

Better With Time?

Insuring the Aging Jet Aircraft

By Jeff Rhodes

I recently looked at ads for two aircraft for sale. One was a 2001 Cessna Skylane. It was well equipped with good IFR equipment, a moving map GPS, and an autopilot. Its paint and interior were in good shape. The seller was asking \$235,000 – a fair price.

The other airplane was a 1967 Lear 24. It was well equipped with good IFR equipment, a moving map GPS, and an autopilot. Its paint and interior were in good shape. The seller was asking... \$235,000 – Wow! Wait a minute... Can you really get a 450 knot, seven passenger, twin engine business jet for the same price as a fixed gear single? Well, yes you can. But remember that the cost comparison certainly doesn't end at the purchase price. It only begins there. The cost of owning these two aircraft begin to diverge fairly quickly within minutes of the purchase.

Obviously the business jet market has become an interesting and dynamic place. Each year brings new models of aircraft. The Cessna Citation line alone now has ten different models currently in production. Cabins are getting bigger, range is getting longer, and instrument panels are getting fancier. The new breed of Very Light Jets (VLJs) are beginning to roll off several manufacturers' assembly lines, with others still in the developmental stage. While the new jet market is rapidly developing, small business jets are certainly not new to the aviation world.

Literally thousands of small corporate jets were produced between the mid 1960's and the mid 1980's. Many of them are still on the FAA registry. As illustrated above, the prices on many of these airplanes are near or below the original selling prices from the 60's and 70's. These older used aircraft can be useful transportation tools for businesses or individuals. Their performance and capabilities can be comparable to any "modern era" jet; while current selling prices allow owners to keep quite a bit of capital in the bank.

Are these older aircraft insurable? Yes, they certainly are – with some caveats to be considered.

Insuring Older Aircraft – Underwriting Considerations

There are several issues at play when underwriting a risk with an older aircraft. An aviation underwriter must weigh all these factors, decide first whether to offer a quote on the risk at all, and if he decides to quote, set a premium.

- 1) Is the aircraft safe to operate? Fortunately, FAA requirements and pilots' self-preservation instincts mean that the answer to this question is usually "yes." But, unseen deterioration and unknown maintenance issues become more likely as an airplane ages.

2) In the event of damage, can the aircraft be repaired within a reasonable timeframe and at a reasonable cost? Many of these old aircraft are out of production. Replacement parts may be hard to find or may have to be fabricated. This increases the cost to the insurance company for repair of damaged parts.

3) Is pilot training available? The large schools have many Citationjet simulators, but Sabreliner 40, or Jet Commander training is more difficult to come by. With this in mind, can pilots be properly evaluated and trained?

4) Does the low purchase price invite owners to get in over their heads? All too often, inexperienced aircraft owners become overwhelmed by the expense of operating a jet. This, in itself, creates a host of underwriting concerns.

Because of these and other factors, it is obvious that the older jets are considered to be a higher risk than the newer aircraft in the market. The insurance markets that specialize in insuring high value, new aircraft often resist quoting older aircraft. With few exceptions, USAIG does not accept any aircraft older than 25 years. Global Aerospace, AIG Aviation, and Phoenix Aviation Managers will accept the aircraft, but only when there is a compelling reason to do so, and then only with strict constraints and at significant premiums. New market participants like Allianz, CV Starr, Arch, and Travelers likewise are taking a measured approach to accepting older aircraft risks. Other companies like US Specialty, XL Specialty, AXA, and Aerospace Insurance Managers that specialize in insuring slightly higher risk operations can provide good coverage for these aircraft within their underwriting guidelines and limitations.

Premium?

Typical hull premiums on older Lear, Falcons, Hawkers, Diamonds, and Westwinds run between one and three percent of the hull value, depending on the use, the pilots, and the aircraft type. Older Gulfstreams and Citations can be insured for less than one percent of the hull value, a testament to the factory parts support that these airplanes still have. Rarer or less prevalent airplanes like the Jet Commander and Hansa Jet may bring hull rates of more than three percent. In motion deductibles are usually \$5,000 - \$10,000 including losses due to foreign object (FOD) ingestion to the engines. (FOD is a significant claims scenario on the older jet engines.)

Liability Coverage?

The insurance companies that most competitively quote older jet aircraft typically offer liability limits up to \$5,000,000. While this may not be adequate protection for a Fortune 500 company, it may be enough for a small business or an individual. Excess liability coverage may also be available through an excess market which may provide enough insurance for someone who is considering a small jet airplane.

Tips to Ensure Insurability

Even though an older jet may be priced similarly to a new piston single, insuring it is certainly different. To insure any jet – a \$40,000,000 Gulfstream G-V or a \$500,000 Lear 24 – it is important to have your agent help you formulate an insurance strategy.

Provide your agent with all the necessary details that he or she will need to present to the underwriter: pilot information, aircraft information, ownership information, use, territory, etc. Many underwriters want to know about airframe and engine times and who will do your maintenance.

Don't skimp on pilots. Don't adopt the attitude that an older, lower valued jet allows you to use less experienced pilots. Often, quite the opposite is true. Older aircraft are sometimes more demanding to fly than newer ones. With less sophisticated equipment, less training available, and underwriters less willing to compete for your business, recruit and hire quality professional pilots to operate the airplane. Send them to the best training program you can find and plan on sending them back each year for recurrent training.

Operate like a big corporate flight department. Use a regular flight crew that your underwriter approves. Appoint a chief pilot. Develop and implement an operations manual. Hangar the airplane. Keep the airplane clean and well maintained. Keep good records. Document all of these things to the underwriter. Show that your operation is safe, well organized and professional.

Older jets can be a real value in today's market. By paying close attention to insurance issues and being an educated buyer, you can continue to safely and economically take advantage of the value that these aircraft will offer for years to come. →