TBM Insurance Program Introduction

By Thomas H. Chappell

Program Purpose

- Benefit the Association by attracting more members, and encouraging enthusiasm and participation.
- Benefit the member by offering a discount on their insurance premium.
- Benefit the participating underwriting companies by decreasing losses through increased training and safety.
- Build a program that won't self-destruct.
- Build a program that is non-exclusive, open to all agents, brokers, and participating underwriters.
- Place safety as a primary purpose for the association to embrace.

The Challenge

During the last National Business Aircraft Association (NBAA) convention, I ran into John Hayes and Tom Evernham. As you might imagine, we began to discuss the business of the CJP and the TBM associations. They asked if an insurance program of some type would be possible. The answer I gave them was that I had never seen one really work. But, I offered to give it some thought to see if we could eliminate those problems with prior programs that always caused failure. The following are excerpts taken from a "white paper report" that I sent to the underwriting community, which has led to what I believe will be the first successful insurance purchasing program.

What This Proposed Program Is Not

Over my 35 years in the insurance business, I have seen many insurance programs and exclusive agents' agreements tried without much success. Traditional insurance programs are supposed to reward a buyer's group with reduced premiums in return for volume to an underwriting company. The underwriting company hopes for increased market share and prays for low losses until the overall premium for the book of business reaches a critical mass. The sponsoring insurance agent expects exclusivity from both the owner/operator's organization and from the insurance underwriter, thus cutting out competing agents and brokers.

The Train Wreck

The best insurance risks, those operators with the best training and the most experience, do not need a group or association to purchase their insurance. In fact, most preferred insurance buyers can purchase their insurance for less money and with broader coverage than any sponsored program can offer. Most underwriters will shy away from the program concept because only the average and below average insurance risk will find benefit in the volume purchase concept. I believe the underwriters refer to this as adverse selection.

Some programs have tried to entice the preferred risk by utilizing a tiered rating approach, charging a lower premium for the preferred risk and a higher premium for the less-experienced risk. This too has failed in most cases due to the exclusivity issue.

Exclusivity

Insurance agents and insurance underwriting companies that are willing to entertain group or association business usually want exclusive endorsements from the association. The preferred insurance buyer usually has a relationship with an agent or broker whom he values very much. If a change is made, the insured usually moves to a new agent based upon a referral from a trusted friend or advisor not based upon the endorsement of an association. Again, this exclusivity interferes with this relationship both at the company and agency level.

Reduced Underwriter Participation

When the agent or broker develops a program, greed enters the picture and exclusivity is demanded. This exclusive agreement is usually unacceptable to the insurance underwriting company because it favors one agency and excludes all of that company's other agents. Rather than run the risk of offending a company's entire agency plant, the underwriting company will simply decline to participate. This is a big loss to the association because it is offering its members only a small segment of the available underwriting community.

As a result, most (not all) sponsored programs have failed because the underwriters are unable to underwrite and price a risk freely, they run the risk of offending their agency plant, and they attract only the average and below average risk, which results in adverse selection. In short, experienced companies with a long-term commitment to the general aviation insurance industry will avoid exclusive programs.

Let's Make the Program Concept Work

Understanding the history of insurance volume purchase programs gives us a clue where to start in structuring a plan that will work. We just need to develop a program that will work for all parties. How? We must address each of the reasons for not doing a program. First of all, let's understand that the reason insurance companies are in business is to make underwriting profits. This can be accomplished in one of two ways. They can either increase premiums to a level where they exceed expected losses or decrease losses through safety engineering and good risk management. Ah, there is that word again, "safety." "Safety" is not just a hollow buzz word. It really has meaning. In aviation, the safety word is almost synonymous with training. History has proven the more we train the safer our flight operations become. If we know that, and the insurance companies believe that, we have the makings of a reason for our association to exist. Now we can build an association program that attracts the insurance underwriter and appeals to their mission, profitability. For the association, we have a distinct purpose and one that will live in perpetuity. After all, we are trying to increase membership, owner/operator participation, and a safer fleet of aircraft. Again, how?

Forget the Exclusivity

What about agency exclusivity and the insurance companies' reluctance to play favorites? This part is easy if we take the unselfish approach and not the scorched earth policy. As an agency, I believe that Chappell, Smith & Associates, Inc. (CS&A Insurance) has made a significant contribution to the development of the TBMOPA. That contribution will be rewarded with enough business and client loyalty to justify our efforts. We want the safety program to survive and succeed. To this end, we must have an open market allowing any agent or broker to participate. We do not have to insist upon exclusivity. That approach has killed many programs in the past.

This then opens the door to an underwriting program that can be offered to all underwriting companies and all agents, brokers, or agencies. It then hinges on the completion of additional safety training and the association's commitment to quality training programs. Membership alone does not get the job done. "Completion of the program and seminars must be required."

The Premium Discount or Premium Credit

Traditional insurance buying consortiums and programs offer a premium discount just for being a member. As an example, if you are a member of the AOPA, you will get a 5 percent premium discount from certain companies. This is available through any agent, not just the AOPA Agency.

The problem with this approach is insurance premium quotations are moving targets. Insurance does not come in neat little packages that are bar coded and priced for everyone to see. That would make it easy to apply a percentage discount. Instead, each insurance client is individually underwritten, and those premiums and prices vary from client to client and from year to year. The result is any discount can be promised especially if the product has not been priced. Knowing he is giving a 5 percent discount, an underwriter *could* just mark up his quote 5 percent and then discount it 5 percent, and you are back where he wanted to be in the first place. He only needs to price his product, including the anticipated discount, at or just below the competition.

Usual Renewal Negotiations

With the TBMOPA program, each aircraft owner/operator would shop or negotiate renewal terms individually with his underwriter of choice. If he has selected an underwriter who participates in the TBMOPA safety program, a no claims bonus endorsement will be attached on request. The control will be that all coverage and pricing will be compared on an apples-to-apples basis without regard for the “no claims bonus” endorsement. This is good ole price shopping. As such, we are not shooting at a moving target when applying the safety discount. In short, we are retaining the competitiveness of comparing prices in the open market. The more experienced pilots can negotiate competitive pricing without having the less experienced pilots pull them down to a group average.

The group will be seen by the underwriting community as individual risks that are individually underwritten. As a result, it will be difficult for any underwriting group to focus on the association’s overall loss ratio. The safety training will be the primary objective of the program and the primary focal point of the underwriting community.

Pricing Solution

Chappell, Smith & Associates, Inc. (CS&A Insurance) has negotiated on behalf of the TBMOPA a “no claims bonus” agreement with the underwriters who agree to participate. These are accepted policy endorsements that most underwriters have already filed and are approved by the individual states. As you will see, these “no claims bonus” endorsements apply only to the hull portion of the premium. Some require that you renew with that particular underwriter; others are more liberal.

In the following section, you will find a copy of each participating company’s endorsement. Some are referred to as a No Claims Bonus or Profit Commission (NCB). Others are a No Claims Bonus on Renewal (NCBOR). This means that you must attend and complete the association’s annual safety training program and have no claims during the policy period. If your underwriter offers an NCBOR, you must also renew with your expiring insurance company.

**The Approach Is Focused
On Safety**

This arrangement will enable each underwriter to reward safety training that is sponsored and approved by the association, while retaining the integrity of their underwriting standards. They will not have to run the risk of offending their agents by offering an exclusive program to only one exclusive agency. They will preserve their underwriting integrity by using conventional underwriting and pricing practices and then applying the safety “no claim bonus” at the end of the policy period. All companies do not offer the same “no claim bonus.” Some may choose to be more generous than others and some may offer coverage enhancements, but this will play a role in the overall competitiveness of each respective company’s safety program.

The association member as an insured will continue to use the agent of his choice and any participating insurance company he chooses. He is free to shop his account among the participating companies and still receive a safety bonus. Each insured will be underwritten on his own merits and not have his premiums and coverages influenced by less qualified pilots.

And the biggest benefit of this approach is that the program should last. No one benefits from a short-term agreement.

For the TBMOPA, the participating members can be rewarded by the underwriters while being represented by their own insurance agents through participating insurance companies offering the best program for each individual. Please note that not all insurance companies have chosen to participate. Once we prove our commitment for safety, others may join. ✈