

# Aviation Insurance

If you're the kind of person who prefers the excitement of flying your own plane, reading insurance policies is probably not how you like to spend your time. In the case of your auto insurance, you may know the amount of your deductible and little else. This lack of awareness endures in our society in part because auto policies tend to be fairly standard, and most "surprises" arising from a claim may be fairly minor. But aviation insurance is different.

Even if you know considerably more about your auto insurance than the average driver, don't assume your aviation policy works the same way. Experts advise you know exactly what your policy covers, and more importantly, what it does not cover.

## A Pilot's a Pilot?

Among common misconceptions is the assumption that any good pilot is qualified to fly your plane. In fact, each policy has specific rules about who is qualified to fly the insured plane. To ensure your policy is not voided, read it to learn exactly what is required to cover substitute pilots, including a mechanic who makes a test flight. Some policies may require any pilot in addition to the primary insured to be specifically named on a policy. Other pilots may have to get the insurance company's approval prior to taking the controls. Some policies have an open pilot clause, which is a list of minimum qualifications for anyone who flies the plane.

## Unearned Premiums

You might also want to check to see whether after a total loss your unearned hull insurance premium will be returned to you, or if it becomes fully earned in the event of a total loss. In insurance terminology, an unearned premium is the amount that will be returned to you if a total loss occurs during the policy period. For example, if you purchased coverage for one year and the plane is totaled in the sixth month, some policies will return the unearned liability and hull portions of your premium because you no longer have a plane to insure for the remaining six months. But not always. Some insurers will only refund the unearned liability portion of your premium.

Hull insurance can be fairly expensive. Check to see if the policy language indicates that a premium becomes fully earned (nonrefundable) in case of total loss.

## Impaired Flyers

Some aviation policies won't pay for bodily injury or property damage due to losses in which the pilot was under the influence of a controlled substance. Not all policies contain this exclusion.

## "Breach of Warranty"

An insurer may refuse to pay a claim if a policy's provisions were violated, perhaps because the pilot was intoxicated or otherwise unqualified according to the policy. If the plane was financed, the owner may be able — or required by the lender — to purchase a provision called a breach of warranty or a lienholders interest endorsement. This provision covers the outstanding balance of the loan but no more. The insured will not receive any compensation. But there's another fact you should know. If the insurance company pays on a breach of warranty, it may decide to subrogate against its own customer, the insured, for reimbursement of the claim it paid to the lienholder.

## Liability Limits

The key aspect of the liability limits on an aviation policy is to know whether legal defense costs are included or separate from the liability limits. Some companies will subtract the cost of your defense fees from the total liability limit if you are sued due to an incident involving your aircraft. Others will pay your defense costs without cutting the amount of your liability limit. Again, reading your policy or asking your insurance agent can help you decide if your coverage is adequate.

## "All Risk" Isn't

Some policies carry the language "all risk," which sometimes leads policyholders to believe they are completely covered from "all risks." In fact, this isn't true. There are many types of losses not covered by an all risk policy, but we'll just discuss two here.

*Damage Depreciation* — As you might imagine, a plane that has never been damaged would fetch a higher price than a plane that has been damaged and repaired. If your aircraft is damaged, even though it may be repaired to your satisfaction, it won't ever be worth as much as if no damage had occurred. If another party damaged your plane and has insurance, that insurance company is obligated to compensate you for all losses due to damage depreciation. Unfortunately, your own insurer is not under the same obligation to compensate you for damage depreciation.

*Lost Use* — Obviously, if your plane is being repaired, you won't be able to fly it. Depending on how you use the aircraft, whether for business or pleasure, this may or may not present a significant loss. But no matter what the size of the loss, an all risk policy won't compensate you for it.

Some companies offer a provision called "Extra Expense for Substitute Aircraft." This coverage is not designed to pay all expenses due to loss of use, but it can help offset some of the financial impact.

This is only a partial explanation of the way aviation policies work. If you are in the market for a policy, you may want to educate yourself about the differences between the policies you are considering. If you already own aviation insurance, now might be a good time to read your policy closely, before any potential mishaps occur. This can help you to avoid surprises and decide if your policy is the best one for your needs.

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