

# *Aviation Insurance Terms and Definitions: Do You Really Know What They Mean?*

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Have you ever talked to your aviation insurance agent and felt that you were conversing in a foreign language? Even worse, if you have ever had a claim and discussed your coverage with an adjuster, you may have felt frustration and a bit of a language barrier. That is where your attorney comes in, you say. Be careful, many attorneys don't understand the aviation insurance lingo either.

I admit that the aviation insurance industry is a bit different from the general property and casualty industry. These differences are seen in the wording of the insurance policies used in each sector of the insurance industry. In aviation, we further complicate things with our own vocabulary that is equally confusing to those who are not involved in general aviation. In this article, I will attempt to define some of the aviation insurance terms that you might have heard and not fully understood. Forgive me if I cover things you already know, but I am "shot gunning" here.

Actually, many of the industry terms can be found in your aircraft hull and liability policy. You will also find that many policies differ in their wording and definitions. I know the last thing you want to do is read your insurance policy, but I would suggest that after you read this article, your policy's declarations page and the definitions section will make more sense.

The term we just used was hull. Whether you have a boat or an airplane, your insurance policy will refer to the hull (or to the physical damage of your aircraft). In our case, the hull is the aircraft itself. Too basic for you? OK, does the hull include the engines? Yes. The entire aircraft, including all permanently attached modifications, is considered the hull. As an example, if a helicopter has a permanently attached camera pod, the pod can be insured as a part of the hull.

The term scheduled aircraft is referred to in most policies. This refers to the aircraft listed on the declarations or coverage summary page or a schedule of aircraft (if a fleet) that is attached. Each aircraft is identified by FAA registration number (N#), the make and model of aircraft, the number of seats, and the insured (hull) value are usually included. Please note that the registration number (and not the aircraft's serial number) is the way the insurance company identifies your aircraft. If you change the N#, immediately advise your insurance agent/underwriter so he can have your policy endorsed to reflect the change.

The aircraft (hull) value is the amount that you and your underwriter agree your aircraft is worth. This value is shown on the coverage summary page of your policy as the "Agreed Value" of your aircraft. Thus aviation insurance policies are usually referred to as "agreed value" policy forms. This differs from the automobile world, where an automobile is usually written on an actual cash value (ACV) policy form.

Following a physical damage claim to an automobile, the claims adjuster and the owner of the automobile debate and often disagree on the value of the damaged auto. The agreed value aircraft policy plainly states the value that will be used in settling the claim; no one is confused and there is no room for disagreement. The stated amount is the value and that is that.

A word to the wise: Give some thought regarding the value of your aircraft. If you are uncomfortable with the value currently stated on your policy, call your agent. You can change the value of your scheduled aircraft mid-term by endorsement or at your next renewal. The idea is to insure the true value of your aircraft. Don't over insure and don't under insure.

We often receive calls from or on behalf of the banking community requiring GAP insurance on leased or financed aircraft. This is a coverage designed for the automobile world that covers the gap between the amount the actual cash value (ACV) will pay and the amount remaining on the amortization schedule of a loan or the stipulated value of a lease. Since aircraft usually are written on an agreed value policy form, the stated value of the hull on the insured aircraft schedule does not decline during the policy period. In short, there is no gap. Try explaining that to a banker.

Endorsements are policy changes. They are addendums to the policy and may be premium bearing changes, or the underwriter may issue them at no cost. Changes can be made to any policy at inception or at any time during the policy period, assuming both the policy holder and the underwriter agree. Typically, we see mid-term endorsements used to change hull values, use, lien holder, N#, and liability limits; for the addition or deletion of aircraft; and for a multitude of other changes or corrections.

Territorial limitations are defined in every policy. This states where your aircraft will be covered geographically. Some policies as a matter of form will limit the territory of operation to the 48 contiguous states, along with Canada and Mexico. Some include the Islands of the Bahamas. Some state the Western Hemisphere and some are so broad they include "anywhere in the world." The point here is that you know what your policy says and operate within that geographical boundary. If you have a loss outside your designated territory of operation, your coverage may be void.

Who is approved to operate your aircraft? Often referred to as an approved pilot, your policy will either refer to someone whom the underwriter authorizes to fly the insured aircraft by name or named pilot or by open pilot warranty (OPW). If it is a named pilot, the underwriter will specify by name a pilot who is approved to fly the aircraft. If it is by "open pilot warranty," the underwriter issues a set of standards or requirements for a pilot. Anyone meeting the open pilot warranty is approved to fly the insured aircraft. At this point, I must mention that the FAA and the underwriter do not always coincide in their requirements. The FAA controls who is legal to operate an aircraft. The underwriter dictates the pilots or pilot requirements he will approve to fly the insured aircraft. Usually the underwriter is more restrictive than the FAA. I will say that the underwriter always requires that the pilot meet the FAA requirements. The FAA has no interest in the underwriters' requirements.

The liability limits are defined on the coverage summary page (the declarations page) of the aircraft policy. The liability limits state the amount of liability coverage that is provided for bodily injury (BI) and for property damage (PD). In most current policy forms, these limits are written on a combined single limit (CSL) basis. CSL lumps all liability coverage into one limit as opposed to a split liability limit. A split liability limit would have one amount stated for BI and another amount for PD. In addition, the combined single limit liability amount may include passengers or it may deal separately with passenger bodily injury.

If the passenger liability coverage is included in the CSL amount, it is referred to as a smooth limit of liability. An example would be \$1million CSL including passengers.

If the passenger liability is written at a lower or restricted limit, you may see \$1 million CSL excluding passengers, passenger BI \$100,000 per passenger seat. Some less desirable policies may offer \$1 million CSL (BI and PD) restricted to \$100,000 per person. Note the huge difference between a per passenger seat restriction and a per person restriction. The per person restriction could be a passenger or someone outside the aircraft.

The coverage summary page or declarations page (dec page) may be more than one page. In many policies, especially the broad form policies, the company may devote two to five pages to the specifics of your policy. Such things as hull value, liability limit, territory of operation, purpose of use, and approved pilots will be specified on the “dec” pages.

Purpose of use is a very important term in that it defines what your aircraft can be used for. Uses such as pleasure & business, commercial or charter, instruction & rental, and cargo hauling are examples typically found on general aviation policies. There are special uses such as sky diving, fire patrol, pipeline patrol, aerial photography, emergency medical services, air ambulance, and aerial application are just a few that come to mind. On very broad corporate aircraft policies, it is not unusual to see the purpose of use defined as “any use of the named insured.” Obviously, the underwriter has engineered the risk and is comfortable the use will be within acceptable parameters.

I will add that any special use must be specifically included on the policy for coverage to exist.

Deductibles are usually specified on the declarations pages of the policy. Some broader forms of coverage will provide a separate section dealing with deductibles elsewhere in the policy. The deductible is that amount of money that the insured contributes toward a loss before the insurance company will pay the balance of the claim.

We typically see a separate deductible for in-motion (IM) and not-in-motion (NIM) losses. Some policies refer to in-flight. In-motion means if the aircraft’s engines are turning and the aircraft is capable of moving under its own power. In-flight is from the time that the aircraft begins its take-off roll to when it has completed its landing roll.

With water alighting aircraft, an in-mooring deductible may be applied. Some insurance companies may apply a separate ingestion deductible for turbine and jet aircraft. If we are dealing with rotorcraft, we would see a rotors-in-motion deductible. In some cases, we have seen underwriters impose separate deductibles for gear collapse or wind storm. Check your policy deductibles.

Some deductibles are a specific amount of money, such as \$500 or \$2,500. Some policies tie the deductible to the insured value of the aircraft by specifying a percentage, such as 5 percent or 10 percent. Some underwriters require no deductible at all. These are referred to as “nil” deductibles.

The one thing that we can say for sure is that there are many variables in the deductible world. Check your policy before the loss, and be sure this is something that you can comfortably accept in the event you have a loss. By the way, most policies restrict the deductible to hull losses. I said most, not all. There are some situations where you will see liability deductibles. A deductible in this situation is often referred to as a self-insured retention.

I cannot imagine how bored you are at this point. In fact, I am surprised you have been able to stay with me long enough to finish an article that deals with such a dull subject. Insurance definitions, “dry.” Well, thanks for your patience. →