PartnerReviews

Airline Market Losing Height as Rates Slow

Airline rates need to regain speed to generate the sufficient lift for a stable, successful market. Assuming a similar loss development to recent years, 2014 airline market results are otherwise heading for a 'controlled flight into terrain' (CFIT). Benjamin Weber, Head of Aviation & Space at PartnerRe, highlights the culprit; a closing gap between (falling) premiums and actual losses.

A buyer's market

In the absence of recent major losses and coupled with abundant capacity, airline insurance continues to be a buyer's market. In fact, since 2012 market premium has fallen by over 10%, despite significant increases in exposure, with rate reductions accelerating to 20% or more through the fourth quarter of 2013 as new capacity continued to pour in and most existing participants maintained, and in some cases increased, their appetite for airline risks.

Losses paint a different picture

However, the trended average annual loss burden for the airline segment, based on the last 10-year period (see **figure 1**), is now approximately \$1.9 billion[1]; this figure includes known and expected losses, as well as a contribution for an aviation catastrophe loss. Even the average loss cost for individual underwriting years without a major loss, such as 2010 or 2011, is hovering around the \$1.3 billion mark, at least half of which derives from attritional[2] losses.

Considering the verticalized nature of the airline insurance industry, today's estimated composite net premium[3] is now barely enough to pay for a 'good' year, let alone for more a typically normal or bad year.

So why the rate reductions?

There is a clear tendency across the market to underestimate the full loss development of prior underwriting years. Airline losses take at least 3 to 4 years to fully develop. This over-optimistic view of prior-year results is contributing to premature rate reduction and co-piloting a CFIT.

Our Aviation team looks forward to hearing from you

PartnerRe has a dedicated team of Aviation & Space underwriters with many years of expertise and a track record of stable Aviation results, high service value and continuity of offer to our clients. We would be very happy to discuss these trends with you. If you would like to contact us, our contact details are available on www.partnerre.com.

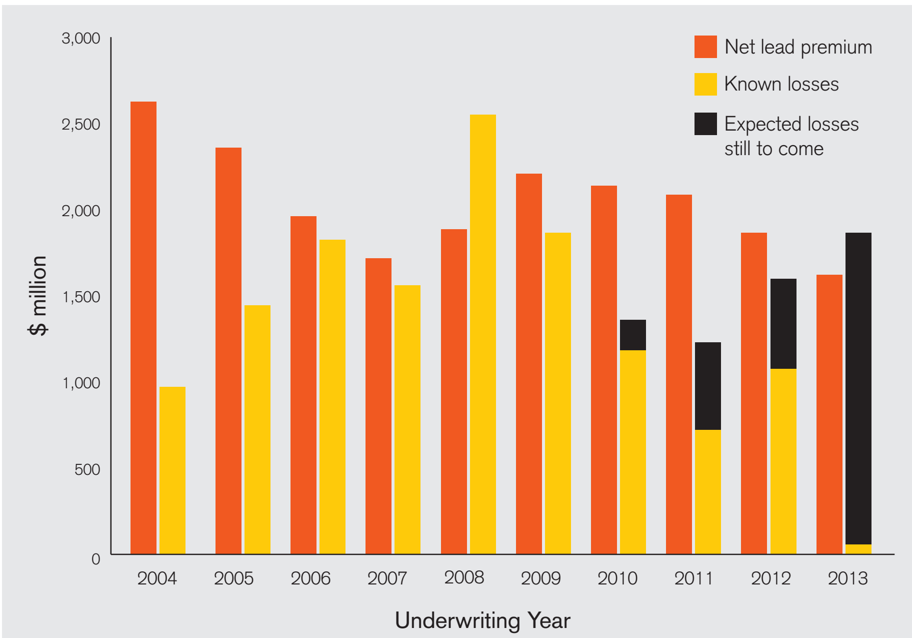

Figure 1: Airline insurance market net lead premium and losses (distinguishing 'known' and 'expected still to come') by underwriting year. Market rate reductions have now brought premiums well below expected total loss costs, a worrying trend for stability within the airline segment. Source: PartnerRe.

[1] PartnerRe airline market estimation for 2014 based on collated industry loss data.
[2] Defined as losses < \$10 million.
[3] The airline market is a co-insurance subscription market with variable participant premium rate levels. Composite industry net premium estimations based on informed net lead premium levels are likely to be conservative (to the order of approximately 10%).

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