

What Your Agent Owes You

Thomas H. Chappell

What should you expect from your aviation insurance agent at renewal time? First, let me point out that the aviation insurance industry marches to an entirely different drummer than any other segment of the insurance industry. Many aviation insurance consumers gauge their expectations of aviation insurance agents, underwriting companies, and policies by what they have experienced when buying general property and casualty policies. They usually try to equate the coverage in an aircraft hull and liability policy to that found in an automobile policy.

Who Can Quote?

Unlike the property and casualty world, aviation insurance companies are few in number. They tend to be more flexible than other sectors of the insurance world. Although there remains a basic industry protocol that they will rigidly follow, each aviation insurance company has more liberty to write its own rules in pricing and risk acceptance.

Like the general property and casualty (P&C) industry, most aviation companies will offer to quote insurance to a prospective client through only one agent. Although aviation insurance companies are often accused of being very restrictive with their “one agent, one quote” policy. This is no different than any other P&C insurance company. This practice seems more noticeable

in aviation because there are so few insurance companies that write aviation as compared to the multitudes that underwrite general property insurance, auto insurance, or casualty lines of coverage. When the consumer tries to do the prudent thing by shopping for the best deal available, he will usually approach several different agents for premium quotations. With such a small market place, the agents continually trip over each other when trying to obtain a quote. They approach this small cadre of underwriters multiple times. In defense of the underwriter’s view and system, quoting a risk once each year is enough.

So the first thing to expect is that your agent is restricted in the number of quotes he can offer. If you use one agent to shop the market, you should expect to receive the results of an orderly review of the available underwriting market.

How far in advance of your renewal should your agent begin the process?

Your current aviation insurance agent should contact you for renewal information between 30 and 60 days prior to the expiration of your policy. I know, I know. Your P&C agent begins the underwriting process between 60 and 120 days prior to expiration. The differences are numerous.

Many property underwriters want a company engineer to inspect a large property risk before quoting. That is a legitimate requirement. Pure property and casualty risks must go through the rating department so the underwriter has a starting point. The industry culture dictates much about momentum and protocol.

To the contrary, most aviation underwriters will not accept an account to quote more than 60 days prior to the policy anniversary date. Unlike general property and casualty underwriting, there is little engineering of the risk, and the calculation of rates is simple. Candidly, aviation underwriters tend to do a better job getting the quotes back to the agent once they begin the process.

I talked with a gentleman recently who responded to this “recap” of the aviation insurance industry by saying, “I don’t like the way your industry is structured.” Quite frankly, neither do I, but there is little a single agent or group of agents can do to change an established industry. The aviation insurance industry has been around for more than eighty years, and it does work. Aviation insurance may get started on the quoting or renewal process later than their P&C counterparts, but they are much more efficient in the process. In my opinion, one big advantage the aviation underwriter has is that he or she is empowered to make an underwriting decision. His P&C counterpart has many restrictions to deal with.

In short, you should expect your agent to secure his renewal information no less than four weeks prior to renewal and to deliver your quotes between two-to-four weeks before renewal. Less than two weeks is too close, unless he has problems placing the account or the agent is shopping every available insurance company.

Most agents begin the process in a timely fashion but often are delayed by the client. People travel, procrastinate, misplace log books, and have a variety of issues that delay the quotation process. The moral to this is that you the consumer may be the cause for what may be perceived as a late quote.

You deserve to know!

If your agent shopped one or more insurance companies for your renewal quotes, how did the quotes compare? You deserve to know. We have seen many agents make a placement submission to all available aviation insurance companies every renewal. Sometimes this effort is truly to provide you with the most competitive premium and coverage available. Sometimes, the agent’s motive is to block the market. Once an insurance company is approached with a submission to quote, no other agent can approach the company without the client appointing a new agent in writing. This letter is known as an agent or broker of record letter (AOR or BOR). When this reassignment occurs, industry protocol dictates that the insurance company extends the original quote to the reassigned agent. If that is a declination, the declination must be extended. If the underwriter has not yet extended terms to the old agent, the new agent is free to negotiate on the client’s behalf.

If the agent shops or over-shops the market every year, regardless of his motive, the underwriters will eventually lose interest in repetitive quoting while never writing the account. They will see the submission, match it to the computer, and see that the agent has submitted it on numerous occasions. If the underwriter believes he is just being used

to block the market and has no real chance to write the business, you will receive a declination and back in the computer you go for another year. The agent has blocked the market and retains the business because no one else can obtain a quote. And you, the aircraft owner, will never really see the competitive side of general aviation insurance.

How do you know the agent's true motive? You don't, but you can have a better feel for the situation if your agent offers a copy or a spreadsheet of each company's response. Some companies respond to the agent with a fax upon which the underwriter has simply handwritten his response or quote. Other underwriters respond by e-mail and others with a simple phone call. A few high-end underwriters respond to the agent with a full underwriting proposal including policy detail suitable to serve as a binder. This kind of response is usually reserved for the more sophisticated corporate flight department. Although the underwriters respond in many different forms, if you doubt your agent's sincerity, you can ask for a copy of the response no matter how ugly that response may be.

Your underwriting success depends upon your agent's understanding of your needs, qualifications, aircraft type, and mission. If your agent is able to explain your risk to the underwriter, you will see better results. The more comfort the underwriter has with your account, the better coverage (policy form) he will offer and the better premium quotation you will see.

No matter how good the agent, some underwriters have likes and dislikes. Every risk, pilot, and aircraft type is not acceptable to the underwriter. They will decline even the best agent's submission if the risk is unattractive to the general aviation insurance marketplace. Some underwriters have "prohibited lists." For example, each insurance company publishes underwriting guidelines or dictates precluding the underwriting of certain purposes of use, aircraft types, or pilot categories. If you fall in one of these categories, you will be declined by that company regardless of your agent's presentation. It is safe to say, some risks are declined because they do not meet the underwriter's minimum standards. So don't be too quick to blame your agent just because he receives a rejection on your submission.

Get to know your agent and discuss your renewal marketing strategy with him. You will get a feel for his talent with just a short conversation.

Your agent should council with you as to the advisability of shopping the risk every year

Don't shop every year, and don't allow your agent to just tie up the market every year to block the competition. The reasons for this are fully discussed above. If the market is stable and you have confidence that your agent has shopped your risk in good faith, plan your next "shopping spree" with caution.

It is now the beginning of the fourth quarter of 2006. We have experienced unprecedented turmoil and change in the general aviation industry during the first half of the year. Two new primary companies have entered the underwriting community bringing with them a huge increase in capacity. In a matter of just a few months, we have seen the market turn from a seller's market to a buyer's market. Some consumers (not all) that have resisted jumping around from underwriter to underwriter for a nickel's worth of savings in price are now in a position to get a true test of "soft market pricing."

What should we expect in the 2006 to 2007 policy year?

As mentioned, new capacity always leads to unrest and increased competition. Keeping in mind that this new capacity has only recently become available, the newest underwriters will be trying to reach a critical mass as quickly as possible. This means that the larger the premium an account pays the more it will be in demand. For the first time in years, the commercial account, the repair station, the charter operator, and the fleet manager will be a sought after commodity by the underwriting community. Good times should be here for the helicopter operator, as well. Although the underwriter must continue to exercise good judgment in risk selection, a renewed flexibility will emerge. Such things as pilot training will remain but may be less stringent on the second-in-command. We will see renewal premium decreases. How much decrease will we see?

Who knows? I was told by one underwriter recently that he would do "whatever it takes" to write one of my larger preferred accounts. The smaller client will not see quite as much underwriter enthusiasm until the large premium accounts have been picked over. Sorry single engine aircraft owner. You will just have to wait your turn. At least the market trend will tend to be flat-to-down with few premium increases expected. That is, of course, if you don't increase your exposure to loss.

The last half of 2006 through 2007 will be a good time to shop your next renewal. Hopefully you have not over-shopped your renewals in the past. You want maximum enthusiasm and maximum competition for your business, and there is nothing like market turbulence to create a bit of competition.

This is when you need your agent the most. Take the time to council with him and plan your approach to the market for your next renewal.

Does your agent have a direct contract and working relationship with the underwriter?

Many times general property and casualty agents write the insurance on only one or two aircraft each year. In order to maintain company contracts, an agency must have sufficient premium volume to entice the aviation underwriting company to enter into a contract. Agencies with few aviation accounts find it difficult to maintain enough

aviation underwriting relationships to offer their clients a good representation of the market place. Their solution is to broker out the business.

In order to give a premium quotation to their client, the general property and casualty agent will, in good faith, broker their client's aircraft through a middleman (an aviation insurance broker) who for a split of the commission will market the account to the aviation underwriter. If this is your situation, your questions go to your agent who has little knowledge of aviation. He in turn asks the broker who directs the question to the underwriter. The underwriter answers the broker who tells the P&C agent who tells you, the aircraft owner. Wow! What a way to negotiate.

Maybe it is time to find an aviation insurance specialist of your own.

Make sure your agent has direct contact with the underwriting company. This direct agent-to-underwriter relationship should be much closer than if your agent brokers your business through another broker you've never heard of and will never meet.

When should you expect to receive your policy?

Your agent does not issue your insurance policy in his office. The policy is issued by the insurance company and mailed (by the United States Postal Service "snail mail") to the agent. Therefore, prompt policy delivery is out of the agent's control.

Most agents will deliver an agency or insurance company-issued binder to serve as evidence of insurance until the actual policy is received.

We agents would like to expect the new or renewal policy to be in our office within two weeks after giving the underwriter the order to bind coverage, but reality sets in.

Insurance companies

for various reasons will have periodic backlogs of work. This can slow down the policy issuance.

As an agency, we begin to follow up on our delinquent policies four weeks from the date of binding. Certificates of Insurance should be issued immediately upon binding or coverage inception and in the mail within just a few days.

Upon receipt of the policy from the underwriter, you should expect your agent to check for errors. Now, there are several schools of thought with what happens next. First we hope the company issues the policy as ordered with no mistakes. In this case, the agent should check the policy and forward it on to the insured immediately. Remember, the insured is holding a binder as evidence of insurance. This binder is never as specific as a full insurance policy.

If mistakes are found, the agent may forward the policy (including the mistakes) to the insured and include a copy of the memo outlining the corrections that have been requested from the underwriter. The underwriters will issue correcting endorsements to

the policy. Some agents make note of the mistakes and return the entire policy to the underwriter for correction or to be completely reissued. Both approaches are acceptable. We find that it is most expedient to get the policy in the hands of the client as soon as possible allowing the correcting endorsements to follow. Even a policy with mistakes (with a correction memo) makes a much better coverage instrument than a binder.

Although your agent should check your policy for errors, there is no substitute for the critical eye of the ultimate consumer. You know what you wanted and understand the co, thinks about risk management and looks for areas where coverage is missing.

Don't make a surprise phone call. With a little notice, the agent will have time to review your file and refresh his memory about you and your situation. Believe me when I tell you this is time well spent.

Your aviation insurance agent may become your "new best friend." →