



Q3 2024 MARKET TRENDS

Aviation

Positive trends continue in the aviation sector throughout the third quarter of 2024. Available capacity within the primary aviation insurance marketplace is abundant. The increased capacity has also increased underwriting interest, creating a competitive environment. It remains essential for organizations to highlight their operating differentiators and detail their safety program.

Premium increases are stabilizing after four years of a challenging aviation market. These market conditions are defined by increased insurance premiums and underwriting requirements combined with coverage limit reduction or removal of coverage. Many aviation insurers are presenting renewal terms at single-digit increases, or even as expiring, to customers viewed as preferred risks. Preferred risks have a favorable loss history, operate newer aircraft and are crewed by qualified pilots who complete annual training on the specific make and model. The market has witnessed significant adjustments in coverage offerings, limits and rates, particularly impacting large fleets, airlines, large airports and loss-sensitive risks.

Market Impacts

The frequency of catastrophic aviation losses has slowed in recent years, but their severity has increased dramatically. Ongoing geopolitical events have significantly influenced market dynamics, especially in the aviation reinsurance marketplace. Primary aviation insurers experienced double-digit rate increases in their reinsurance premiums and increased retention levels. It is now common for these insurers to have additional requirements, exposing more capital than in previous years. European Union sanctions have stranded over 400 leased aircraft in Russia, valued at \$10B, resulting in substantial hull war claims totaling \$6.5B. Now that court proceedings have begun with some of the world's largest aircraft lessors and their insurers, a resolution could happen in 2024.

This has had cascading effects on contingent liability, war risk and terrorism premiums. War risk renewals are experiencing upward adjustments, with aviation insurers modifying hull war rates to counteract losses.

Safety Management Systems (SMS) Development

A recent development in aviation safety will impact thousands of operators throughout the county, increasing safety for the entire industry. The FAA issued a Notice of Proposed Rulemaking expanding Part 5 SMS, requiring all Part 135 operators to implement an SMS by Q3 2025. An SMS is not required for those providing Air Charter Services operated under FAA Part 135 and is entirely voluntary. The forward-leaning who have proactively incorporated an SMS into their operating principles are considered best in class and viewed favorably by underwriters.

Aviation insurers have continually provided operators with various safety resources to implement. Official requirements are expected to be released by the FAA in October and are anticipated to impact over 4,000 Air Carrier Certificates. This has been a requirement for all Air Carriers operating scheduled air service under FAA Part 121 since 2018.

As we progress through this year, there is a sense of optimism as books are balanced, risks are undertaken, and retentive measures are strengthened. However, a catastrophic loss or a series of attritional losses could dramatically impact the stability of the current aviation marketplace.

What Is a Safety Management System?

The Federal Aviation Association (FAA) defines a Safety Management System (SMS) as “a program that promotes a defined structure and a “learning culture” within an aviation organization that continually seeks and analyzes information, then turns that information into action that eliminates or mitigates safety risks before they become unwanted events.”

Challenges and Opportunities

The third quarter of 2024 presents new challenges and opportunities. Inflation has become the latest hurdle in the already challenging insurance market. The aviation industry is grappling with rising oil prices, impacting overall profitability. A labor shortage stemming from increased demand for air travel and a limited supply of pilots and technicians has prompted underwriters to tighten training requirements, resulting in higher training costs for simulators and instructors. In addition, overall claims costs are rising as aircraft valuations continue to increase with the advances in technology and construction.





How Brown & Brown Can Help

Connect with our Brown & Brown team to learn about our knowledge in your industry, how we build our risk mitigation strategies and how we can aid your business in building a cost-saving property & casualty program.

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