

# How Your AMO



## Can Survive a Hard Insurance Market

BY PETER J. ROKER, CIP

There are many great lessons taught to us in childhood stories that warn of the social pitfalls in promoting fear among our communities – Chicken Little and The Boy Who Cried Wolf are the first two which come to mind. However, as it would appear our global economy is heading toward something that may resemble an economic recession, it seems appropriate that I write this article not to promote fear, but rather to ease the minds of our community, and introduce survival tips on how to endure what many analysts anticipate to be a prolonged strain of economic hardship. Let's face it – it's difficult to turn a profit on your business even during the best of economic times.

Contrary to media reports and public opinion, the sky is not necessarily falling, nor is the wolf waiting to fall prey upon our business community with a vicious attack. With that said, there is reason for concern, and there are several proactive steps every AMO owner should take today in order to minimize the impact of unnecessary financial hardship as we appear to be on the cusp of a looming hard insurance market cycle.

A “hard” insurance market refers to the overall state of the insurance industry, or the condition of a particular segment of it. It is often referred to as a “seller's” market. While hard market cycles are often beneficial for insurance companies, they are far too often difficult times for insurance consumers as the cost of insurance protection becomes increasingly more expensive while the coverage received in return becomes increasingly more restrictive. As difficult a time as this may be for insurance consumers, it is survivable. All you have to do is understand insurance trends, and plan for when you anticipate they will swing. Simple – right?

Many aviation insurance consumers have enjoyed perhaps one of the longest sustained “soft” market trends in history. Over the past

six years, our consumer friendly cycle has brought us increased capacity, with multiple insurance companies competing heavily for your premium dollars. The soft insurance market was a relatively enjoyable time when consumers benefited from steady premium reductions and broadly expanded coverage. If this seems a foreign concept to you, get yourself a new insurance broker immediately, because it's not too late to enjoy the euphoria of a soft insurance market.

As the credit crunch begins to affect all segments of our economy some speculate the increased cost for insurance companies to acquire capital, combined with a decreased return on investment income, may be the initial catalysts that tip the insurance scale from “soft” to “hard”. Throw in a large loss, or even worse, a series of large losses, and this quick-dry cement will harden the markets much sooner than anticipated. Loss is largely unpredictable, so it is fair to say the time to act is now, and we should plan for this hardening trend sooner rather than later. Let me show you how to capitalize on maximizing the most out of your premium savings during a hard insurance market cycle.

**First**, it's important to recognize the signs of a looming hard insurance market cycle. Sure signs of hard market trends include:

- Unpredictable carrier movement as insurance companies simply pull away from business segments which were traditionally profitable.
- Consumers begin to experience premium increases that are unrelated to their claims activity. This will become obvious to you if your broker indicates your premiums will increase even though you've never reported a claim.
- First-time insurance buyers find it difficult to purchase insurance coverage as markets become increasingly skeptical to retain unproven risk.

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- Loyal insurance consumers find the quality of their coverage restricted as insurance companies look for ways to mitigate losses.
- And by far the worst indicator of all – your insurance brokers stop calling you to ask you to go golfing with them. Call me; it's best that I explain this one to you in-person.

**Second**, make sure you have the right insurance broker, not just any insurance broker. During soft insurance market cycles, insurance brokers have it relatively easy because most consumers view insurance purely as a commodity, and evaluate the performance of their broker on their ability to obtain “the lowest possible premium”. Let's face it: a monkey can get you premium reductions during soft market cycles, because rate reductions are growing on trees; in fact they're falling from trees. Everyone looks good during a soft insurance market, and there remains little accountability on evaluating the true performance of your broker's representation. To determine whether you have the right insurance broker representing the best interest of your business, call your broker and ask these simple questions:

- What do you know about my business? The only answer you should hear is that your broker knows everything about your business and is directly focused on the issues that will impact your business during a hard insurance market cycle.

- On that note, ask your broker exactly what those issues are that will ultimately impact your business. You'd be amazed how very few brokers will actually have legitimate answers to this question.
- Ask your broker what they have been doing during our existing soft market to position your business for when the insurance market hardens. This is the true test in evaluating the quality of your broker's representation.
- Ask your broker what proactive action plan they developed to mitigate your rising cost of insurance premiums during a hard market.
- Ask your broker what they are doing to advocate not only your best interest, but the best interest of AMO business owners as a group.
- Finally, ask your broker to take you golfing because you're going to miss them when they stop calling you. Again, call me; it's best I explain this one in person.

**Third**, it's time to get serious about your insurance portfolio and get your house in order. Now is the time to maximize the full benefits of our existing soft market and leverage this environment for when the markets ultimately harden. If you happen not to have insurance at the moment, get it now, get it today, get it immediately, because when you finally decide it's time to purchase insurance, the capacity that used to be in the market will no longer be available, and the few insurance companies that remain will be less likely to

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inherit the perceived "unsophisticated" risk of a first time insurance buyer.

If you currently have insurance coverage for your business, consider the following very seriously:

- Whatever you do, do not allow your insurance coverage to lapse. This should never happen, especially not now.
- Put time on your side. If you do not have the right insurance broker representing the best interest of your AMO business today, find one that is focused entirely on your business segment. At the very least, it's critical that your broker specializes in aviation insurance.
- Prepare for your renewal submission with care. Believe it or not, the more you tell your insurance broker about your business, the more information they will have to tell the insurance company, and the more the insurance company knows about your business the more comfortable the underwriter is with your risk, and the more comfortable the underwriter is with your risk the better rate you will ultimately receive. No smoke and mirrors here, complete transparency with a full and detailed disclosure is always the best way to go.
- Create reporting systems that accurately record your areas of practice. For example, when you report your revenues, identify the percentage of revenues between each discipline of your AMO facility. If you have a contract that requires higher product liability limits for a particular segment of your business, determine the percentage of that work you perform where these increased limits are required.
- Review your policy deductibles. Moving into a hard market may be a good time to think about assuming a little more risk by raising higher deductibles. This will have a positive impact on inflationary premiums.

- Ask your broker to help you establish a relationship with your insurance company's underwriter. Business is relationship-driven, and insurance is no different. There is no value you can place on getting to know the underwriter that ultimately has control over one of your single largest expense lines within your annual budget, not to mention the fact that the underwriter is the person you want to know, should you ultimately call upon them in time of a claim.

There are no Chicken Little theories or The Boy Who Cried Wolf stories when it comes to the inevitable discomfort every consumer feels when economic pressures produce uncertainty within their business. The doom and gloom, or pandemonium, often precipitated by the media and the office of public opinion can often be neutralized with a little perspective and insight into the proactive steps every business owner can take to best survive economic downturns. Taking control of these situations in a time when most are out of control may be all your business needs in order to survive these times. With a proactive approach in reviewing your business before market conditions are expected to change will most certainly better position your company over your competitor(s) so that when our economic pendulum ultimately turns in our favor your business is healthy and ready to take full advantage of the good times when our soft insurance market ultimately returns.

*With over 15 years of insurance experience, Peter J. Roker is a pilot and licensed insurance broker committed to the representation of AMO business in Canada. He is the founder of the AMO Insurance Program at Jones Brown Insurance Services Inc. [amo@jonesbrown.com](mailto:amo@jonesbrown.com) ■*



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