

## So, you want to be in the aviation business???

First in a series discussing aviation insurance and risk management

By Doug Johnson

As you start to explore the options and opportunities available to you in an aviation career it will quickly become apparent that one of the largest fixed costs for any aviation business, after payroll and sometimes fuel, is insurance.

Like the old saying goes, aviation may not be inherently dangerous but it is terribly unforgiving of any carelessness, incapacity or neglect.

One thing that aviation definitely is, and becomes more so every day, is very litigious. The general populace assumes, because airplanes are expensive, and often associated with rich and glamorous people, anyone associated with airplanes must have a lot of money and be a great target for a lawsuit.

Most aircraft crashes are high profile events that make the evening news thereby attracting high profile attorneys. This creates the exposure and thus the need for broad insurance protection for aviation businesses.

The purpose of this series of articles is to help you, the aviation entrepreneur, identify the exposures and risks that you may face in your business. We will explain some of the risk management and insurance solutions available to address those exposures.

Aviation operations fall into two major categories when being evaluated for insurance purposes; Flight operations and Ground operations. Obviously, flight operations involve an aircraft of some

kind, such as an airplane, helicopter, blimp or whatever.

Ground operations generally occur in support of or ancillary to, a flight operation. Examples might include a full service FBO, dedicated maintenance facility, manufacturing or overhaul facility of other ground based operation dedicated in whole or in part to aviation operations.

Due to the unique nature of aviation operations and the catastrophic exposure to loss it can have, most general insurance underwriters do not offer aviation coverages. Aviation protection is typically offered by a small, highly specialized group of agents and companies within the broader insurance industry. Some large insurance companies - with names you would recognize - do participate in the aviation insurance marketplace, but when they do it is still done in the context of a specialized department or management company acting on their behalf.



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The very first protection that an aviation business needs to consider is liability. This type of insurance covers any injury that the operation may cause to another party. This could be a physical injury to a passenger or person on the ground or damage to the property of others. This broad coverage is generally labeled as aircraft liability and is similar in many respects to the liability insurance you would purchase on an automobile. We will delve into the similarities and significant differences in a later article.

The next issue of concern is the potential loss of the aircraft itself. Aircraft physical damage coverage is much like automobile physical damage insurance but is generally all risk in nature and is based on an **agreed value** rather than **actual cash value**. Typically there will be two deductibles, one which applies when the aircraft is **not in motion** and one applicable to **in motion** losses. Two of the major factors controlling the premium charged for aircraft policies are the experience of the pilot and the use of the aircraft.

Unlike most automobile insurance, aircraft insurance does not have a published rate and each case is individually rated based on numerous criteria. This again points out the unique nature of aircraft operations and thus aircraft insurance.

Most kinds of insurance rely on what is called the law of large numbers, or the law of averages, to set rates. This law essentially says that if enough like exposure units exist and are spread out over large enough geographic area to prevent a catastrophic loss, losses can be accurately predicted. The larger the

number of units, the more accurate the prediction will be. With the huge number of automobiles operating today, insurance companies are able to predict automobile losses to within a few percentage points. We have to keep in mind that there are only around 200,000 aircraft of all types in the United States today and this is not anywhere near a large enough number to provide any scientific basis for predicting losses. Also, automobiles do not have the same potential for a single catastrophic event that exists with aircraft. This means that with aircraft insurance, the best underwriters can do is depend on their own judgment and past experience to set rates and predict losses. This scenario sometimes leads to wide disparities in rates between underwriters on the same risk.

The second broad area of protection that needs to be considered is ground based operations, whether stand alone or in direct support of a specific flight operation.

The first and most common example would be an FBO that sells fuel, hangars aircraft or perhaps provides maintenance services. All of these operations present their own unique exposures and have to be individually addressed in a comprehensive insurance program. In addition, the property and equipment owned and utilized by the FBO such as their building, fuel trucks, tugs etc. would need to be insured for physical damage as well as liability.

Some other examples of ground operations would be a corporate hangar with their own fuel farm, a dedicated maintenance facility, an avionics or

upholstery shop, or a manufacturing facility for aircraft or aircraft parts.

To give you an idea of the complexity of exposures and coverages required to properly protect even a simple aviation operation let's profile a small maintenance operation. This particular operation is located at a municipal airport in a city of about 30,000 people. The operator does minor airframe work, annual inspections and routine maintenance on about 20 based aircraft including one Citation and about another 30-40 non-based aircraft. He has 4 employees plus himself. He does not provide his employees with health insurance or other benefits. The shop does not sell fuel or rent hangar space, but they do store customer aircraft while they are in the shop for maintenance, and they routinely move customer aircraft in and out of the hangar.

First let's define in broad terms the exposures faced by our shop and its' owner.

1. He leases the premises, for which he is responsible.
2. He owns tools and equipment which could be lost or destroyed.
3. He has employees to whom he is responsible for providing a safe and adequate workplace.
4. He moves and stores customer's aircraft which could be damaged.
5. He repairs and services customer's aircraft which presents the opportunity for faulty workmanship or other negligence.

The coverages required to address these exposures are the basic coverages that would most likely be required for any ground based operation.

1. Premises Liability is essentially the same "trip and fall" type of coverage carried by most retail and other establishments to protect them if a customer or other visitor is injured due to a defect in the premises. An example would be a customer slipping in an oil spill that was not adequately cleaned up.
2. Property Insurance provides first party protection for property owned by a business such as tools, equipment, office furnishings, etc.
3. Workers Compensation Insurance is REQUIRED in most states to protect employees who become injured on the job.
4. Hangarkeepers Legal Liability provides liability protection specifically for damage to customer's aircraft that are in the "care, custody or control" of the insured for storage or maintenance.
5. Products and Completed Operations Liability protects the insured in the event a product or service provided by them causes bodily injury or property damage due to faulty workmanship or a faulty product.

This is a very basic list and explanation of the coverages that might be needed for this type of operation and is in no way intended to address the needs of a specific entity. Every operation is different and should be considered individually. The best advice is to be sure you have an experienced and dedicated aviation insurance professional working on your behalf. They will be able to help you identify the exposures in your particular

operation and develop the best insurance and risk management solutions to address them.

In future articles, we will go into the definitions of some common aviation insurance terms. We will discuss the specific policies and coverages available

to address commercial aviation operations in much greater detail. We will also cover some risk management ideas and best practices that are generally accepted to reduce risk and thus losses and insurance costs.

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Doug was also among the first to earn the prestigious Certified Aviation Insurance Professional (CAIP) designation. As an insurance counselor in the field of aviation insurance he assists his clients with coordinating and successfully marketing their insurance needs.