

POLICY COVERAGE FORM

Have You Checked Your Form Lately?

By Thomas H. Chappell

No, I'm not talking about rushing to the mirror to check your waistline. I am talking about your policy form. Most insurance companies have more than one policy form available. Some are their standard forms, and some are much broader and include many extra coverages.

In 2004, I wrote an article titled "Does Your Policy Have the Right Stuff." In that article, we discussed many of the coverages that were offered in the broadest policies and mentioned that everyone did not qualify for the premier policies. This was in 2004 and before the aviation industry cycled downward to the soft insurance market.

We have discussed many times the fact that the insurance industry goes through cycles. For those of you who have read my articles for any extended period of time, you know that a soft market brings with it lower insurance premiums and increased underwriter cooperation. You know that we suffered a hard market from the turn of the decade until the new underwriting companies entered the market in 2006. You also know that in an attempt to gain or retain market share, the aviation insurance industry has been in somewhat of a free-fall ever since (the current soft market).

As the wise man said, "This too shall pass." And, it is about to. All industry signs seem to indicate that we are in the early stages of the next hard market. At the very least, we will see a flat market. Yes, the first thing we think of is that rates and premiums will increase. That is certainly one trait of a hard market. More importantly, the lack of underwriter cooperation will enter into the equation.

What does all this conversation about hard market traits have to do with the various policy forms of coverage? Traditionally, the broader policies were reserved for the best risks. Typically, only the corporate jet fleet flown by professional crews would be awarded the deluxe policy forms. The fleet premiums were large (therefore attractive) to the underwriter, the crews complied with the highest training standards, and fleet aircraft were thought to receive the very best in maintenance.

During the recent soft market, the competition between underwriting facilities not only focused on lower premiums, but the underwriters were willing to offer the best policy forms to a broader group of policy holders. The corporate, industrial and accounts no longer had a corner on quality.

I said that these best policy forms were available to a broader market segment. I did not say they were available to everyone. Highly experienced, non-professional pilots were offered the broader forms of coverage. In addition, better, non-corporate risk began to qualify for higher limits of liability more than ever before. As the soft market continued,

the threshold to be considered highly qualified was moved down. In short, many owner-operators flying newer aircraft qualified for the best the insurance industry had to offer.

We have been mentioning the broader policy forms. Exactly what do they have that the standard forms don't offer? The standard form provides the basic coverages that most insurance buyers think about when insuring their aircraft. Aircraft physical damage (often referred to as hull insurance) and coverage for aircraft liability are the basics in both the standard form as well as the deluxe forms of coverage. In addition, both offer some limit of medical payments (first aid) coverage. The deluxe forms may offer more than 40 ancillary coverages that vary from very important to "ho hum." Coverages such as host liquor legal liability, non-owned aircraft physical damage, and non-owned liability could be very important depending upon your usage and individual needs. The underwriter may be able to remove standard exclusions such as the "fellow employee exclusion" on the broader forms of coverage. In fact, such exclusions may not even exist in some of the broadest forms. In "all risk" forms, coverage exists unless it is specifically removed either by exclusion or other policy wording.

Some of these ancillary coverages are unimpressive but could be nice to have. Runway foaming, trip interruption, or search and rescue coverage I consider to be frill coverages, but in the right circumstance, they would be nice to have. For the most part, however, these less-significant deluxe coverages are just intended to make the policy appear more comprehensive.

If you operate light aircraft as a non-professional pilot, as many of us do, you may never qualify for the broadest deluxe policies. There is a land in between, however. Many of the underwriting companies have an expansion endorsement that can be added to the standard policy form. This little gem adds to the standard policy form many of the ancillary coverages that are automatically included in the deluxe forms. Although not as inclusive, it does expand the standard form significantly.

What comes next? If history repeats itself, the onset of the next hard market will greatly affect the availability and cost of the best insurance products. If you currently have a broad form policy, you probably will be "grandfathered," so to speak, and will be offered your deluxe policy form in the future. That is if you continue to renew with the same underwriter. Of course, everyone will have to pay more for their insurance in a hard market, but, with the deluxe forms, you will be buying more for those insurance dollars.

And then there is the market sector that has not been offered the broad form policy. Soft market or hard, there is a market sector that the underwriting community just doesn't aggressively seek. Risks that have inexperienced pilots or transitioning pilots, single pilot jet operations with less skilled operators, older aircraft, piston-powered aircraft, aircraft with bad reputations (whether deserved or undeserved), or aircraft used for commercial use or hazardous purposes of use have traditionally never been awarded the broadest forms of coverage. Some things never change.

But, some do. When you last purchased your insurance, assume you were a bit inexperienced or were transitioning into an aircraft that you were not quite qualified to operate. During the past policy year, you have received more training and more experience and have completed your transition program. Your current insurance is not the broadest form of coverage because of your marginal qualifications at your last purchase. It is time to pay attention to what “old Tom” is saying. While the market is still somewhat soft and the underwriters are cooperative, make your next renewal count. Have your agent shop the market for you with an eye on quality as well as price. Given the choice, go for quality first. By doing this, you will establish your baseline as we enter the next hard market. Both product and price are issues. And, don’t forget the age factor for those of you who are entering your senior flying years. You will thank me later. ➔