PartnerReviews

Bringing the Nose Back Up

Over the last 25 years, safety improvements and falling accident and fatality numbers have quite rightly led to corresponding Aviation re/insurance rate reductions. Looking at Aviation overall, the trend has been one of steady risk and rate reduction, but, critically, on two different trajectories. Rates have fallen more steeply.

At the same time, the cost burden for Aviation, especially for General Aviation (GA), has increased. Market indications are that there's now only just enough in the rates to cover costs and attritional losses, not enough to cover large losses, error margin and profit.

Rightly, credit where credit's due for safety improvements, but to fully support a viable Aviation market, the rate trajectory's 'nose' needs to be brought back up.

Starting with the steady improvement in US Aviation accident statistics (figure 1).
A positive risk improvement for Aviation as a whole.

For such improvement, a reduction in Aviation rates should follow, and it has. However, looking at the corresponding insured loss ratios, the indication is that rates have fallen too steeply.
Over the period 2010 to 2015, the loss ratio of GA attritional losses increased

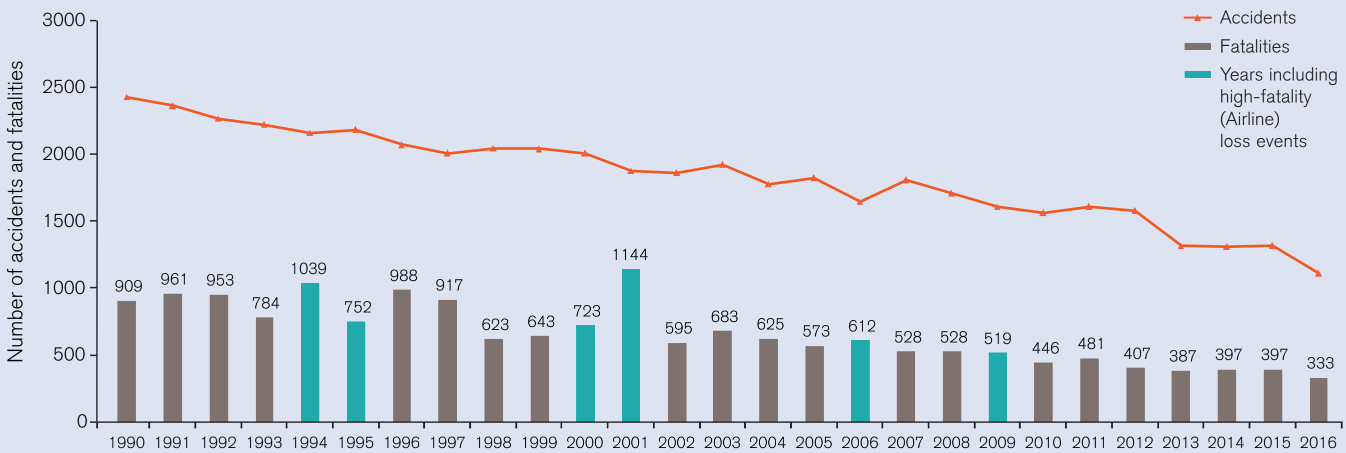

Figure 1: US Aviation (Airline and General Aviation) Accident Statistics from 1990 to 2016 showing a clear decline in accident numbers (red line) and fatalities (grey bars). Notably, beyond this positive downward trend, high-fatality (Airline) loss events still periodically occur (teal bars). Representing approximately 50% of the global Aviation insurance market, US statistics are a good basis for whole market analysis. Source: National Transportation Safety Board (NTSB)

at an annualized growth rate of 2.8%[1], and is now close to 60% (**figure 2**).

This negative loss ratio development, mainly due to falling premium, is further aggravated by increased acquisition costs.
With the total cost burden of GA business now running at close to 30%[2], (**figure 3**), what's left is insufficient to cover large losses, profit or error margin.

Which indicates that rates need to rebalance to fully support a long-term, viable market and its clients.

Have you observed other trends? We'd be very happy to discuss this topic with you.
To find out more about our risk solutions and to contact us, please go to: www.partnerre.com/risk-solutions

Contributor
Benjamin Weber, Head Aviation & Space, PartnerRe
benjamin.weber@partnerre.com

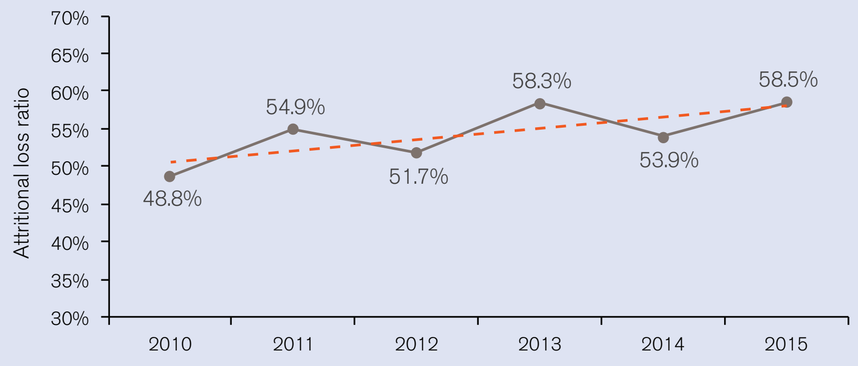

Figure 2: Attritional loss ratio for worldwide GA business from 2010 to 2015. As rates fall, the loss ratio is increasing to a level that, after costs, leaves little room for large losses, margin of error or profit. Source: PartnerRe.

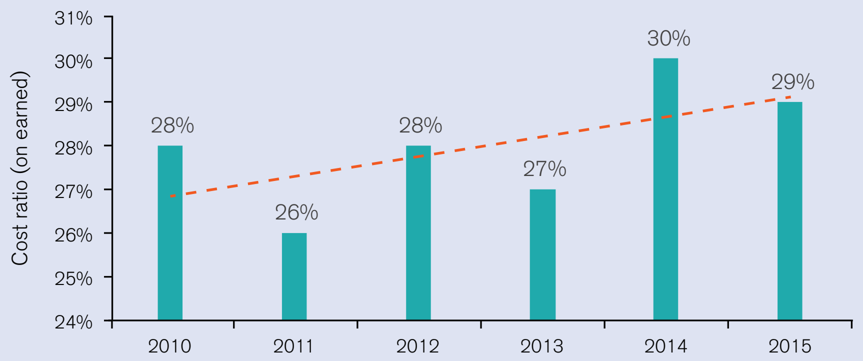

Figure 3: Total cost ratio for worldwide GA business 2010 to 2015. Costs exclude own and reinsurance expenses. An upward trend is evident. Source: PartnerRe.

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[1] PartnerRe research, 2017.
[2] PartnerRe research, 2017.