AVIATION INSURANCE

six steps to buying the right policy_by Stuart Hope

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ON A PURCHASE-SATISFACTION SCALE of one to 10, aviation insurance fails to register even a one for most buyers. And no wonder. There's simply nothing sexy about buying a stack of papers that promise to pay for a loss you hope won't occur and which, in fact, is highly unlikely to ever happen.

As such, many business jet owners make the potentially devastating mistake of focusing minimum attention on this vital component of their financial protection system. Given that aviation risk ranks as one of the largest financial exposures an aircraft owner faces, this can have disastrous consequences.

YOU NEED TO UNDERSTAND THE STATE OF THE MARKET. PREMIUMS ARE AT AN ALL-TIME LOW AND UNDERWRITING FLEXIBILITY IS AT AN ALL-TIME HIGH.

Consider the legal ramifications of the recent Learjet 60 accident in Columbia, S.C., which resulted in the deaths of four of the six people on board, including both pilots, and you begin to realize what's at stake. One of the survivors, who suffered second- and third-degree burns, is seeking unspecified punitive damages and compensation for pain and suffering, lost earnings, property damage and past and future medical and health-related expenses. Defendants in the suit include the aircraft owner, the aircraft operator, the tire manufacturer and the aircraft manufacturer. Suits by the other survivor and by the estates of those who died could follow.

"A lot of people don't understand what's in their insurance policy until they need it–and then it's too late," said Mike Nichols, the National Business Aviation Association's vice president for operations, education and economics. "Knowing what coverage you have is key."

Here is a six-step process to help guide you in the purchase of your business aviation insurance:

1. Understand what you're buying. You need to have an understanding of the state of the business aviation insurance market. Premiums are at an all-time low and underwriting flexibility is at an all-time high. This is valuable information to have when discussing insurance renewal with your broker. You can find other important information on the National Business Aviation Association's Web site (www.nbaa.org), in the Insurance and Risk Management section, which includes articles on topics such as Additional Insureds, Using Independent Contractor Pilots and Non-Owned Aircraft Liability Coverage.

2. Seek advice on the proper liability-coverage limit. This is probably the most important decision you'll make, as it presents the highest catastrophic-loss potential. How much coverage is enough? Unfortunately, no easy answers apply. But there are questions you can ask yourself to help determine a reasonable amount. What is the average passenger load and passenger composition? If most flights involve just one or two passengers or the passengers are primarily employees (where workers' compensation insurance may protect you), you might be able to live with a lower liability limit. However, if the average passenger load is four or five or the passengers are primarily non-employee guests, you'd be wise to look at higher liability limits. Other factors to consider include the number of seats in the aircraft, the benchmark average liability limit for similar-category aircraft and any umbrella policy you may have.

When in doubt, buy more, not less. Liability insurance is the great unknown and often purchasing higher limits isn't expensive. Unfortunately, you won't find out whether you bought enough until after a loss.

3. Review the aircraft value annually. Many aircraft owners insure their jet for the original purchase price and then fail to adjust the value.

One unique aspect of most aircraft insurance policies is that the hull coverage is written on an "agreed-value" basis. That means that once you and the insurer have agreed on a hull value, the amount stated in the policy represents how much will be paid in the event of a total loss, less any applicable deductible. This is a radical departure from auto insurance, which is written on an actual-cash-value basis.

But you can over-insure and under-insure to your detriment. If you over-insure, the insurance company may elect to repair the aircraft even when it has suffered major damage–leaving you to deal with significant damage history, loss of use of the aircraft while it undergoes lengthy repair and no compensation for diminution of value. Conversely, if you under-insure, the insurance company may opt to pay you the insured value and then sell the salvage, meaning you'd lose your equity.

LAWSUITS GENERATED BY AVIATION ACCIDENTS CAN DRAG OUT OVER FIVE TO SEVEN YEARS. YOUR MISSION IS TO SELECT AN INSURER THAT WILL BE AROUND FOR THE LONG HAUL.

In this volatile economic market, many aircraft values have taken a hit. Make sure to review your hull coverage at least annually (don't forget to consider any loan or lease requirements) and adjust the amount if necessary.

4. Review the structure of the policy's "named insured." Many owners make the mistake of simply listing the registered owner (often a sole-asset LLC) as the only "named insured." Properly structuring the named insured is crucial because the entities or persons who truly need the protection may not have it if the policy isn't written properly. In addition, many of the ancillary coverages, including the use of non-owned aircraft, apply only to the named insured. For example, say the owner's aircraft is on a flight and another executive of the company must therefore use charter. If the flight is chartered under the actual operating company's name, the coverage for use of non-owned aircraft wouldn't apply, leaving the operating company exposed to a lawsuit in the event of an accident.

You might think you needn't worry about that and that your company couldn't be sued if all you did was charter an aircraft. In fact, though, when an accident occurs, typically everyone involved in the loop of commerce for that flight will be brought into a lawsuit. Keep in mind that one of the great benefits of your liability policy is that it provides an attorney to defend you, even against a suit that is groundless.

5. Choose an insurance broker that specializes in aviation. Your property/casualty broker is probably fine for handling your general insurance needs, but if you required heart surgery, you'd want a heart surgeon, not a GP. For similar reasons, you need an insurance brokerage that deals exclusively in aviation.

Unlike other lines of property/casualty insurance, which are written on standard forms, aviation policies vary widely, and some are much broader than others. This makes apples-to-apples comparisons extremely difficult. A good aviation insurance broker can help you find the policy that best fits your operation.

In addition, these brokers deal with the underwriting companies every day on multiple aviation risks and have large books of business with each, which gives them lots of clout. An aviation broker will know which underwriter at each insurance company is the most reasonable to deal with; what a competitive rate should be on a particular account; and what coverage is available at no extra charge. He'll also know when to negotiate–and how hard–to secure a lower premium, broader policy forms or ancillary coverage.

6. Review the insurer's financial stability and claims philosophy. Firms such as A.M. Best and Standard & Poor's monitor and rate the financial health of insurance companies on a daily basis. In today's business environment, it's much harder to identify the truly solid insurance companies, the importance of which cannot be overstated. Often, lawsuits generated by aviation accidents can drag out over five to seven years. Your mission is to select an insurer that will be around for the long haul to cover those long "tail" claims.

All six of these steps are vital. Remember, the financial stakes are too high to give less than full attention to your aviation insurance. No company ever thinks its jet will be involved in an accident. But accidents happen, even to the best flight departments. Take command now before a loss occurs. ■

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