

## ***Risk Management planning for aviation maintenance business***

Aviation mechanics are not the type of people to sit still. The nature of their aptitude and personality causes them to create, improve, and change. They consistently look for opportunities and generally are not content to just let things happen.

During times when airline jobs are drying up, we see many airline mechanics inquire about starting their own businesses. Many seek to offer specialized service back to the airlines on a contract basis. Others seek to open their own shops, often leaving the airline world and making the move to the general aviation side of the aviation service industry. When a career “employee” changes hats to become “the boss” as a business owner, they are required to consider aspects of the business that have never really been of concern to them before. When their business is responsible for repair and service of aircraft, liability and risk management issues should come very near the top on the list of concerns.

Aviation maintenance shops differ vastly, one to another. Large, independent, and FBO shops employ many personnel. They do regular maintenance and heavy inspections on large, turbine-powered commercial and corporate aircraft. At any one time, these shops may house many aircraft, worth tens of millions of dollars, collectively. At the other end of the spectrum is the lone Aircraft Technician, working from a small building at the local general aviation airport. These shops focus on oil changes and scheduled inspections of light singles and the occasional twin. They do minor repairs and removal and replacement of parts and components. In the middle are the countless medium-sized maintenance shops, overhaul facilities, paint shops, avionics repair and service, non-destructive testing technicians, and others. Although these shops differ in size, scope of work performed, and revenue, they all share similar risk situations.

### **Liability Risks in Aviation Maintenance**

In a litigious society, all business owners, whether they operate a shoe store, a parking garage, or an aircraft maintenance shop, are at risk from liability for injuries to the general public or property damage caused by the business’s negligence – or alleged negligence. This generalized liability is not necessarily specific to the type of business and can include slip and fall claims, false advertising, libel and slander, claims for injuries, or damages from unsafe conditions, etc. A business’s exposure to these losses depends mostly on the extent of the business’s exposure to the public. Businesses with high levels of public traffic, like a retail store or movie theater, have high exposures to injury or damage losses arising from their physical facilities. When businesses have little physical public interaction, like an Internet or office-based service business, the general liability exposure may shift toward legal or statutory damages, like false advertising or copyright infringement. Aviation businesses are no different. All have general liability exposure of some kind, depending on their interaction with the public.

The largest and most potentially catastrophic exposure aviation businesses have is when there are claims that their workmanship or a product that they sold caused an aviation

accident involving fatalities, injuries, or significant loss of property. Aircraft accidents are usually high profile and thoroughly reported. National Transportation Safety Board (NTSB) investigations of all aircraft accidents usually explore many potential mechanical and procedural issues in an attempt to assign a probable cause of the loss. Because of the scrutiny and the record keeping associated with aircraft maintenance, injured parties are often able to litigate against everyone involved with the aircraft prior to the loss. Businesses that have supplied parts or services to the accident aircraft are especially vulnerable to legal action. Many of these claims are ultimately dropped or dismissed but often not without significant legal defense of the accused party. Many aviation service providers have been bankrupted by litigation and judgment awards when their negligence has caused loss.

Another significant component of the liability risk picture for aviation mechanics is accidental damage to aircraft that have been left in their care, custody, or control. When an aircraft is turned over to a shop, the shop assumes responsibility for the safekeeping of that aircraft. Even small shops may handle aircraft worth hundreds of thousands or millions of dollars, especially if more than one aircraft is present at one time. While it is rare that aircraft are destroyed while in the care of a maintenance shop, it is not uncommon to see significant damage from “hangar rash,” dropped tools, errant equipment, or careless employees. Even seemingly minor damage to an aircraft can be quite costly to repair and may affect the future potential resale value of the aircraft.

### **Risk Management through Insurance**

The risks described above are insurable by a commercial general liability insurance policy tailored specifically to aviation businesses. The basic framework of the policy protects the shop from general liability exposures. Products and Completed Operations coverages are added to protect the policy holder for their negligent work or their sales of faulty products. It is important to note that the coverage does not pay for the breakdown of the product itself or the failure of the work to accomplish its purpose, but rather to protect the policy holder in the case that its product or work causes injury or damage after the aircraft leaves the shop. Hangarkeepers coverage is added to protect the shop in the event that it damages aircraft in its care, custody, or control.

These policies – commonly called products policies or premises, products, and hangarkeepers policies – are written with a limit of liability requested by the policy holder. General liability and Products / Completed Operations coverage are written on a “per occurrence” basis as well as an “aggregate” basis. Per occurrence limits are the maximum amount that the insurer will pay as a result of any one event or loss. The aggregate limit is the maximum amount that the insurer is obligated to pay during any policy period, regardless of the number of occurrences. Often, the policy limit is both per occurrence AND aggregate, meaning that a claim that consumes the entire coverage limit will end the insurer’s future obligations. Hangarkeepers coverage is written with a “per aircraft” limit and a “per occurrence” limit. Should more than one aircraft be damaged in one incident (i.e., one aircraft colliding with another), both limits are in play limiting the coverage available.

Business owners should carefully consider the limits necessary to protect their assets based on the size and scope of their business's activities. On most policies, the insurer provides a legal defense to the policy holder in addition to the policy limits.

