

Purpose of Use

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All aircraft policies have a section that is referred to as "the purpose of use" which describes approved aircraft uses under the policy. The concept is to distinguish between Non-Commercial use and Commercial use.

Pleasure and Business and Industrial Aid are the two basic Non-Commercial uses. Commercial uses include any use for which a charge is made to others (with the exception of cost reimbursement as discussed below).

The underwriter's risk analysis process varies greatly among the many possible uses of aircraft. Most companies specify which uses are approved. A policy for Pleasure and Business use will not cover Charter use.

For this reason, all aircraft policy forms specifically describe what use the policy covers. If you violate your policy's "purpose of use" and a loss occurs, expect your insurance company to decline coverage.

Pleasure and Business:

Often referred to as "P&B", the Pleasure and Business purpose of use contemplates aircraft flown for the owner's own personal use. Some policies stipulate that no charge may be made for the use of the aircraft. Others stipulate that no charge may be made but will allow for the reimbursement of direct operating expenses. Each underwriter will have his own definition of direct operating expense.

Industrial Aid:

The "Industrial Aid" purpose of use is reserved for the aircraft owned and operated by businesses for the transportation of employees and guests of the corporation. Professional pilots employed by a corporate flight department usually manage and fly these aircraft.

Industrial Aid does not contemplate Rental, Charter or any use for which a charge is made. Many Industrial Aid policies, however, will allow for the reimbursement of direct operating expense.

Some extremely broad Industrial Aid policies will be issued to companies that maintain the best flight departments with the best, most modern corporate aircraft. These policies

may define purpose of use as "any use of the named insured" or "any use required by the named insured". The underwriters know the client well and are comfortable that there will be no violation of the intended use of the aircraft insured. After all, you wouldn't use your Lear 45 to crop dust.

Commercial use as defined in the insurance policy:

When we see the term Commercial use in aviation insurance, we usually think of an aircraft operated under a Part 135 certificate. Charter aircraft would be an example of such a use. This could be passenger Charter, Cargo Hauling, Prisoner Hauling, Sightseeing, etc.

Please note: Sightseeing and Flight Instruction are included under the FAR Part 91. The Federal regulations reserve Part 135, 121, and 125 for Commercial operations. These are great examples where an FAR definition has no influence over insurance policy definitions. So, don't expect to extend your Pleasure and Business purpose to include Sightseeing and Flight Instruction for which a charge is made. It won't work.

Airline:

Airline use is primarily reserved for operations conducted under a FAR Part 121 or Part 125 certificate both scheduled and unscheduled. Coverage for commercial air carriers is usually written on a special policy form that is very broad and contemplates the unique exposures particular to airline operations.

Airline policies, whether used for FAR Part 121, Part 125, or for scheduled Charter under Part 135, are rarely written 100% by a single underwriting company. Due to the density of seating and the frequency of use, most underwriters are unwilling to accept 100% of the exposure. In addition, the limits of liability purchased by an airline usually far exceed the limits of a general aviation risk, pushing the capacity threshold of any single underwriting company.

Airline class accounts must purchase a variety of coverages not normally needed in the general aviation business. As a result of the exceptionally high limits of liability, high hull values, and broad policy forms, most airline insurance placements are completed on what is referred to as a vertical placement. In other words, a group of unrelated underwriting facilities, both domestic and foreign, participate on the risk by accepting a small portion of the total.

Special uses:

Due to the versatility of the various types of aircraft and rotorcraft, the aviation industry uses modern aircraft to perform a variety of tasks. Many of these uses require FAA waivers either because the equipment falls outside the definition of "standard airworthiness" or because the job being performed violates normal FAA operational requirements.

The lesson here is not to assume that a Commercial purpose of use (allowing you to make a charge for the flight) in your insurance policy affords you coverage for *any* purpose of use. To the contrary, such uses as: crop dusting, aerial photography, power line patrol, pipeline patrol, railroad inspection, cattle herding, flight testing, fire and forestry patrol, electronic surveillance, banner towing, fire fighting, and many others too numerous to mention must all be recognized by the underwriter and specifically included in your policy as a special use. When I say "too numerous to mention" it is astounding the imagination of the aviation community and the utilization of aircraft in accomplishing various jobs. I have even insured a lobster harvesting operation. Explain that one to an underwriter.

“Part 134 ½”:

And then there is what the legitimate Charter operator refers to as "Part 134 ½". Obviously, this is not a real Federal Aviation Regulation, but we see a lot of it. Industrial Aid and Pleasure and Business premiums are much cheaper than the premiums for Commercial uses. In addition, the cost of maintaining an aircraft on a Part 135 certificate is much more expensive and much more heavily regulated than Part 91. This increased cost and regulation encourages many aircraft owners to circumvent the system.

We frequently see an aircraft insured for Pleasure and Business use being rented to a friend under the FAR's definition of reimbursement of direct operating expense. A pilot approved by the insurance company's underwriters to fly the aircraft will be hired by the renter and paid by separate check. Certainly this was not the intent of the FAA when writing the regulations, but I suppose it must be legal. After all, many are doing it.

The problem may come in with the insurance policy. Just because things are legal with the FAA doesn't mean it is allowed by the contract with the insurance company, the policy. The most common policy use is Pleasure and Business. Most policies specifically define purpose of use as "operations of the named insured for which NO charge is made" or some variation of this. The rental of the aircraft to a friend under Part 134 ½ would violate the policy because a charge is being made.

Since Part 134 ½ has become so prevalent and the FAA has chosen not to make an issue of the intent of the regulations, some of the insurance companies have softened somewhat by allowing the named insured to identify several "dry leases". The Pleasure and Business or Industrial Aid policy use restriction remains but an exception will be noted allowing a charge to be made to the approved dry lessees. An endorsement allows certain dry lessees to pay for the use of the aircraft. Often a premium charge is made for this latitude.

Are Part 134 ½ operators circumventing the system? If you ask this question of a Charter operator they are, but many underwriters in the aviation insurance industry and the FAA accept it. I suppose, after much debate, aviation purists must accept it as well. Those operating under Part 135 believe it unfair for a legitimate Charter operator to have to pay insurance premiums for Charter coverage and the increased maintenance costs to comply with Part 135 maintenance regulations while others are playing the system. But, there is some justice. If a charge is made for each dry lease approved by the underwriter, it doesn't take many dry leases to add up to the cost of full Commercial (Charter) coverage.

What about the liability involved with Part 134 ½? Well, there is plenty. Whether operating under a Charter certificate, Part 135, or under a dry lease, whenever you put a passenger on your aircraft, you accept additional exposure to their injury or death. Usually, Pleasure and Business policies provide less liability coverage than those purchased by Charter operators. There are many great Pleasure and Business pilots. It has long been the opinion of the aviation underwriter, however, that the full time professional pilot is superior to the non-professional if for no other reason than his focus. The professional pilot has only one thing on his mind, the operation of his aircraft. Charter companies must utilize professional pilots. This enables them to purchase higher limits of liability than that available to the typical pleasure pilot.

Increased exposure and lower liability limits may give you reason to review your decision to rent or lease your aircraft. The Industrial Aid or corporate aircraft that is operated by a professional crew may qualify for the same high limits of liability as the Charter operator. The increased exposure of operating under a dry lease for someone else or some other corporation should invoke a re-evaluation of your company's overall exposure. Is the additional income worth the exposure?

How the various uses affect underwriting and premiums:

There are many different jobs involving aircraft whether fixed wing or rotorcraft, and some are significantly more hazardous than others. Underwriters rate the various risks and develop premiums based upon the usage of the aircraft. The more hazardous the

usage, the higher the premium will be. In some cases, underwriters will decline to write coverage at any price if the proposed purpose of use is too dangerous.

Often, a usage is so unique that the underwriting community has very little understanding of the true exposure. In this situation, premium quotations may run high or the available coverage may be scarce or even unavailable. In such cases, it is imperative that the client gives the insurance agent and ultimately the underwriter enough information to make an intelligent decision.

All policies have a defined Purpose Of Use:

Every aircraft policy includes an approved use. If the use is violated, coverage under the policy can be denied. Understanding this you will then accept the fact that this must be dealt with on every aircraft you own, rent, or borrow. If you rent an aircraft that is insured for Pleasure and Business use, no coverage will exist. The fact that you rented it violated the Pleasure and Business use definition.

I have seen coverage denied on aircraft that are insured for Rental use because the renter pilot charged a passenger for a trip. The aircraft was insured for Rental and not Charter. The renter pilot not only violated the FARs but also voided the insurance by violating the purpose of use.

The aircraft rental facility did not know a renter pilot violated the policy by making a charge for the transportation of a passenger. Keep in mind the purpose of use for Instruction and Rental does not include Charter. If a loss occurred and the insurance company discovered the renter pilot had accepted payment for the flight or intended to be paid for the flight, the claim could be denied. We might say that the purpose of use follows the insured aircraft and not the pilot.

It is not uncommon to see a flying school charge a passenger for an orientation flight. The orientation flight just happens to go to a destination predetermined by the passenger. Obviously, this is a way to circumvent both the FARs and the intended Instruction and Rental purpose of use. This is a difficult violation to catch. The insurance company does not try to police policy violations. It is only after the loss that they would investigate. It is the FAA that is in the "gotcha" game. If discovered by the insurance company, however, coverage could be denied.

The gray areas:

The gray areas are the cause of most of the questions we receive. It is quite obvious that a Pleasure and Business policy will cover an aircraft for a pleasure flight or a business

trip if no charge is made for the flight. What about using the aircraft for an "angel flight"? The Civil Air Patrol is sponsoring a fundraiser with a penny-a-pound day, and you would like to volunteer. These types of flights are covered under the Pleasure and Business purpose of use, as long as no charge is made.

Well, what about a sales demonstration flight to sell your aircraft? Sales Demo is a separate purpose of use usually offered to aircraft dealers and brokers. "I just want to sell my own aircraft. Must I change my purpose of use to Sales Demonstration?" No. This usage would be covered by the Pleasure and Business definition provided the potential buyer is not charged for the flight. If the policy allows for cost reimbursement of expense, the reimbursement of operating expenses such as gas and oil may be charged. It would further be stipulated that aircraft sales is not the business of the named insured. In other words, the demonstration flight is acceptable under the Pleasure and Business use if it is incidental to the ownership of the aircraft and not the business of the named insured.

Does coverage exist under a Pleasure and Business policy if an aircraft broker is used to sell the aircraft? I will point out that the devil is in the detail and the sales consignment contract must be carefully studied before signing. I would further recommend that a copy of such a contract be offered to the insurance agent and underwriter for approval before you sign such an agreement. The sales agreement you make with the aircraft dealer can affect coverage under the Pleasure and Business policy.

If you make a charge on a Non-Commercial policy, make sure reimbursement of expense wording has been added allowing you to accept some payment for the use of your aircraft. Remember, the reimbursement of expense extension is not a blank check and contains very strict parameters. Make sure you stay within this definition for your policy as well as those required under the FAR Part 91.501. The insurance policy definition and the FARs may differ.

The purpose of this discussion is not to describe every use in which a flying machine can be involved. It is simply to make you think about your own insurance policy and your compliance with its purpose of use. If others are allowed to ride with you or to rent or borrow your aircraft, investigate all aspects of the operation to assure that you are in compliance with your insurance policy. →