



What Everyone Should Know About Aviation Insurance

There are unique characteristics of aviation insurance. Aircraft liability limits are placed on an occurrence basis and very large liability limits are readily available. There isn't an aggregate limit applied with the exception of product liability and personal injury liability. Hull coverage is placed on an "Agreed Value" basis. The amount stated as the agreed value at the time of policy issuance is the amount paid in the event of a total loss. The loss payment is not reduced by depreciation.

Aviation policies are extremely broad. They can cover war perils and there aren't any exclusions for flood or earthquake. The policies are considered "All Risk" and it truly provides coverage on an all risk basis.

There are four major sectors of aviation insurance; airline, aircraft product liability, general aviation and space. In the universe of aviation insurance, the airline industry makes up approximately \$1.3 billion of the total premium dollars spent. Aircraft product liability makes up approximately \$925 million, general aviation makes up approximately \$1.3 billion and the space sector makes up approximately \$800 million.

In today's aviation market, there are about twelve major players. They are:

- Global Aerospace
- United States Aviation Underwriters
- Chartis Aerospace (formerly AIG Aviation)
- Allianz Aviation
- Starr Aviation
- XL Aerospace
- Berkley Aviation
- Phoenix Aviation
- W. Brown & Associates
- International Aerospace Insurance Services
- Houston Casualty Company
- Lloyds of London and other European Underwriters

Of these, there are only five that are able to provide liability limits in excess of \$300 million. They are:

- Global Aerospace
- United States Aviation Underwriters
- Chartis Aerospace (formerly AIG Aviation)
- Allianz Aviation
- Starr Aviation

An explosion of growth in aviation insurance underwriters brought new entrants to the market over the last four years. International Aerospace Insurance Services, Berkley Aviation, Allianz Aviation (US), Starr Aviation and an expansion of Lloyds are some of the newer players.

What drove this growth? Various factors drove the growth in aviation insurance. Massive increases in capital to insurance markets and huge increases in rates and premiums following the World Trade Center



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attacks of September 11, 2001 and historic safe run by the airline industry (most notably the U.S. airline industry) were major factors. In addition, competitive reinsurance became more available and major insurers began to see that aviation risks had significant growth opportunity.

Although the events of September 11, 2001, brought great market growth and opportunity, it also impacted the aviation insurance market in many other ways. It is estimated that losses to the insurance industry including business interruption will be \$40 billion. About \$400 million in hull losses for the four airline aircraft was paid out. These unprecedented losses caused insurers to seek ways to ensure their survival.

Underwriters invoked war risk cancellation provisions, massive rate and premium increases followed, hull war rates increased by 1000% or more, third party war risk liability limited to \$50 million annual aggregate and insurer capacity became very tight. Even the government stepped in with the Air Transportation Safety System Stabilization Act and Terrorism Risk Insurance Act of 2002, and the FAA began providing war risk insurance for the U.S. airline industry at a fraction of the cost of the commercial marketplace.

Many experts agree that many claims from September 11, 2001, are still getting underway and that there is a massive aviation insurer exposure, which is reserved for but still hanging over the heads of the entire market, including reinsurers.

Today's aviation insurance market has become highly competitive, thanks to the growth in insurers. Extremely broad coverage is being offered at historically low premiums. As a buyer of aviation insurance, you need to:

- Invest in quality training and maintenance. Manufacturers recommended ground and flight school for pilots and copilots, as well as, school for mechanic personnel on an annual basis.
- Invest in SMS (Safety Management System). Described as a safety program on steroids, it will soon be mandated in the U.S. It is already mandated in Europe, Canada, and Australia. Underwriters see this as the gold standard.
- Invest in technology that contributes to safety.
- Invest in full-time, dedicated pilots who are employees of the firm. Full-time employees enjoying such "employee" benefits are considered most desirable to underwriters.
- Subscribe to outside auditing services, such as Wyvern or ARG/US.
- Create a safety culture with regular management meetings and designate managerial safety positions.
- Meet with underwriters periodically - incumbent and competitive.
- Take advantage of safety and loss control services provided by leading underwriters.
- **Most importantly** - pick an insurance broker who knows how to disseminate all of this to the aviation insurance underwriting community.

There are a lot more choices today for the buyer of aviation insurance. Underwriting longevity does matter. Think about how litigation has to be managed for the long run and how complicated this can be. Be proactive in operating your business to benefit your aviation insurance investment and build solid relationships with your broker.