

Trending in the Aviation Market – Q2 2023

Increased traffic among charter and corporate aircraft is leading to more attritional losses and increased scrutiny by underwriters. Underwriters continue asking questions leading to pilot proficiency, age, training, and hours flown. Some reports show the global aviation insurance industry generated \$3.43 billion in premium in 2021. In 2022, there have been reports of between **\$7B and \$10B** in claims presented mostly a result of the confiscation of Western airliners by the Russian government. **Social inflation** - the frequency and dollar amount of high-valued verdicts has been escalating at a feverish pace! \$100,000,000 claims used to be a one-in-twenty event...it's now probably one-in-five. (AINonline 5 July 2022)

What's happening in the market?

Capacity continues to be available in the US marketplace for a majority of general aviation risks. With new underwriters entering the market in '22 and wind of another to join in '23, we do not see this changing.

The Global reinsurance marketplace was hit with significant losses in '22 with \$115,000,000,000 (\$115 Billion) in losses related to Hurricane Ian and other natural catastrophes.

Some policy forms are being changed with added exclusions for Russia, Ukraine and Belarus.

War Risks rates have increased, in some instances more than 100% yet are still a small percentage of the overall premium.

Projected Rate Increases

Piston General Aviation – 5-10%

Turbine General Aviation – 15-25%

Commercial (including charter) – 15-25%

Commercial Helicopter – 40%+

Issues in the aviation industry

- Market prioritizing pricing of their existing book of business over pursuit of new business
- Pricing uncertainty resulting the Russia/Ukraine war
- There is a lack of talent throughout the entire aviation industry
- Social inflation is a cause of concern for insurers
- Environmental pressures are mounting calling for companies to limit their CO2 footprint. Aircraft manufacturers, fixed base operators, aircraft owners and fuel suppliers are all feeling this pressure
- Supply chain challenges are hampering the ability to efficiently adjust insurance claims
- Aircraft part price escalation expected to continue in 2023

Aviation Losses

Major losses – Last 12 months

DHC-6 Twin Otter – Nepal (22 fatal) – May '22

JetPROP DLX collision with 172 – Las Vegas, NV (4 fatal) – Jul '22

Bell UH-1H Chappelle, NM (4 fatal) – Jul '22

C340A/C152 Midair California (3 fatal) – Aug'22

Sonex / C172 Midair (3 fatal) – Sep '22

Piaggio Avanti II - Costa Rica (6 fatal) – Oct '22

Meridian - Nebraska (2 fatal) – Nov '22

Cessna 208B - Washington (4 fatal) – Nov '22

Metroliner - Wisconsin – Nov '22

ATR 42-500 Philippines (19 fatal) – Nov '22

B-17G / King Cobra mid-air Texas (6 fatal) – Nov '22

King Air C90B Hawaii (3 fatal) – Dec '22

King Air B200 – Arkansas (5 fatal) Feb '23

2020 Milliman Report on the U.S. general aviation market

- Premium increased significantly over the last two years...33% from 2018 at \$1.6B to 2020 at \$2.1B
- Market profitability has been consistently negative over the last five years. 2016-2020 the market lost more than \$750M
- Even with 2019 and 2020 premium increases, the market had an underwriting loss of approximately \$50M (for reference 2019 it was near \$300M)
- Why are losses increasing when the NTSB reports fewer fatalities and fewer severe injuries in 2020 than in any of the prior 10 years in the US?
 - § Adverse weather events – wind, hail, snowfall
 - § Liability Claims – higher settlement values
 - § Median value of award in 2007 - \$1,500,000
 - § Median value of award in 2019 - \$5,100,000
 - § Runaway liability verdicts (2018 - \$115.75M and \$148M)
 - § Texas jury awards \$352M to family of paralyzed airport worker
 - § Hull Claims - Cost to repair composite material

Aircraft (all perils) Combined Ratio

Per NAIC report of 2021 full year results

Insurance companies use the Combined Ratio as one measure of performance. Percentages more than 100 reflect claims are outpacing premiums

$$\text{Combined ratio} = \frac{\text{Claims} + \text{Adjustment Expenses}}{\text{Earned Premiums}}$$

The National Association of Insurance Commissioners released a report in 2022 reflecting the prior 10 years results in the US. Aircraft (all perils) had the following results (shown are the year, combined ratio and financial loss if available) Note: 2011 and 2010 are from historical data:

2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
90.9%	107.0%	131.2%	111.5%	109.2%	113.1%	100.7%	89.1%	99.5%	98.5%	102.6%	94.1%
	(\$52M)	(\$285M)	(\$130M)	(\$192M)	(\$34M)						

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