

Your Flight Plan to Aircraft Insurance



Important insurance considerations before you purchase your aircraft.



Have you ever been in an aircraft during a gear-up landing? As the aircraft makes contact with the runway without its landing gear fully extended and locked into place, the underbelly scrapes along the runway and you hear and feel massive vibrations.

This experience can be shocking, but it's even more intense and costly when it's your aircraft.

Becoming an aircraft owner is exciting, and the vehicle should bring freedom and comfort to your life — but it also adds risk. Like any new vehicle, your aircraft needs to be insured. While you may be familiar with the ins and outs of auto insurance, aircraft coverage is more nuanced.

For example, similar to auto insurance, the model and age of your aircraft will impact the type of coverage and cost. However, while auto insurance typically follows the car, not the driver, an aircraft policy covers the pilot and the aircraft together.

Before you purchase your aircraft, familiarize yourself with the types of aviation coverage available, the considerations that impact what you need and how much it will cost, along with best practices for avoiding claims and how to respond when accidents happen.



The insurance you need to fly

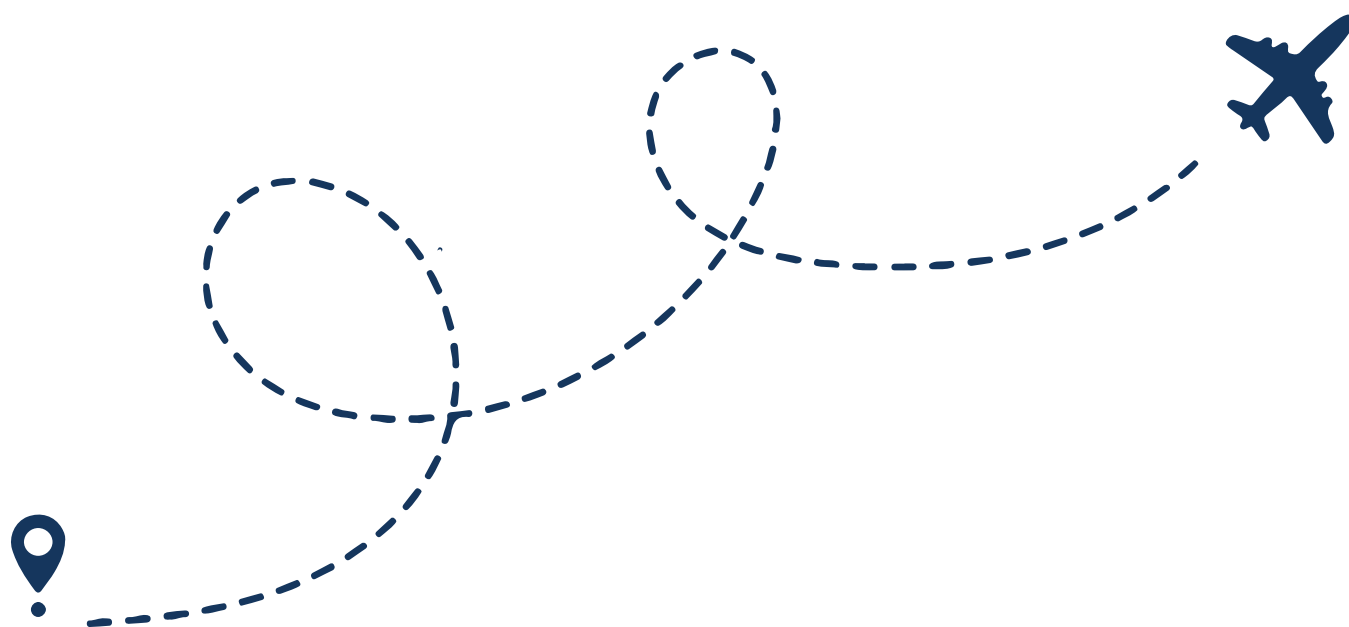
Don't be fooled – even though there are no federal or state regulations requiring aircraft insurance, you will almost certainly need insurance to get your aircraft airborne.

80%-90%

of aircraft owners and operators have liability insurance.¹

If you're planning on securing a loan to purchase your aircraft, your loan provider will require retained insurance before the aircraft is in your possession, at least enough to sufficiently cover the loan and lien amount.

Airports or other fixed base operators (FBOs) will require insurance from the aircraft owner and operator to protect their own interests, as well as the interests of the airlines and general aviation operators that use their facilities. They may also have minimum insurance requirements depending on the size of the facility, the type of operations conducted and local regulations.



^[1] United States Government Accountability Office "[General Aviation: Observations Related to Liability Insurance Requirements and Coverage for Aircraft Owners](#)," September 2015.

Aircraft liability + hull property damage

Aviation insurance consists of two key parts: aircraft liability and hull property damage. You'll need both.

1. **Aircraft liability** is related to any third-party claims. It shares some similarities to the more familiar auto liability policy, as both cover damages and injuries you might cause to other people or their property and are often occurrence-based; but there are also significant differences due to the unique nature of aviation, such as:
 - Aviation operations are generally considered more complex and inherently riskier than driving a car, due to the more severe potential consequences of an accident. This is reflected in the coverage limits and premiums for aircraft liability. It is not uncommon for aviation policies to have liability limits in the millions of dollars.
 - Aircraft liability insurance includes coverage for **passenger liability**. How the coverage addresses passenger injury depends on whether you have smooth limits or a per passenger sublimit. With a smooth limit, the entire liability limit is available to address all types of liability claims, including third-party and passenger claims. Per passenger sublimits cap the coverage for passengers to a specific amount listed on the policy.

Carrying medical payments coverage on your policy is also a smart idea to cover the smaller injury claims and prevent larger lawsuits.

2. **Hull property damage** covers first-party claims, or physical damage to your aircraft. The value of the aircraft, which is assessed based on market conditions and often sources like the Aircraft Bluebook, determines the coverage amount. There are two primary hull property damage options:
 - **Ground risk coverage** applies when the aircraft is not operating under its own power (e.g., when it's not in flight). This would include damages from crime, other aircraft and natural disasters. Ground risk is a good choice if you only want to cover the aircraft while it is sitting in its hangar; however, additional considerations should be made to cover the plane while it's in motion.
 - **All-risk or full flight coverage** provides protection regardless of whether the aircraft is stationary on the ground, taxiing or in flight. It is akin to full coverage on your car, covering a broader range of risks similar to comprehensive and collision coverage for an automobile.

How much coverage do you need?

Aircraft policies are written on an agreed-value basis, and the amount stated in your policy is the amount you will receive in the event of a total loss. The proper value of your hull coverage should equal the amount of money it would take to replace your aircraft, not significantly more or less. If a repair exceeds the total value of the insured plane, it will be deemed a total loss, leading to a payout of a policy.

Over-insuring or under-insuring your aircraft could leave you with a less-than-suitable aircraft or insufficient funds to replace it. Consider these two scenarios:

- The wings of your aircraft are ripped off during a rough landing, causing damage that exceeds the value of the aircraft. But you are **over-insured** and it will cost the insurance company less to repair the plane or even build the plane from the ground up versus totaling the aircraft and paying out your policy.
- The same accident occurs, but this time you are **underinsured**. In this situation, the insurance company totals the aircraft and pays out your policy. They have an aircraft they can salvage to recover a portion of the paid loss, while you are short on the cost of a replacement plane.



Navigating bank coverage requirements

Lending institutions that secure financing for aircraft purchases not only want to get you airborne but desire to protect the investment as well. Lienholders, or lending institutions, may impose specific conditions or coverages to ensure your loan will be repaid. These include:

Loss payee coverage, which ensures that the lienholder is included alongside you on any claim payment in the event of a mishap.

Breach of warranty coverage, which assures the lienholder won't be at a loss if the insurance company denies your claim.

When partnering with a lender make sure they have a vested interest in the condition and usage of your aircraft. Making adjustments to your insurance coverage can be a critical aspect of the agreement to ensure both parties are aligned. If you are going to make any changes to the usage or coverage of the aircraft, run it by your lender first — or you could be in breach of the lender agreement!

How is aircraft insurance priced?

In simplest terms, underwriters assess the level of risk associated with your aircraft and its operation to determine the price of your policy, or your premium. The assessment of your risk is a little more complicated. There are various factors that come into play, and understanding these factors will help you make informed decisions about your aviation insurance needs.

- ☑ **Type of license:** Different types of pilot licenses, such as private, commercial or airline transport, are associated with varying levels of training and experience. The more advanced the license, the lower the perceived risk, which can lead to lower premium rates.
- ☑ **Type of rating:** Underwriters consider additional ratings, particularly instrument ratings, which signify a pilot's ability to operate an aircraft in adverse weather conditions. Possessing such ratings can result in insurance discounts.
- ☑ **Pilot's total experience:** Underwriters consider the pilot's total flight experience, which includes logged flight hours. More experienced pilots tend to receive more favorable premium rates.
- ☑ **Pilot's experience in the aircraft type:** Insurance rates may be affected by the pilot's familiarity with the specific make and model of the aircraft. Pilots who have substantial experience with a particular aircraft type are often viewed as lower risks.
- ☑ **Make and model of the aircraft:** Safer and more reliable makes and models typically lead to lower premiums.
- ☑ **Number of losses and types of claims:** A pilot's history of insurance claims, especially the nature of these claims, can significantly impact premium rates. A history of fewer claims or claims that are less severe can lead to lower premiums.
- ☑ **Areas of operation:** The geographical area in which you intend to operate your aircraft is a crucial factor. Some regions are more prone to catastrophic weather events or theft, making them riskier for insurers. Pricing may vary based on your aircraft's intended area of operation.

Rates, terms, conditions, policy limits and premium costs are all tailored to the factors mentioned above. Underwriters assess these elements to provide a personalized policy that reflects your unique risk profile. As a general rule, pilots with extensive experience and a clean safety record typically receive more favorable rates because they represent a lower insurance risk.

At IAT, we work directly with experienced brokers and specialists in aviation insurance to ensure the policy reflects the needs and experience of the aircraft owner and operator.

Risk management for aircraft owners

Follow these best practices to position yourself as a good risk for insurance carriers and secure lower premiums:

1. Hangar Security

Store your aircraft in a locked and secured hangar that is built to withstand the elements and risks of your geography.

2. Pilot Management

Be aware of who is operating your aircraft. How many pilots are flying your aircraft, what is their experience and activity levels? Select pilots with more experience and training for less risk.



3. Training

Invest in additional training for your pilot (even if it's yourself). Aircraft training provides the sensations and physical experience of real-life flying, while simulation training can be used to improve skills for worst-case scenarios and emergencies.

4. Aircraft Maintenance

Prioritize the maintenance of your aircraft by staying technologically advanced, scheduling regular engine overhauls, conducting regular inspections and staying compliant with FAA requirements and regulations.

The impact of claims

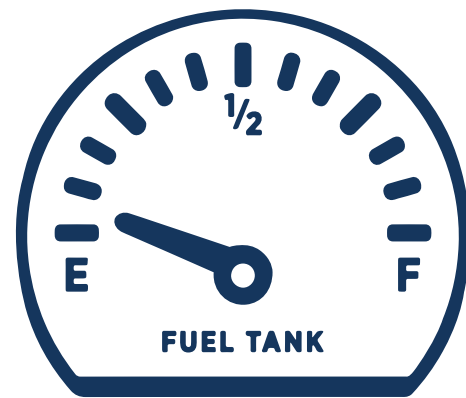
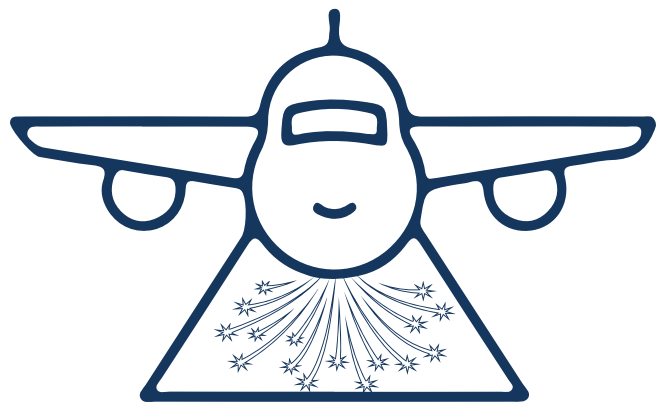
The burden of claims extends beyond financial risk. When a claim is filed, and the plane is sent for repairs, you lose access to the aircraft. This downtime can be frustrating and disruptive, particularly for those who rely on the aircraft for various commitments.

This downtime can also be harmful to a pilot's career. Pilots are required to stay current with their flying hours to maintain their certifications and ratings. Insurance companies may be hesitant to cover pilots who have not flown for months, creating a dual challenge for the grounded pilot: no aircraft to fly and the inability to maintain their flying proficiency.

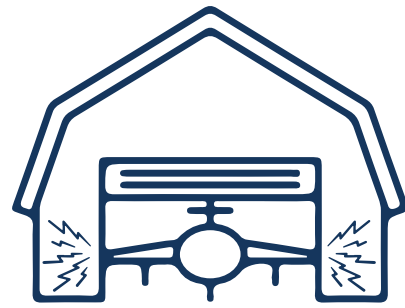
Common claims

Common avoidable claims in aviation often stem from human error. Here are our top four:

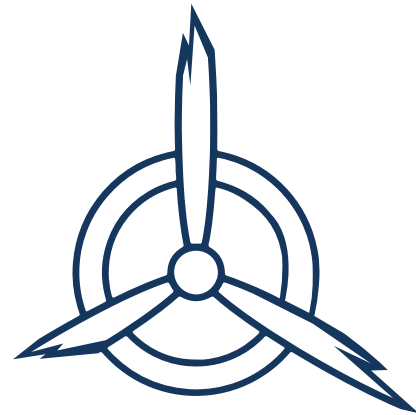
1. Remember our opening example of a **gear-up landing**? With the exception of a mechanical malfunction, this type of error occurs when pilots forget to deploy the landing gear, causing the underbelly of the plane to scrape against the ground. Factors like distractions or complex instructions from air traffic controllers contribute to this common mistake. Repair costs can range from \$80,000 to \$130,000, and even minor propeller damage can cost \$30,000 to repair. Unfortunately, due to repair facility backlogs and equipment supply chain delays, the downtime for such repairs often extends from 16 to 18 weeks, immobilizing the aircraft for months.
2. **Fuel exhaustion claims** are viewed seriously by underwriters as they imply neglect in checking fuel levels before flight. These types of infractions reflect poorly on a pilot's adherence to safety protocols, as checking fuel levels during pre-flight checks is a fundamental aspect of the job and signals a lapse in diligence.



3. **Hangar incidents**, otherwise known as “hangar rash” claims, are mishaps while maneuvering within hangars. A common example is when a wing strikes against hangar doors due to inadequate clearance. Employing a wing walker during movement in and out of hangars can significantly mitigate these incidents.



4. **Tow bar and propeller damage** can occur when pilots start the aircraft with the tow bar still attached. Ensuring the tow bar is disconnected from the propeller before starting the aircraft is crucial to avoid this costly (typically \$30,000) mistake.



These frequent human errors not only trigger insurance claims but also underscore the importance of stringent adherence to safety protocols and meticulous pre-flight checks.

Betterment: An important term to know

A crucial aspect often causing contention in aviation insurance claims is betterment. Betterment applies to parts subject to time-limited usage. For instance, a propeller may need overhauling after a set number of hours (typically 2200-2400). If an incident occurs when the part is halfway through its lifespan, the insurance coverage for repair might cover only half the cost.

Betterment doesn't extend to every aircraft part. It's notably relevant to propellers and engines, especially in the realm of general aviation. The objective is not to enhance your aircraft but to restore it to its original state. Originally designed to deter exploitation of the system, betterment ensures fairness in claim settlements. If the repair cost surpasses what the insurer deems reasonable due to prior wear, you might face out-of-pocket expenses to cover the upgraded portion.

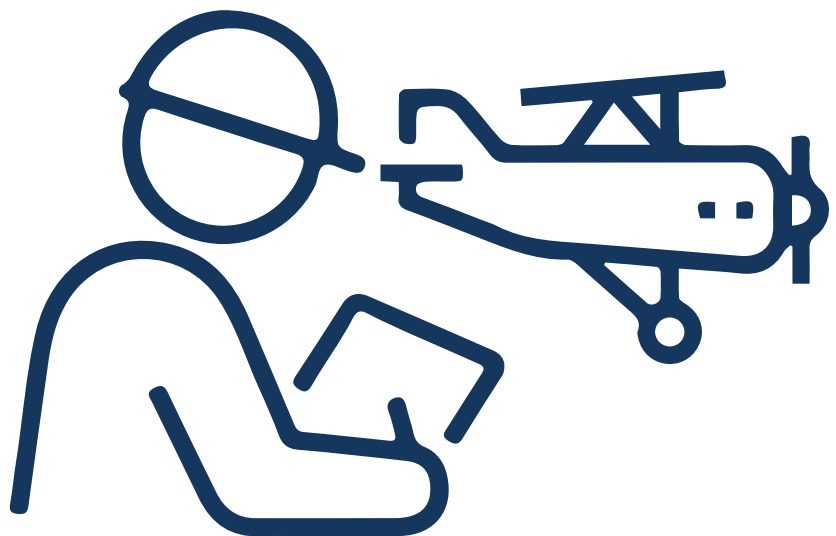
Best practices for resolving claims

Even the most diligent and experienced pilot can make a mistake. How you respond to the incident will determine its financial impact. Here are some crucial best practices that will optimize your claims handling process and save you money and stress:

1. **Engage your claims team quickly.** The earlier your claims team engages in the process, the smoother and faster the resolution, particularly when the insured isn't at fault. It only becomes more complicated the longer you wait to loop in your insurance team. In fact, they should be your first call, even before the towing company.

Bonus tip: Avoid standard auto towing services, as they might significantly inflate rates for aircraft recovery. Additionally, inexperienced companies can inadvertently cause further damage during the towing process. Engaging an experienced aviation repair and towing company, familiar with the intricacies of aircraft recovery, can prevent additional harm and ensure a smoother claims process.

2. **Play an active role in the repair process.** Maintain active communication with the repair facility. Proactive engagement ensures that repairs progress smoothly, avoiding delays caused by unresponsive repair facilities. Your claims team has no authority over what repairs are done, but can guide you through what is financially covered.
3. **Understand the nature of aviation repairs.** Aviation repairs are not swift processes. They are complex and often time-consuming. Factors such as repair facility backlogs, intricate repair work and supply chain issues contribute to extended timelines. While the wait might seem lengthy, it is imperative for the repair facility to conduct thorough and precise work.
4. **Choose an insurance partner with an in-house claims team.** Working with an insurer offering an in-house claims team can provide distinct advantages such as access to a curated list of reliable repair facilities, including those that specialize in older or unique aircraft. In cases where parts are unavailable, these relationships facilitate the creation of bespoke parts that can avoid total loss.



Find the right people

The importance of relationships in aviation ownership – from underwriting to repairs – cannot be overstated. The connections you build and the partnerships you choose will determine your ability to mitigate risks, resolve claims, save money and fly the skies with confidence.

Start building your aviation support network today.



IAT coverage options

IAT Aviation offers hull and liability limits.

Under IAT Aviation's Flight Test Clause in our Aircraft Policy, aircraft with a "Standard" airworthiness certificate may fall under "Experimental" or "Restricted" airworthiness due to maintenance requirements, equipment changes or other changes to the aircraft. This addition to our policy fills a gap in our competitors' policies. Crew members also may be entitled to passenger benefits. Land Gear is always considered part of the aircraft, even when removed and replaced by landing gear designed for water operations.

IAT Aviation coverage options extend to the following aircraft:

- Experimental Amateur-Built
- Rotorcraft
- Waterborne Aircraft
- Turbine Aircraft

Questions to ask when choosing an insurance provider

- **Are they financially stable?**

Check their AM Best rating and claims payout history to ensure they have the capacity to honor their commitments.

- **How long have they been operating in the aviation industry?**

Experienced and knowledgeable underwriters are crucial due to the unique nature of aviation risks.

- **Do they promptly address queries and requests?**

A responsive insurer is critical for timely support.

- **How fast and effectively do they initiate contact after a claim is filed?**

*You are prepared to involve them quickly for a better claims process and outcome.
You need them to ensure the same from their end.*

- **Do they manage claims in-house or do they outsource to third parties?**

In-house claims handling may offer better control, efficiency and a more tailored approach to aviation claims.

- **Can they give you the level of coverage you really need?**

Based on how you will be using your aircraft, investigate the following:

- Who can fly the aircraft under the policy?
Do they have any pilot or training requirements for who operates the aircraft?
- What is the covered territory?
- Is the liability limit smooth or with a sublimit?
- Does the hull coverage include “in motion” or “not in motion” incidents?
- Are medical payments provided under the policy? If yes, do they include the pilot?

Contact IAT



Contact IAT to learn more about our Aviation coverage options and important insurance considerations before you purchase your aircraft.

