Aviation Insurance

Chapter Objectives

- Understand the various aviation coverages.
- Study the aircraft hull coverages and understand the methods of providing coverages and the application of deductibles.
- Understand the methods of providing liability coverage included the admitted liability form.
- Become familiar with the aviation medical payments coverage with reference to who is and who can be covered.
- Know the purpose of the hangarkeeper’s liability coverage.

Introduction to Aviation Insurance

Aviation insurance is a highly specialized field designed to meet general aviation needs. While the Aviation Insurance Policy is not standardized, the insurance contract contains many adaptations of other familiar general insurance forms - specifically fire and automobile.

Some insurers write aviation insurance using their own contracts. Others participate in one of the several aviation pools or underwriting groups specializing in writing aircraft insurance exclusively. Since the loss exposure is substantial, relative to the number of aircraft insured, and because of the highly specialized underwriting involved, most insurance companies prefer to combine their exposure in this field to participation in one of the several aviation pools or underwriting groups specializing in writing aircraft coverages. Adequate insurance facilities now exist for handling most aviation risks. Due to the highly specialized problems and the potentially catastrophic losses, it is imperative that adequate market capacity for aviation insurance be available. Often times, participation of insurers and reinsurers throughout the world is required in order to provide adequate aviation insurance limits.

Aircraft Hull Policies

Aviation Hull Insurance is more often written on an “open peril” basis as opposed to a “named peril” approach. There are three sub-categories of “open peril” aviation insurance:

- When the aircraft is parked and not in “motion”
- When the aircraft is “taxing” and “in motion.” The most common definition for "in motion" is while the aircraft is moving under its own power or momentum generated there from.
- When the aircraft is in flight (defined in case law to include the beginning of the take-off to the end of the landing)
Insuring Agreement

The policy contains three insuring agreements to pay for "any physical damage."

- Open peril basis - includes disappearance.
- Open peril basis, not in flight - covers the plane when on the ground, but does not include fire or explosion following a crash.
- Open peril basis, not in motion - covers the plane while standing still, but again does not include fire or explosion following a crash.

Deductible

The deductible does not apply to losses from fire, lightning, explosion, transportation, theft, robbery, or pilferage. However, the “in-motion” deductible does apply to losses from fire or explosion that occurs as a result of the collision of the aircraft. The deductible applies separately to each aircraft insured on the policy. Note that the policy calls for two different deductibles: one for when the aircraft is in motion; a second for when the aircraft is not in motion.

The deductible is normally expressed as a percentage of the value. Most aircraft hull policies are "valued policies" which provides that, in the event of a total loss, the company will pay the insured value stated in the policy, regardless of the aircraft’s market value. Some policies are written on an actual cash value or replacement cost basis.

Aircraft Hull Exclusions

Exclusions, although none are standard, include illegal use of an aircraft; using an aircraft for purposes other than that described in the policy; wear and tear; piloting the aircraft by someone not named in the policy; operating an aircraft outside stipulated geographical boundaries; and damage or destruction of an aircraft resulting from war, riots, strikes, and civil commotions, mechanical breakdown loss, structural failure loss and conversion.

The hull value includes instruments, radios, autopilots, wings, engines, and other equipment attached to or carried on the plane as described in the policy.

War Risk Coverage

Another category of risk is “war risk.” As the name implies, this coverage (requiring an endorsement) responds to physical loss or damage to the aircraft caused by an act of war. It is more important to note what the name does not reveal it covers, such as confiscation, seizure, arrest and detention. International travel in the corporate aircraft almost always will require that specific war risk insurance be in effect before an operator travels to, within, or over the airspace of foreign countries.
Substitute, Replacement and Newly Acquired Aircraft

If the insured uses a substitute aircraft for an insured craft that is out of commission, the policy provides protection. The insured has liability and medical expense coverage while using the substitute, but the maximum payout for any occurrence cannot exceed what would have been paid if the primary aircraft was in operation. This is a critical consideration if the substitute craft has a significantly higher value than the insured craft.

If the insured purchases a new aircraft to replace a scheduled aircraft, there is automatic coverage provided the insurance company is notified within 30 days of the purchase and premium payment is made. The coverage is the same as on the scheduled aircraft.

If the insured purchases an additional aircraft, there is automatic coverage provided the insurance company currently insures all of the insured’s owned aircraft. The insured must notify the insurance company within 30 days of the acquisition. The coverage is the same as another aircraft with similar passenger capacity. The physical damage limit is the actual amount the insured paid for the aircraft.

Aircraft Liability Coverages

This coverage can be written to cover public and passenger liability and property damage liability. Bodily injury and property damage under the aircraft liability policy is very similar to the automobile liability insurance policy with one exception. In aircraft Liability coverage, liability to passengers is treated as a separate exposure, totally apart from the liability to others. A typical aircraft liability policy includes bodily injury liability (excluding passenger liability), passenger liability and property damage liability insurance. Single limit bodily injury and property damage liability (excluding passenger liability), and single limit bodily injury and property damage liability insurance (including passenger liability) are also available. Essentially, the policy insuring agreement states the company will pay on behalf of the insured all sums which the insured becomes legally obligated to pay as damages because of bodily injury, sickness or disease, including death at any time, or injury to or destruction of property, arising out of ownership, maintenance, or use of the aircraft.

The limits of liability are usually applied in the same manner as in automobile liability policies. For example, bodily injury liability limits might be $100,000 per person, $300,000 each occurrence and $50,000 each occurrence for property damage liability. Alternatively, "single limit" coverage is commonly written; for example, $300,000 B.I. and P.D. per occurrence.

The usual territorial limits include the United States, Canada and Mexico. Many times, coverage in Mexico is limited to within 100 miles of the United States border. In Florida, it is not uncommon to have the Bahamian Islands included by amendment.

Coverage normally includes temporary substitute aircraft and, for private business and pleasure craft operators, the use of any nonowned aircraft by or for the named insured.
Important Definitions

The Aircraft Policy contains a definitions section that applies to both property and liability coverages. The following terms are defined:

**Aircraft** - Includes the owned aircraft described on the Declarations and, under certain conditions, any temporary substitute, non-owned, or newly acquired aircraft. In addition to the aircraft, the "propulsion system and equipment usually installed in the aircraft" are part of this definition. These items are covered while:

1. Installed on the aircraft;
2. Temporarily removed from the aircraft;
3. Removed from the aircraft, awaiting replacement.

Other items covered as part of the aircraft are tools and other equipment specially designed for the aircraft.

**Bodily Injury** - As in most other liability policies, the term includes injury, disease, sickness, and death. Mental anguish is also part of bodily injury.

**Disappearance** - Missing and not reported for 60 days after a flight begins.

**Federal Aviation Administration** - The United States agency and any other similar organization in other countries.

**Flight** - Begins with take-off and ends when the plane has completed its "landing roll." Landing roll is not defined in the policy, but it appears to mean when the aircraft has slowed enough at the end of the runway to begin movement toward the terminal or hangar. If the aircraft is a helicopter, a flight begins when the rotors start to revolve and ends when they stop revolving.

**In Motion** - Any time the plane is moving under its own power or from momentum generated by its own power. A helicopter is in motion any time the rotors are rotating.

**Insured** - In addition to the named insured anyone using the insured's aircraft is covered. Similar to the Personal Auto Policy, the Aircraft Policy requires a permissive user to have the named insured's permission to operate the plane and that the use be "within the scope of such permission." Other persons or organizations are insureds under the policy if their liability arises out of the named insured's acts or omissions. Not considered an insured under the policy is anyone connected with the "manufacture, maintenance, repair, or sale of aircraft engines," including their component parts. Others not covered include anyone connected with any airport, hangar, flying school, or flight service, if the occurrence arises out of such activity. There is also an exclusion of fellow employees. Finally, the owner of an aircraft being used by the insured is not covered.

**Medical Expenses** - The amount spent for medical, surgical, etc. services. Included are hospital, ambulance, nursing, and funeral services.
**Named Insured** - The person or organization named on the Declarations.

**Occurrence** - As with other liability policies, an occurrence is an accident or repeated exposure to similar conditions, causing bodily injury or property damage. Also as with other liability policies, this one does not cover damage or injury that is expected or intended by the insured. However, "efforts to prevent dangerous interference with the operation of the aircraft" are considered an occurrence.

**Partial Loss** - Any physical damage loss that is not total.

**Passenger** - Anyone in, on, or boarding the aircraft for a flight; or anyone leaving the aircraft after a flight.

**Physical Damage** - Is only direct damage to the aircraft. It does not include loss of use or diminution of value.

**Pilot in Command** - Is responsible for the operation and safety of the plane during flight.

**Premises** - Parts of an airport, other than those rented to the insured, where aircraft are stored or parked.

**Property Damage** - Property damage is both direct damage to property as well as its loss of use. Tangible property is also covered for loss of use, even if it suffers no direct damage.

**Total Loss** - Damage, including theft, where the cost to repair will equal or exceed the insured value of the aircraft.

**Admitted Aircraft Liability Coverage**

Admitted Aircraft Liability is a coverage written as an adjunct to passenger liability, not applicable to passengers carried for hire. It provides for principal sum payments for death or dismemberment if (1) the named Insured requests it and (2) the company is released from further liability. It is a means by which an insured may save a guest from the necessity of bringing a legal action for injuries.  

**Medical Payments Coverage**

This coverage provides medical expenses for bodily injuries by accident, without regard to legal liability. The coverage is similar to automobile medical payments insurance in that it provides coverage for medical, surgical, ambulance, hospital, etc., while in, entering into, or disembarking from the aircraft. *(Note: Medical payments to passengers are included and members of the crew can be added for an additional premium.)*
Special Aviation Insurance Coverages

In addition to coverages applicable to a specific aircraft, miscellaneous other coverages are available in the Aviation Insurance field.

Airport Liability Coverage

Airport liability policies are designed to protect owners and operators of private, municipal or commercial airports, as well as fixed base operators, against claims resulting from injuries to members of the general public or damage to their property while they are on the airport premises or its related facilities.

These policies are usually written on a comprehensive basis and can include any or all of the following coverages: (1) Premises, Products/Completed Operations, (2) Contractual, (3) Personal Injury, and (4) Premises Medical Payments. Additional coverages, unique to the insured's operational needs, can be added by endorsement.

Hangarkeeper's Liability Coverage

This is a form of bailee insurance that covers the insured's liability for damage to aircraft stored for safekeeping or repair. Comparison in the automobile field would be the garagekeeper's insurance form. The hangarkeeper's liability coverage protects the insured against legal obligations for injury to or destruction of the aircraft of others in the custody of the insured for storage, repair or safekeeping. The major difference between this policy and garagekeeper's insurance is that the latter is written on a named peril basis, whereas hangarkeeper's liability covers all damage not excluded. This coverage is typically written by attaching the hangarkeeper's liability endorsement to the airport liability policy.

Air Meet Liability

Most airport premises liability policies exclude liability for accidents occurring during air meets or aerial exhibitions (air shows) for which an admission charge is made. In addition it is not uncommon to find exclusions for injuries arising out of grandstands or bleachers that are not permanent parts of the airport premises. Other exclusions may be found in typical premises liability polices for airports that would create the need for an air show or air meet event liability policy. This coverage provides protection very similar to premises and operations liability under a commercial general liability policy. It covers for bodily injury liability and property damage liability.

Product and Cargo Liability

Product liability provides coverage for manufacturers and sales or repair organizations against liability claims that are attributable to defective products or work. Cargo liability protects against legal liability for loss or damage to cargo or baggage.
Pilot Warranty

Aircraft Policies are very specific as to whom coverage is granted while flying. Insurers writing aviation insurance underwrite and price their policies based upon three criteria:

- The condition of the aircraft, its value, and how difficult it is to fly safely.
- How will the aircraft be used? Some examples of possible uses may include pleasure and private business, industrial aid, or some form of commercial utilization such as charter, use by a flight school, pipe line patrol, or rental to others.
- And lastly, and most important; who will fly the aircraft, and their qualifications.

The price for insurance coverage, the limits of liability an insurance company is willing to provide, the deductible it will insist be borne by the insured, in fact whether or not the company will even quote; depends upon the criteria mentioned above.

If an insurance underwriter is satisfied with the information provided to him, he will offer to coverage and name his price. By accepting the insurance company offer of coverage, the insured confirms that the information provided is true, and that he or she will abide by the terms of the insurance policy.

To insure that an aircraft will be flown in the manner agreed upon between the company and the owner; the company will include language in the insurance contract, designed to enforce this understanding:

- The aircraft will be scheduled, with details such as the "N number", passenger capacity, age, and make and model. If the insured owns another airplane, it is not covered.
- The purpose which the aircraft will be used is clearly spelled out. Any other usage is excluded.
- And lastly, the policy will include what is called, a “pilot warranty.”

The pilot warranty clearly sets out who may fly the aircraft and be covered by its insurance. There are essentially two forms of pilot warranty: a named pilot warranty or an open pilot warranty.

A named pilot warranty will list all known, submitted pilots. These pilots are individuals whose flying experience has already been established, and they have been approved by underwriters.

An open pilot warranty clause is designed to allow pilots with qualifications similar, or more extensive than the owner of an airplane to fly it with the owner’s permission. While every insurance company’s wording is different, such an open warranty will require the permissive pilot to be legally licensed for the aircraft and the flight. The warranty will set out a minimum level of competence, type of license, ratings held, total flying experience, and experience in the "make and model" aircraft insured. It may also require a current check ride or other forms of recurrent training. Some open warranties may also list "pre-approved" pilots by name subject to proper licenses and current medical certificates.
If an owner loans his aircraft to someone who does not meet the requirements of the policy’s pilot warranty and there is a loss or accident; coverage would be voided. The insurer has the right to deny the owners claim for damage, and is under no obligation to defend the owner for liability arising from what is now considered an uninsured accident.

Exclusions

Several important exclusions are found in virtually all Aircraft Insurance policies. Each of the following exclusions applies to all the coverages for both hull and liability sections of the policy. There is no coverage for aircraft not registered under a standard category airworthiness certificate, in full force and effect, by the Federal Aviation Administration. The policy will not cover while insured aircraft is:

1. Maintained for any purpose other than the use classification permitted in the Policy Declarations;

2. Operated while in flight:
   a. By someone other than the pilot named or described in the Declarations (or pilot endorsement); or
   b. By a declared pilot operating outside the limitations imposed in the Declarations; or
   c. In flight under any conditions requiring special permit or waiver from the FAA.

In addition to these general policy exclusions, the following exclusions apply also to hull insurance:

1. There is no coverage for loss caused by conversion, embezzlement or secretion by any lessee or any other person in possession of the aircraft under a bailment lease, conditional sale, mortgage, or other encumbrance.

2. All risks coverage exclusions common to other physical damage insurance apply. Those exclusions are wear and tear, deterioration, freezing, mechanical or electrical breakdown. All forms of liability coverage usually exclude injury to the named insured or an employee, liability assumed under contract, and damage to property in the insured’s care, custody or control.

Underwriting Considerations

When underwriting an aircraft hull policy, basic questions on usage as well as the following items are considered:

- Pilots - qualifications and experience;
- Size - light or heavy aircraft;
- Type - land plane, seaplane or helicopter;
- Age and condition.
Review Questions

1. Which of the following statements regarding aircraft insurance is incorrect?
   A. The physical damage coverage is written with a flat deductible.
   B. Coverage for passengers can be excluded.
   C. Special coverage must be arranged for Air Meet liability coverage.
   D. Wear and tear is excluded.

2. Most aircraft hull policies are written on a:
   A. Replacement cost basis
   B. Market value
   C. Valued basis
   D. Actual cash value basis

3. A deductible that is commonly used in aircraft physical damage insurance is usually:
   A. A percentage of the value
   B. A flat deductible
   C. A disappearing deductible
   D. A franchise deductible

4. The hull physical damage deductible applies to which of the following losses?
   A. Pilferage
   B. Fire
   C. Collision
   D. Fire and explosion (except when caused by collision)

5. The covered territory for aircraft coverage does not apply to which of the following?
   A. United States
   B. Canada
   C. Mexico
   D. Puerto Rico
6. Which of the following describes admitted aircraft liability?

A. Negligence is not a factor  
B. Must prove legal liability  
C. Based on a board review  
D. Based on a limited threshold of damage

7. What coverage under aircraft coverage can cover the injuries to crew members as an optional coverage?

A. Liability coverage  
B. Admitted liability  
C. Medical payments  
D. Workers compensation

8. What type of physical damage coverage is needed by a company that repairs aircraft for damage to customer’s property?

A. Garage liability coverage  
B. Hangarkeeper’s liability  
C. General liability  
D. Garagekeeper’s legal liability

9. Aircraft liability coverage is very similar to auto insurance coverage with the following exception:

A. Usually written with a deductible  
B. Does not apply to property damage of others  
C. Liability to passengers is treated as a separate exposure  
D. Cannot exclude passenger liability

10. Which of the following is not covered under aircraft hull insurance?

A. Personal effects  
B. Fuselage  
C. Wheels  
D. Propeller
Review Answers

1. A. The physical damage deductible is usually expressed as a percentage of the value of the aircraft.

2. C. Coverage is usually written on valued basis. However, some are written on an actual cash value or replacement cost basis.

3. A. The deductible is usually expressed as a percentage of the value of the aircraft.

4. C. The deductible applies to collision coverage losses.

5. D. The covered territory does not include Puerto Rico.

6. A. The policy pays for death or dismemberment without the necessity of a legal action for injuries.

7. C. Medical payments coverage can be endorsed to cover crew members.

8. B. Hangarkeeper’s legal liability covers customer’s property in the care of a repair shop.

9. C. Liability to passengers is treated as a separate exposure.

10. A. Like the personal auto policy, aircraft hull coverage does not apply to personal effects.