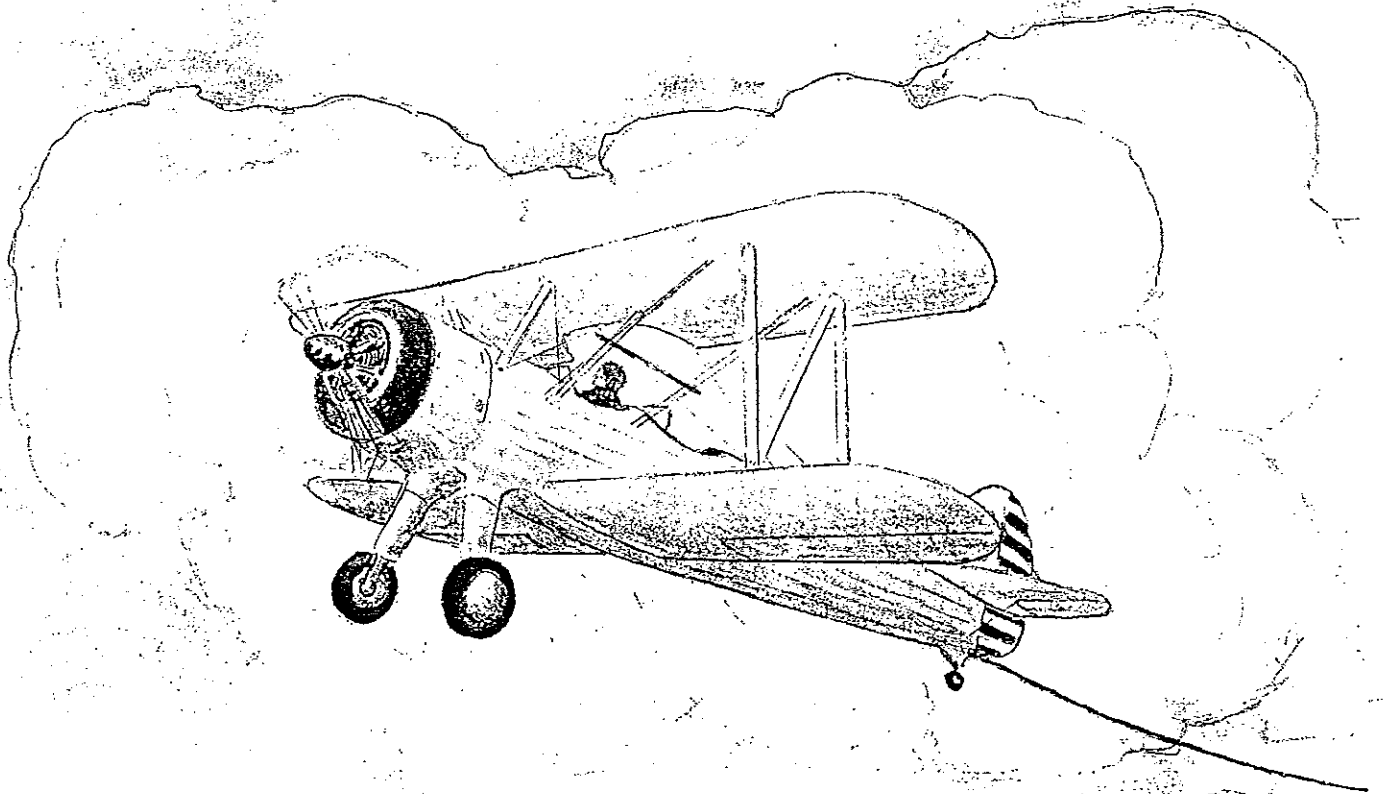


E X C E S S A N D S U R P L U S L I N E S

Taking Off With Aviation Cover

BY C.H. NASON



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Coverage for aviation risks requires both specialized underwriting and production facilities, making this type of insurance a natural for the excess and surplus lines marketplace. Every day retail agents representing aircraft clients throughout the country seek technical assistance from excess and surplus lines brokers representing the aircraft insurance marketplace.

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Like other areas of the insurance business, the aviation marketplace has undergone changes during the past few years. One recent change is that insurers offering this coverage are starting to talk about market share, which will mean softer rates and, ultimately, a rate war. The number of aviation insurance markets has decreased over the past two years, but there is talk about new markets entering the business.

In the meantime, the aircraft industry slump continues, with no immediate end in sight. In 1975, 14,056 general aviation aircraft were produced, but by 1985 that number had fallen to 2,029, a decrease of 85.6%, and preliminary estimates suggest that in 1987 the general aviation aircraft industry will produce fewer than 2,000 aircraft. This greatly reduced number of aircraft will have a direct effect on the aircraft insurance business since aircraft do wear out. A sales slump for new aircraft also has a direct effect on the solvency of

fixed-base operators in used aircraft sales, personnel, and so forth.

Aviation insurance as a distinct line has been written for more than 60 years, starting with a very limited form written by the Underwriters at Lloyd's of London. To this day, the Underwriters at Lloyd's feel that aviation insurance is basically their line of insurance coverage, and thus they view all markets in the rest of the world somewhat as upstarts.

In the United States, aviation insurance has been actively written since 1927, and because of the hazardous nature of aviation in its infancy, most of the coverage was written by aviation pools (arrangements whereby a number of insurance companies subscribe to the aviation insurance policy collectively, rather than having any one insurance company take the whole risk itself).

ACTIVE MARKETS

One of the early underwriters of aviation insurance in this country was the United States Aviation Insurance Group. Today the following markets are among those active in the field: United States Aviation Insurance Group, Associated Aviation Underwriters, Insurance Company of North America, Global Aviation Underwriters, Southeastern Aviation Underwriters, Aviation Office of America, Eastern Aviation and Marine Underwriters, Commercial Aviation Insurance Inc., and Southern Marine Aviation Underwriters Inc.

All of these companies are agency companies. There are also three principal direct writers: AVEMCO Insurance Group, Aviation Underwriting Specialists and National Aviation Underwriters. One interesting development of the past few years is that the AVEMCO Insurance Co. acquired Eastern Aviation Marine and National Aviation Underwriters, which gave the

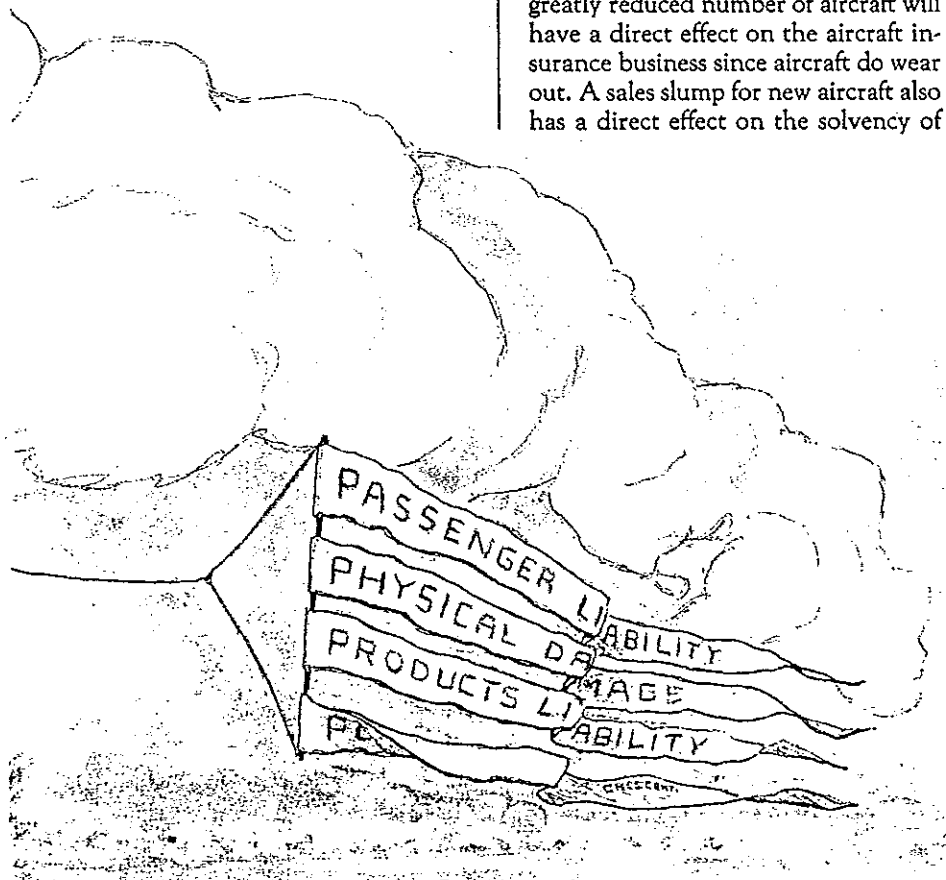


ILLUSTRATION BY NEIL F. CRESCENT

insurer a foot in all fields. AVEMCO now deals with independent as well as captive agents, and also as a direct writer.

Aviation insurance is a direct outgrowth of marine insurance, so a great many of the terms used in providing aviation insurance relate directly to marine insurance. There is a tendency on the part of the public to think of aviation coverage as something unique and special, not subject to the insurance laws or not requiring the same knowledge needed by a good insurance broker or buyer, but this simply is not

passenger liability coverage is included in the bodily injury cover while in the case of aviation insurance it is a separate coverage.

Passenger liability is quite an important part of the insurance, since most claims are paid in this area. It is important to consider the passenger exposures and buy adequate limits covering passengers; this risk warrants more attention than any other type of coverage.

In addition to the standard forms of BL/PD and passenger liability, coverages such as medical payments can

airplanes (helicopters), home-builts, experimental aircraft and World War II surplus airplanes. Coverage can be obtained even for Hovercraft.

Besides covering the normal hazards under the physical damage section, a policy can include extensions of coverage: breach of warranty, loss-of-use coverage, and valued-form extension (instead of an actual cash value cover). Insurance also can be included which refunds the premium to the insured in the event that a total loss is paid on physical damage.

Again, as in the case of the liability insurance, a variety of policy forms are used, from a basic policy up to a broad form cover. Which coverage is used depends entirely upon the type of aircraft, the loss experience of the insured and the value of the aircraft.

Almost any aircraft accident leads to some type of lawsuit alleging negligence.

the case. Aviation insurance clearly is insurance; a good insurance person can quickly learn and understand aviation insurance if he applies himself or herself.

Aviation insurance basically falls into the same category as automobile insurance. The aviation policy has a liability section and a physical damage section. In most cases, both the liability and the physical damage are written by the same carrier, although it is possible under certain circumstances to have one carrier write the liability and the other carrier write the physical damage.

The liability section has bodily injury and property damage coverages, which can be written in split limits—an example being limits such as \$100,000 for any one person, \$300,000 for any one occurrence (excluding passenger liability), \$100,000 of property damage coverage and \$100,000 of liability cover per passenger seat. Split limits are not the recommended method of writing aviation insurance; most parties are better served by writing a single limit of bodily injury and property damage, and including the passenger liability hazard in that single limit.

One major difference between aviation insurance and other forms of insurance is that in most types of insurance for automobiles and boats, the

be included with more sophisticated programs and with programs for higher-valued aircraft carrying guest voluntary settlement (sometimes referred to as admitted liability). Aircraft non-ownership liability insurance covers you while flying in an aircraft that you do not own.

As in all general types of insurance, the policies available from some companies are broader than those offered by others. Quite often, an aviation insurance company or pool will offer not only standard policies but also more comprehensive cover. The type of policy issued depends upon the type of airplane, the use of the airplane and the pilot's qualifications (including any losses).

On the physical damage section of aviation insurance, three types of coverages are available: all-risk ground coverage, all-risk ground and taxi coverage, and all-risk ground, taxi and flight coverage. In the more modern policies, there is a distinction in the definition of the coverage between all-risk not-in-motion and all-risk in-motion (with no mention being made of taxi coverage, since it is included under the in-motion section of the policy).

The physical damage insurance for the aviation community can cover fixed-wing airplanes, rotor-wing

ON THE GROUND, TOO

So far I have addressed only the individual aviation policy, but another rather broad section of insurance is available to the aviation community. This insurance covers the fixed-base operator or flying service, which often purchases such coverages as premises liability, hangarkeepers' liability, products liability, and non-owned physical damage. Since these coverages are highly specialized and have limited appeal to most readers, they will not be dealt with here. It is possible to secure detailed material on these coverages from specialized brokers and carriers writing aviation insurance.

One point is particularly worth noting as regards products liability coverage for aircraft, however. Any person or firm that manufactures, services, and/or modifies aircraft, or manufactures any parts going into aircraft, needs substantial limits of aircraft products liability. Almost any aircraft accident leads to some type of a lawsuit alleging that any or all of the firms or persons that serviced the aircraft, made the aircraft, or supplied parts to the aircraft, were negligent.

These suits are expensive to defend, and the judgments (when they are awarded) are substantial. It would be in the best interest of all insurance agents and brokers to look at each client's business to see if any of its products might be used in an aircraft—and find out whether the primary insurance

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program currently being carried might include or exclude aircraft products liability.

Despite the recent slump, the last 30 years overall have seen a boom in the manufacturing of airplanes as well as in the number of individual insureds and companies that operate aircraft. This great growth of the aircraft industry offers agents and brokers a real opportunity to substantially increase premium volume and also to do a good service to the insurance industry by providing clients with the kind of aircraft insurance they need.

The past 10 years also have seen a steady growth in aircraft insurance specialists. These specialists grew up during a time when there were few airplanes and when most of the insurance community was not familiar with aviation insurance.

However, in my view it is far better for an insured or a person who owns an aircraft to place his insurance with a single, proficient insurance agent or broker so that this professional

can look over the entire account in much the same way that he would look over an account's other insurance needs. Thus the client is assured that the broker is familiar with his operation.

RATING A POLICY

No article on aviation insurance would be complete without giving some idea of the items which go into setting rates for an aircraft insurance policy. Besides having the basic information, such as the name and address of the owner or business, an E&S broker would need to know what the airplane will be used for: private business, pleasure and/or commercial use.

If there is any commercial use, full details are needed of exactly who uses the aircraft and how it is used. We also need to know where the airplane is based and whether it is hangared or tied down. We need to know whether there is a mortgagee on the aircraft and whether the mortgagee requires breach of warranty or lienholders' interest coverage.

The essential data that must be collected includes the loss history of all the pilots, and also of the owner and/or business, as well as basic aircraft information, such as the year the aircraft was built, the manufacturer, the model, the value, and the total seating (including crew).


In the pilot information section, we need to know the name, age, occupations, type of licenses, types of ratings, past loss information, total hours flown, retractable-gear hours flown, multi-engine hours flown, and time in the insured aircraft. This information can easily be collected through the use of a standard application or by a check-off sheet.

If special attention is given to obtaining this information, a number of call-backs to the prospective insured will be avoided. Actually, in writing aviation insurance the broker has less information to collect than he does in writing almost any other form of insurance, and considerably less than he does in writing a private passenger automobile policy.

Aviation insurance is a growing and expanding field. There is a substantial amount of business available if an agent or broker learns basic aviation insurance, marketing and terminology. Aviation insurance is quite competitive, and both its liability and physical damage premiums and its rating are substantially lower than those of automobile insurance. (This does not mean that the total premium is lower, however, because aircraft carry substantially high values on the physical damage coverages, which drive the premiums to substantial levels.)

The client who shops for aviation insurance should look into the reputation of the company, agent and broker carefully, since not all insurers, policy forms and warranties are equal.

In the event that the retail agent who handles the rest of the insured's business feels uncomfortable in writing aviation insurance, there are a number of reputable excess and surplus lines brokerage firms that are knowledgeable in aviation insurance. These wholesalers can review the aviation needs of these clients and do an in-depth survey of the markets, so that they receive the best possible policies and premiums through the insured's own agent or broker. □



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