

Insurance Coverage:

The Commercial General Liability Policy

An overview of the backbone of avionics business protection.

What is available and how you can control the cost of it.

Please understand what we have chosen to include here is not all coverage available but rather a selection of the major areas of insurance coverage common for most of the avionics business.

Premises Liability

Insurance coverage for bodily injury and property damage arising out of the use of the airport premises and all operations at or away from it for a temporary period of time as it may relate to your business activity. This coverage is the basis of the Commercial General Liability policy and will insure for all ordinary premises hazards, including those caused by aircraft except: (1) aircraft owned, hired or otherwise in the control custody or care of the insured; (2) aircraft in flight by or for the account of the insured. Coverage includes the business leased premises and the entire airport location as it relates to your business activity.

COST: The coverage premium is based on a maximum limit purchased. Size, types of operations and number of locations can all effect premium costs. Many small to medium sized business will carry a \$1,000,000 to \$5,000,000 each occurrence limit with turbine aircraft operators demanding a higher limit. Premises coverage can include a bodily injury sub-limit but most often is not considered because premium cost reduction for a bodily injury sublimit is not a significant cost savings. Often the airport or insured's landlord will have a minimum limit established to operate at this location that must be met. Coverage by the airport or landlord often will not permit lower bodily injury sub-limits.

What is a sublimit? If a policy lists coverage limits as 1,000,000 each occurrence, this is the total limit available for both property and bodily injury. If a policy lists coverage limits as 1,000,000 with bodily injury limited to 100,000. The total limit for both property and bodily injury is 1,000,000 but each person is limited to 100,000 maximum.

Are there ways to control this premium expense? YES. Again there are many risk management options that may be put in place to reduce losses, particularly slip and fall type exposures. Most often there will be a minimum premium required by the insurance company for this coverage and the variations for total premium will be impacted more by the other coverages that may be included on the Commercial General Liability policy.

Hangarkeepers Legal Liability

Hangarkeepers liability protection, basically a form of bailee insurance, covers the insured's liability for loss or damage to aircraft which are the property of others and in the custody of the insured for safekeeping, storage, or repairs and while in or on the described premises. Basic hangarkeepers coverage excludes aircraft while in flight. Coverage, however, can be arranged for in flight hangarkeepers coverage. This coverage is most often included within the Commercial General Liability policy as an option.

COST: The coverage premium is based on two limits. **FIRST** the maximum value of any one aircraft in your care custody and control; **SECOND**, the maximum value of all aircraft that may be damaged in one occurrence. We generally assume this to be all aircraft in one hangar within your business as the biggest potential loss which could occur in one event; for example, a fire caused by your business which would normally be limited to one hangar.

Example of limits: \$500,000 Any One Aircraft / \$2,000,000 Any One Occurrence. In this example the maximum that will be paid for loss of any one aircraft damaged is \$500,000. The maximum that will be paid for multiple aircraft lost in one occurrence is \$2,000,000. Fortunately losses incurred to aircraft with respect to this coverage are generally not large. Most are hangar rash, dropped tools, errant equipment or careless employees and are under \$250,000. The exception is fire which often involves loss values for all aircraft in the hangar.

Are there ways to control this premium expense? **YES.** Risk management for hangar loss exposure should include aircraft isolation procedures to reduce the limit of exposure, contractual agreements, written standardized procedures and employee training. Business owners often make mistakes when setting up this coverage by including aircraft that should or should not be included when setting the limits of exposure. Completing an aviation application without discussing the exposure with a knowledgeable aviation agent can result in costly mistakes in wasted premium or improper coverage.

Another example appropriate for some operators who choose to *prevent risk* of loss to a single large loss of aircraft is to control the number and value of aircraft stored at each hangar location. Avoid the stacking of high dollar aircraft in one hangar reduces the total exposure at any given time at that location should a fire occur.

Products and Completed Operations Liability

This insurance provides protection against claims arising out of the use, handling or consumption of a product. The Completed Operations provides coverage for bodily injury and property

damage arising out of the completed operations of a business, as opposed to the product of a business. It is intended to protect the policy holder for their negligent work or their sales of faulty products. It is important to note that the coverage does not pay for the breakdown of the product itself or the failure of the work to accomplish its purpose, but rather to protect the policy holder in the case that its product or work causes injury or damage after the aircraft leaves their business. This coverage is most often included within the Commercial General Liability policy as an option.

COST: The coverage premium is determined by business gross receipts. This is the method used to measure how much exposure is associated with the product being sold or the work being performed. It is arrived at through the application of a percentage applied to the reported gross receipts to compute a premium. The higher the gross receipts the more the exposure and the higher the premium. The percentage applied varies with the type of product or work being performed. For example, a shop which sells avionics to a customer but does not perform installations will pay a lower rate than a shop that sells the same equipment and also installs it in the aircraft. This is because more risk is associated with the installation.

Example of limits: Coverage limits for most insureds are a single limit based on one occurrence. If a loss occurs, generally there is property damage to the aircraft and what it may hit on the ground and bodily injury for those in or outside of the aircraft. If the limit is \$2,000,000 each occurrence this can be split as needed for property damage or bodily injury. Sometimes a smaller business may include a coverage limit with a bodily injury sub-limit. This is expressed as \$1,000,000 each occurrence with bodily injury each person limited to \$100,000. If a loss occurs with three people on board and all three are injured, each may receive up to \$100,000, which is the bodily injury sublimit established, with the balance remaining available for property damage.

Are there ways to control this premium expense? **YES. This is the largest and potentially the most catastrophic exposure for an aviation business.** Aircraft losses caused by faulty workmanship often involve fatalities or serious injury and significant damage to property and claims for loss can be very high dollar. For this reason, this insurance coverage will most often be the most expensive coverage purchased by the avionics business and should be given close attention. *Preventative* risk management through proper technician training is critical. Work completion inspections and testing prior to releasing the aircraft back to the customer can also greatly reduce losses. Properly documenting procedures and inspection check lists should be utilized before and after work completion. There are many areas of risk management that can be implemented to reduce this exposure.

Business owners frequently make mistakes when reporting the gross receipts to their agent which can create large premium calculation errors. To adequately and correctly present a true measurement of your avionics business risk **it is essential to have proper accounting procedures in place to be able to report each type of sale made.** Simply completing an application for insurance is definitely not adequate and careful consultation with your aviation agent is essential.

Personal and Advertising Injury Liability

Personal and Advertising Injury means injury arising out of specific offenses committed during the course of your business. Some of these offenses include false arrest, malicious prosecution, wrongful eviction, libel, slander, violation of a person's right of privacy and infringement of copyright in your advertisements. Remember persons and organizations have legally protected rights that, if violated or infringed upon, may result in loss to them. The law often provides a remedy to those who suffer such loss. They may seek damages as compensation in a court of law from the person or organization alleged to have caused the loss. In today's computer world with sharing of personal information blogging and creation of on-line advertising maintaining such coverage is becoming more important for business.

This coverage is most often included within the Commercial General Liability policy as an option. Be aware that "personal injury" coverage is often confused with "bodily injury" coverage in many contracts and can cause the purchase of incorrect insurance coverage from what was intended.

COST: The coverage premium is based on a maximum limit purchased expressed as an annual aggregate limit. Premium cost for this coverage is low compared to others and has a low frequency of occurrence as regards to the avionics business but none the less needs to be included within the coverage of the Commercial General Liability policy.

Are there ways to control this premium expense? **Preventative** measures through education is key. For example, "The Telephone Consumer Protection Act of 1991" (TCPA) is a federal law that protects residential customers from unwanted telephone calls and faxes. Companies can violate the TCPA by sending blast faxes, prerecorded telemarketing messages or other types of communications that violate privacy under the Act. The best way to avoid unnecessary expenses related to advertising injury claims is to ensure that your company complies with all applicable laws, such as the TCPA.

Contractual Liability Insurance

Understanding your business's risk exposures is the cornerstone to managing them. Whether your business relies on outside vendors to provide goods and services, such as avionics manufacturers, or you're a provider of goods and services to your clients, you should be aware of how to take contractual precautions to protect your business against potential losses or damages. An indemnity agreement secured by an additional insured endorsement is a risk-transfer tool that can help insulate your business from potential risks

It is a common practice to enter into contractual agreements with Garmin, Honeywell and others to formalize the terms and responsibilities for all parties. These contracts often include an indemnity agreement, also known as a hold harmless agreement, as a means to transfer the risk of future losses or damages from one party to another.

There are basically three kinds of indemnity or hold harmless clauses typically contained in contracts.

1. Limited - obligates the Avionics Business to hold harmless the Avionics Manufacturer only for the Avionics Business' own negligence.
2. Intermediate - obligates the Avionics Business to hold harmless the Avionics Manufacturer for all liability except that which arises out of the Avionics Manufacturer's sole negligence.
3. Broad form - obligates the Avionics Business to hold harmless for all liabilities, including the Avionics Manufacturer's negligence.

To support the terms of the indemnity agreement, the contract will often include insurance requirements. These spell out the insurance required by the various parties entering into the contract. It is common for one party to include another as an additional insured under its Commercial General Liability (CGL) policy.

Carefully review the indemnity agreement prior to finalizing the contract to determine the extent of your company's liability. Once the scope is understood, you may want to negotiate the terms to limit your exposure. The application and enforcement of an indemnification agreement does, however, depend upon the statutory and common law of the jurisdiction in which enforcement is sought.

Understanding the terms of the contract, the extent of liability assumed in the indemnity agreement, and the insurance requirements—including the coverage provided or afforded by the additional insured endorsement—are critical to minimizing future liabilities and exposure to losses.

Contractual Liability Coverage for most aviation policies are designated contracts only. This means the contract must be submitted and approved by the insurance company prior to becoming obligated to pay damages assumed under the contract.

Keep in mind, the liability assumed in the indemnification agreement of the contract can be broader than the coverage provided under the additional insured endorsement. A comparison of the two should be done to determine what is covered by insurance and what is not.

Many businesses choose to transfer or accept risk through contracts, purchase orders and lease agreements. However, not all contracts or endorsements are created equal. Contact your agent to learn more about contractual risk transfer and how it can be a part of your overall risk management program.

COST: The coverage premium is based on a maximum limit purchased and generally coincides with limits purchased for the premises coverage expressed as an each occurrence limit. Premium cost for this coverage if included with the premises is low compared to others and has a low frequency of occurrence as regards to the avionics business but none the less needs to be included within the coverage of the Commercial General Liability policy.

Are there ways to control this premium expense? YES. Most often there will be a minimum premium required by the insurance company for this coverage and the variations for total premium will be impacted more by the other coverages that may be included on the Commercial General Liability policy. What is critically important is to have all contracts reviewed by an aviation agent knowledgeable in contractual risk transfer.

Independent Contractors Liability Coverage

Most commercial general liability policies will include coverage for claims brought against the insured caused by an independent contractor's work on their behalf. It is important to specify that you want this coverage included in your general liability policy.

Areas where many aviation businesses declare employees as independent contractors can include individuals employed to wash aircraft, mow grass, provide janitor services and pilots used to conduct test flights or relocate aircraft. The exposure is twofold; one is the aviation business may be held responsible for damage the independent contractor caused; second, if the individual becomes injured on the job and it was determined they were not 'qualified' as independent contractors, the business may be held responsible for their injuries. You risk serious financial loss if an injured independent contractor is determined to actually be an employee and you failed to carry workers' compensation insurance. While most standard general liability policies will protect you from lawsuits for injuries to independent contractors, none will provide you protection for injuries to employees. Only a workers' compensation policy will do that.

Please see the section on "INDEPENDENT CONTRACTORS." All your workers, whether employees or independent contractors, should be covered by workers' compensation insurance. If your independent contractors don't have it, you may be responsible for their injuries. Numerous court cases have ruled the hiring party is responsible for injuries to independent contractor's employees when the independent contractor did not have their own workers' compensation insurance.

Fire Legal Liability

This endorsement provides property coverage for direct physical loss or damage, including loss of use, to property of others rented to the insured and in their custody and control, for which the insured is legally liable caused by fire or explosion.

COST: The coverage premium is based on a maximum limit generally established for the value of the property occupied and should be included in the purchase for the premises coverage and is expressed as an each occurrence limit. Premium cost for this coverage if included with the premises is low compared to others and has a low frequency of occurrence as regards to the avionics business but none the less needs to be included within the coverage of the Commercial General Liability policy if the insured rents the building for their business purpose.

Are there ways to control this premium expense? To minimize losses the business should use the same risk management practice to prevent fire or explosions as he would for normal property protection.

Host Liquor Liability

This endorsement provides protection for businesses against bodily injury or property damage suits brought by parties injured as a result of an intoxicated guest who was served alcohol at an event you hosted. Host liquor liability is a coverage that is included under the commercial general liability policy for those businesses not 'in the business of serving, manufacturing, distributing, selling, serving or providing alcohol.

COST: The coverage premium is based on a maximum limit purchased and generally coincides with limits purchased for the premises coverage expressed as an each occurrence limit. Premium cost for this coverage if included with the premises is low compared to others and has a low frequency of occurrence as regards to the avionics business but none the less needs to be included within the coverage of the Commercial General Liability policy if you serve liquor to guests.

Premises Medical Coverage

Medical payments coverage is offered as part of the general liability insurance policy. Medical payments provide coverage for emergency expenses including co-payments and deductibles. It includes losses occurring on airport areas used by the insured in connection with the ownership, operation, maintenance or use of aircraft. The amounts of medical payments per person are often included for \$1,000 to \$3,000 per person and can usually be increased up to \$10,000.

COST: The coverage premium is based on a maximum limit purchased with lower limits of 1,000 to 3,000 included at no premium charge. →