

# the quest for

BY PETER J. ROKER, CIP

Rodney Dangerfield may have said it best: "When I was born, I was so ugly the doctor slapped my mother." And the world laughed alongside him while he dispensed his comedic monologues in search of an inner quest for respect. AMO insurance consumers often associate themselves with being the Rodney Dangerfields of the aviation insurance market. The only difference is, nobody's laughing.

With global insurance premiums exceeding US \$1.5 billion in 2007, the ebb and flow of the aviation insurance market remain largely influenced by the hull and liability premiums of the airline industry. In contrast, the AMO sector represents significantly less insurance premium, leaving AMO operators desperately in search of the respect their insurance portfolios demand. When you consider the relative low risk exposure AMO businesses represent to underwriters, it's no wonder the Rodney Dangerfield complex exists among AMO business owners today. The fact remains: your AMO business is good business for insurance companies.

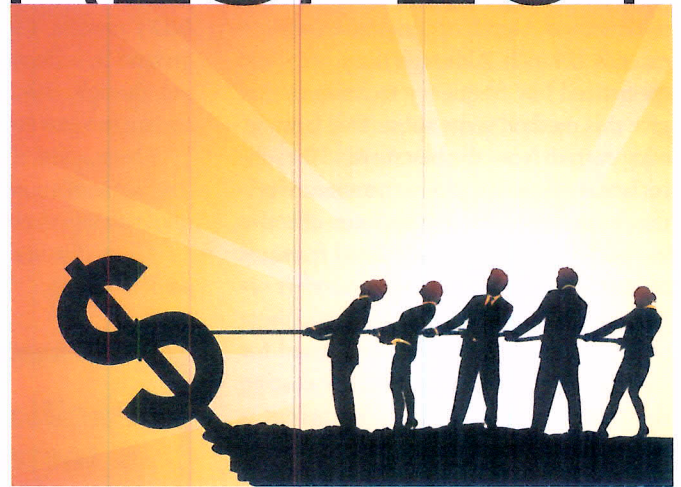
If managed properly, insurance is an effective risk transfer instrument for business owners, wherein the premiums paid by the many are collected to pay for the losses of the few. A well-managed insurance portfolio relies primarily on the principles of the Law of Large Numbers and Spread of Risk. Simply stated, if you gather a large enough group of similar risks over a large enough geographical area, the frequency and severity of losses become more predictable. With a greater sense of loss predictability comes a greater degree of underwriting certainty, allowing insurance companies a level of confidence when setting a premium structure (rates).

Underwriting is the process an insurance company exercises when selecting and pricing the many risks presented to them. The purpose of underwriting is to maximize profits by accepting a favorable distribution of risk. The determination of what risks to accept and which risks to reject is referred to as risk selection. In order to achieve a profitable insurance portfolio, risk selection is not exercised randomly by underwriters.

There is an expression in the insurance business: "Select or be selected against". If insurance companies were to refrain from selecting the insurance applications presented to them, they would fail to meet the underwriting standards contemplated within their proscribed rate level and would be forced to charge all applicants (good or bad) higher rates than their competing insurance markets. With a higher rate structure, the good risk comprising the insurance company's portfolio would most certainly find coverage elsewhere for a better price. With an exodus of good risks leaving their portfolio, the non-selective insurance company would have to charge even higher rates to compensate for the good risk they failed to select, producing a vicious cycle of high rates that could not attract a sufficient spread of risk to enable the insurance company to remain in business.

Now, to pose the question that the late Rodney Dangerfield

# RESPECT



may have asked: "If AMO business is considered appealing in terms of its relative low risk exposure to underwriters, but represents a relatively small premium in comparison to the airline insurance industry, how do AMO operators generate the respect they deserve?" The answer: committed representation.

If the law of large numbers, spread of risk and discriminatory risk selection are critical components of underwriting profit, then a unified and committed representation of AMO business is required in order to help achieve profitable results.


Despite the massive US \$1.5 billion premiums generated by the airline insurance market, 2007 marks the first unprofitable year for aviation underwriters since 2000 (excluding 9/11) as the amount of loss is estimated to be around US \$1.7 billion. When considering the airline insurance market is catastrophic in nature, the volatility of this sector of the aviation insurance market remains in question as exposures to loss continue to rise with greater hull values and increased passenger volume.

In order to insulate AMO operators from the volatility of the unprofitable airline insurance market of 2007, large groups (law of large numbers) of profitable AMO business (risk selection) across a large geographical area (spread of risk) should be pooled together to achieve an even greater premium pool to be leveraged by any one single AMO consumer participating within the pooled group. It is with greater buying power among this elite group of aviation insurance businesses that Mr. Rodney Dangerfield will ultimately find the RESPECT he seeks for his AMO operation.

So the next question is: "Where do I find the committed representation my AMO business deserves?" The answer: Your insurance broker. There are several qualified insurance brokers capable of handling the unique needs of their aviation clientele, but few with the commitment to represent the best interest of AMO businesses exclusively. The most likely reason is that AMO businesses are often viewed individually and perceived to be small business opportunities in contrast to the larger accounts generated among the airline insurance markets. Accordingly, brokerage resources are often consumed by the service demands placed upon them by their larger accounts, leaving AMO consumers to rely on less qualified, and segmented, broker representation.



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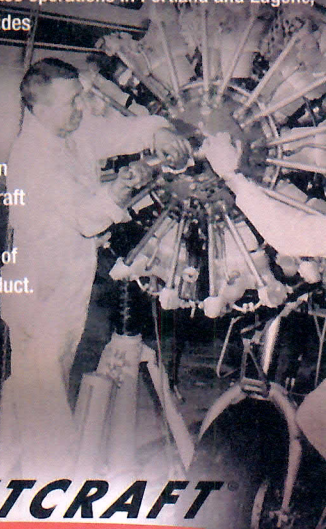
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To assess the level of committed representation you receive from your broker it's time to ask these seven simple questions:

- What is my insurance broker doing for the future of my business?
- What is my insurance broker doing to encourage change?
- How involved is my broker in representing AMO businesses as a group?
- How often is my broker communicating to me the status of insurance market conditions?
- How often does my broker communicate strategies to represent my business, not only today, but in the future?
- How often does my broker visit me to review my operation and assess my insurance requirements?
- Do I only hear from my broker when it's time for me to complete my renewal application or pay my annual insurance premiums?

As capacity continues to flood the aviation insurance market, it's time to maximize the benefits of one of the longest sustained soft market conditions in the history of aviation insurance. To change the way your AMO business is perceived, demand more in terms of the representation you receive from your insurance broker. It's time to demand the RESPECT your business deserves.

*With over 15 years of insurance experience, Peter J. Roker is a pilot and licensed insurance broker committed to the representation of AMO businesses across Canada. He is the founder of the AMO Insurance Program at Jones Brown Insurance Services Inc.*


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