

A detailed, close-up photograph of a jet engine's compressor section, showing the curved blades of the compressor and the central core. The image is set against a dark, textured background.

Trends driving  
rising aviation  
claims costs

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## Trends driving rising aviation claims costs

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**Claims costs in the aviation sector continue to rise, driven by a number of factors that have the potential to generate inflationary pressure for years to come. These include rising labour rates, geopolitical tensions, manufacturing issues and fallout from the Covid-19 pandemic.**

Here we look at the impact of these issues on claims costs and why they are likely to be long-lasting rather than short-lived.



## Labour rates

**The cost of skilled labour has risen by around 30% in the past five years.** In 2019, an EASA licensed engineer working at a major airline with multiple approvals would typically command a salary of €85,000. Today, the same engineer earns on average €110,000.

Competition is another factor driving salaries, with both the pharmaceutical and motorsports sectors attracting many licensed engineers from the labour pool, due to their known attention to detail, process driven mindset and familiarity in working within a regulated, Quality Assurance focused industry. In addition to the better remuneration packages on offer, these markets do not demand the same amount of unsociable working and shift work, while aviation perks – such as air travel – are not as generous as they used to be.

Another industry-wide issue is the ageing demographic of aviation engineers. **54-year-olds hold the highest number of EASA Part 66 aircraft maintenance licences and if they retire early or move to another sector, this drives demand for those left behind and increases upward pressure on salaries.**

Finally, the shortage of qualified personnel is an international issue. For example, between 2006 and 2016, the number of aviation engineering licences issued annually in Australia was 296. Yet, between 2017 and 2021 that annual number had dropped to 135.

In its 2023 Pilot and Technician Outlook report, Boeing forecast that the global commercial fleet will need 690,000 new maintenance technicians over the next 20 years. This figure highlights the massive pressure on companies within the aviation sector to develop their talent pipelines. It suggests that upward pressure on labour costs, which are a core part of claims costs, is unlikely to subside in the immediate future.

**Systemic labour shortages will take time to address and overcome, while geopolitical tensions, largely driven by the war in Ukraine, but also now through the Middle East, have caused problems worldwide.**



## Geopolitical tensions

**In February 2022, Russia invaded Ukraine and global energy prices spiked immediately. While prices have fallen from their initial highs, they remain elevated and affect every aspect of the aviation repair industry from heating hangars to powering ground equipment.**

The war has hit international supply chains as a result of both the physical disruptions it has created and the varying sanctions that the international community has enforced on Russian trade. Russia is a major global supplier of stainless steel, lithium, platinum and nickel – all of which are key commodities in the aviation sector.

**The increased friction and complexity in sourcing and trading these commodities forces prices upwards and increases the lead time required to source and take delivery of orders. All of this adds time and cost to claims.**

To compound the problem, other national producers are less willing to sell the commodities they produce, preferring to keep them for their own domestic industries or to drip feed them onto the market in order to manage supply and underpin their value.

**Airbus estimates that more than 40,000 new passenger and freight aircraft will be needed over the next 20 years. This demand will underpin growth within the sector, but will also exacerbate many of the factors that have inflated claims costs in recent years.**



# Covid-19 fallout and manufacturing issues

**Prior to the start of the war in Ukraine, the Covid-19 pandemic hit the aviation sector hard. Two-thirds of the world's fleet was grounded almost overnight and, at the peak of the pandemic, 5,000 aircraft were in parked condition across Europe.**

The manufacturing sector also reduced its output, lowering the number of aircraft and spare parts coming off the production line.

The number of aircraft grounded and parked in close proximity aggregated the risk they faced from flood, hail and high winds. This meant that individual weather events affected larger numbers of aircraft and increased the volume of losses suffered.

Similarly, the move to more modern materials and methods of construction – such as composite construction and thinner metallic surfaces widely seen on newer design aircraft – has made them more susceptible to storm damage, including wind, hail, snow and ice. This has driven claims numbers up.

Even where parts have been stored under cover, the increased number of components sitting in hangars also aggregated the risk borne by insurers and led to large losses in the wake of flood events.

While many of the grounded aircraft have now returned to service, many remain in parked condition and require significant overhauls and maintenance checks before operators can put them back into commercial operation. This is adding pressure to the industry's existing engineering workload.

The pressure of maintaining operations during the pandemic forced a number of operators into bankruptcy and meant they did not have the finances available to maintain the condition of their leased aircraft. In some cases, these aircraft are either unable to return to lease companies, or if they are, they may be in a sub-standard condition which is leading to insurance claims from the lessors. Furthermore, any attempt to get these aircraft back in service is adding to the workload of the maintenance repair organisations which as previously mentioned are lacking experienced engineers.

Over the last few years, although a large number of aircraft have been parted out, many used parts suppliers are not routing the removed parts to overhaul until a firm order has been received. This is therefore increasing lead times even on used parts, which keeps aircraft on the ground for longer and adds to the cost of claims.

In any sector, there are also unexpected, high-impact issues that stretch operational capabilities. These have not disappeared in the face of Covid-19 or the heightened geopolitical issues affecting the aviation sector.

One such issue is some of the high-profile problems that have been discovered with several airframe and/or engine types that are currently being operated within the worldwide fleet. These groundings and in particular the repairs and/or modifications required to rectify the problems, is leading to a tug-of-war between manufacturers, operators and repair shops, all of whom are all trying to obtain the limited supply of parts in the marketplace. This is leading to higher expected costs due to the delays in repairs, which are further being seen in claim costs.



## Conclusion

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**The aviation sector has endured a difficult five years and while pre-pandemic capacity has returned, Covid-19 has left an indelible scar on the market and continues to impact its operations.**

Systemic labour shortages will take time to address and overcome, while geopolitical tensions, largely driven by the war in Ukraine, but also now through the Middle East, have caused problems worldwide.

Airbus estimates that more than 40,000 new passenger and freight aircraft will be needed over the next 20 years. This demand will underpin growth within the sector, but will also exacerbate many of the factors that have inflated claims costs in recent years.

Falling global inflation will help the aviation sector contain claims cost increases in the short-term, although it will not be enough, in itself, to turn the tide on this ongoing industry challenge.

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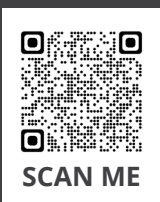
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