

Aircraft Hull Insurance Market Trends and Premium Adjustments

Sofema Aviation Services (SAS) www.sassofia.com considers the current status of the Aircraft Hull Insurance Market as of mid-2024.

Introduction

While premium adjustments vary across sectors, the overall market remains stable due to ample capacity and new entrants. Insurers are adopting more technical underwriting practices, but market dynamics and geopolitical risks continue to play a significant role in shaping premiums.

Operators can minimize their exposure and secure more favorable insurance terms by following best practices in safety, maintenance, risk management, and sustainability.

The market continues to grapple with inflation, increasing exposures, and rising claim costs.

- Abundant capacity is mitigating the impact on overall pricing.
- Technical underwriting is increasingly data-driven, but market dynamics still play a key role in decision-making.

Inflation and Exposure Growth:

- Inflation and the resulting rise in aircraft and passenger traffic are major concerns.
 - These factors drive up repair costs and premiums.
 - The overall market stability and ample capacity help moderate significant price hikes.

Geopolitical and Economic Influences:

- The geopolitical landscape, especially the Russian confiscation of aircraft and the ongoing Ukraine crisis, is significantly influencing market dynamics.
 - These events are causing shifts in risk perception and reinsurance costs, impacting premiums and coverage terms.

Technological and Safety Advancements:

- Advances in aircraft technology and a heightened focus on safety are influencing insurance policies and premiums.
 - Insurers are adapting to cover newer risks associated with modern aircraft and technologies, leading to more specialized policy offerings.

New Market Entrants and Capacity Adjustments:

- The entry of new insurers is increasing market capacity, potentially leading to competitive pressures.

- Despite recent financial challenges, new players see opportunities to capture market share, contributing to market stability.

Premium Adjustments - Airlines:

- Premiums are experiencing neutral to slight decreases, ranging from -10% to flat.
 - Increased aircraft and passenger traffic, combined with low claim activity, keep rates stable, although rising repair costs and supply chain issues remain concerns.

Airline Hull War and Excess War Liability:

- Significant increases in premiums are noted, with hull war and excess war liability rates rising by up to 100%.
- Geopolitical tensions and the resulting uncertainty in risk assessments drive these adjustments.

Aircraft Lessors/Banks:

- Hard market conditions persist, with premiums increasing by approximately 50%, particularly for hull war coverages.
- Sanctions and geopolitical risks are major factors influencing these adjustments.

Product Manufacturers and Service Providers:

- Premiums are set to rise between 5% and 15%, primarily due to increased reinsurance costs and the potential for large payouts related to geopolitical events and claim inflation.

Key Takeaways

- **Market Capacity:** Despite various challenges, market capacity remains plentiful, helping to moderate significant premium increases.
- **Technical Underwriting:** A more data-driven approach is being adopted, but market dynamics still significantly influence pricing decisions.
- **Geopolitical Risks:** The Russian aircraft confiscation and the Ukraine crisis continue to impact risk perception and premium adjustments across various sectors.
- **Reinsurance Costs:** Increased reinsurance costs are affecting primary insurers, leading to higher premiums, particularly for war-related coverages.
- **New Entrants:** New insurers entering the market are increasing capacity and competitive pressures, potentially stabilizing premium increases.

Best Practice Guidance for Operators to Minimize Exposure

- Enhance Safety Protocols - Implement comprehensive safety management systems (SMS) to reduce the risk of incidents.
- Regularly update safety procedures and conduct frequent training for all personnel to ensure adherence to best practices.

Maintain Detailed Maintenance Records

- Keep meticulous records of all maintenance activities.
 - Ensuring that aircraft are maintained to the highest level of compliance will help to reduce exposure and to reduce liability.

Adopt Advanced Technology:

- Utilize modern technologies such as predictive maintenance and advanced diagnostics to identify and address potential issues before they lead to costly repairs or accidents.

Implement Risk Management Strategies:

- Develop and maintain robust risk management strategies.
- Conduct regular risk assessments to identify potential hazards and implement measures to mitigate them.

Invest in Training and Development:

- Ensure that pilots and crew receive regular, up-to-date training. Emphasize proficiency in handling specific aircraft models and emergency situations to minimize human error.

Optimize Flight Operations:

- Implement efficient flight planning and operational procedures to minimize risks. Avoid high-risk areas and conditions whenever possible and ensure adherence to regulatory requirements and industry standards.

Leverage Vertical Placements:

Vertical placements, often referred to as quota-share arrangements, involve distributing the coverage of a large-limit insurance policy among multiple insurers.

Vertical placements allow the aggregation of capacity from multiple insurers, enabling coverage for high-value risks that would otherwise be difficult to insure.

- **How Vertical Placements Work**
 - The total coverage amount is divided into several layers or tranches. Each participating insurer agrees to cover a specific percentage or quota of these layers.

- Each insurer's participation is based on their risk appetite, capacity, and the terms they are willing to offer.
- The premiums paid by the policyholder are also divided among the participating insurers in proportion to their share of the coverage.

Next Steps

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For the following course - Aircraft Leaseholder & Maintenance Reserve Insurance Considerations – Essentials – 1 Day – Please see the following link <https://sassofia.com/course/aircraft-leaseholder-maintenance-reserve-insurance-considerations-essentials-1-day/>