

# Aviation Insurance & the Red Baron

BY PETER J. ROKER, CIP

In 1987, I began my aviation career as a cash-strapped student pilot with a knowledge of insurance limited only to the automobile premiums I reluctantly paid to keep my pathetic rust bucket legally on the road. At the time, my only concern with “insurance” was the lowest possible premium so I could afford to pay for the things in life that meant most – like fulfilling my boyhood fantasy of toiling among the clouds in an open cockpit aircraft with a wind-blown scarf wrapped around my neck, eliminating the world of the evil Manfred von Richthofen – The Red Baron.

Fast forward 20 years, and my open cockpit aircraft has transformed into a modest family sedan, and my scarf is now a tasteful tie firmly secured to my neck by way of a double Windsor knot. As time passed, my childhood fantasies led to adulthood realities, and my romantic obsession of becoming a pilot was replaced with an unexpected insurance career that I somehow managed to navigate toward my true passion in life – aviation. I now find myself representing AMOs by eliminating the world of evil insurance premiums masquerading as sufficient insurance coverage. In fact, insurance plays a vital role to the aviation industry.

Interestingly, the history of transportation and the evolution of insurance are curiously interwoven. Whenever a new means of transportation is invented, it brings with it a multitude of new hazards to persons and property. As Greek merchants placed themselves on small primitive vessels and perilously ventured into the unknown waters of the Mediterranean, the need for insurance became evident to offset the consequence of financial ruin should loss occur. When transportation evolved from sailing vessels to the steam train, and with the



invention of the automobile, new and peculiar hazards ultimately required the development of additional insurance contracts specific to the unique perils of this mode of transport.

Then, in 1903 when the Wright Brothers invented the Flyer in Kitty Hawk, North Carolina, an exciting era of transportation began which required the development of even more sophisticated insurance products to offset the catastrophic financial uncertainty associated with air transportation. With aircraft flying at greater speeds, and with greater payloads reaching higher altitudes and greater ranges, transportation and its association with insurance continue; new hazards reveal the true potential of catastrophic financial consequence to aviation business.

Insurance representatives play an important role, ensuring that the unique risk exposures of aviation businesses are adequately protected with the placement of a well-managed insurance portfolio. Depending on your vantage point you may view insurance in several different ways, but it remains the single most important component for the preservation of the financial security of your business. From a legal perspective, insurance may be viewed as a contract whereby the insurance company agrees to make payment when an event insured under the contract occurs. From a social perspective, insurance may be seen as a method of combining a large

group of units to make loss more predictable. Perhaps from an accounting perspective, insurance may be viewed as nothing more than a method for substituting a small certain loss (your premiums) for a larger uncertain loss that may ultimately threaten the financial stability of your company.

Regrettably from a consumer perspective, insurance is far too often seen as a “commodity driven transaction” where price often trumps service. Ironically, many insurance consumers share my initial adolescent cash-strapped student pilot perspective and today I often find myself defending the notion that insurance amounts to far more than the inevitable nuisance expenses that limit your cash flow.

Of course price is of exceptional importance in any consumer transaction, but the amount of premium you pay should never be the sole criterion in determining the adequacy of your insurance placement. There is a saying that “if you have the right insurance representative, the price is right. If you have the wrong insurance representative, no price is right”.

Many agents and brokers have considerable experience placing routine lines of property and casualty insurance. However, aviation insurance is more specialized and requires a representative who understands the unique needs of your business. The average AMO presents a number of risks which an average agent or broker, unaware of details of the aviation industry, would have no idea how to handle. If your insurance representative does not understand your business, then how can they properly recognize the loss exposures associated with your business? More importantly, how can they guarantee that the premiums you paid will actually achieve the primary objective that required you to purchase insurance in the first place?

The decision of who handles the placement of your insurance business is just as important as the premium you ultimately pay; and when determining who should be representing your aviation business you must consider your insurance representative’s years of experience and his or her breadth of exposure to the various insurance lines that can protect your business. In assessing your existing insurance portfolio you should consider the quality of representation you receive from your broker or agent and ask yourself:

- Does my agent or broker represent clients specific to my line of business?
- Does my agent or broker have specific aviation industry knowledge?
- Does my agent or broker specialize in aviation insurance?
- Does my agent or broker have access to all the aviation insurance markets?
- Does my agent or broker have any background in claims handling?
- Does my agent or broker attend aviation seminars, courses or industry functions?

The fact is that we use a general practitioner for common medical ailments, but not for open heart surgery. This analogy holds true for the insurance industry. While an agent may be competent in the general areas of property and casualty insurance, your representative may have little aviation experience, and the “great deal” your agent provided you may actually be masquerading as the evil Red Baron who ultimately shoots your business to the ground when it comes time to make a claim. ■

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