

Insuring a Broken Aircraft

By Thomas H. Chappell

During bad economic times, the used aircraft marketplace is flooded with aircraft of all kinds. Single-engine, piston-powered aircraft to corporate jets are listed for sale at bargain-basement prices. Cash-strapped owners seek immediate relief by listing their aircraft for sale with aircraft dealers and brokers. During times like these, there seems to be far more aircraft for sale than there are buyers to take advantage of the bargains.

As you might imagine, many issues can arise during the sales process from bankers to owners to aircraft brokers to aircraft buyers. The word of caution that I might extend in this scenario is that someone follow the insurance trail to assure that one has all parties and all interests covered under an aircraft Hull and Liability policy. Insurable interest must be maintained by the party providing insurance. All too often the aircraft moves from owner to broker without a clear-cut agreement as to who should provide the insurance. The owner cancels his policy or allows it to expire believing that the broker is providing the insurance and the broker takes possession of the aircraft believing that the owner is providing coverage. And, who is responsible to notify the lien holder or banker? No one if the coverage is allowed to expire. If such coverage is ordered canceled or allowed to expire, the bank may receive no notification.

This simple scenario could happen to you or anyone trying to sell their aircraft. Of course, it is easy to fix. First of all, a simple written agreement between the aircraft owner and the aircraft broker will outline the details of the sales process. An understanding of who is responsible for insuring the aircraft should be built into the agreement. Such a contract will specify that the owner retains insurable interest in the aircraft and will provide the insurance for sales demonstration (the purpose of use), naming the broker as an additional insured under the liability section of the policy and offering a waiver of subrogation under the hull coverage.

The converse of this is necessary when the broker provides the insurance. Insurable interest must pass to the broker by a consignment sales contract allowing the broker's insurance to cover the aircraft. In this case, the owner should be picked up under the broker's policy as an additional insured and, in the event that the owner should cause his airplane to be flown, a waiver of subrogation in favor of the owner should be included in the broker's policy. Oh yes, don't forget to specify that any hull damage claim check should include the owner's name.

In either situation, a bank or lien holder should be named as loss payee. In most cases, the bank or lien holder will require that he be given a 30-day notice of cancellation on the

policy. In addition, the lien holder will require a breach of warranty and hull insurance in an amount equal to or greater than the amount of the lien on the aircraft.

It all sounds so simple. The execution of a consignment sales contract need not be lengthy to help outline each party's responsibilities for the sale of an aircraft. It should go without saying that such an agreement is necessary and that insurance certificates should be issued as evidence that the insurance requirements of the contract, in fact, have been complied with. You would be amazed how frequently these simple steps are ignored. As an insurance agent, I have seen situations where insurance was duplicated, being purchased by both the aircraft owner as well as the aircraft broker. Once discovered, this scenario only causes a bit of paperwork to rectify the confusion. It is when neither party insures the aircraft that irreversible difficulties arise.

When making your plans to sell your aircraft, be sure to include your insurance agent. He could be quite helpful when detailing the transaction. →