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To temper increases in insurance rates, some operators are resorting to a variety of measures, including selling aircraft, reducing hull value, adjusting deductibles, and getting out of higher risk operations such as heli-skiing and flight instruction.
Mike Reyno Photo

INSURANCE SHOCK

MANY HELICOPTER OWNERS ARE EXPERIENCING STICKER SHOCK WITH THE ARRIVAL OF THEIR INSURANCE RENEWALS. WHAT'S BEHIND THE RISE, AND WHAT CAN BE DONE ABOUT IT?

BY JEN BOYER

Helicopter insurance rates are quickly on the rise across the entire industry, and according to insurance experts, they'll continue to rise — at least in the near future. However, that's where the simplicity of the issue ends. The factors causing the sudden jump, the fall out across aviation as a whole, and how this affects insurance in the longer term is far more complicated.

Those who have been in the industry for more than two decades will remember the insurance hikes post Sept. 11, 2001. The insurance industry took a massive hit in aviation, casualty, and property payouts after the terrorist attacks that day. Rates and premiums spiked in response, peaking around 2004. In the early 2000s, hull rates in the 10 to 12 percent range were not uncommon.

As the insurance industry became more liquid in response to higher rates, additional insurers entered the market. The increased competition led to reduced insurance rates and premiums that decreased year over year, creating a very soft market. In 2017, hull rates averaged between one to five percent. In fact, the general aviation insurance industry operated in the red for a good portion of that time, relying on other sectors of the insurance market to carry it.

"Going into the softening market, there was room in the ratings structure to go down to compete," said Jeremy McCaslin, president of aviation insurance practice at McGriff, Seibels & Williams, Inc. "At the same time, safety and losses were trending in the right direction. Losses weren't as frequent, and severity and payout were rather low. The market could sustain the rates and they kept going down."

Then came the perfect storm.

In 2017, the U.S. saw one of the costliest hurricane seasons on record with the triple punch of Harvey, Irma, and Maria. Together, the storms racked up between \$65 and \$77 billion in insurance claims, according to the Insurance Information Institute. Many claims are still open, accounting for the cost range.

In 2018, several high-profile, high payout helicopter accidents completed the litigation process with high settlements or jury awards, including KOMO TV's 2014 news helicopter fatality in Seattle, and Air Methods' 2015 Flight for Life crash.

"We're seeing a trend of significantly increasing jury settlements, which adds to the issue," said Rick Ross, president of Leading Edge Insurance in Colorado Springs, Colorado. "Most carriers are telling

me, for example, claims that used to settle for \$5 million, are now settling at policy limits, sometimes over \$50 million. Today we are seeing most cases awarded at policy limit. If the operator or owner had a \$100 million liability limit, chances are high it could be awarded. This puts real pressure on the insurer to reduce policy limits and raise premiums."

At the same time, wildfire losses continued to skyrocket, and larger and more damaging fires raged longer. The National Oceanic and Atmospheric Administration (NOAA) reported 2018 was the eighth year in a row that eight or more billion-dollar-loss natural events took place, surpassing the annual average of 6.2.

The type of damage seen following Hurricane Dorian in the Bahamas is sadly becoming more frequent, as more severe weather events become increasingly commonplace. **Kris Grogan Photo**



Insurers are no longer competing for your business; they're in recoup and survival mode. **Mike Reyno Photo**



NOAA notes 2017 was in fact the costliest year on record, with 2018 coming in as fourth.

Going into 2019, it wasn't just aviation insurance seeing red. The entire insurance industry was under pressure. The overall pot of funds for all insurance was draining in multiple directions. Something had to give.

"General aviation rates and premiums had dropped so significantly, most insurers in the helicopter marketplace were already not making much money," said McCaslin. "We did an analysis that showed rates and premiums dropped in excess of 60 percent between 2008 and 2017. Leaning into 2018, we saw a modest increase of five to 15 percent, but not enough to balance the losses."

What's more, 2019 looks likely to exceed past years, with severe California fires in populated areas as well as several high-profile lawsuits filed against Pacific Gas and Electric Company for the utility's part in the fires.

As if this were not enough, the Federal Aviation Administration (FAA) grounding of the Boeing 737 Max in March 2019 has also hit the insurance industry hard. Grounding insurance payouts alone are estimated to be around \$500 million, with the total payout estimated to be close to \$1.5 billion when including the two fatal accidents in Indonesia and Ethiopia.

CAUSE AND EFFECT

Insurance is publicly traded, and insurers need to bring their portfolios into the black as soon as possible or leave the market. The aviation industry saw them do both. In the last year, several large and prominent insurers in the U.S., London, and abroad left the general aviation insurance market; most notably MS Amlin, Berkley Aviation, and Swiss RE. As a result, the market saw a significant drop in competition for insurance business, putting insurers in a position to increase income to cover anticipated payouts.

"Because the insurance industry restructured capacity in such a short time, losing some large capacity insurers in the process, the market needed to move fast to re-build capital and adequate pricing," said Alex Barker, senior vice president of Marsh Insurance Brokers of Calgary, Alberta. "Rates and premiums experienced significant increases along with restrictions in coverage in 2019."

The need to raise capital is only one issue. Finding enough insurers to get you insured is another. When your broker shops for the best insurance for your operation, rarely will any single insurer cover you entirely. They spread their risk. Typically, the lead insurer will set the terms (hull percentage rate, liability, etc.) and offer to cover a percentage of your policy. Your broker would then "complete the placement" by working with other insurers to fill the remainder of your policy to 100 percent.



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The rising insurance rates are particularly affecting smaller operators, several of whom have closed their doors in the past 12 months. **Skip Robinson Photo**

In today's market, some brokers are finding that supporting insurers may not be willing to follow the lead insurer's terms, instead setting their own rates to ensure their desired pricing level. This further complicates and potentially adds to the cost, not to mention taking a lot more time and work to complete a placement, Barker said.

On an owner and operator level, this change in the method of insurance means a complete turn of the tables. Insurers are no longer competing for your business. They're in recoup and survival mode, not only setting rates and premiums, but also deciding who they ultimately insure.

Scott Urschel, president of Pylon Aviation, works with high net worth individuals looking to purchase and fly their own helicopters. "It's exceedingly difficult to find that first insurance for a lower time pilot purchasing a high value helicopter, and if they do receive it, the annual cost is a considerable percentage of the price of the aircraft," he said. "I tell aircraft manufacturers their biggest barrier to entry is no longer the price of the aircraft. It's the cost to insure it."

Shopping around doesn't help. According to a broker that didn't want to be named so as not to hurt relationships with insurers, if an owner or operator decided to shop around to other insurers for a better deal, they could run the risk of losing insurance altogether as this act raises flags.



Some people may be able to afford the helicopter, but not the insurance that follows. Many are resorting to selling their aircraft in the used market.



Some operators are seeing their insurance rates increase by 30 percent or more. **Anthony Pecchi Photo**

THE FALLOUT

While 2019 insurance rates are actually 55 percent less than they were in 2008, they're still taking their toll. Several smaller operators, and operators of Robinsons in particular, have closed their doors in the past 12 months. Others are selling aircraft or choosing to self-insure the hull and only purchase liability insurance.

Jessica Ward owns High Tide Helicopters in Southport, North Carolina. She started the company as a flight school with one Robinson R22 in 2013. She built the company over the next six years, adding an R44, a Cessna 172 for flight instruction, and a King Air C90 for FAA part 135 charter. When she received her 2019 insurance bill, the company had to change.

"I'd experience incremental increases, but this past year it was totally crippling. I was looking at a 35 percent increase," Ward said. "As a direct result of that increase, I've had to sell the R22. I've also dropped hull coverage on the R44 and changed the use of the aircraft. I've discontinued primary training and solo in it just to keep the doors open."

Ward watched helicopter training revenue decline for years as student pilots opted toward less expensive airplane training with higher paying jobs. She pursued her airplane ratings and offers airplane instruction as well, the key to her survival. The fixed-wing side of her business subsidizes her helicopter.

"I actually looked at selling the helicopter and going all

fixed-wing, but when I looked at the market and saw how low the helicopter would have to be sold for, I decided to stick it out," she said. "I took a \$10,000 loss when I sold the R22 because so many aircraft were hitting the used market. In the end, that was still cheaper than paying the insurance. I couldn't afford the loss I'd take selling the R44. If it weren't for my airplanes, I'd be in bankruptcy because of the insurance."

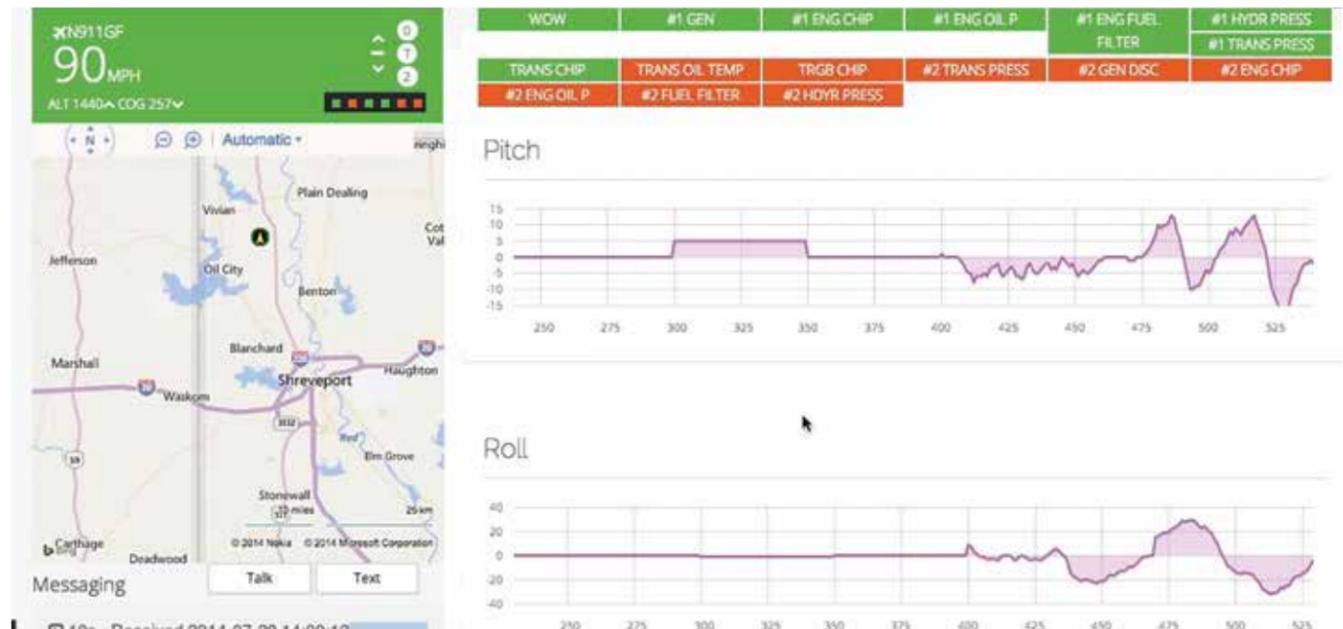
Chris Bull, owner of Orlando, Florida-based Heli Team, is looking at how to restructure his pricing to absorb the increased cost to insure his large aircraft fleet that does everything from charter and long-line to electronic news gathering, agricultural work, and search-and-rescue.

"Ultimately, these increases are going to drive rates up across the industry, regardless of how you fly your aircraft, in order for operators to continue to operate," Bull said. "I've never seen increases like this across the board. We have to raise prices to be sustainable, but no one likes to see their prices go up, so we may see profit decrease."

Heli Team also manages a number of aircraft for private owners. Bull said these owners have been quite vocal about their 30 percent or more increases. "I think you're going to see a major effect on the smaller operators and even some private owners," he said. "They're struggling to continue to operate at these increased prices."



The FAA grounding of the Boeing 737 Max in March 2019 hit the insurance industry hard. Grounding insurance payouts alone are estimated to be around \$500 million. **Paul Weatherman Photo**





“ONE OPERATOR’S SMS [SAFETY MANAGEMENT SYSTEM] COULD BE A BOOK ON A SHELF WHILE ANOTHER’S IS A DAILY CULTURE, OR ONE OPERATOR COULD USE THEIR FLIGHT DATA MONITORING INFORMATION REGULARLY WHILE ANOTHER RARELY DOWNLOADS IT. OPERATORS HAVE A LOT TO GAIN BY SHARING THEIR SAFETY INVESTMENTS AND HOW THEY’RE USED.”

In Canada, Paul Spring, president of Phoenix Heli-Flight in Fort McMurray, Alberta, heard rumblings of U.S. insurance increases before they hit Canada. Not long after, he received his new bill and was relieved it wasn’t as high as he’d heard.

“Payouts in the U.S. are much higher than Canada because we have our workers compensation board that puts limits on them,” he said. “We fly a lot of workers and that’s reflected in my risk analysis. This certainly helped with the overall premium. That said, my hull rate increased by 100 percent for the same amount of coverage. Still, even that was cheaper than what I was paying 14 years ago.”

Derek Robinson, president of Eclipse Helicopters in Cranbrook, B.C., agrees with Spring. “We certainly see it here,” he said. “From what I’m hearing from other Canadian operators, a 30 percent minimum increase in premiums and a doubling of hull rate coverage seems pretty standard.”

WEATHERING THE STORM

While there is nothing helicopter owners and operators can do to reduce increased rates and premiums in the short term, experts recommend taking steps to temper the increases. Some operators are selling aircraft, reducing hull value, adjusting deductibles, self-insuring hull value completely, and getting out of higher risk operations such as heli-skiing and flight instruction. Another big step is communication.

“It’s difficult to know how long the hard market will last, but it does swing back,” said Marsh’s Barker. “It’s going to hurt for a bit. You can help by marketing yourself, your operation, your risk, and your safety culture to temper your increases. Sell your story and your business to insurers, via your broker, about what you really do with your aircraft, your important safety investments like flight data monitoring, flight-tracking, factory training, and your safety conscious approach, so they can help negotiate the best terms.”

As fires become larger and more damaging, the resulting cost has skyrocketed. Severe fires around the world, but particularly in California, appeared likely to make 2019 one of the most expensive years in terms of wildfire damage. **Greg Doyle Photo**

According to Scott Urschel, president of Pylon Aviation, it's "exceedingly difficult" for low-time pilots to find their first insurance for a high value helicopter. **Dan Megna Photo**

In the next 10 years, you're going to see the benefits of this. The period of return on investment in safety is here. Everyone will pay more, but some will pay more than others. The angle of increase will be tempered by sharing this information."

McGriff's McCaslin agrees: "There haven't been a lot of programs that provide significant differentiation," he said regarding discounts and compensations based on operators' safety programs and record. "I think what you will see in 2020 and beyond is a more proactive approach to define safety operations and reward those that meet them. Conversely, someone who has had more accidents will see higher rate increases."

Lindsay Cunningham, Airbus Helicopters North America's head of customer training, has been working with insurers for years in an attempt to encourage incentivizing safety investments. "Underwriters are very reluctant to consider blanket incentives, but I am seeing them work out deals in one-on-one situations," she said. "One operator's SMS [safety management system] could be a book on a shelf while another's is a daily culture, or one operator could use their flight data monitoring information regularly while another rarely downloads it. Operators have a lot to gain by sharing their safety investments and how they're used."

Communication goes further than between operator and broker. There are also opportunities to talk with customers and even government agencies awarding contracts, McCaslin said. As larger customers demand higher liability requirements, prices will increase considerably in reflection of insurers' risk mitigation over higher jury payouts.

"There is no price elasticity in contract rates to pass along, especially for these multi-year contracts," McCaslin said. "Having these conversations now and working together can go a long way toward maintaining sustainability." ❖



Jen Boyer | Long-time communications professional Jen Boyer is a commercial instrument helicopter pilot with flight instructor and instrument instructor certificates. A member of the Whirly-Girls, she runs her own aviation industry strategic communications business.



Communication with your insurance broker is key. According to Lindsay Cunningham, Airbus Helicopters North America's head of customer training, operators have a lot to gain by sharing their safety investments and how they're used. **Metro Photo**