market of 2006 continued through all of 2007. The previous year's soft market pricing turned into "mushy" for many classes of aircraft and helicopters as well as many aviation businesses last year.

Late-model turbine and jet aircraft renewal premiums have continued to decline for professionally flown aircraft as well as owner-operator aircraft. The new VLJs are being delivered into an exceptionally low premium environment and within one of the most cooperative underwriting climates in years. Professionally flown turbine helicopters are also seeing nice premium reductions.

The larger commercial accounts, including FBOs, maintenance facilities, and avionics service centers, have benefited from significant premium decreases. Even the older turboprop and older jet charter operations have benefited from the soft market.

Piston-powered fixed wing aircraft, both single and multi-engine, are beginning to see slight improvements in their renewal terms. Additionally, piston-powered helicopter rates have continued to decline, however, not as dramatically as turbines.

Now, I have made some very sweeping statements in the first part of this market report. Obviously, not every aviation insurance account will see improvement. Much is determined by loss history, age of pilot, age of aircraft, purpose of use, etc. The older aircraft will see less improvement in insurance rates than newer aircraft. Pistons are less desirable to the underwriting community than turbines and jets. Well, you get the picture. The general trend is down and all indications are that in 2008 premiums will continue to decline.

Some things never change. All underwriters are continuing to require annual pilot training in turbine, jet, and cabin-class piston aircraft. Most are requiring at least initial factory training on both piston and turbine helicopters, and with good reason. The accident trend is down and has been on the decline for at least five years. Most industry experts credit our improved safety record to improved training. I would add that we have improved training techniques and improved training tools (simulators) compared with those of a decade ago. Although the insurance underwriting community led the charge of requiring annual training, the aircraft manufacturers are now recommending transition training programs for those who are moving into new generation aircraft. General aviation is also benefiting from new generation aircraft with better avionics, better engines, and improved performance. Older aircraft now have new, affordable equipment available facilitating a general avionics upgrade throughout the existing general aviation fleet.

Pilot training, better equipment, and new technology all translate into improved safety and fewer accidents. Fewer accidents translate into fewer insurance claims and cheaper insurance premiums.

Will we see increased premiums in the future? Yes. The soft market rates currently being charged are well below a break-even level for the underwriting community in the best of years. A premium level of exact adequacy is referred to as a “burn rate.” Unless we experience another shock loss, a catastrophe like 9/11, we should see rates return to a new baseline somewhere between the current soft market rates and the high rates of 2001 through 2006.

A break-even level allowing the underwriters a modest profit would be best for all. The underwriting community could make a small profit and the aircraft owner would retain a fair premium structure. This would be an environment that would remain attractive to the new underwriters as well as the legacy carriers. The more underwriters we keep in the industry, the better our market capacity will be. Adequate market capacity allows underwriting flexibility and the availability of adequate liability limits. In other words, reasonable profit creates a healthy industry.

My crystal ball tells me we should expect a very soft market that is unprofitable to the underwriters and trending downward through, at least, the third quarter of 2008. 2009 should be flat moving into 2010 with slight premium increases. This is my best guess based upon past soft market performances that I have seen.

I reserve the right to change my mind at any time. This sounds a bit like a political pundit’s position, and my opinion is probably just as accurate. I will go on record and say “the soft market will not last forever.” A modest move upward is far better than the violent swings we have experienced over the last five or six years.