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Travelers changes course, exits U.S. general aviation

Capacity remains abundant, but some see move as catalyst

[ZACK PHILLIPS](#)

HARTFORD, Conn.—Travelers Cos. Inc. is exiting the U.S. general aviation market, in a move that market sources say could help start a turnaround in that sector's soft market conditions.

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Hartford, Conn.-based Travelers' U.S. general aviation practice has stopped quoting new business, a spokeswoman confirmed Friday. The firm will honor existing quotes but will not write new business effective after Dec. 31, 2009. Travelers will run off existing policies effective beyond that date, she said.

"The company had been pleased with the performance (of the U.S. general aviation unit) thus far, but the coverage limits and reinsurance required to be effective in the U.S. aviation market were just simply outside Travelers' underwriting position and appetite," the spokeswoman said.

The move does not affect Travelers' operations in the global or commercial airlines markets.

Many of the 23 employees in Travelers' U.S. general aviation unit are being moved to other positions within the company, the spokeswoman said. Brokers say many have begun looking for

employment elsewhere.

General aviation includes all flights apart from scheduled airlines and the military—corporate jets, fixed-wing aircraft, helicopters and very light jets. Travelers did not represent a large share of the market, brokers say.

Still, brokers say Travelers' departure from the general aviation market could have a limited impact on pricing that remains somewhat soft.

Robert Altemus, area senior vp and managing director of the aviation group at Itasca, Ill.-based brokerage Arthur J. Gallagher & Co. said the effect of Travelers' decision likely would be more psychological than financial.

"It might embolden the reinsurers to be a bit more aggressive about getting increases," he said. "This might be the

beginning of the end of the soft market.”

Wayne Wignes, Chicago-based vice chairman of JLT Aerospace (North America) Inc., a division of JLT Reinsurance Brokers Ltd., said Travelers' exit may signal that the days of increasing aviation market capacity are coming to an end.

“It will have a greater impact than it should, based on the size of (Travelers') portfolio, because it does send a clear signal to...competitive insurers and reinsurers that a new entrant at this rating level probably isn't going to survive,” he said. “The greater probability is competition will exit rather than enter.”

Travelers was one of many new insurers that entered the aviation market over the past several years. The influx of new capacity sparked fierce competition that softened rates significantly, brokers say.

Mr. Altemus said the new insurers twice cut market rates by 20% or 25%, forcing established insurers to follow suit to maintain market share.

Lance P. Toland, president of Griffin, Ga.-based broker Lance Toland Associates L.L.C., accused Travelers of “trashing” rates. He said the company offered coverage at half the price of the rest of the market and double or triple the limits of liability of competitors.

“My estimation is it probably cost older companies, the more stable companies out there, \$100 million to ward off competition and maintain market share,” he said.

Mr. Altemus said the market still has too much capacity by about 15% or 25%. But he said he wouldn't be surprised if another insurer followed Travelers and exited the market during the next six months.

Brokers have various views about how soft the general aviation market is and how close it is to firming.

Mr. Toland said rate decreases are flattening. Mr. Altemus said rate reductions are decreasing—to between 5% and 10% on average for September and October renewals.

The commercial airline market is firming due to heavy losses and other factors, and the general aviation market often follows the pricing dynamic in the airline market because both sectors have the same reinsurers, Mr. Altemus said.

Mr. Wignes said Travelers probably made a “very good decision” to exit the market because there was a small chance that it would earn the premium the company desired anytime soon.

“They came in at the wrong time,” Mr. Wignes said. “They came in when there was excess capacity and prices were going down. That's a tough time to start up.”

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