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# THE BINDER

PRESIDENT'S MESSAGE  
DREAM TEAM

JEFF BRUNO KEYNOTE RECAP  
MARKET VIEW FROM 40,000 FEET



INTERNATIONAL  
CANADIAN AVIATION LANDSCAPE  
BLACK SWANS

PHOTOS: AIA IN NASHVILLE

SAFETY REPORT  
ASSESSING SAFETY CULTURE  
OF THE INSURED



Aviation Insurance Association

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# JEFF BRUNO'S MARKET OVERVIEW FROM 40,000 FEET

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The aviation insurance market continues to face headwinds as it struggles towards long-term profitability in the wake of Covid-19 losses, hull claims inflation, social inflation, and litigation financing. This was the message that Jeff Bruno, president and chief underwriting officer for U.S. operations at Global Aerospace, brought as the opening keynote speaker at the AIA Conference in Nashville on Monday, May 2.

## PROFITABILITY BLIP NOT SUSTAINABLE

Bruno launched his presentation with overall industry numbers indicating that aviation's \$6 billion in total premiums collected in 2021 represented one-tenth of

one percent of the \$6 trillion worldwide insurance premiums (including health, property & casualty, and life according to McKinsey & Company Global Insurance Report 2022) collected that year.

Of the aviation premiums, general aviation paid \$2.6 billion, airlines \$1.7 billion, manufacturers (product liability) \$1 billion, space \$450 million, and war policies \$250 million.

Per numbers provided by Milliman's U.S. General Aviation Admitted Market Summary of 2020 Statutory Financial Results report (with data collected through

**General Aviation insurers in the USA lost \$693M before expenses and reinsurance in the last 5 policy years – Milliman Study**



Source: Milliman Market Report

# CONFERENCE KEYNOTE RECAP

July 2021), the U.S. general aviation total premium collected rose 33 percent from 2018 to 2020, reportedly “the largest increase in written premium for the USGA market since the period immediately following 9/11.” Total GA premiums rose another estimated 20 percent in 2021 from \$2.1 billion to \$2.6 billion.

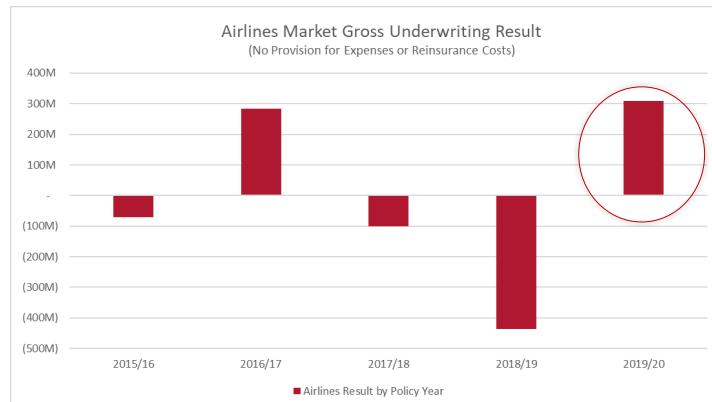
And yet despite the increase in premiums and the initial reduction in flying during Covid-19 shutdowns, GA aviation insurers in the U.S. still lost approximately \$52

“We’ve got a lot of exposure out there and not a lot of dollars to pay for it,” said Bruno. “And we’re really underweight when you consider we have market limits up to \$2.5 billion on a single airline accident in the U.S.”

## INFLATING HULL CLAIMS COSTS

With GA flying having rebounded relatively early in the pandemic — and in some cases surpassing 2019 levels, Bruno says the normal loss patterns have returned. In addition, claims costs have skyrocketed in

### Insurers of airline risks lost \$50M before expenses and reinsurance in the last 5 policy years



Source: Global Aerospace

million in 2020 alone. Compared to the \$285 million loss in 2019, it was a “good” year; USGA insurers lost a total of \$693 million before expenses and reinsurance in the five policy years between 2016 and 2019. In the same five-year timeframe, airline insurers lost \$50 million, even including a \$300 million profit blip in 2020.

part due to repair costs increasing. He cited a Global Aerospace hull loss study that indicated aircraft repair costs rose a minimum of 32 percent and up to 133 percent from 2010 to 2017, far outpacing the 10 percent increase in the U.S. consumer price index during the same time period.

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"I wish we had an updated study because I know the numbers now would be far worse than this," Bruno said, referring to supply chain issues, increased fuel and shipping costs, and general inflation incurred in 2021-22. "It's also getting harder to even find parts for older aircraft anymore. Manufacturers keep very little inventory on hand, and replacement parts sometimes have to be remanufactured at very high cost. We can't even give them damaged parts in exchange for discounted new parts — they don't want them anymore."

Bruno also said that technological advances in aircraft construction and manufacturing — while great for flight performance — can dramatically increase repair costs.

"A wingtip for an aluminum airplane used to be a quick repair costing about \$50,000," said Bruno. "Now on a composite wing, it could require special tooling, special bonding, and in many cases might only be done by the original equipment manufacturer, driving the repair cost up to \$1 million."

## "SOCIAL" INFLATION INFLATES JUDGMENTS

Another factor increasing claims costs is the increasing frequency and dollar amounts of high-value verdicts. AIA members may remember the ballet dancer awarded \$143 million in 2017 when a bus platform at O'Hare International Airport collapsed. More recently, in October 2021 a jury awarded \$353.7 million to the family of a United Airlines employee who was paralyzed on the job when hit by a fuel company's van.



# CONFERENCE KEYNOTE RECAP

This is a classic case of what's being called "social inflation," a term that denotes the increased loss costs stemming from claims that are exceptionally more severe than anticipated based on historical trends or simple economic inflation.

Younger, educated and more socially "aware" jurors are showing their distrust of government and dislike for corporations by returning sensational judgments. This has escalated single-plaintiff awards to heights previously thought absurd.

"The bias against large corporations has grown post pandemic," said Bruno. "And people on social media see cultural icons like Taylor Swift with an estimated net worth of \$400 million, or [baseball player] Mike Trout signing a \$426.5 million contract. So if somebody gets hurt on the airport ramp, they should get \$400 million. That's where that kind of mentality comes from."

## LITIGATION FUNDING AS A CAPITAL VENTURE

Some plaintiff law teams are asking for high-dollar verdicts not because the damages warrant that judgement, but because their litigation financing contract requires a certain payout.

Bruno cited a November 2021 Bloomberg article that indicated investment by hedge funds, private equity firms and sovereign wealth funds in "high stakes court cases" reached more than \$39 billion worldwide as of 2019.

"Venture capital firms are actively seeking out plaintiffs, bringing the best resources to bear, and pushing for trial verdicts with a real reluctance to settle in order to get a proper return on their investment," Bruno said. "We think it's unethical, and we insurers who are defending your clients feel like we're fighting with one hand tied behind our back. It's a real problem."

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