

Understanding Insurance Markets

For most, aviation is a passion, but we are fortunate enough to call it our work and to give back as much, if not more, than we receive from it. In any aviation career, however, fortune must give way to hard work, continual education, a commitment to safety, and the development of relationships. We could write an entire series on these subjects, but this piece focuses on understanding how the insurance market relates to these goals.

Unfortunately, searching Amazon or the Dark Web for a crystal ball that reveals year-to-year insurance rates or the success or failure of insurance companies will be from year to year isn't an option, so we must do it the old-fashioned way. Everything related to insurance—from global weather phenomena to the supply of carriers and the recent performance of your aviation segment—will impact your rates. Yes, ultimately your growth and claims performance in relation to your peers will influence how competitive your insurance premiums are compared to theirs.

The insurance market, down to an individual company, has countless factors that drive pricing. As of 2023, the global aviation insurance expenditure was approximately \$8 billion (\$8,000,000,000). In insurance and aviation, we often toss around massive figures like this, and they can lose their significance. In this case, \$8,000,000,000 for a global insurance expenditure across the aviation sector highlights how small aviation is compared to other industries. For instance, Amazon's **daily** revenue is \$1.6 billion, and the auto insurance premiums in Dallas, TX, exceed aviation insurance premium across North America. The North American general aviation insurance expenditure is roughly \$2 billion to \$2.2 billion annually.

We understand the size of the aviation insurance market. Regardless of the number of carriers entering or exiting the insurance landscape, the number of available insureds remains relatively constant, barring mergers, acquisitions, or closures. However, purchasing insurance in 2024 differed from doing so in 2017—the good old days of the insurance buyers' market, with over 18 aviation insurance carriers vying for business and market share. Then the bottom line finally caught up.

Many of us know and frequently discuss the two most significant losses over the last ten years: the Boeing Max incident and the Russian nationalization of hundreds of aircraft during the invasion of Ukraine. Each of these events individually wiped out a year or more's worth of insurance premiums at a time. Losses of this magnitude are only expected to occur once every century, yet our industry experienced three such losses in the last 25 years, including 9/11. Every insurance carrier then faces a price increase from the insurance companies from whom they buy insurance, namely the reinsurers. These reinsurers raise their rates on the insurance companies, which then raise rates on us as an industry.

In the United States, six carriers ceased operations over two years, while others were left on life support, imposing double-digit increases annually over five years. All carriers were struggling to achieve rate adequacy to maintain their books of business and keep the lights on. Eventually, we reached a point where carriers did find that rate adequacy, and over the past 18 months, we've seen five new companies return to aviation insurance. Appetites may not be as robust as they once were, with many carriers adopting the London quota share placements (sharing or splitting the risk) to distribute the account and risk among two or more participating carriers. This quota share approach stabilizes the market and mitigates the volatility of any significant loss affecting an individual insurer.

Those seeking the best rates must be trendsetters, as a company's trends can pertain to historic trends just as much as to innovative ones. If your historic trend is safety and continuity, tell that story and own that legacy. Insurance carriers love those narratives and want to align themselves with companies that take pride in operating this way. Carriers also appreciate hearing how you lead your company with innovation and technology to achieve better, safer, and more efficient outcomes. Standardizing practices, fleet, and culture sets you apart from other businesses, and the best companies relish showing off how they are constantly improving or consistently performing. Be the place that your broker enjoys bringing the underwriter to visit; even when nothing is new, ensure the status quo is a high bar.

Markets will fluctuate, but most businesses thrive on stability and consistency. One of the most valuable aspects of your insurance program should be its ability to maintain consistency. Inquire about the best methods for developing a consistent insurance program with your broker and insurance provider. Obtain those answers in writing and create your roadmap.

Choosing a Broker

The first step in the insurance process is to ensure you are working with the right broker. How can you determine who best represents you, your company, your company's exposures, and potentially its future? When you scroll through insurance marketing or website listings, they will likely all claim the same things: "Lowest Price," "Most Experience," and "Best Service." Naturally, they all make these claims because that's what marketing is designed to do; but why is that appealing? Or, to put it more bluntly, does that convey anything about them or their service?

As with every insurance conversation, let's discuss price immediately to clear the air. No one wants to pay more than they should for insurance. We all desire the "best deal", but that deal is often not the cheapest price. Part of selecting the right broker involves choosing someone you can trust, with whom you can build a relationship, and who you know, along with their team, will represent you in a manner you would expect of a direct company representative.

Now, let's delve into the questions you should ask during the broker interview process. We would love to say that starting with a relationship is the most important thing, but choosing a likable broker with no experience, product knowledge, or added value won't benefit your business. They may be fun to share a beer with, but when something goes wrong, the only use for that beer might be to throw it on the fire to help extinguish the flames of a poor claims experience. As unappealing as it may sound, digging into the broker's and brokerage's experience level in your operating space is the first step. Whether you are a fixed base operator (FBO) or a part 135 charter operator, you know your business; ask the broker about their experience in that area. Inquire about their recent improvements to someone's program and other clients they represent in that space.

Most importantly, ask about a recent claims experience. You can even request an essential checklist of coverages you should have in your current program. You've likely had insurance before, and like most, you've bought the policy, skimmed right past it, grumbled a bit, and just paid the invoice. A good broker will help you become knowledgeable about your program, understand your current situation, and create a pathway to where you need to be once your insurance program is fully developed.

Different shops have various specialties. During the broker interview process, inquire whether the agency has experience dealing with accounts similar to yours. Are any of those accounts of the same size as yours? How did they enhance those programs? What makes them suitable to represent you in this space? Do they handle all lines of coverage that you require? You'll discover that some brokers only deal with aircraft—there's even a possibility that you are their first aviation call. They may farm it out to a wholesaler who will act as another middleman between you and the insurance carrier you are ultimately attempting to place business with. Discuss these topics to ascertain whether the person you are about to hire possesses the necessary experience to assemble the best program for you.

Lastly, the value-added services aspect of discussing with a potential broker should include how the service team managing your account will be structured. What is their level of experience? What is their authority and turnaround time for policy and certificate issuance tasks? Ultimately, these are basic upfront service level expectations. However, what about claims service and advocacy? If you do need to make a claim—how is that managed? What is the process? Who do you contact, and who assists when an adjuster is slow to respond? Does your broker or their firm employ anyone to aid with this process, or are they merely hoping the insurance company will guide you through it and ensure you receive all the insurance contract benefits? A safety and loss control specialist, for example, is a scarce resource found with only a few brokers in the aviation sector. This is a query many individuals may not consider, yet, it can be vital when developing an SMS program or seeking best practices for conducting a safety meeting.

Evaluating Proposals

Work must be done before your broker submits a proposal request to various underwriters. Like all successful stories, homework is essential.

Understanding the worth of your aircraft is the first step for individual operators. You cannot determine how much insurance you require unless you know the asset's value. Additionally, it is essential to comprehend your risk tolerance to evaluate how much liability coverage is necessary. A multi-billion-pound international corporation will possess a significantly different risk tolerance than a small business owner who uses an aircraft to visit clients.

For aircraft management companies, guiding aircraft owners through the questions above is vital. Owners seek management expertise and support throughout the process. Assist them in helping themselves and establish the guidelines:

1. Hull and liability limits determined by precise values and risk profiles.
2. Discuss the changes in the market during the policy year. Are there significant fluctuations in aircraft Values? What occurs in the event of a hull loss mid-year?
3. Avoid over- or under-insurance. Claims may become contentious if a \$2M aircraft is insured for \$10M and there is a total loss.
4. Obtain the owners' decisions in writing. This ensures there is no ambiguity about their wishes.

Next is the proposal review; however, as with all matters, context is crucial. Your broker should not merely hand you the document received from the underwriter. It ought to be broken down with explanations provided regarding its meaning. Additionally, it should address the following questions:

1. What is happening in the marketplace?
2. Which companies did the broker approach? What were the results?
3. What are the key endorsements that enhance the policy's Value? What exclusions are crucial to note? The cheapest policy may not be the best option if it lacks competitive substance.
4. What is the story behind the documents? Your broker should be able to provide some context regarding their discussions with each underwriter who submitted a proposal. Were they easy to work with? Were they responsive? Were they professional? A good broker ought to be able to persuade an underwriter that they desire your business.
5. What benchmarks should be used to evaluate each proposal? This could include last year's policy, industry standards, or other relevant data points.

6. What is the cost? As should be apparent from the above discussion, the price represents another data point, but not the only one. Are the costs aligned with your broker's expectations, or is something amiss skewing them?
7. Finally, verify the calculations. You may often pay less for more, as the hull rates for more significant amounts are lower than those for smaller quantities. For aircraft management companies, ensure that you comprehend the quotes you present to owners and that they understand them too.

Do Yourself a Favor

Underwriters evaluate risk by considering numerous factors before issuing an insurance proposal. A skilled, experienced broker should guide you through these factors, but here are some worth pondering.

Leadership matters. When a venture capitalist evaluates whether to fund a start-up company, the idea or product the company is selling must make sense. Still, the management team absolutely must knock it out of the park. The same is valid with underwriters. If they do not trust your management team to do the right thing, they will have no interest in writing a policy, or the policy will be priced to cover the perceived risk and may be unaffordable.

Safety/SMS matters. There is a reason that the FAA puts so much emphasis on SMS- they work. Developing a robust safety culture is the most effective way to demonstrate gravitas in the safety arena, leading to underwriters that want to write your business. If safety isn't your number one concern during every evolution, the insurance cost will reflect that.

Relationships matter. Regularly engaging with your underwriter and broker starts to build trust. Understanding the other party's point of view provides perspective on what each side needs to be successful. Working together from a common reference point allows for tough but contentious negotiations, to create a win-win outcome.

Longevity matters. Underwriters are human too. Dealing with an organization that has been a customer for many years, has demonstrated some loyalty (by the way, loyalty goes both ways), isn't out to grab the last pound, and values the relationship over time, is much easier than trying to figure out the new kid on the block. Much like a marriage, experiencing ups and downs with an underwriter creates a deeper understanding of the other party's needs. It fosters an atmosphere allowing the underwriter to give you the benefit of the doubt when things become difficult.

Training is essential. Invest in your staff. If you value them enough to hire them, ensure they receive training to become the safest employees possible. Every minute of training you provide will yield tenfold returns when an employee makes the right decision and

prevents an incident or hangar rash. If you instruct them accordingly, employees will only know the safest choices.

The overarching perspective is essential. Educate yourself about the insurance markets through your broker or independently before your policy renews. If three new companies have entered the aviation insurance market, you can be assured that rates are falling. It operates the same way in Reverse. Ask questions. Speak to industry peers about their experiences with renewals. The more you know, the better deal you'll be equipped to negotiate.

Finally, attention to detail is crucial. When it comes to safety— the primary factor in any underwriter's decision regarding your policy— the finer details make all the difference. A robust SMS, well-trained employees, a strong safety culture, a solid long-term relationship with your underwriter, and the ability to proactively address issues contribute to a company with which any underwriter will want to collaborate. Minor details lead to significant outcomes, and considerable outcomes create value.

Set Your Expectations for a Claim

Sometimes, unfortunate events befall good people, making an insurance claim necessary. Assuming you've chosen not just a good but a GREAT broker and established a solid relationship with the carrier, this is where the rubber meets the road. The best way to describe this might be a "rock fight between the owner and the carrier over nothing but money, with the broker caught in the middle."

A good broker will be brutally honest with you. The broker's experience should allow them to cite similar incidents and outcomes from the past and begin to set expectations for a reasonable settlement. As we all know, however, no two incidents are identical, and this is where the nuances of the accident or incident matter. An experienced broker will possess the knowledge and background to understand those nuances and advocate for the aircraft owner to ensure a fair and reasonable settlement.

While working on "the other side" of the ledger, the carrier should also strive for a fair and reasonable settlement. They hold the cheque book, but their treatment of you, the professionalism of their claims adjusters, and their ability to settle claims swiftly and efficiently all contribute to their reputation. Many of these characteristics relate to the evaluation of proposals when selecting the carrier:

1. Is aviation their primary business, or is it merely an adjunct to their other lines?
2. Do they outsource claims, or are they managed internally?
3. Are they providing a 100% guarantee or a quota share arrangement?

All these questions become critically important when a claim is made, illustrating why the cheapest proposal may not always be the best option if something goes wrong.

This article aims to stimulate your thinking on matters you should discuss with your broker or potential broker, or to evaluate whether an insurance partner properly represents you. I hope many of you reading this have someone you trust and consider a partner, but I would venture to say that just as many of you are being underserved and have lowered your expectations because it is easier to hit the easy button.

In summary, your broker should be the smartest, toughest, and most experienced person in the room when a claim is filed. They protect and defend your interests and ensure the aircraft owner is treated fairly and efficiently. In any claim scenario, the broker's experience and delivery capability will ultimately determine the value.

“Understanding Insurance Markets,” was developed by Stephen Maloney and Josh Jabour, in collaboration with NATA’s Air Charter Committee, as part of the committee’s ongoing mission to advance the interests of Association members operating under on-demand part 135 air carrier certificates. This initiative reflects a commitment to addressing key regulatory, legislative, and industry challenges facing the air charter community.
