

# A Six-Step Process to Buying Rotary-Wing Aviation Insurance



by Marion Hope

Let us face it; on a purchase satisfaction scale of one-to-ten, rotary-wing insurance fails to register even a one for most buyers. There is simply nothing exciting about buying a stack of papers that promises to pay for a future loss you hope will not happen and that, in fact, is highly unlikely to ever happen.

As such, many helicopter owners make the mistake of focusing minimum attention on this vital component of their financial protection system. Given that aviation risk will certainly rank as one of, if not THE largest financial exposure an aircraft owner faces, this

can have devastating consequences. Consider the legal ramifications of the recent midair collision of a helicopter and fixed-wing aircraft over the Hudson River in New York City in which nine people, including both pilots, were killed, and you begin to realize what is at stake. The families of the deceased passengers will be seeking wrongful death compensation for pain and suffering, lost earnings, and property damage. This is compounded by the fact that many of the passengers were not U.S. citizens; hence application of law issues may be involved. Defendants in the law suit include both aircraft

owners, the aircraft operator, the FAA, and potentially the aircraft manufacturer. Considering there may be multiple suits in multiple jurisdictions brought on behalf of the deceased parties, the importance of properly structured insurance protection becomes crystal clear.

“A lot of people do not understand what is in their insurance policy until they need it — and then it is too late,” is an axiom that has held true over time.

Here is a six-step process to help guide you in the purchase of your rotary-wing aviation insurance:

**1 Do your homework.** Get educated. What is the state of the insurance market? The rotary-wing aviation insurance market has been soft in the last few years but has firmed up recently. This means premiums are at all-time lows and underwriting flexibility is still liberal. Would this be valuable information when discussing insurance renewal with your broker? Of course. Knowledge is power.

**2 Seek counsel on selecting the proper liability coverage limit.** This is probably the most important decision you will make, as it presents the highest catastrophic loss potential. How much coverage is enough? Unfortunately, there are no easy answers. But there are questions you can ask yourself to help determine a reasonable amount. Who and how many persons are you transporting in your helicopter? What do your contracts require? If most flights are flown with one or two passengers, or the passengers are primarily employees (where you may have the protection of workers' compensation insurance), you may be able to live with a lower liability limit. However, if the average passenger load is four or five, and/or the passengers are primarily non-employee guests, you would be wise to look at higher liability limits. Remember that settlements and judgments will always take into account the earning potential of each passenger. Other factors to consider: the total seats in the aircraft, the benchmark average liability limit for similar category aircraft, an umbrella policy you may have in effect. As a rule, when in doubt, buy more, not less. Liability insurance is the great unknown, and often purchasing higher limits is not that expensive. Unfortunately, you will not find out if you bought enough until after a loss.

**3 Review the aircraft value on an annual basis.** Many aircraft owners insure their helicopter for the original purchase price and then fail to adjust the value annually. One of the unique aspects of most aircraft insurance policies is that the hull coverage is written on an “agreed-value” basis. That means that once you and the company have mutually agreed on a hull value, the amount stated in the policy represents how much will be paid in the event of a total loss, less any applicable deductible. This is a radical departure from auto insurance, which is written on an actual-cash-value basis. But you can over-insure and under-insure to your detriment. If you over-insure, the insurance company may elect to repair the aircraft even when there is major damage—leaving you to deal with significant damage history, loss of the use of the aircraft while it goes through lengthy repair and no compensation for diminution of value. Conversely, if you under-insure, the insurance company may elect to pay you the insured value and then sell the salvage, meaning you would lose your equity. In this volatile economic market, many aircraft values have taken a hit. Make sure to review the hull coverage at least annually (do not forget to consider any loan or lease requirements) and adjust the amount, if needed.

**4 Review the structure of the policy's Named Insured.**

In the corporate world, many owners make the mistake of simply listing the registered owner (often a sole asset LLC) as the only Named Insured. In the commercial world, many helicopters are leased back to the end-user commercial operator. Properly structuring the Named Insured is crucial because often the entities or persons who truly need the protection may not have it if not written properly. In addition, many of the ancillary coverages, including the use of non-owned aircraft, only apply to the Named Insured. For example, if the owner's aircraft is on a flight and another executive of the company is therefore required to charter an aircraft, if the flight is chartered under the actual operating company's name, the coverage for use of non-owned aircraft would not apply, leaving the operating company exposed to a lawsuit in the event of an accident. You might think you are not worried about that because how could your company be sued if all you did was charter the aircraft? When there is an aircraft accident, typically everyone involved in the loop of commerce for that flight will be brought into a lawsuit. Keep in mind, one of the great benefits of your liability policy is that it provides for an attorney to defend you, even if it is a groundless suit.

**5 Chose an insurance broker that specializes in rotary-wing aviation.**

Your property/casualty broker handles your general insurance needs, but just as if you required heart surgery you would want a heart surgeon not a GP, for similar reasons you need an insurance broker who deals exclusively in aviation insurance. Unlike other lines of property/casualty insurance, which are written on standard forms, aviation policies vary widely, and some are much broader than others. This makes apples-to-apples comparisons extremely difficult. A good aviation insurance broker can help you find an appropriate rotary-wing insurance carrier and policy that best fits your operation. In addition, these brokers deal with underwriting companies every day on multiple aviation risks and have large books of helicopter business with each, which gives them a lot of clout. An aviation broker will know which underwriter at each insurance company is the most reasonable to deal with, what a competitive rate should be on a particular account, and what types of coverages you need. They will also have an effective marketing plan that addresses price, which is always important, but will also identify those carriers with excellent claims service and those with a long term commitment to rotary-wing insurance, which can be just as important. Overlooked, but critically important is your broker's knowledge of when and how to negotiate and how hard to push as your advocate to secure the lowest premium and broadest policy with all the bells and whistles.

**6 Review the financial stability and claims philosophy of the insurance company closely with your broker.**

There are many sources that monitor and rate the financial health of insurance companies on a daily basis, such as AM Best & Co. and Standard & Poors. In today's business environment, colossal companies no one could imagine having financial problems have become more the rule than the exception. It is much harder to identify the truly rock solid insurance companies, the importance of which, cannot be overstated. Often, lawsuits generated by aviation accidents can drag out over years, with five to seven years not being uncommon. Your mission is to select an insurer that will be around for the long haul to cover those long "tail" claims. In addition, research the claims history of the insurance companies you are considering. Some have a claims reputation of playing hard ball, while others are viewed as more user friendly. It is worth paying more money to be with a company that views a claim as a "glass half full." Those that take the opposite view can turn a relatively minor claim into a nightmare.

In closing, if you take nothing else from this article, remember this: the financial stakes are too high to give less than full attention to your aviation insurance program. No company ever thinks it will be their helicopter that is involved in an accident. Unfortunately, accidents do happen, even to the best flight departments. Take command now before a loss occurs. Either take the business imperative to act or prepare to be acted upon. It is your choice. **R**

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