

Property Coverages

For Your Aviation Business

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In the Winter 2006 issue of *Aviation Insurance & Risk Management*, we addressed liability coverages for business owners. Having insurance coverage for injuries or damages you cause to others or their property is only half the battle. You are still vulnerable to financial loss. What about your property? What happens if an “act of God” causes damage to your hangar? A third party liability policy won’t pay to fix a hangar you own (and besides, who wants to subrogate against the “Big Guy”?) For situations like these, you need Property coverages in place.

In this issue, we’ll address the following Property coverages:

- **Business Income**
- **Extra Expense**
- **Ordinance or Law coverage**
- **Equipment Breakdown**
- **Transit coverage**

Commercial property insurance protects your business from loss or loss of use of company property, both tangible (buildings, computers, etc.) and intangible (lost revenue). Property insurance policies can provide coverage for an array of items.

What can be covered? Buildings, office equipment, furnishings and fixtures, mobile equipment, tools, parts, inventory, equipment breakdown, business income, extra expense, among other things. A \$1,000 deductible per occurrence is standard.

Exclusions: Losses arising out of wear and tear, nuclear disaster, war, flood, and earthquake are typically not covered (flood and earthquake coverage may be purchased as separate policies). Riots and civil commotion, however, are covered by property policies.

Here are some property coverages available to business owners.

Business Income (Business Interruption)

What is it? If your office building is damaged or destroyed, your moneymaking operations are halted. You lose income. Business income coverage reimburses you for revenue lost during suspension of business operations as a result of a covered loss. More specifically, Business Income coverage includes the net profit the business would have earned had there been no interruption, as well as expenses that continue despite the interruption (i.e. rent, insurance, contracted services, taxes, mortgage payments).

What about payroll? Payroll is included for business owners and managers. It is not automatically included for employees. Coverage for employee payroll can be added by endorsement.

Deductible: The deductible for Business Income coverage is not monetary – it's a length of time; for example, 72 hours. Business Interruption coverage does not begin until 72 hours have passed since the loss occurred. For the first three days after a loss occurs, the insured foots the bill.

Example: You own a successful aircraft refurbishing business, and your workplace is severely damaged in a storm. You're unable to continue your business operations because of the damage. With Business Income (Business Interruption) coverage, you'd be reimbursed for the net profit (before taxes) that your business would have earned had there been no loss as well as expenses that continue despite the loss (management payroll, rent, etc.).

Extra Expense

What is it? Extra Expense coverage reimburses you for costs over and above your business' normal operating expenses that are necessary to keep your business running following a covered loss. Items such as moving costs for setting up shop in a new location, rent for your temporary location, advertising expenses to notify clients of your temporary location, etc. would be covered items under Extra Expense.

Example: In the aircraft refurbishing business scenario above, you decide you'd like to try to keep the business up and running while your building is being repaired. In order to do this, you'd need to rent a temporary building in which to work, rent basic office equipment as well as tools necessary for aircraft refurbishment, and let your clients know about your temporary location. Extra Expense coverage would reimburse you for these additional expenses incurred to keep your business running at near normal operations.

Ordinance or Law coverage

Why you need it: If your older building suffers a substantial loss, you may have to meet higher construction standards when you rebuild. Over time, municipal codes, laws and ordinances are amended to reflect new benchmarks in building construction. The consequence? The cost to rebuild is greatly increased. Ordinance or Law insurance covers the following:

- Loss of value to undamaged portions of the structure
- Cost to demolish these undamaged portions
- Increased construction costs to replace or repair the structure so that it meets current building, zoning, or land use laws or ordinances

Example: You're a Fixed Base Operator (FBO) with a lobby/pilot lounge and a hangar. Both buildings were constructed in the late 1960's. A hurricane comes through town, damaging just about everything, including your two buildings. Roads are cleared, cleanup begins, and it's time to assess the damage. You have extensive physical damage to the buildings, which your property policy will cover. But your hangar has no sprinkler system, and new codes require you to install one. Is that covered?

In the course of rebuilding your lobby area, you discover that since the buildings were constructed prior to 1990's Americans with Disabilities Act (ADA), they're not ADA compliant. To get them up to code, you'll need to outfit them with ramps, wider doorways and hallways, handicap accessible restrooms, etc. While you have no problem complying with these regulations in theory, they are expensive. How are you

going to pay for all these renovations? Ordinance or Law coverage will help cover the cost to get your building(s) in compliance with the most current regulations.

Equipment Breakdown (Boiler & Machinery)

What it covers: The cost to repair or replace equipment that is critical to your business, and has failed as a result of a mechanical breakdown. Coverage includes:

- Electric arcing of motors and boxes
(service panels)
- Explosion of compressors
- Heating units and air conditioners
- Fax machines and phones

Example: Your avionics shop has experienced a power surge resulting in a destroyed electrical panel and no power. Pretty hard to install and test navigation and communication equipment without power, right? Equipment Breakdown insurance will pay to repair or replace your electrical panel. You'll be installing transponders again in no time.

Transit Coverage

What it is: Coverage for physical loss or damage to insured property or property in the care, custody and control of the insured while in transit from one location to another. This provides protection when property is shipped with a common or contract carrier, by aircraft, vessel, railway, or in the business owner's vehicle.

Why you need it: Property policies usually provide coverage only at locations that are identified in the policy. Transit coverage protects your property while it's en route from point A to point B.

Example: You own an engine repair shop and are working on an engine. You've boroscoped it and discover the stators are bent and the engine must be shipped off to the manufacturer for further repair. You put the engine on a common trucking carrier and think no more about it, until you get a call alerting you to the jackknife accident the truck was involved in. All of a sudden, the \$250,000 engine has A LOT more damage than bent stators. Who's responsible for the repair or replacement now? It may not be covered under your transit agreement. Transit coverage ensures that your property, or property in your custody, is covered not only at the insured location (i.e. your repair shop), but also while en route to another location.

I've said it before – this list of coverages is in no way a comprehensive list of all available insurance for business owners. In most cases, if it can be bought, it can be insured (for a price). These are some of the more common coverage options, ones that can save you money and a lot of headaches if your property suffers substantial damage. Check with your insurance agent about your potential for property damage losses, and make sure you're adequately covered. →