It Could Happen to You

How to avoid some common aviation insurance pitfalls

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■■ Aviation insurance poses a number of critical problems for the general aviation pilot. Lack of knowledge can be expensive, often disastrously so in many cases. The pilot should seek advice as to the nature and content of his insurance policy and determine to his own satisfaction if he has the proper coverage. Many pilots do not have the legal knowledge to understand the fine print in many contracts. It is for that purpose that an explanation of the problems in layman's terms should instill an awareness of the potential hazards of general aviation insurance.

It is everyone's hope that he will never be involved in an aircraft accident or find his aircraft damaged at some time during its life. However, there will continue to be accidents. This raises the question of how to minimize these accidents. Accident prevention is extremely important to the insurance companies in order to minimize their losses. As long-time pilots and investigators of aviation accidents, we find there are a number of interesting facets of insurance that the general aviation pilot should be aware of: protecting himself; protecting his aircraft; and, knowing his personal and legal responsibilities in the event of an accident.

There is a significant difference in the way the National Transportation Safety Board and the Federal Aviation Administration conduct their investigations and the manner in which the insurance investigator goes about his task. Generally, the FAA and the NTSB, insofar as general aviation is concerned, look for probable cause, while the insurance investigator searches for specific cause. The reason for this can be attributed to the cost of settlement, particularly where liability is involved, since the latter can represent a substantial loss to the insurance carriers.

General aviation policies carry from $50,000 up to $1,000,000 in liability coverage. The prospect of a million-dollar payout disturbs the carriers; the result is a finely detailed investigation by design experts, metallurgists, chemists, and mechanical and aeronautical engineers. The reports are prepared on the basis that litigation will ensue (whether it does or not) and, as a consequence, are far more comprehensive in detail than would otherwise be the case if only probable cause were considered in each accident.

As an example, let us consider a general aviation pilot involved in a forced landing under IFR conditions with considerable damage to the aircraft and only slight injuries to the pilot. Preliminary reports point to carburetor icing as the probable cause. All symptoms, including the statement of the pilot, appear to confirm this finding. However, an analysis of the fuel may indicate contamination, or an engineering study of the carburetor locates an unusual failure. These facts change the picture and a thorough investigation is made to determine how and when such contamination occurred, or how and why the carburetor malfunctioned.

These courses would ordinarily be pursued whether or not they were contributing factors or the principal cause of the accident. In this instance, preservation of evidence becomes a responsibility of the insured.

This does not mean the FAA and

the NTSB are not performing their assigned tasks. It indicates a different approach on the part of the insurance carriers. What may be classified as an incident by government standards may entail a precedent-setting failure of a component, thus precipitating an investigation that costs several times the settlement costs to the insured pilot. Further, minor injuries, particularly to a passenger, can often balloon to such grand proportions as to warrant a battery of investigators that would, at first glance, seem out of proportion to the loss.

Fortunately, equipment failures are a minor part of the insurance loss cause history in aviation accidents. This testifies to the integrity of the manufacturers in furnishing a reliable product. Many accidents do occur that are attributable to lax maintenance. A considerable number occur as the result of an aircraft sitting idle for long periods of time.

Most mechanics will agree that an airplane needs exercise. For example, in humid climates the avionics will suffer deterioration unless exercized once or twice a week. Hoses, wiring, magnetos and other parts are often susceptible to deterioration not visible to cursory inspection. Assembly components and exhaust systems are subject to rust and corrosion. Therefore, regular maintenance and usage are needed lest they create accidents not the fault of the airplane but the owner for his failure to care properly for his valuable bird.

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One of the unfortunate statistics we have found to be generally true is that almost 90% of all general aviation accidents are due to pilot error of one kind or another. This figure may appear arbitrary to some but the writers base this on years of accident investigation. These errors range from poor flight planning, the VFR pilot flying into IFR weather, navigational errors, running out of fuel, to lack of knowledge of the aircraft.

A recent case involved a single-engine aircraft which departed a facility located on the Texas Gulf Coast for a flight to Oklahoma City. The weather was VFR on departure with a wind from 170 degrees at 15 knots at 7,000 feet. The pilot flew nonstop to Oklahoma City, a point which would be the limit of this particular craft's endurance, considering passenger and fuel load.

That same evening at 8:00 p.m. the pilot departed Oklahoma City with full tanks. There was no record of filing a flight plan or checking with an FSS or any other facility to determine weather conditions en route. As it happened, the wind had not changed during the interim. Further, possible fog and low ceilings had been forecast for the Gulf Coast beginning around 10:00 p.m.

As the pilot approached within 100 miles of the coast his sole navigation

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was by low-frequency radio beacon, although other sophisticated equipment was available in the aircraft. He ran out of fuel VFR on top approximately 50 miles north of his destination and fortunately survived a zero visibility landing two miles from a paved airport. This loss, a fairly common one, was clearly attributable to the pilot's failure to evaluate the effect of the wind upon the range of his aircraft, with a resulting cost of $50,000 to the insurance carrier.

Another interesting case involved a similar type aircraft in confrontation with a control tower. The wind was from the southwest at 15 knots, gusting to 20. Because of traffic the pilot was given the southeast runway by the tower. Unable to control his aircraft in the strong crosswind, he sustained $20,000 in damages. The pilot blamed the control tower for the accident.

Subsequent investigation proved he had been adequately advised of conditions and elected to land southeast. His later remarks were "I didn't know I had the option to refuse." Such occurrences indicate a lack of knowledge by pilots of their rights and responsibilities, or the fear that they will have problems if they do not follow traffic instructions to the letter.

In view of such incidents, the insurance carriers are becoming wary of insuring some risks. The options open to them are either to raise rates or place further restrictions in their policies, which has already been done by some companies. A clause now often found voids coverage if an accident happens in a planned off-airport landing or takeoff. More flying time and extensive qualification may be required as a general rule. Currency standards and strict adherence to medical qualifications will be subject to close scrutiny. In essence, if there is a deviation from the stated licensing, medical, or competency requirements, you could find your coverage voided after an incident, not to mention a major accident.

Hull and liability coverage on general aviation aircraft are among the best bargains in the country. A scan of several companies shows that a premium of 1.5% of value of the hull is the genral rule. A $50,000 airplane can normally be insured for all hull and comprehensive losses for from $900 to $1,200 with deductibles from $100 to $500.

Liability costs are incredibly low. A one-million-dollar limit of liability coverage on the same general aviation aircraft will run from $300 to $500. These are average figures and do not reflect the rates of a particular company. Compare thees rates with your automobile policy and you will see that general aviation aircraft insurance is one of the best bargains available to the pilot.

One of the biggest headaches to the insurance investigator, and one over which he has little control, is the matter of renter pilots who become involved in accidents. In questioning a number of renter pilots we found that most were not aware they would be liable for damages in the event of an accident. Many would ask the FBO if he had insurance coverage and most FBOs would reply that they were covered for both hull and liability. This was true, except that the renter pilot was not usually covered and the FBO was not often aware of the fact.

Unless the renter pilot has nonowned aircraft coverage, he can find himself burdened with a catastrophic loss involving the aircraft hull and liability for his passengers. Any general aviation pilot who rents an aircraft should make certain the FBO has renter coverage, or he should himself purchase such coverage before renting. This type of coverage is available from a number of companies at a relatively low premium.

In insuring your aircraft, you should consider its value very closely to make certain it is not over- or underinsured. An aircraft overinsured may pose problems. There are two types of policies generally available, The first is a "stated value" policy. This policy insures you for a stated amount, say $50,000, and the company will pay this amount in the event of a declared total loss. The second is

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the "actual cash value (ACV) policy. If you insure the same plane for $50,000, usually at a lower premium, in the event of a total loss the company will pay the actual cash value of your aircraft on the current market.

In settling actual cash value losses, we have never met a pilot who did not have an exaggerated opinion as to the value of his bird. However, ACV is generally determined by the prevailing market in the particular area of the accident. What can we replace this aircraft for? There are certain guides such as *Aircraft Price Digest*, produced by the McGowan brothers. These guides are not hard and fast; the company has the choice of paying the limit or replacing the unit.

If, for example, a like aircraft can be found for $30,000, then the company can offer the replacement aircraft or $30,000 in cash and take the salvage and, in so doing, has fulfilled its part of the contract. A great many pilots do not understand the implications of ACV and of salvage. Thus, overinsuring an aircraft can be painful in a number of ways.

Consider the matter of salvage. The insured may feel that the company will pay the $30,000 on his ACV policy and allow him to retain the salvage. Such is not the case. If the unit is declared a constructive total loss, then the salvage goes to the insurance company. A constructive total loss means that anytime the salvage value of the aircraft, say $20,000 in this instance, is equal to or exceeds the cost of repairs, then the option rests with the insurance carrier to consider the aircraft as a constructive total loss, although it may be repairable.

Many spend large sums on their aircraft and assume they can insure for this amount and recover. A particular aircraft may be an exception, but the burden of proof rests with the insured and not the insurance company. Find out what kind of policy you have, and be sure that you do not insure an airplane with an ACV of $30,000 for $50,000. You will be paying a premium for $50,000 and have only $30,000 worth of coverage.

Unless you have a stated value policy you may run into the ACV problem. If your aircraft is worth $50,000, and is the exception to the rule by virtue of extra equipment, then ask for a stated value policy. You will be required to prove value but, if the underwriters accept, then you are in a fairly rosy position. Again, it is a rare underwriter who would accept a stated value unless there was significant proof such as a record of the installation of sophisticated avionics or other improvements to support the claimed value.

Underinsuring is a gambit often tried on the assumption that accidents will not normally entail a total loss. For example, a $50,000 airplane is insured for $30,000, sufficient to protect the lien-holder and to take care of most accidents. Statistically, this may be a reasonable risk. The owner is becoming a self-insured, although he may not realize this fact. He pays the lower premium and takes the chance.

The unexpected sometimes happens, and when a total loss occurs the owner finds himself out $20,000. We have already discussed the fact that a company has the option of taking the salvage. Whether or not it would do so in this instance would be determined by the company but, in most cases, it would be within its rights under the contract if the full amount of the policy limits were paid.

Another problem that confronts owners of damaged aircraft is the loss of income derived from that aircraft. The lease-back owner is particularly vulnerable in this instance. Let us say that Joe Doakes, pilot, buys a Cessna 210 fully equipped, for $75,000. He insures for this amount and carries a lien of $50,000 with his friendly local banker. Joe's bird is involved in a wheels-up landing resulting in $20,000 in damages (not unusual).

He can bet that his aircraft will be down for several months depending on the availability of parts, the workload of the repairing agency, and the inevitable delay in resolving a complex insurance claim to the satisfaction of all parties. His $750-a-month payment to the lienholder continues and he has no income from the aircraft. The problem thus posed should be obvious to all.

Another example would be the businessman who depends on his aircraft to commute to various parts of the country as an essential part of his business. Is there an answer? There is, but it is expensive. It is called loss-of-income coverage. Not many firms care to involve themselves in loss-of-income coverage on general aviation aircraft. Those who do get a healthy premium because of the risk. For many pilots it is not economically feasible. However, the insured, particularly in a lease-back situation should know the pitfalls inherent in his arrangement if his aircraft is damaged in an accident.

It is not surprising that few people take the time to read an insurance contract because it is so long and appears complicated. A few well-placed questions should enable you to have a good understanding of the contract. It is important to remember that an insurance policy is a contract and performance by all parties must adhere to the letter of the contract. What are these questions?

To begin you should ask if you have a stated value or an actual cash value policy. You should know the responsibility of proving value rests with you. If you are a renter pilot, you should be certain the FBO has renter coverage or have a nonowner policy of your own. You should know that when an accident occurs you have certain obligations which you must fulfil under the contract if you are able. These entail protecting the aircraft from further damage, vandalism, or theft and taking the necessary steps to remove the aircraft to a safe place.

But what if you are injured and cannot perform these tasks? Fortunately, in over 95% of general aviation accidents there are only minor injuries or none at all. If you have a forced landing in a field, you should not walk off and leave the airplane any more than you would walk away from an auto accident on the freeway. Secure the services of people to guard the aircraft until such time as it can be secured. You will find that you will be covered for such expense under most, if not all policies. If the insurance adjuster arrives upon the scene, he will usually handle these matters.

"...the renter pilot was not usually covered..."

But this does not relieve you of the responsibility. If there are injuries, particularly to passengers, it is extremely important to protect the aircraft and to preserve the evidence. The insurance company may not know about the accident for hours or, in some cases, days. Know your responsibilities under the contract. Many companies are glad to furnish copies of their policy jackets which outline conditions of coverage. Note the "Exclusions" and "Duties of the Insured." It is worth the time to get one and read it.

Knowledge of your insurance coverage can be of considerable importance to you as a general aviation pilot. If you understand the steps involved in proving your loss and the procedure the adjuster must follow, you will not be too surprised by events.

State statutes vary procedures, as do court cases. However, variance is relatively minor in most cases, and what is outlined here is generally true for most jurisdictions. The insurance carriers hope you never have an accident and fly safely and happily into old age. This is the way they make money. □