

There's a saying that goes something like this: "Better to remain silent and be thought a fool than to open one's mouth and remove all doubt." Aside from the natural desire to avoid putting our foot in our mouth, it is generally true that we get a much livelier discussion—and everybody feels better about the whole thing—if the subject matter is something familiar to the whole group.

The type of questions to which we devote most of our thinking, and an equal amount of our vocal chords, are such as whether the new automobile should have a stick or an automatic shift; the pattern in the wallpaper for the guest room; saddle oxfords or sandals for little Susie; the carpeting in the hall; or who gets the car for Saturday night. Little attention is given to such issues as: Should Red China be admitted to the U.N.? Will Bobby eventually win over Jimmy? Is Romney really the '64 dark horse? This is also true of business.

The board of directors of a large manufacturing corporation, after viewing colorful charts, graphs and diagrams, and hearing a short speech by a consulting engineer, took exactly 16 minutes to approve an expenditure of \$6,730,000 for a new production facility 800 miles from the home office. The same board of directors spent one hour and 22 minutes of heated debate and much note-taking and figure-scribbling before approving an expenditure of \$4,850 for a tool shed to house the grounds-keeping equipment.

Aircraft liability insurance is hard to visualize as the big production facility and the outcome as uncertain as Bobby's fight with Jimmy. So let's have some fun this month and talk about how much hull insurance we should carry on our airplane.

On the face of it, it's pretty simple: if you pay \$10,000 for your aircraft, it should be insured for \$10,000. With a little effort, we can conjure up all kinds of reasons as to why this is not logical. In the first place, the minute you get in the airplane and fly it around the field, it is no longer a "new" but is then a "used" aircraft. And, at least according to the mores of the automobile business, it is worth only 80% to 90% of what you paid for it an hour and a half earlier. Another argument might be that the chances are the aircraft won't be involved in an accident at all, and if it should be, chances are that the insurance company will give you only \$8,000 in view of the hours it had been flown and the fact a new model had come out since you purchased this one. So why not just start out

Aircraft INSURANCE

VS.

Aircraft VALUE

You may save a little money on the premium if you insure your plane for less than it is worth, but you may feel the pinch if you 'cream' the aircraft and file a claim against the policy

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insuring the aircraft for \$8,000? And, of course, everybody knows it costs more to insure an airplane for \$10,000 than it does for \$8,000, so here's a chance to save some money on the insurance premium.

Assuming the dealer's announced price for an airplane is "X", it is axiomatic that the purchaser automatically thinks in terms of "minus X", that is, until the purchaser become the seller; then his price becomes "plus M" ("M" being the actual market value of the aircraft at the time of sale)!

A similar condition exists in the relationship between the insured and the insurance company. For instance, at the time the insured purchases the insurance, he claims it is worth \$8,000 (see explanation above). When it is totally destroyed by Hurricane Lena, the insured can demonstrate beyond all shadow of a doubt that the aircraft was worth \$10,000 and, in spite of what the insurance policy says, \$10,000 was the amount of coverage he ordered.

Not so long ago a *Comanche* owner insured his plane for \$11,600 and, in answer to his agent's questioning, insisted the aircraft was worth not a penny more, because of his success in fast-talking its former owner, and that its equipment consisted of only that necessary to rise off the ground and return—on CAVU days, that is! Shortly thereafter, the aircraft was damaged beyond repair. The insurance adjuster appeared on the scene

with a smile on his face and a certified check in his hand for \$11,100 (the insured carried \$500 deductible) and a truck to haul away the salvage. The insured stood in front of the salvage like a wolf protecting its whelp while insisting the insurance adjuster could leave the check and depart with an empty truck. It seems the *Comanche* had been equipped second only to the President's 707 and the salvageable radio equipment among the mound of sick airplane was worth almost \$4,000. Need anyone wonder if this man would have submitted a claim had any of this radio equipment been stolen while the aircraft was parked? Nuff said!

There are three ways of writing values in an insurance contract: (1) actual cash value subject to a maximum dollar amount; (2) actual cash value without a maximum; and (3) an agreed value not subject to actual cash value. Almost without exception, automobile collision and comprehensive coverage is written in the second manner, i.e., actual cash value without a maximum, and aircraft insurance is written in either the first or third manner.

Automobile insurance has not always been written on the actual cash value, no maximum basis. Before World War II, a very large percentage of the automobile contracts was written as aircraft insurance is today, i.e., (1) actual cash value subject to a maximum dollar amount,

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Forced Landing

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the ground, I knew we were going too fast so I reached for the brakes and couldn't find anything to get my feet on. Then I remembered that Duffy had them, so I yelled at him. After two or three tries, I managed to rouse him enough to get him to stop the ship. We were about 15 feet from the biggest road culvert I have ever seen. I crawled out of the cockpit after cutting the switch. A minute or two later I started to shake all over. The fear that I hadn't had time to feel had caught up with me. Duffy wasn't in any better shape. When the gas station attendant from across the road came running up with his fire extinguisher, he found two very sick sad sacks standing by a very sick airplane!

After we recovered, we returned the T-Craft to the field. For a long while the mechanic there couldn't find anything wrong. The motor seemed to run perfectly; he couldn't even get it to act up at full throttle. I'm sure the mechanic thought we had misused the plane somehow, but we were insistent so he kept looking. The ignition was checked but nothing was found. After about an hour's work, he decided to check the gas

line. This action hit the jackpot. *It was full of leaves.* That's right, common ordinary tree leaves. I'd heard of all kinds of things forcing down airplanes but not leaves. After draining the gas tank and removing it, the mechanic discovered that the filtering screen inside the tank had come loose and, during all the years of standing outside, somehow or other leaves had gotten into the tank and down into the gas line. At full throttle there was enough pull to close off the flow of gas. END

THE AUTHOR

Donald L. Hauck, author of "Forced Landing," has been flying since 1945 (when he was a high school sophomore) and has owned all or part of five different airplanes since then. He presently owns a Cessna 140 and flies it whenever his duties as manager of a department store at Madison, Minn., permit. A graduate of the University of Minnesota, Hauck is now 32 years of age. He is married and the father of three children.

Insurance

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or (2) agreed value. This was a fantastic hardship on many policyholders during the war since (as you may or may not recall) an \$800 prewar car soon had a value of \$1,800-\$2,000. If the insured did not remember to request an increase in his coverage, and had his automobile stolen or destroyed, he collected only \$800 from his insurance company.

Why aren't aircraft policies written on an actual-cash-value basis without a maximum as automobiles are today? The answer is, of course, the extreme range of values involved in the same model aircraft. For instance, it is not unusual for a man to insure his airplane for \$10,000 and later, when he can afford it, add \$5,000 worth of radio equipment—half the aircraft's original value. In comparing this to the automobile, consider the fact there is only so much functional equipment you can add to an automobile and increase its value (probably the most expensive "functional" item would be an air conditioner). The fact of the matter is, mud-guards, continental wheels, chrome hub disks, fender pants, and a squirrel's tail for the antenna have more in common with pounding-sand-in-a-rathole than enhancing the value of the automobile.

The vast majority of aircraft policies are written on the basis of actual-cash-value subject to a maximum-dollar amount. A minority are written on the

agreed-value form. Most of the agreed-value form policies are written on corporate aircraft of substantial value. The next question is, "Why isn't the agreed-value form available to the majority?" Actually, such agreed-value form coverage is available to the majority—but it entails both an additional premium and a considerable moral-financial investigation!

The additional premium is necessary because the actual-cash-value rate contemplates normal depreciation which is not available to the insurance company in the settlement of a loss if the company has issued an agreed-value contract. The moral-financial investigation is necessary because under the agreed-value contract there is ample opportunity for profit and this violates one of the principles of insurance, that is, insurance is designed to assist with the burden of loss, not to assume the entire burden! For instance, what's to stop the unscrupulous from putting the torch to the airplane when it is in need of a major overhaul, a recovering, or it cannot be sold for the amount of insurance carried?

Generally speaking, there are two conditions that must exist before an underwriter will entertain a request for agreed-value coverage. The first is that there be evidence the insured would suffer considerable monetary loss if he were deprived of the use of the aircraft. The second is that the insured's financial situation must be extremely favorable and have been for some time. The former assures the underwriter of the insured's interest in keeping the aircraft

in good repair and operating it in a safe manner. The latter lets the underwriter feel a bit easier about the possibility of any "hanky-panky."

One thing more, regardless of whether you carry the actual-cash-value subject to a maximum-dollar amount or the agreed-value form, you can readily recognize the importance of calling your insurance agent, or company, and asking for an increase in the amount of insurance whenever you add equipment to your aircraft that truly makes it worth more than the amount stated in the policy. The reverse, however, will not be the case, since the insurance company will not return premium in the middle of the policy term because the value of the aircraft has reduced for any reason. The reason for this is the premium charge is based on the maximum value at risk at any point during the term of the contract. On the other hand, the additional premium you pay for increasing the coverage under the policy will be nominal. It is based on only the difference between the new and old value and then only for the number of days remaining in the policy term.

Well, there it is: three methods of writing hull insurance on your aircraft. When the weather is "zero-zero" and things are dull around the hangar, this subject should give you something you can really sink your teeth into and "have-at-it"!

Brannon Answers Your Questions

Question—(This one was asked over the telephone. I had quoted hull insurance on the client's \$14,000 aircraft. The client then wanted to know how much \$7,000 of coverage would cost. I replied we could not accept an order for 50% of the value and that even if we could, the premium would still be approximately the same as the \$14,000 quotation).

"Why won't you accept \$7,000 insurance and why would it cost the same when you stand to lose \$7,000 less?"

Answer—Newspapers, radio stations and adventure magazines to the contrary notwithstanding, the majority of losses paid by insurance companies involve *partial* not total losses. Even in the case of the so-called total loss, the greater number involve substantial salvage. Therefore, it can be said that insurance rates are promulgated on the total of the components at risk as opposed to being based on a lump total-value sum. It stands to reason that if we are going to insure only half the total value of the aircraft, we should not be liable for more than half of its components.

It would be an entirely different matter if the last \$7,000 were insured instead of the first. This would amount to a \$7,000 deductible and the premium

reduction would be substantial.

Question—"An airplane could be a useful tool in my work. Unfortunately, the company . . . came out with a directive against private flying on company business, based on the reason it exposes the company to loss of indeterminate magnitude arising from injury to members of the public and their property. . . . [What is] the extent of a company's liability in private flying on company business and how can this be covered by insurance?"

Answer—It is always a shock to me to find supposedly knowledgeable executives taking such a shortsighted stand against one of the most effective and useful tools of business. A company is exposed to loss with respect to aircraft used on company business in exactly the same fashion as they are with automobiles used on company business. As to the magnitude of loss, this is pure conjecture and perhaps the earth-bound company executive is imagining your lightplane knocking out of the sky a \$5,000,000 transcontinental jet. To date this has not occurred and the likelihood of this is extremely remote, in view of the difference in altitude at which airlines and low-flying, general aviation aircraft operate, plus the strict and effective controls exercised in high-density zones where the two might be at the same altitude. Yet, there are many, many cases of automobiles injuring scores when crashing into crowds, collisions with gasoline or propane trucks which precipitate explosions in highly populated areas, derailment of entire trains, etc., all involving claims which far exceed anything of record during the 50 years of general aviation.

Even if you cannot overcome your company's attitude with regard to the "magnitude" of exposure, coverage is available in multiples of from \$1,000,000 to \$10,000,000 at rates comparable to or below that of like coverage for automobile exposure. The coverage is entitled "nonownership liability," and is written to either include or exclude passengers in the airplane being flown on company business. The premium for \$1,000,000, single limit, bodily injury and property damage liability coverage is in the neighborhood of \$140 per year if the hours flown on company business by all employees does not exceed 300 hours. To include the passengers (coverage limited to single-engine, four-place aircraft), it would be about \$100 additional.

It should also be pointed out to the company that the insurance carried by the aircraft owner extends to ". . . any person or organization legally responsible for its use . . ." and this coverage is not only available but would have to be exhausted before the company's nonownership liability coverage would be called upon.

Finally, it should be pointed out to the company that savings in travel expense alone would be sufficient to purchase practically any limit of liability coverage they desired, covering every employee in the organization!

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