

WAPA 2014
Falcon Insurance Agency
Insurance Market Summary and General Liability Coverage
Review

WAPA 2014

Current Market Conditions and Your GL Policy Form

Last year was definitely another eventful year for Insurance Companies and their Reinsurers, with the global catastrophes and several airliner incidents around the globe, and then when you add in the ongoing Ukraine and Russian Crisis and Mid East and ISIS Terrorism concerns, it would seem like the perfect storm.

Now, in the wake of 2013 and through the 1st and 2nd quarter of 2014 the industry's focus has again returned to look for opportunities for improved pricing and capacity allocation. Especially with insurance companies investment income at all time lows.

However, the Reinsurance Market and Insurance Industry as a whole continued to show resilience under the weight of all of these pressures.

Insurance companies primarily derive their income two ways. 1. Turning an underwriting profit (collecting premium that exceeds insured losses and related expenses. 2. Investing premiums and making a return on those investments.

Investment income is vital to an insurance company's overall finances. Several years of historically low interest rates have taken it's toll on the insurance companies and made it challenging at best for them to find a safe, stable and productive facility for their investments.

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So, what does all this mean for you as the consumer?

Well, on a global scale, Aviation is roughly ¼ of 1% of the entire world book of insurance. However it is still affected by the reinsurance market conditions the same as every other line of insurance. This is true for direct underwriters, Managing General Agencies, and Captives alike, as they all purchase reinsurance in one form or another for their lines of business and insurance programs.

We may begin to see markets again push for slight increases, especially as the insurance companies investment income decreases. All this is of course dependant on many factors, including but not limited to the insured's limits, annual gross receipts and exposures for repair and service, as well as global market conditions.

This is a broad generalization, but we have seen a very slight upward trend on commercial aviation hull & liability rates, and aviation reinsurers are trying to expand that to other lines. Whether it holds, still remains to be seen. Right now you could say that there are rumblings of it on the underwriting side.

In the current U.S. aviation insurance market place we have seen an unprecedented increase in capacity for all lines insurance since 2005, as well as aviation insurance, including the entry of several new carriers / companies for aviation insurance.

Currently there are over 15 Aviation Insurance Underwriting Companies in the U.S. However, not all of them will have the same appetite for all aviation related risks.

Of those markets, approximately 5 of them will entertain quoting and insuring Propeller Repair and Service Providers, and depending on that specific risk's underwriting information, (desired limits, size and scope of operations, loss history, etc), that will affect their terms and or underwriting decision to offer terms.

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Currently the primary and most competitive US Aviation Insurance Underwriting Companies for Propeller Repair & Service operations are

-  Allianz Aviation Managers
-  AIG Aviation
-  CV Starr/ Starr Aviation
-  USAIG /USAU
-  XL Aerospace

Typically these are the most aggressive underwriting markets when it comes to writing propeller repair and service type exposures.

The general indication from the US aviation underwriters is that they would like to see a trend to firm up rates. Not necessarily with large increases, but perhaps through some tightening of underwriting guidelines and restrictions, coverage limits, and yes, the dreaded premium increase.

The 1st and 2nd quarter of 2014 saw some attempt at an upward trend, with relatively small increases of 2%-5% rate increases along some lines of insurance.

It will take awhile to see if this will take hold, or if market capacity continues to favor a soft market, which is ultimately good for you the consumer.

The market is cyclical and this has been one of the longest “soft” markets on record for the industry, given that, it might take a while to start that turn towards a harder market.

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With regards to your Aviation or Airport Liability Policy Coverage, the Aviation General Liability Policy in it's simplest form, consists of:

The Declarations or Coverage Identification Page:

The Dec page spells out the Named Insured, the coverage effective dates, the limits provided and deductible if applicable, the premium, the insured locations, and lists the attached endorsement forms which are included at issuance, and finally the producer of record, countersigning agent if required, and underwriting companies authorized signature. Also the Description of covered hazards, your repair and service categories.

The Policy Form or Provisions (which is attached directly behind the Coverage Identification Page)

This is the largest portion of the policy containing the definitions, coverage provisions specifically outlining what is covered and not covered – ie the exclusions.

Endorsements,

These will include all required State amendatory endorsements, Standard Exclusion Endorsements (pollution, noise pollutions, Y2K endt, Nuclear exclusion, Asbestos Exclusion, etc), any special wording changes, or special coverage agreements, etc.

Obviously as repair and service providers one of your primary coverage concerns is for the Products & Completed Operations Liability Limit provided for your Repair and Service Operations. This coverage is Written on an Occurrence basis and subject to an annual aggregate on the policy.

One thing to keep in mind with regards to the Products & Completed Operations portion of your coverage which directly affects the premium is your annual gross receipts.

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Underwriters will identify the exposure by category, i.e. propeller / governor repair / service, overhaul, any avionics repair and service, airframe repair and service. Each of these categories has a specific rate category. For example, avionics repair and service will have a lower rate category than propeller repair and service, and Air Frame R&S with have a higher rate than Avionics repair and service. So, this is one of the primary reasons underwriters and your agent ask for updates on your exposures each year at renewal.

With a complete picture of your annual exposures, your agent can negotiate and obtain the best possible terms for you from the underwriter.

Also, your **Premises Liability Limit** which provides for 3rd party Bodily Injury and Property Damage arising out of the ownership, maintenance or use of the airport premises, and all operations necessary thereto, but excluding any operation of a Control Tower, including the ways and means immediately adjoining thereto, and including other incidental premises used by the Named Insured in connection with the business of the Named Insured

Additional coverage provisions which are available under the General Liability Policy are:

Independent Contractors Liability – Expands the definition of your work to include work or operations performed by you or on your behalf, and materials, parts or equipment furnished in connection with such operations

Contractual Liability Expands the definition of insured contract to include that part of any other contract or agreement pertaining to your Aviation Operations under which you assume the tort liability of another party to pay for bodily injury or property damage to a third person or organization **excluding:**

- Construction within 50ft of railroad property.
- Any contract that indemnifies or relates to rendering or failure to render professional services by architect, engineer or surveyor.

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- Any contract that indemnifies any person or organization for damage by fire to premises rented or loaned to you.

Hangarkeepers Liability Provides coverage for Aircraft while not in flight, and in the care, custody, or control of the Insured.

Personal Injury and Advertising Injury Will provide protection against any one or more of the following offenses committed during the policy period and arising directly or indirectly out of the operations of the Named Insured: false arrest, detention or imprisonment; malicious prosecution, the wrongful eviction from wrongful entry into or invasion of the right of private occupancy of a room, dwelling or premises that a person occupies on or behalf of its owner, landlord, or lessor; oral or written publication of material that slanders or libels a person or organization; oral or written publication that violates a person's right of privacy; misdirection of a person to an aircraft or other conveyance

Premises Medical Expense Medical expense described as follows, paid for bodily injury caused by an accident on premises you own, lease, or rent, or your incidental premises locations because of your Aviation Operations: First aid at the time of an accident; Expenses for medical, surgical, dental, ambulance, hospital, professional nursing and funeral services up to one year from the date of loss.

Fire Legal Liability Coverage for property damage caused by fire to structures and fixtures that are rented or leased by the named insured.

Also, there are several coverages usually written into a standard General Liability Policy form, **such as Host Liquor Liability (which** Provides coverage for Bodily Injury and Property Damage arising out of the giving or serving of alcoholic beverages at functions incidental to the Named Insured's business, provided that the Named Insured is not engaged in the business, manufacturing, distributing, selling, serving or furnishing of alcoholic beverages.,) i.e. – a hangar party, or open house type event at your place of business.

Liability for Mobile Equipment (i.e. tugs, golf carts, tractors, fork lifts, unlicensed vehicles,) This is part of the premises

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liability and provides for 3rd party Bodily Injury and Property Damage arising out of the use of mobile equipment on covered premises locations.

There is even a provision for Bail Bonds is included in the GL policy. (depending on carrier, you may be afforded up to \$250-\$1000 for cost of bail bonds required because of accidents or traffic law violations arising out of the use of any vehicle to which the Bodily Injury Liability Coverage of you policy applies. So, if you purchase and or are afforded on premises Auto Liability, this provision would apply.

Another important provision which written in the general liability policy, particularly in today's litigious society is Defense Costs. This is typically shown under supplementary payments item on the policy form.

In the event of a covered loss, is your policy going continue to defend you when defense costs exceed the liability limit shown on your policy. We know all too well that \$1 Million or even \$5million doesn't go very far with attorneys fees, particularly with a catastrophic loss which may involve fatalities.

With the Standard markets –for example, USAIG, AIG, Allianz, CV Starr, defense costs are outside of the limit. which is to the insured's benefit, as you could have a covered loss for which the carrier is defending you and until a loss is paid, they will continue defend you regardless of the policy limit.

This is something to consider when looking at coverage through non standard carriers or alternative coverage options such as insurance co ops or risk retention groups, as they sometimes may try to reduce their premiums by restricting or limiting their coverage provisions for defense costs, and keep the defense costs within the limit, which would mean that once the cost of a defense reaches the policy limit of \$1Mil or \$5Mil for example, then the policy limit would be exhausted for defense. You definitely need to read the provisions to know which way they stand on defense costs.

Remember though, that once the limits have been paid out in the payment for a judgement or settlement of a claim, the

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companies right and duty to defend has ended. This is standard with any policy.

Also a benefit to the coverage with the standard carriers is that they are non auditable policy, meaning they do not go back and charge you at expiration, additional premium for the expiring policy if your exposure (gross receipts) increased during the policy year over what was estimated. Nor will you incur a premium surcharge midterm under the policy if the carrier experiences any catastrophic losses or significant increase in underwriting losses for that class of business.

Where as being part of an insurance co op or participating in a risk retention program, you are subject to the potential of paying addition premiums from day one of your policy depending on the programs and it's other members loss experience.

In summary..

It always a good practice to at least give your policy a basic review or if you have specific questions, address them with your agent or broker, to make sure specific coverage items are addressed before a loss occurs and have a general understanding what is covered and what is excluded under your policy.

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