Insuring the Professionally Managed Aircraft

- A Candid Discussion of Fleet Policies

By – Jeff Rhodes

In the aviation insurance business we see many companies and individuals consider the purchase of "corporate" aircraft. For purposes of this discussion, I am referring to seven to fifteen seat, cabin class piston twins or large singles, turboprops, and jet aircraft like Piper Navajos, Twin Cessnas, King Airs, Citationjets, Hawkers, Gulfstreams and similar models. These aircraft are typically flown by professional pilots for the purpose of transporting the owner and/or the owner's employees and guests on personal and business trips. There are many issues associated with the purchase and ownership of these large, complex aircraft. Full or part time pilots must be recruited, screened, hired, trained, and retained. A maintenance shop or mechanic has to be set up to keep up with the myriad of maintenance issues and the associated complex and important maintenance record keeping requirements. Arrangements have to be made for the storage of the aircraft in a hangar. Office space must be provided for the personnel who work with the aircraft. Fuel prices must be negotiated. Navigational charts and subscriptions must be maintained. These are daunting tasks for a new owner who may or may not even have previous experience with airplanes of any kind. Almost certainly, time and resources spent "managing" a corporate aircraft are time and resources that are not available for the aircraft owner's core business ventures.

In recent years many "Aircraft Management Companies" have formed to provide pilot services, maintenance, hangar storage, aircraft scheduling, logbook management, and other services to aircraft owners. Management companies act like outsourced flight departments. Typically, they employ the pilots, arrange the maintenance or perform it themselves with in house mechanics. In many cases, management companies and owners enter into leaseback arrangements where the manager operates the owner's aircraft to provide commercial on-demand charter services, allowing increased equipment utilization and some possible tax benefits. The aircraft owner takes a percentage of the charter revenue from each trip, which helps to offset the cost of ownership.

Aircraft management companies market themselves as aircraft experts. From an owner's perspective, their contacts and experience in the aviation world are indeed valuable commodities. In some cases this includes a direct relationship with an insurance agent and/or underwriting company and a level of experience with administration of aviation insurance policies.

The Fleet Policy

As an insurance agent specializing in the placement of aviation risks, I am often asked by aircraft management companies to help place a "fleet policy" to include the aircraft the manager handles – or frequently, aircraft the manager WANTS to handle. Just what is a fleet policy? Like many things, this concept has many definitions. Here's mine:

With a true fleet policy, the aircraft management company holds an insurance policy under which all of its customers' airplanes are insured. The named insured on the policy is the aircraft management company, affording them the rights and duties of policy administration, payment of premium, reporting of losses, etc. Each aircraft owner is recognized as such and is also protected as an insured for liability and as a loss payee with respect to payment for physical loss to his or her particular aircraft.

The advantages to this arrangement can be many. Most importantly, all of the aircraft are handled by a single insurance agent and insured by one underwriting company with a single set of policy terms and conditions. Placing all of the aircraft that a manager operates on a single policy can lead to advantages other than lower premiums. Some of the advantages are described below:

*** Underwriters prefer to insure the aircraft operator.**

Insurance contracts require that the aircraft be operated in accordance with certain terms and under certain conditions. In cases where an aircraft owner contracts with a professional aircraft management company to operate, maintain, and store the airplane, underwriters generally prefer to draw their contract with the entity that actually operates the airplane on a day to day basis rather than the owner.

*** A fleet of aircraft is often more attractive to an underwriter than a single aircraft.**

While there is certainly some "economy of scale" benefit to a large policy with multiple aircraft, the real key to obtaining the very best premium rating is to make the risk attractive to the various insurance companies, creating competition for the business.

*** Underwriter familiarization promotes favorable terms.** :

- Broader policies / better coverage – most companies have "broad form" policies that often are available only to policy holders who meet certain criteria. While a single aircraft may not qualify the risk for the best terms, a fleet often will.
- Pilot cross-utilization – Once the agent helps the underwriter understand the "big picture," accommodations can often be made for pilot training that may save all the aircraft owners in pilot training costs.
- A single insurer handling all of the management company's business means that an underwriter can get to know the individuals and the operation. These relationships minimize the need to re-educate insurance companies about the operation many times each year and lead to more favorable treatment.

*** Easy to add and delete aircraft from the policy without "short rate" penalties.**

Many companies apply a penalty for canceling a policy early. With a fleet policy, the policy actually remains in force even when an individual aircraft is deleted. The removal of one aircraft is usually given a pro-rata deletion and the entire unused premium is returned to the policy holder.