Alliant Spotlight on the Market: Airports and Aviation Exposures
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The year 2020 will be remembered as a year of unprecedented events; from the COVID-19 pandemic, to the hardening of the property and liability insurance market, to the unrelenting California wildfires, and the devastation of Hurricane Laura. These events have and will shape the economy, directly impact our communities, as well as affect the Aviation industry.

Fortunately, the Aviation Industry is resilient. As eloquently stated by Mr. Kevin M. Burke, President and CEO at Airports Council International-North America (ACI-NA), “The Airport Industry always unites in the face of a crisis. I’ve seen it time and time again since joining ACI-NA as president and CEO in 2014. From an active shooter at an airport in Florida to a terrorist attack in Brussels to the fight against Ebola. I am continually inspired by our industry’s resolve and commitment to lead in times of crisis.” The industry has demonstrated a strong commitment to both the health and well-being of the traveling public and airport employees as well as an initiative to improve operational efficiency despite a challenging time. In this article, we highlight the measurable impact these unique challenges have had on the Aviation Industry and provide some forecast on what we should expect in the years to come.

How the COVID-19 Pandemic Impacted the Aviation Industry

The Aviation Industry is diverse in nature, as it encompasses not only Commercial Airports, but also includes: aerospace manufacturers/suppliers, fixed/rotor wing air ambulance operators, aircraft management and leasing, airlines, fixed based operators/ground handlers and private clients to name a few. With such diverse operations we can understand why the industry was significantly impacted by the pandemic. COVID-19 has not only resulted in a reduction in revenue across the board but also led to an increase in unanticipated expenses. We have provided some figures below, as summarized by ACI-NA, demonstrating the anticipated financial impact this industry will sustain:

- Total enplanements reduced by 590M
- Passenger traffic decreased 87%
- Total operating revenue losses of $20.4B, including a 40% reduction from domestic and international travel cancellations
- COVID-19-related operating expense increases, including:
    - Upgraded supplies
    - Extra shifts/staffing
    - Hand sanitizing
    - Education and training
- Collection of Passenger Facility Charges (PFCs) reduced, an essential funding source for US commercial airports, proportionate to the 2020 and 2021 passenger traffic decreases

The FAA and our nation's leaders have provided relief sources that will assist the Aviation industry, most notably the Coronavirus Aid, Relief, and Economic Security (CARES) Act (H.R. 748, Public Law 116-136) (https://app.response.alliant.com/e/er?s=1503422690&lid=4043&elqTrackId=EB4376D7EBE124DBFBBD6F1B4896B1E7&elq=f91fd3c337e84f17ba5ce50e6b4ea180&elqaid=1155&elqat=2). The Act, signed into law by the President on March 27, 2020, provides $10B in economic relief funds in the US. Although these federal funds will help the aviation industry weather these pandemic-related financial burdens, the future is still uncertain.

State of the Market

The insurance market hardening poses other challenges for insureds in the aviation industry. The insurance market has faced some challenges over the past 24 months. Global catastrophic events and years of low rates have created overall marketplace instability. While there is still capacity in the market, some lines of coverage have been impacted more heavily than others due to reduced profit, large claims payments and historic low rates – the market is currently working to stabilize itself.

CASUALTY

We are beginning to see a significant shift in the liability market. This shift is a result of a litigious society and record jury verdicts being awarded across the country. Other factors include: reduction of capacity; new exposures/risks; and increases in claims frequency and severity such as mis-fueling incidents. We are also seeing a tremendous push against tort caps and sovereign immunity. We not only have seen a pattern of attritional losses, but of sizeable events. From 2013-2018, aviation underwriters incurred claims in the amount of $16 Billion such as O'Hare and the Boeing/Ethiopia loss. Airport loss control needs to expand well beyond slip & fall type claims to exposures like Active Assailant, Law Enforcement, and the pressure we are seeing on tort caps and immunities.

Airport Liability

Airport Liability underwriters have been seeking increases the past two years. This push for higher rates has been managed through active marketing resulting in modest increases. This year, underwriters have stood firm with increases in the 5% to 10% range generally unless there have been other factors in play. The broadened terms of recent years have not been pulled back as of yet. What's most difficult is that underwriters have not offered significant rate decreases on commercial airports despite the radical drop in passenger volume. It remains to be seen how this plays out.

Aircraft Hull Liability

There have been significant losses in the hull liability segment. Notable was the rotorcraft crash north of Los Angeles, CA carrying Kobe Bryant, but there have been other major losses nationally in the rotorcraft service industry. Rates for public entity aircraft hull liability have been stable with slight firming. We anticipate that trend to continue in 2021.

PROPERTY

The commercial property market is continuing through a market “correction” because losses are resulting in poor underwriting results. Several carriers are exiting or significantly reducing capacity in areas prone to Natural Catastrophe (CAT). Three market leaders, AIG, FM Global and Lloyd’s of London are intensely scrutinizing their North American property business, impacting capacity, rates, and coverage. The combination of attritional losses with CAT losses in the past several years is resulting in pricing inflations and coverage limitations. Adding insult to injury, many of the CAT losses of 2017 (the worst CAT year in history) and 2018 (the 4th largest loss year) continue to include higher than expected loss development. We saw this carry through 2019 and are seeing it through 2020, especially with the uncertainty with COVID-19.

When it comes to forecasting the future of property insurance rates, weather is always the wildcard.
Additionally, attritional losses have influenced the current property market. Hailstorms in the South and Midwest, water damage, and California wildfires are all examples of events adversely affecting the property market. The result appears to be significant rate and deductible increases, as well as a tightening of terms and conditions.

Overall, there has been a decrease in property capacity. Carriers are being more conservative in deploying limits on any one risk. While theoretically individual carrier capacity may not have changed, their working limits have. This strategy is in line with the overall objective of returning property books to an underwriting profit. For major airports, this means placements historically placed with a single carrier are likely to need restructuring and some level of syndication. Port authorities that include wet marine risks may find the airport property exposure is preferred while the marine terminal exposure may benefit from an alternative marketing effort.

In general, property rates are increasing 15%-30% for “good” non-CAT exposed accounts and much higher for accounts with losses or that are in CAT prone areas. It’s important to keep current rate increases in perspective and we recommend a 10 year lookback. Airport risk managers will likely find their property rates today are still below the highs experience following the 2010-2011 rate hikes caused by Katrina, Rita and Wilma. The impact of COVID-19 claims on the industry is uncertain. Because of this and the 2020 CAT losses through August, we anticipate further rate increases for 2021 unless new capacity enters the market to take advantage of today’s higher property rates.

Aircraft Hull Property

The market is stable but firming for municipal risks with smaller fixed wing and rotorcraft. We expect further rate increases in 2021 due to general market conditions.

CONCLUSION

As we look into the future, much of the volatility of the market will be driven by claims experience and carriers’ ability to offset claims with investment income. Both of these factors need to improve for stability to return to the insurance marketplace. It appears 2021 will offer continued double digit rate increases across most aviation-related risks.

For additional information, please contact the author at fgracia@alliant.com (mailto:fgracia@alliant.com) or your Alliant representative.

Sources:

“These Uncertain Times” by Kevin M. Burke, President and CEO, ACI-NA

“Economic Impact of COVID-19” by Airports Council International-North America

ACI-NA Aviation Liability Presentation by Justin Swarbrick