

Aviation insurance 2008 - a market forecast

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The outlook for the year ahead is not easy to predict for aviation insurance.

Industry experts have forecast that 2008 is to be a 'fascinating year' for aviation insurance. With capacity on the increase, coupled with a rise in claims, the outlook for the year ahead is not one that is easy to predict.

Aon aviation industry analyst, Magnus Allan, commented that '2008 is going to be fascinating in aviation insurance terms'. "On the one hand there has been a large amount of capacity available over the last few years that has reduced prices significantly; but 2007 saw a high level of hull claims, which is going to encourage insurers to look at their portfolios and question their commitments,

potentially," he said.

According to Aon's Airline Insurance Market Review 2007, the high level of hull and liability claims, at US\$1.7bn (£0.84bn), alongside the lowest amount of lead hull and liability premium since 2000, US\$1.5bn (£0.74bn), meant that the airline insurance market was broadly unprofitable in 2007. The review also reported that the proportion of passengers travelling with flag carriers fell from 66% in 2005 to 48% in 2007. As such, the insurance and risk management firm has predicted that the negotiating process is likely to be far tougher in 2008.

Explaining further, Mr Allan added that it is "basically classic supply and demand; the capacity is bringing down prices but the level of claims could potentially raise prices. A lot depends on what the loss figures are in 2008. If there are no catastrophic losses and it turns out that 2007 was just a blip, then we'd expect the continuation of low, single digit averages that we were seeing towards the end of the year in 2007."

While Aon's figures suggest flag carriers have seen a decrease in the number of passengers travelling last year, the aviation industry as a whole appears to continue to expand. According to figures from the Civil Aviation Authority, UK airports handled 241 million passengers during 2007. This represents an increase of 2.4% on 2006. However, this growth is slower than that seen over the last decade and continues a trend set in 2005.

In May 2007, aviation analysis firm OAG reported that global aviation growth had hit an 'all-time high' with a 5% increase in the number of flights scheduled for May 2007 compared with the same month the year before. According to the latest statistics from OAG, this represents an additional 113,827 flights and 17.7 million extra seats available to travellers. In announcing these figures for May, Duncan Alexander, Managing Director of OAG, said that from an industry perspective 'this healthy growth bodes very well for the future'.

On predicting an outlook for the year ahead, Mr Allan said: "Ultimately, aviation is a catastrophe business." Comparing the level of claims in 2007 with those of previous years, he said: "The interesting thing about the high level of hull claims is that they haven't come with a high level of liability claims. The number of fatalities in 2007 was below the average from 1995 to 2006. So what you've got is, while there have been these hull claims, you've got a lot of people coming away from those ok."

Looking to some of the aviation incidents to have occurred in the last few years, such analysis appears justified. In January of this year, a British Airways jet from Beijing to London crash landed short of the runway, causing extensive damage to the undercarriage and both wings. Despite there being 136 passengers, only three were treated for injuries. Similarly in August 2005, an Air France jetliner crashed while attempting to land at Toronto's Pearson International Airport. All 297 passengers and 12 crew members survived the crash, despite severe damage to the aircraft.

Citing such examples, Mr Allan explained that ten years ago incidents such as these 'could have potentially caused a massive loss of life and resulted in significant liability claims'. Yet he added that in actuality 'you had 250 people being evacuated from a plane with bumps and bruises, but not the liability claims you would have seen historically'.

Such claims are supported by industry statistics. Figures from Ascend's Annual Aviation Safety Report show that in 2007 passenger fatalities fell by 20% compared to 2006, to 631. Both passenger fatalities and the number of fatal accidents in 2007 were well below long-term trends, with the average for the decade standing at 718.9. It is also, reportedly, a significant improvement on the 1990s' average of 954.4 passenger fatalities a year.

Ascend also claims that the long-term trend for the aviation industry is for fewer fatal accidents. On assessing 2006, the aviation analyst confirms that in the late 1940s the figure was between 40 and 50. By the 1980s this figure had halved. Although in the two decades up to 2001, as the industry expanded, this improvement in the number of fatal accidents stalled. This trend has been reversed over the last few years as the industry's growth has continued.

Improvement in safety and therefore liability claims is an obvious priority for those involved in the aviation industry, who Aon describe as being 'very, very busy' in ensuring 'the industry as a whole can be as safe as it possibly can be'. Improving safety standards has

been a 'driver' alongside capacity in prices coming down, according to Mr Allan of Aon.

"When you look at the loss rates over the last five, ten years, they've been very, very good, and that is what has attracted all this extra capacity. You need to be aware of the risk, but that is what insurance is all about."

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