

Insuring the Transitioning Pilot

By Tom Chappell, CS&A Aviation Insurance

April 25, 2004

The aviation economy is finally starting to rebound, and that means more pilots are getting ready to buy a plane or to step up to more sophisticated aircraft. But beyond any FAA requirements, insurance requirements loom as a major factor that can financially make or break the transition to a new type of plane.

This article concerns our industry's activity over the past several months. "It's The Economy." Thanks to our politicians and the media, this overworked phrase has become somewhat annoying. Annoying though it is, it does seem to describe the current tone of the general aviation activity that my staff is seeing. As the economy improves, our phones have started to ring with questions about buying and trading aircraft. Business is picking up in general aviation and people are buying and selling airplanes again.

We are having numerous first-time aircraft buyers call for insurance quotations. These aircraft range from small pleasure aircraft to professionally flown turboprops and jets for corporate as well as commercial uses. In addition, we are receiving many calls from current clients and friends who have owned aircraft for years and are now considering moving up to something a little faster and bigger and more complex. Single-engine piston aircraft owners are buying multi-engine pistons; the multi-engine piston owners are moving into the turboprops; and the turboprop owners are moving into newer and faster turboprops or jet aircraft.

This evolution, although exciting, places a bit of stress on everyone -- from pilot to underwriter -- to decide the safest way to qualify these transitioning pilots in their new aircraft. The general aviation insurance market continues to be very small and restrictive. It is referred to as a "hard market" and it is just that. Insurance premiums are consistently firm, although not on a significant increase as during recent years. High or even adequate limits of liability are difficult and expensive to obtain. We can truly term it a "seller's market." With this in mind, you can see that care must be taken in positioning the transitioning pilot for his next challenge: insuring his new aircraft.

Attitude Is Everything

We receive a variety of calls ranging from the sane to the insane. An example of the sane is the highly experienced A-36 Bonanza pilot who wants to move up to a Baron 58. After all, this is the logical next step in aircraft type. He wants to go to a simulator-based school on his new aircraft at a recognized facility such as SimCom, FlightSafety or Simuflite. He then wants adequate dual instruction from a qualified Baron pilot before he solos. This is an attitude that we can easily work with, and he is a pilot the underwriter appreciates. It is a logical move up in aircraft due to similar systems coupled with a careful transition plan. There are no skipped steps in aircraft selection or training.

Then, we receive calls from the more difficult buyer. (I was told by one of my proofreaders not to use the term "insane"). Although sometimes insurable, many calls come from buyers who want to move up to aircraft they are too inexperienced to handle. Many of these candidates are a real stretch to insure and, in the opinion of many, questionable as to safety. In short, they are skipping steps of much-needed experience and over-estimating their skill level. Often the caller confuses ability to afford the aircraft with ability in the cockpit. It all boils down to attitude.

An example is the Baron 58 pilot who wants to move up to a single-pilot Citation Jet. You think I'm kidding, but no. After all, he has heard that a Citation is a safe aircraft and easy to fly. This type of transition candidate never fails to proclaim his ability in the cockpit and his attention to detail and safety issues. When questioned about taking an interim step -- maybe to include experience in pressurized aircraft or possibly turbine aircraft such as a C-90 King Air or a TBM 700 -- the question usually falls on deaf ears. After all, the price of the King Air is about the same as the Citation Jet (both used). This attitude is often accompanied by more proclamations of cockpit skill and safety mindedness and an example of someone else who made a similar transition.

Is this an impossible risk to insure? No. Depending upon the skill of the transition candidate, there is a slim chance of insuring this risk. But, everything must be done right. Remember, it is attitude that may make the difference. There is no hope if the candidate protests and refuses a suggested transition plan. Such a plan may include a simulator-based ground and flight school, a type rating, followed by 50, 100 or -- in some cases -- even 200 hours of dual time with a captain-qualified pilot. (Obviously, the dual requirement depends upon the type of aircraft being transitioned into and the background of the candidate.)

The above examples are two extremes in attitude. Both are very real examples of the type of calls we receive. The first candidate's insurance may be written with several of the available insurance underwriting facilities in the U.S. The premiums will be reasonable and the available limits of liability will be more generous. The second example may or may not be insurable at any price. One or possibly two underwriters will look at this risk. If quoted, the price will be very high and the maximum limit of liability available could be \$1,000,000 combined property damage and bodily injury, with bodily injury to passengers limited to \$100,000 per passenger.

Pick the Right Agent

Many insurance agents -- aviation insurance specialists as well as non-specialists -- will take just the basic facts to the underwriter in hopes of securing a reasonable insurance quotation for the transitioning pilot. They only offer the make and model of aircraft to be insured, the hull value and the transitioning pilot's current pilot credentials, without any transition plans. This type of underwriting submission rarely captures the underwriter's interest. In the absence of a strong transition plan, the answer from an underwriter often is, "We decline to quote." Once declined by an underwriting facility to one agent, the answer is the same to any other agent that contacts that market for a quote.

What can be done to improve the submission? Some agents and clients expect the underwriter to do the risk engineering for them. Although some underwriters will offer suggestions, we find it much better to work with the transitioning pilot to develop a workable training plan before approaching the underwriter. After all, "You only have one chance to make a good first impression." If a dual pilot is going to be necessary, find the pilot first and include his/her pilot résumé with the submission. This accomplishes two things: The professional pilot's résumé will add strength to the submission, and the aircraft owner will know in advance with whom he will be working and exactly how much his transition plan will cost.

The moral to this thought process is to plan carefully the approach you take with the underwriting community when asking for coverage on your move up to your next-level aircraft. Make sure your agent has a direct relationship with the underwriter. All too often, the local property and casualty agent who handles all the other insurance for a company or individual will know very little about aviation and will have no direct brokerage contracts with the aviation insurance underwriters. In an effort to accommodate his client, he will submit the aviation risk to an aviation insurance brokerage house that -- in turn -- will submit the risk to the general aviation underwriter. This second-hand discussion lacks emotion and direct knowledge of the transitioning candidate and often does not result in favorable underwriting treatment. The underwriter can only judge the information presented.

Some Pilots are Too Creative

Often, the dual requirements necessary to obtain enough experience to satisfy the underwriters entail flying with a professional pilot for 10, 25, 50, 100 or even 200 hours. In some cases, this could easily be a year or more of flying, depending upon the speed of the new aircraft and your utilization. We often get the question, "Why tell the underwriter about the transitioning pilot at all?" They want to insure the aircraft as a professionally flown corporate risk and take advantage of the cheaper premiums and the increased liability limits. "If I am to fly with a professional pilot, I will just list him as the only pilot. Then I will fly along in the left seat and log the time." This could save a lot of money by insuring a professionally flown risk. "Would I be covered if something happened and I am in the left seat?"

First, it is always best to disclose to the underwriter all plans and information. I recommend that the underwriting file match what is actually going on with the aircraft. Second, any attempt to cheat may create a gray coverage area or even void coverage. Many policies don't refer to "pilot-in-command" in their pilot requirements. Instead, the requirements apply to any "person operating the aircraft in flight." What insurance policy do you have and how does your pilot requirement section read? All insurance policies are not worded the same. How will your underwriter view your role at the controls after the loss occurs?

The solution to this idea is to negotiate the best arrangement with the underwriter and warrant in the policy that you will fly dual only while accompanied by your professional

pilot. Then, when you are qualified and comfortable in the aircraft, you need to be specifically approved by the underwriter to operate as pilot-in-command or solo.

Can We Offset Expenses?

We often see aircraft owners with buyer's remorse. They have become accustomed to the cost of operation of the prior aircraft and have moved up to the next level without giving adequate thought to the cost of operation of the new aircraft, including insurance costs. The next phone call is back to the insurance agent to see what it will cost to buy insurance to put the aircraft on someone's Part 135 (charter) certificate. When they are told that charter coverage is not cheap and that underwriting requirements can be stringent, they retreat to give the situation more thought. Next, they call back to find out what it will cost to rent their aircraft to a friend, or several friends, hoping to defray their overall cost. (This is often referred to as a dry lease). The plan is that the friends then sub-contract with underwriter-approved pilots to crew the aircraft. This is the two-check rule. One check is written to the aircraft owner for the use of the aircraft and the second check to the crew.

Although this frequently may be done, it creates a complex situation both for the insurance placement and the increased liability exposures inherent to commercial operations. The aircraft is not officially being flown Part 135 but it is being operated for a charge. Real charter operators jokingly refer to this as Part 134½. The closer to charter you are, the more responsibility you assume for the safety of the passengers. Is this legal with the FAA? I hear different opinions and must advise that it is a somewhat gray area. Can it be insured? Yes, with certain underwriters. The details should be carefully worked out, however, with the underwriter and the owner's attorney and an opinion from the local FAA. It is a legal minefield.

Insuring New-Age Aircraft

"If I put up a deposit on a new-generation aircraft, can it be insured? Can I fly it?" The answer is, "Maybe." Which aircraft are you considering? What will your qualifications be by the time the aircraft is delivered? Prepare yourself now. Don't wait until the aircraft is delivered.

I know of at least six new-age turboprop aircraft and seven new-age jet aircraft currently scheduled for production and delivery between now and year the 2006. I imagine some will be excellent, revolutionary aircraft and some will never reach production. Some of these designers and manufacturers are doing their homework. They are wisely visiting the general aviation underwriters in an attempt to introduce their new design and to educate the underwriter on the safety features and training they will support. What are the repair costs? How available will they make replacement parts? Those manufacturers that answer these questions are the ones that the insurance companies will gamble on first. Those that overlook this step may find a very hostile underwriting market for their potential new aircraft buyer.

Also of interest to the underwriter and to you, the prospective buyer, is whether the manufacturer carries products liability insurance, and if so, how much. I think it is safe

to say that a manufacturer such as Honda or Cessna is adequately protected. What about the unknown company, the startup that is new to the aviation industry? It is worth asking the question before you put down a deposit. Maybe you should ask for a certificate of insurance, as well.

If a new-age manufacturer has products liability insurance and has properly introduced his product to the underwriting community, insurance should be available, assuming of course that it is a well-designed aircraft. You may want to include a statement in your deposit/purchase contract allowing you a full deposit return if insurance is not readily available at the time of delivery.

First-Time Corporate Owner

And then we have the first-time corporate owner. He is not a pilot but he needs or wants a company plane. The company can afford it, and flying commercial has become no fun at all. His friend has a turbine or a jet and he wants one as well. "If I can buy a car, I can buy an aircraft, right? I think I like the blue one best. Oops! We need a pilot, or is it two? Fred's son is a CFI at the local flying school. You have to be good to be an instructor, right? Wait, we need insurance. Call our property and casualty agent and let him handle it."

And now the problems start. You may think that this scenario is ridiculous. And if it were not real, I would agree with you. A great idea and a potentially pleasant experience can be ruined because of what people don't know. A good aircraft dealer or broker can save the buyer thousands of dollars and great disappointment by helping to select the right aircraft. We have already spoken of the need to have a strong aviation insurance agent to represent you to the underwriting community. What bears some discussion is the selection of the right pilot or pilots to crew the new aircraft. Since most of my readers are pilots, this statement seems unnecessary, but to those like our fictitious corporate owner, the crew is everything. From my perspective in placing the insurance, a mature, well trained, experienced pilot is the underwriter's primary concern. It is easier to hire a qualified pilot in the first place than to try to train an under-qualified one. It is safer, and although the salary may be a bit higher, it is always cheaper.

Transition Process In A Nutshell

Transitioning to the next level in aviation is always a challenge. It can also be a lot of fun and quite rewarding if done correctly. (Read more about transitioning in AVweb's Training section). Pick the right aircraft. Invest in the proper training. Leave your ego at home and fly with a veteran professional pilot who has experience in your new make and model aircraft. (This may be recommended whether your insurance underwriter requires it or not). When you go to extra training measures, make sure your underwriter knows what you have done. Send in copies of all training certificates and written progress reports from your dual professional pilot. Keeping the underwriter abreast of your progress not only builds a strong underwriting file, it also will improve your image and could save valuable premium dollars at your next insurance policy renewal. And, as mentioned above (I like to say this part), pick a professional aviation insurance agent to help negotiate your insurance placement.