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Buying Aviation Insurance – A Primer On Industry Protocol

By Tom Chappell

There have been many “How To” books written for almost every industry, hobby, and personal activity. Some are a bit dry, although enlightening, and some are equally enlightening but easier reading and often a bit humorous. I speak of the “How To” books “for Dummies”.

We receive many basic questions from prospects and friends each month. Most of these people are quite influential in their respective industries and quite successful. Smart people ask good questions. Because of these many questions and the uniqueness of the aviation insurance industry, we have realized that many of our readers, clients, and friends do not always understand the basic steps to buying their aviation insurance.

Although I hope the following doesn’t fall into the dry but enlightening category mentioned above, I would like to take you through the basics of purchasing your aviation insurance.

Step One – Select your agent:

The insurance agent you select to handle your aviation insurance is an important first step in your buying process. He or she should be thought of as your advisor and insurance negotiator. As your negotiator, he must have enough understanding of the aviation industry as well as the underwriting community that specializes in insuring aircraft and related service providers.

“Why is the agent so important? With my other insurance, any agent will do.”

We have become somewhat lazy in purchasing many of the insurance products we buy today. The mass marketing approach many insurance companies rely on is designed to push their prepackaged “one size fits all” product line. If insurance packages can be made a commodity, the cost of distribution in today’s high tech world can greatly reduce the companies’ operating cost. It is this insurance mentality that has changed our approach to buying our personal insurance. Not only has GEICO given personal auto insurance a one size fits all spin but other industry segments such as life insurance, disability and even health insurance replaced the specialist with inflexible product packages. In fact, the packaged product has become so commercialized and accepted by the consumer that many of the prospective aviation insurance buyers we talk with no longer understand that aviation insurance must be customized and built to fit the client’s individual needs. Once tailored to fit, the aviation insurance program must then be negotiated with the aviation underwriter.

Aviation insurance is not a one size fits all but more a size to fit industry. This is why your first big decision is to select a knowledgeable aviation insurance specialist. Your agent’s primary responsibility is to assist you in developing your aviation insurance

program and then acting as your negotiator in placing your account with an appropriate insurance company.

Step Two – Find a good aviation insurance specialist:

Most of my new clients come to us as referrals from other clients. This makes me feel good because I accept the referrals as a compliment of the job my staff and I have done for our existing client base. More importantly for those shopping for a good agent/representative, the aviation insurance consumer must have the assurance from a disinterested third party of the experience, friendliness, and professionalism that you want in an agent.

Step Three – Verify:

The referral is a good start. Now, verify. Call and talk with your prospective agent/broker. Interview him either on the phone or in person. You can tell if he knows what he is talking about with a short phone call. Check his website. Ask for a resume on the individual with whom you will be dealing. Ask for any literature, publications or articles he has authored. How many of the aviation insurance companies does he deal with on a direct contract basis?

Step Four - Change your attitude:

Give up the insurance *package* buying habits of the day. You are into product building now. Your airplane, your unique pilot skills, your training plans, your transition plans, the purpose of use of your aircraft, the territory of operation of your aircraft, your aircraft value, your aircraft ownership, the liability exposure of the ownership method, and the amount of liability insurance needed are just a few of the questions that must be dealt with on a very special and individual basis.

With this in mind, you can easily see why an aviation insurance professional can become your valuable advisor and negotiator.

You have made your decision on your insurance agent/representative. It is now time to move forward with the process. By this, I mean give your new agent the tools he needs to do the job for you. Give him free run of the insurance market place. Have him put his skills to work for you.

Step Five – Free run of the insurance market place:

If you trust your new agent/advisor with your aviation insurance program, trust him all the way. Give him an “agent of record letter” appointing him as your agent of record with each aviation insurance company. No, you don’t have to write eight separate letters. You can sign a “to whom it may concern” letter of appointment. Your chosen agent will have his recommended wording that can be e-mailed to you and printed off on your letter head, signed, and faxed with your signature.

Don't get claustrophobic. If you later decide you have made a mistake in your agent selection, you can simply write a new letter reappointing another agent.

Step Six – Allow plenty of time:

Most insurance companies require a five to ten day rescission period from the time they receive your agent appointment letter before they will recognize your new agent. This allows time for the underwriter to advise the holding agent that he is being replaced and time for your old agent to contact you to convince you to change your mind before the letter is honored. This is just industry protocol. If you have outstanding or unpaid premium balances with your old agent, expect your broker letter to be denied until the old balance is paid. This is also industry protocol.

If your old agent has already begun to negotiate your insurance placement and has secured premium quotations, your new agent will receive the same answer, the same premium quotation, policy restrictions or declination as that given to your old representative. You guessed it; this is one more example of industry protocol. You therefore need to make your agent selection early. The underwriter usually will not extend terms more than thirty to sixty days before renewal. Make your agent selection at least sixty days before your renewal if you want your new agent/negotiator to give you his best effort.

Step Seven – You only have one chance to make a good first impression:

Many times the difference in a good underwriter response and a declination is the quality of the presentation. Your agent, regardless of who it is, cannot manufacture your underwriting information. It has to come from you. Pilot times, loss history, aircraft values and detail, training plans and training history all have a major impact on the underwriter reception.

Step Eight – Discuss your marketing strategy with your agent/representative:

If you are a marginal pilot or are transitioning to a new and different aircraft, don't despair. Just do some planning with your agent/advisor. Develop a good training or transition plan and include that with your underwriter submission.

Oh, you are too proud or too busy to train? Forget the favorable first impression. Remember, the underwriter looks at attitude first. He is underwriting the cockpit. You can either develop your own training plan or the underwriter will lay down his requirements within his quotation. Oh, this is not acceptable either? Then he will decline to write the account. Remember, the underwriter can never make an underwriting mistake by saying "NO".

Step Nine – Now your agent has done his job and the quotes are in:

Let's hope you have more than one quote. You should see them all. Ask your agent to give you a report reflecting the response from all of the underwriters he has approached on your behalf. This information should show the individual underwriter's response including declinations and quotations. Compare the results. With your agent/advisor's recommendation, select that underwriter most appropriate for you. Price should not always be the deciding factor.

You should ask about the differences in the policy content. Inquire about the claims department, the consistency of the underwriter's desires and pricing. Inquire about recommended additional coverage endorsements. If you are an older pilot, how long will each respective underwriter continue to cover a senior pilot? Does your agent have enough volume with the underwriter to really know the practices and peculiarities you will face for the next policy year? I would expect the agent to have at least \$1,000,000 in annual premium volume with a company to really have an opinion of its systems, claims procedures, and business practices.

Step Ten – Don't shop every year:

This is strategy or maybe just common sense. Every time you approach an underwriting company for a quotation, they first check their computer to see if they are involved on your account with any other agent and to see if they have ever quoted your account before. Aviation insurance is a very small industry. With only eight standard, full line aviation underwriters in the United States, it doesn't take many trips to the market before you are in every company's computer database. The more times a company quotes your account and does not get your business, the less likely you are to get a favorable look from that underwriter when and if you really need him. Most underwriters resent an agent putting them to work unless they have a real chance to write the account.

Some agents are paranoid. They are so afraid a client will invite another agent to quote; they will shotgun the entire underwriting community with submissions every year just to block the market. Remember, a company will not double quote a risk to multiple agents. You must inquire about your agent's standard marketing practices.

Our recommendation is to have your agent shop your account hard once every three years. This is usually good advice unless something significant changes. Sometimes your insurance company may change underwriting preferences leaving you with a less than desirable underwriting home. Price increases occasionally are significant enough to encourage off cycle shopping. Your needs may change and a new company may be better able to serve you. These and other changes should be discussed with your agent/advisor to determine your renewal course of action.

The advent of modern technology, the computer age, may have changed the "don't shop every year" recommendation for the small single-engine client. Certain small aircraft, like the Cessna 172, are now quoted online through the underwriting companies'

computer quoting systems. An underwriter will never see this simple pleasure and business account. With the online quoting systems, your aviation insurance specialist can shop as many as three to five companies every year without upsetting the company.

Step Eleven – Never shop mid-term:

Few underwriters will knowingly quote a risk mid-term unless there is a compelling reason. There are a number of reasons for this practice. The most significant is honor among underwriters. You enter into an annual contract when you agree to accept an aviation insurance policy. Each underwriter realizes that enabling an insured to break a contractual agreement with a competitor would weaken the entire system. This would increase the workload on an already over-worked industry and would make the annual policy period (contract period) meaningless for everyone.

Step Twelve - Changing agents mid-term:

Although changing insurance companies mid-term is an unacceptable practice, changing agents or brokers can be accomplished at any time. If you are not receiving the kind of service you think you deserve, you can change agents by issuing an agent of record letter to your underwriter appointing a different representative. Some underwriters discourage this but will accept a mid-term agent change if there is a reason.

Your new agent must agree to work your account for no commission for the remainder of the policy term. The old agent has earned and will retain 100% of the commission paid on the policy in-force. If you cancel your policy prior to the normal expiration, your new agent cannot return any unearned commission since he received no commission. He will return any unearned premium (minus any commission paid to the former agent) from the insurance company as soon as he receives it from the underwriter.

Any unpaid premium must be paid prior to making the change or the new agent must accept responsibility for its payment.

Step Thirteen – Continuing account service:

Don't just put your policy on the shelf and forget it until renewal. An aviation insurance account requires regular attention. This step is totally up to you. Your agent will have no way to know the changes you need unless you tell him.

Most aviation insurance policies are written on an agreed or stated value basis. This means the hull (aircraft) value you agree to with the underwriter is stated on your policy and is the basis of your claim settlement if you should have a hull loss. Aircraft can change value during the policy period for many reasons. You may modify your aircraft adding avionics, new paint or interior, new engines, or numerous other modifications. Don't go underinsured. Call your agent and request that he order a policy endorsement changing your agreed hull value.

Many times we have clients call to expand their territory of operation due to some previously unplanned trip out of the country. Don't wait until the last minute. It takes a few working days to grant your request.

The moral to this step is to keep your agent in the loop. Tell him what is going on. You and your agent can work out the needed policy changes together. This should be a team effort.

Step Fourteen – Stay involved with the buying decision:

We often see an aircraft owner or operator turn the aviation insurance negotiation and buying decision over to a representative to handle. This may be his pilot, risk manager, aircraft manager, aircraft dealer, secretary, or spouse. Busy people must maximize their time and delegation is a great way to accomplish this. After all, buying insurance is not as exciting as hunting, fishing, flying, golfing, or any of the other hobbies on which we would prefer to spend our discretionary time.

A problem often arises, however, when the delegate representative is unaware of the information needed to obtain a quotation for an aviation insurance policy. The information given to your agent to obtain a premium quotation and to develop a package of coverages must be accurate. Aviation insurance is one industry that continues to be built upon verbal communication and trust. Because of this, all information collected must be accurate and honest in every way. Of course, documentation of the information used to develop the quotation is verified when the written application is signed and submitted. It is at this point that we often see discrepancies in the original verbal information given to develop the quotation. You can see the problem. Delegating the procurement of your aviation insurance is fine but only if you arm your representative with the accurate and necessary information.

Many that are delegated the task of buying your insurance do not understand that purchasing aviation insurance is very different than buying other kinds of insurance. The coverages are different, the industry protocol is different, the vocabulary is different, and the numbers of competing insurance companies are few. Over-shopping a quote can result in disaster. Over or under estimating aircraft values, liability limits, pilot qualifications, and aircraft usage are just a few of the frequent mistakes that can cause a misunderstanding with the insurance company and cost you dollars. With only eight standard domestic underwriting companies in the U.S., you only get one trip to the well.

“But, my pilot knows. He has been flying for twenty years and I trust him.” Maybe you are correct. We deal successfully with many pilots, dealers, risk managers and others in developing and managing insurance accounts. Some are knowledgeable and some are not. It is up to you to make sure your trusted representatives really know their way around the aviation insurance world.

Misinformation when dealing with underwriters can result in a bad situation. Unlucky? Maybe we make our own luck.