

Aviation's next big thing? Asia



While it is not accurate to say that there is an established Asian aviation market, there is certainly a market for the general aviation business in the region.

Mr Hans Sandström, Asia Capital Reinsurance's (ACR) Head of Underwriting, Aviation, keeps a bullish view of Asia and believes it is aviation's next big thing.

By Ms Manuelita Contreras

London is the centre of global aviation insurance business and is a long-time market leader, rich in expertise and huge in capacity. It still commands the bulk of the underwriting of major airlines in Asia.

Nevertheless, Mr Hans Sandström keeps a bullish stance on the growth of aviation business in Asia, saying that the market is growing and it currently includes small airlines. "Why are there more underwriters here? Because their growth expectation in Asia is high," he said.

Aerospace corporation Boeing, for one, predicts that in 2027 more than 30% of the world fleet will be in Asia, whereas today less than 20% of the airliners of the world are in the region. This, once realised, will spell big growth for Asia, said Mr Sandström.

"There is also a trend of writing more business in Asia, especially for small airlines. Major brokers are also promoting a local or regional aviation market rather than sending smaller business to London to be underwritten," he added.

Waning projections

However, projections of growth in the region have waned because of the economic gloom. "But after this period, there's no doubt among underwriters that expansion will continue and that it will be bigger in Asia," Mr Sandström said.

He also anticipated that competition may intensify, especially if an aviation market is really established in Asia – something that he sees will turn into a challenge in the future. Nonetheless, more and more aviation business will stay in the region, he said.

Singapore hub

Within Asia, Singapore has turned into an important aviation centre and is growing fast in this business, said Mr Sandström. He noted that more and more players are choosing the city-state as their hub for aviation underwriting.

The ACR aviation team

As for ACR, it is now one of the biggest regional aviation underwriting units in Asia and has grown a profitable book in the business. Its aviation team comprises three professionals who have decades of expertise among them.

"We all have been through the various cycles of the aviation industry," said Mr Sandström, who has been in the aviation insurance business since 1975 and is a former president of the International Union of Aviation Insurers.

The team, which also underwrites space insurance, has close connections with London brokers and cedants in Asia and has an Asian focus. Its parent company's ratings ("A-" financial strength from AM Best and Standard & Poor's) and financial backing also helps boost its standing in the market. Right now it is in the process of creating a bigger team to serve its growing number of clients, he said.

What's in store for this year?

It is almost an impossible feat to predict how the aviation business and aviation insurance will turn out to be this year or in the near future. But the message coming from lead underwriters in the airline business seems clear: the rates will go up and the number of passengers will most likely go down. "There will definitely be no reduction in the rates worldwide," Mr Sandström said.




The year 2008 had been the second year without profit for most major aviation underwriters worldwide, with many of them roughly breaking even, said broker reports. How is 2009 going to be like given the gloom of the current global economy and the fact that the year started with some losses (eg the Turkish Airlines accident)?

“For this year, the questions are: Will there be a retro-active adjustment of the written premium for 2008? How much will exposure be reduced in 2009? These questions are related to the economic forecast – and who can tell about the economy?” asked Mr Sandström.

Aviation rates linked with economy

Historically, aviation rates have been closely linked to the economic situation. When the economy is down, the rates tend to go up because there is less capital and capacity is reduced, he said.

Adding that one should also look at other factors such as exposures and accident frequency, Mr Sandström said that exposures will most likely go down this year given the current economic situation, as there will be low volume of flying. 

Aviation trends

A safe year

At first glance, 2008 seems to be a relatively good year for airline insurers, including those in Asia. It saw no major losses and a fall in the total amount of estimated claims, which, as known, stood at about US\$1.4 to US\$1.5 billion.

Premium-wise, aviation insurance for airlines witnessed a small increase of around 2% to 4%, and for the first time in seven years, or since 2001, rates recorded a hike, particularly during the last months of 2008.

However, nearly 75% of airline premiums are renewed in the fourth quarter – which means that 2008’s fourth quarter premiums will be mostly earned in 2009 and are subject to reductions through final adjustments, which will trim the final 2008 results. The balance between premiums and claims for 2008 will thus change and underwriting results will likely deteriorate, said Mr Hans Sandström, Asia Capital Reinsurance’s (ACR) Head of Underwriting, Aviation.

Falling traffic

Mr Sandström also sees fewer airlines activities this year. Passenger traffic fell by 4.6% on a yearly basis in December 2008 and by 5.6% in January 2009, despite the International Air Transport Association’s (IATA) predictions a year ago of more than 5% passenger

growth in 2009. Cargo traffic dropped 23.2%, and Asian carriers’ traffic fell further by 8.4%, both in January. All this will affect both the airlines and their insurers given the decline in the amount of business to insure.

Accident rates up

For 30 years the aviation industry had seen one improvement after another in safety practices – but only to be broken in 2007 and 2008 when the sector saw a rise in total loss rates. Hull loss rates per million takeoffs sat at 0.75 and 0.81 in 2007 and 2008, respectively,

compared to 0.65 in 2006, according to IATA data. This, said Mr Sandström, is something that has to be reflected in underwriters’ risk assessments – a factor to consider if accident rates go up further.

Airline rates in 2009

So for a number of reasons, the airline insurance rates are expected to continue to go up in 2009. The present rate levels are on a record low level, approximately only 40 % of what they were in 2001. 2009 has started

bad from a claims point of view, results for 2008 will deteriorate, accident rates have increased and the economy is in a downturn.

