

# MAYDAY FOR AVIATION RATES

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professional organization to represent the rights of the aviation insurers and to defend their interests. AAAF is an increased representation member of the International Union of Aviation Insurers (IUAL) and has a representative in each committee. The quality of the corporate members does represent a huge financial standing giving the assured first-class security.

La Réunion Aérienne has the predominant position and represents nearly half of the premiums underwritten by the French market. This

maintained a growth of more than 20% per year until 1986; but it has declined since due to substantial rate reductions. With a large retention, and a substantial capacity, La Réunion Aérienne has the technical ability to assess risk by keeping underwriting and statistical information through the extensive use of modern computer data processing giving immediate access to a substantial amount of statistics. The position which La Réunion Aérienne occupies today, participating on risks located in some 110 countries, is the result of many years of effort and reflects an adaptability to market situation and needs. Its retention represents nearly 40% of gross written premiums which is a fundamental condition for acceptance as a leader on the international market especially by the reinsurers.

La Réunion Aérienne is facing today the same problems as other underwriters in the international aviation insurance market, having experienced its third year of loss since 1986 which was an exceptionally profitable underwriting year. The present situation in which aviation insurers currently find themselves is absolutely unbelievable. Here below some figures are presented to illustrate the poor state of the market:

	PREMIUMS:	LOSSES:
1988	\$750 million	\$775 million
1989	\$380 million	\$1132 million
1990	\$300 million	\$864 million

FRANCE has a significant share of the global market for aviation insurance. Her underwriters collect at least one-fifth of all premiums for airlines, airframes and engines manufacturers.

The existence of a French aviation insurance market is due to a long aeronautical tradition. Today the aviation industry employs 130 000 people, produces a turnover of more than \$15 000 million and has been able to maintain a top-ranking position thanks to its manufacturers Aérospatiale, Avions Marcel Dassault, Snecma and Turbomeca as well as its participation in European programmes such as Airbus.

The French fleet amounts to approximately 10 850 aircraft of which nearly 700 are used for public carriage. The general aviation fleet of France ranks fourth in the world. More than 100 regional carriers go through our skies. As far as air traffic is concerned the activity of six major airports exceeds 20 000 aircraft movements each and every year and among them the Parisian airports see more than 400 000 movements and 45 million passengers. So the French aviation insurance market has answered the needs of the manufacturers and the airlines such as Air France, UTA and Air Inter.

The French market is an independent one and is organised in order to participate in aviation insurance risks not only on a national scale but also on an international one to produce a balanced spread of business. The companies are normally grouped to provide an attractive capacity and to create the appropriate technical means in order to achieve maximum efficiency at minimal cost. They have also organized specialised offices to handle claims.

Three groups and one individual company are acting as direct underwriters: La Réunion Aérienne, Aérofrançassur, Aviafrance and Préservatrice Foncière Accident. There is also a professional reinsurer: Groupement Européen de Réassurance Aviation. The French Aviation Insurers Association (*Association des Assureurs Aviation de France*) is a national

## AIRLINE PREMIUMS/AVERAGE RATES (WAR EXCLUDED)

	1986:	1987:	1988:	1989:	1990:
Hulls	\$560 000	\$416 000	\$227 000	\$92 000	\$56 800
Liabilities	\$495 000	\$41 000	\$285 000	\$148 200	\$111 000
Premiums	\$1175 000 000	\$1035 000 000	\$750 000 000	\$380 000 000	\$297 500 000

The loss for 1990 is important. Despite being an excellent year for airline safety, there is more exposure as time goes by for the insurers. The value of aircraft increases rapidly and a Boeing 747 can be worth \$180 million and, as far as passenger liability is concerned, the average annual settlement per victim has substantially increased over the past five years.

We must wonder why we are in such a situation and in which direction we are going today. After 1986, following the most profitable year ever experienced by the aviation underwriters, 1987 saw rate reductions and deficit years coming. Since then, the decrease has continued and today we can say that airline insurance is governed by the following three characteristics:

- Premium assessment is not calculated by taking into consideration analysis of statistical data, exposures, results and on individual merits

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- There is only the existence of the law of demand and supply with over-capacity provided by the reinsurance market and more particularly by primarily excess of loss at very low levels
- One rule is predominating: maintain a market share hoping for a better period and so let us force the rates downwards to beat the previous renewal.

Last year's figures relative to those of 1986 worked out at 25% in the case of hulls, while the hull rate was 10% and that of liabilities 22½%. So at the beginning of 1991 the annual average rate was under 0.06% for hull cover and, when you realize that the hull major loss burning cost over the past five years for the world stands at



about 0.2%, it means that in the future last year's rate would have to increase fourfold to face burning cost and expenses.

The conclusion of the foregoing is that there is no professional or responsible underwriting and that at the end of 1991 we will have another loss year. We have already seen some premiums increased, but the difference for 1990 between

ately if they do not want to see the market controlled by the reaction of reinsurers when they realise the amounts of losses they are facing; we must avoid a drastic increase of rates in order to prevent the same mistakes made after 1986. The market has to take into consideration the dual experience from these past years:

Since 1986 the market has gained a much better



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the premium amounts and the losses is so large that no recovery will occur this year.

What we see today is of course the consequence of that 1986 profitable market's bringing rate reductions to unrealistic and uneconomical levels. Most direct insurers are no longer taking a risk as they try to reduce their retention near to zero. Meanwhile, they have to support a drastic increase in their general expenses, including reinsurance costs, so eroding any profit margin very quickly. They also have to look for cashflow to pay the losses.

The direct insurers have to take steps immedi-

market intelligence so that every airline knows what its competitor is paying. Such market intelligence bringing rate reductions has reduced inequalities between geographical areas.

The direct underwriter has to apply a professional underwriting attitude and take into account facts and realistic data based on statistics. He has to maintain a global vision of the airline world whilst at the same time recognizing individual differences. He must have a prime objective; consistency in ratings and responsibility to both assureds and reinsurers in order to rebuild a mutual confidence and, there

is only one way to achieve it. Let us have leading underwriters retaining a more significant proportion of what they write.

The assureds know they have to pay more premium. They are looking for a long-term policy and security and they do not want to see the capacity reduced to insufficient level, leaving certain operators not fully covered with reduced scope of coverages. They are looking for moderate premium increases based on experience and individual merits over a reasonable period of time and the market must answer these wishes with a more sophisticated rating approach.

The aviation insurance market has a chance to serve an airline industry which will grow during the next 15 years. At least 10 000 new jet aircraft are to be delivered for a total amount of \$650 000 million and the air passenger traffic is expected to increase by 5½% each year. If the aviation underwriters make the right decisions now, they can be confident of the future.

Any article on aviation insurance cannot be concluded without referring to the news recently in the financial press about large losses made by the airlines: more than \$2000 million in 1990 for the North American airlines. A part of the deficit is announced as due to the price of the aviation fuel and part to the enormous in-

surance costs. As the above illustrates, the losses suffered by aviation insurers amounted to \$865 million, but they only received \$300 million in premium. The premium paid by airlines represents only 0.15% of their total general expenses. Hopefully, this article goes some way to answering such misconceptions in the general press. ■

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*Jacques Gangloff is chairman & managing director of La Réunion Spatiale which he founded in 1983. He has held the same position since 1980 in La Réunion Aérienne whose original group he joined in 1953. He is also chairman of Robert Malatier Ltd (named after the group's founder) as well as manager of Airclaims Group Ltd and of Airclaims France. He also manages SOGEA and La Réunion Française. In addition, he is chairman of GSAR. He is vice president of the International Union of Aviation Insurers and also of the Société Française de Droit Aérien et Spatial. He belongs to France's national academy on air & space (ANAE) and the French aviation insurers' body (AAAF). His awards include the Légion d'honneur and France's order of merit.*



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