Influences on Underwriting and Pricing

By Thomas H. Chappell

All things are not as they should be. At least it seems that way. Insurance premiums on aircraft are one good example. If Fred has a red 2000 model King Air and pays a $25,000 annual premium, why does Jim pay more for his red King Air? The aircraft are identical.

We frequently receive questions from clients and friends who have compared their aircraft insurance premium with someone who pays less. Sure, pricing disparity can exist. More often, however, there are reasons why seemingly similar insurance risks can have far different results in pricing and underwriting requirements.

Renewal Cycle

Some underwriting differences may be obvious and others may be subtle, such as your timing in the renewal cycle. In July 2006, two new insurance underwriting companies entered the industry. This increased capacity began to have an effect on renewal rates by September 2006. It was more than a year later before many insurance buyers felt the impact of the soft-market premium decreases. In a downward-moving market, rates continue to decrease without any effect on your rates until your next scheduled renewal.

On certain types of insurance accounts, the market has continued to soften as new companies continue to enter the slugfest and continue to "buy" business by quoting cheap premiums. Those accounts renewing in October may have hit the jackpot with the softer market's lower premium, while those renewing in September did not. Some of these disparities in rates can be significant.

This leads to the thought: I will just cancel and renew my insurance midterm. Common insurance-industry protocol says that no underwriter will cancel and rewrite (without a good reason) your insurance midterm. They should never steal an account from a competitor midterm. You will just have to wait your turn in the renewal cycle.

An Often Used Trick

An old broker's trick is to quote an aircraft owner's renewal premium before the current agent goes to market. In a soft market such as the one we are in now, the new competing broker can brag about his success and underwriting knowledge, taking credit for the premium decreases. Deceptive or not, it happens frequently. Your defense is to know the current market trend thus allowing you to know "bull----" from fact. Remember, if you are coming from a hard-market cycle to a softer market, you may see reduced premiums if your agent is an aviation specialist, represents all the markets, and does his job.

Purpose of Use

I recently had a call from a client who had received a premium quotation from another agent that was almost half the amount of the quote I had delivered. My response was "something is wrong or substantially different with the competing quotation." Although there is a soft market, there just is not a 50 percent variance in comparable rates. Upon receipt of my competitor's proposal, it was easy to see I was writing the aircraft for Part 135 Charter usage and my competitor was quoting Corporate Industrial Aid Part 91.

When comparing premiums, you should not forget the subtleties. Purpose of use, hull values, liability limits, one man vs. two-man crews, and training requirements are just a few of the specifics that can affect your premium.

Hull Value

Hull value affects hull rates. Higher-valued aircraft will be quoted lower hull rates. The lower-valued aircraft will pay higher rates per $100 of hull value.

In today's market, a professionally flown Challenger worth $20 million may pay a 0.15 percent hull rate as compared to a professionally flown TBM with a hull value of $2 million paying 0.75 percent. There are other differences such as jet versus turboprop, etc., but, you get the point.

Why this phenomenon? The insurance company must have enough premium in an account to pay for partial hull losses. A partial loss may cost just as much to repair on a less-expensive aircraft as it does on the higher-priced models. Older, less-expensive aircraft may actually cost more per $100 dollars of hull value to repair than later models due to a lack of parts.

Professional Pilots vs. the Owner/Operator

It has long been the belief among the underwriting community that a professional pilot is a better insurance risk than the non-pro. In days gone by (1960s, '70s, '80s and much of the '90s), this was probably an accurate belief. Today, things are different and the line between a professional pilot and a highly experienced owner/operator may be blurred. For the first time in aviation history, we have general-aviation aircraft of all values outfitted with equipment that was only in the dreams of the pros of the past. Our training is equal to that of the airlines and superior to anything a pilot in the 1960s could imagine. The effect the GPS has had on flying is remarkable. There is satellite weather, traffic, and ground avoidance. Where does the list end? In short, a well-equipped, general-aviation aircraft is much easier to handle in heavy workload areas or in marginal weather situations. This applies to both the professional and the non-pro alike. The modern-day cockpit reduces workload and narrows the gap between pro and non-pro because the aircraft is doing much of the work.

Sure, we still have the undertrained weekend pilots, the "cowboys," and we always will. The enthusiasts, however, the true students of aviation, are beginning to be recognized as near-professional quality in the cockpit. The pro still enjoys an advantage in pricing over the best owner flown, but the gap is closing.

Experience in the Make and Model

There is no substitute for make and model experience. You will see an underwriter compare a 1,000-hour total-time pilot with 500 hours in the make and model equally with a 10,000-hour pilot who has no make and model experience. We have retiring airline pilots preparing to follow their retirement dream become unhappy when we ask what are their transition plans to a high-performance general-aviation aircraft. Specific experience is more a measure of competency than total time. I have seen pilots with lower total time receive lower premium quotations than some of their higher-time peers just because their training and experience is specific to the aircraft being insured.

Training

I once wrote an article entitled "Training, Training, Training." Continual practice and instruction have proven to be fundamental ingredients to good performance, whether you are playing golf or flying airplanes. The big difference is in flying, lives are at stake.

When the underwriter requires annual training in sophisticated aircraft, he is asking nothing more than what a good golfer does each spring to prepare for the coming summer season. Is the old saying that "those who need to train the most train the least" correct? The underwriting community insists on annual training and rewards those pilots with active training histories through favorable rates. If you do the training, make sure you send a copy of your completion certificate to your agent for your file.

In this modern world of general aviation, the new generation aircraft and high-tech retrofits appear very complicated to those of us who have spent most of our careers with steam gauges. The result is where an underwriter once required initial and/or annual training only for turbines and jets, the training is now required for a much broader segment of the general-aviation fleet.

Over the past decade, the underwriting community has required annual training as a condition of insurability. Statistics can now prove the entire general-aviation industry is flying safer because it is better trained. This improved safety experience has translated to lower losses and fewer insurance claims. Indirectly, improved training for a broader segment of the general-aviation fleet may be part of the reason we are enjoying today's soft insurance market.

Pilot's Age

The American population is living longer and experiencing a better quality of life than in the past. In the 1950s, men were expected to live to age 58. Today, that number may be closer to age 85. It is said that age 60 is the new middle age.

Along with our extended youth, we are staying in the cockpit to a much older age. Even the airlines are re-evaluating their mandatory retirement age. I think they would have changed that long ago if it were not for the economic effect, the high salaries of the senior pilots.

Although older general-aviation pilots continue to be discriminated against by the underwriting community in both availability of liability limits and in increased pricing, they are insurable in today's market. This is an improvement. These pilots must keep up their training and must receive annual physicals, but they are insurable.

I often advise older clients not to chase the lowest price offered when shopping their insurance. It becomes more prudent to stay with an underwriter who is known for acceptance of the senior pilot. If I can keep my clients flying well into their 70s and in some cases to age 80, I have done a great job for them. Usually, I don't have to say, "Joe, you are not going to be allowed to continue flying without a safety pilot." Usually, "Joe" makes that call himself.

When comparing your premium quotation with that of your hangar mates, be sure you are of similar age. For senior pilots, the emphasis must be on staying in the cockpit, not on the price.

Proper Marketing

Although the aviation-insurance industry has increased 60 percent in capacity over the past 18 months, it remains a small industry. With only 13 primary underwriting facilities (plus Avemco), there are only a limited number of underwriters willing to quote any specific aircraft type. Some underwriters want to build their books of business on light aircraft while others favor turbines and jets. Some only offer low limits of liability while others prefer accounts requiring higher limits and more complex coverage packages. Every underwriter will not be a market for you and your particular aircraft.

Shopping every market every year is counterproductive. In fact, the decision to shop a risk should be one you and your insurance advisor carefully plan. If rates are stable and little market movement is seen, request quotes from just one or two underwriters. This allows you to confirm rates are stable and changing insurance companies is probably unnecessary. You do not need to request quotes from every available underwriter every year. Underwriters do not like to be shopped without a chance of ever writing the business. Shop just a part of the market in stable years, and save the big push for those years when you know the market is unstable. There was never a period more volatile than 2006/07. This definitely was a time to shop most accounts. This is just "common sense" marketing.

What about 2007/08? I thought things would have settled down by now. In past market cycles, the insurance companies beat each other up for about a year and then things leveled off until a market crisis reversed the trend. Again, my crystal ball has betrayed me. I am now seeing another year of battle between underwriters and a continued soft market. In fact, in some select situations, I am seeing some premium quotations that are so ridiculously low and so out of step with other competing quotations the client rejects them thinking something is wrong with the coverage.

Good Underwriting Submissions

Good underwriting submissions are also an integral part of sensible shopping. Make sure your agent has the required tools to properly quote your insurance. They include training certificates, updated flight times, and any new licenses or ratings you may have added since your last renewal. Do not wait. Get the information to your agent well in advance of renewal.

Stay calm. Evaluate each quotation on price, coverage, and underwriter cooperation. Is the underwriter cooperative and sensitive to your needs? This is important to all pilots, not just to the senior pilot.

Deceptive Quotations

Idle promises from competing insurance agents, whether accidental or intentional, can add to client confusion and dissatisfaction. Actually, that may be the intent. It may be done to convince an aircraft owner to shop their insurance.

Unsolicited quotations received through the mail cannot be accurate simply because of the many variables influencing aircraft-insurance premium calculations. For some time, overzealous agents have been scavenging the aircraft registration databases and sending to registered aircraft owners "teaser" letters indicating ridiculously low premiums for insurance on their aircraft. Most of these letters are sent to turbine and jet owners. No insurance company is named and only sketchy values and rates are given. When confronted, the agents admit this is a method of advertising.

When you receive one of these quotations and you have not given an agent your underwriting information, including your purpose of use, age, flight experience, training regiment, prior loss information, and the volumes of other information necessary for an underwriter to offer a premium quotation, the indication offered is groundless. Throw it away. If it seems too good to be true, it probably is.

There Are No Secrets. There Are No Deals.

The only deal is the one you create yourself. If you are represented by an aviation-insurance specialist who has direct contracts and relationships with all the major aviation-insurance companies, you should expect to receive the best of the best, at least for your qualifications. If you prepare yourself to achieve a level of excellence in the cockpit, you should expect a positive response from the underwriter.

I occasionally receive customer calls stating they have been offered insurance through some special insurance program offered by one of the insurance underwriting companies. The exclusivity of such a program does not usually limit its availability to one agency. To do this would be to drive a barrier between the underwriting company and its best agents and brokers. Most often, these special "exclusive" insurance programs are not exclusive at all. They may have a program, but it will be made available to all the company's contracted agents.

When considering one of these "so-called" volume programs, a managed-fleet policy, or any other new offer, the best insurance is not always determined by the price. It may be the availability of higher liability limits, and sometimes it may be the privilege of flying just one more year. When you discuss and compare premiums with a hangar friend, remember there are a lot of variables to consider when an underwriter calculates your premium.

Market Pressure

Insurance market cycles are real. Market pressures have a major influence on premium and underwriter cooperation. These cycles can be caused by numerous influences outside your control. Since 9/11, our industry has seen the best loss years in the history of general aviation. No one knows exactly why, but my speculation is the new technology available today for general-aviation aircraft has had a dramatic influence on safety. From the GPS to the glass cockpit, flying a typical general-aviation aircraft today is far different and far safer than when I first took flying lessons in a Cessna 150 some 30-plus years ago. No matter the reason, lower loss experience translates to increased underwriting profits.

Investors (new reinsurers) see these profits building and want their piece of the action. New underwriting companies enter the market. Capacity for risk increases. The only way to quickly capture an increased share of the market for a new underwriting company is to buy it by cutting prices. As below-market premium quotations decrease, this “buy the business” mentality forces the traditional or legacy underwriting companies to reduce rates in order to retain market share.

Although short-lived in most cases, these sudden down cycles force premiums below a break-even level that causes the entire industry to begin to lose money. Enthusiasm for the general-aviation premium dollar wanes and the rates go back up. Usually there are underwriter casualties along the way. Those are the insurance companies that retreat from aviation underwriting, never to return. This sudden reduction in market capacity causes premiums to spike (over-compensate) before prices return to normal. The pendulum always over-compensates before it comes to rest.

This new market pressure affects the entire general-aviation industry to some degree. Turboprops and jets are seeing the largest decreases in rates, along with large commercial accounts such as charter or managed aircraft fleets and fixed-base operators (FBOs).

Very popular aircraft types, including King Airs and Citations, have enjoyed a comparatively low premium structure for years. Early in this soft-market shift, the belief was the current soft market effect on this market segment could not drop as much as other industry segments simply because it was already priced low, leaving little room for decrease. I admit that I had the same reading from my crystal ball. Well, all I can say is, don’t trust a crystal ball.

As we move into the second year of this soft market, underwriters are continuing to battle over almost every class of aircraft, including the most popular classes such as the King Air and Citation. How low can it go?

Market pressure is huge in the predication of insurance rates. ✈