

INSURANCE

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Insurance Climate Changes Amid Economic Uncertainties

When all else seems to be going wrong with the operational cost of operating a helicopter, you may wonder what else can go wrong. Insurance premiums! The proverbial roller coaster ride the insurance industry takes seems to have reached the bottom of this particular curve and has begun its upward ride. How steep or dramatic this uphill curve will be is still anybody's guess.

Underwriters Have Begun to Raise Premiums

The fact to consider is that the underwriters have begun to increase insurance premiums for all the classes of aviation business. We all knew that sooner or later the insurance companies would reach the bottom of the current market and begin to position themselves for rate increases. Some of the factors that begin to push rates up are increases in loss frequency or pay-outs; the unavailability of reinsurance dollars; and many other economic factors, that I will generalize as overhead and operating cost to the insurance company which creates a need for increases in premium dollars to pay their bills. All of these factors, for one reason or another, have taken place.

How Will Rate Increases Affect the Helicopter Industry?

Now that the ingredients for rate increases have been used by the

insurance industry, how will it affect our helicopter community? Although it is too early to accurately predict the total effect and amount of price increases, the majority of the aviation insurance groups have indicated modest increases of anywhere from 5% to 20% on their overall book of business. When you consider the amount of decrease aviation insurance rates have gone through during the late 1980s this increase does not bring your insurance cost near the levels of the last rate cyclic peak of the mid-1980's. However, we should view this rate increase as more than just a signal towards a turning insurance market place and be prepared for more dramatic changes during the 1992 and 1993 fiscal seasons.

In an earlier ROTOR magazine, I wrote an article entitled "What Goes Down Will Go Up". In this article I pointed out that during the softening insurance market we would anticipate the change towards increasing rates that always follows the downward trend. One point that was suggested in this article was to take the insurance premium savings during the soft market period and put this money aside to be used as capital to help offset the period of rate increases. Although the market is beginning to turn, the amount of rate increase anticipated for 1991 is still short of the levels underwriters are comfort-

able with. I do not believe it's too late to put some additional capital aside to help offset costs for the 1992 and 1993 fiscal seasons. In those operations which did put money aside during the late 1980s, many find the unpleasantness of rate increases in the mid-90s to be more tolerable.

Unique Economic Difficulties

The insurance industry realizes the unique economic difficulties in running a successful helicopter business and usually doesn't have extra capital to put aside. The cost of maintenance, training, parts, fuel, and other categories of expenses, dig deep into the profitability of most helicopter operators. The insurance industry does not time itself for rate increases when all other costs seem to be going out of sight. Instead, the insurance industry cycles, which are difficult to forecast, are really controlled by loss factors, availability of reinsurance monies, and the insurance industries own ability to make a profit and keep their cost in line.

Some of the things that we in the helicopter community can do in

order to reduce the amount of premium increase that may occur, is to help control some of these factors such as loss prevention. By maintaining a high degree of professionalism in your operation, especially with regards to training and maintenance, you've

taken a big step towards loss prevention. By working within the scopes of a strong safety program, you not only minimize the risk of a potential loss to cost the insurance company money, your industry's premium dollars, but you also help to protect your own investments in our aircraft and, more importantly, the lives of the men and women who fly them.

Tightening of Underwriting Criteria

Another concern to most helicopter operators should not only be the inevitable rate increase, but the tightening of underwriting criteria that each company may look to before even giving out any kind of rate. You may see the trend towards lower limits of liability as higher limits may become more difficult to obtain. The tightening of pilot qualifications for various equipment and areas of operation they may be used in. This is a tool underwriters have to help minimize the risk of a loss by increasing the minimum standards. By also providing lower limits of liability, the potential for higher rewards is reduced as the insurance company limits the amount of payout it is exposed to.

In a hard insurance market, underwriters are more concerned about their own immediate exposure and not competition by other insurance companies. In a soft insurance market, where the need for cash flow and premium dollars is an underwriters' concern, competition against other insurance companies is much more prevalent and thus creates the lowering of the minimum underwriting standards and provides the excess of liability monies that is available. This, of course, is an over simplification of a complex industry intertwined with various levels of underwriters, reinsurers, and of excess insurance pools, but should give you, the helicopter operator, some insight as to what drives the insurance marketplace.

Discuss Business Plans

So, with the prediction of increased insurance costs begin-

ning to take effect in your operation, all is not lost. I have always been a strong advocate of communication between the helicopter industry and the insurance industry. In good or bad times, with regard to insurance cost, I've always felt to discuss periodically your business plans, operation, or training requirements with our insurance people, it will help you to maximize your benefits in both the soft market or in the hard market. It is never too late to contact your insurance representative and discuss with him the happenings and events affecting the insurance community as well as what's taking place in your own helicopter industry. In different regions around the country, helicopter operators are facing different and unique problems.

The insurance community may or may not be totally aware of the specific problems in your own region. It is always a good idea to communicate with your local insurance representative these problems that may concern you. Through proper channels, your insurance representative can discuss this with your company and try to offer you the best insurance program with the minimal cost that may be available.

Operators that have long-term relationships with their insurance companies can benefit by that relationship in having a mutual discussion with both parties as to concerns and differences.

Invite Representatives to Visit

The larger helicopter operators may find it beneficial to enhance their relationship with their insurance company by inviting their insurance representatives and underwriters to visit with them and see how they operate and conduct their business. You are proud of your operation and can express that pride to your insurance people. You can learn from the insurance industry the mistakes of others as they can, in general terms, express their con-

cern towards accident and loss prevention. The insurance industry, through its unique opportunity in involving themselves with many different operators from all around the world, has analyzed and reviewed the successes and failures of many helicopter operators. Use this information to your benefit. If the entire helicopter community benefits from past mistakes and works together to minimize and prevent losses from happening-- the one great area of insurance expense can be greatly reduced.

The information in this article is not intended to scare anyone, but to keep you informed as to one area, of course, that greatly affects your operation. I agree that the anticipated rate increases for 1991 couldn't come at a worse time.

But no one in the insurance industry tries to time a rate increase, as it's in everybody's best interest to always keep the cost of insurance as minimal as possible. The profitability and success of your business is critical to the success of the aviation insurance community. For the aviation insurance to grow, we would need everyone in the aviation community to prosper, buy new equipment, thus encouraging business manufacturers to build more and safer equipment. In this kind of successful cycle, everyone will benefit. Unfortunately, we do not live in a Utopia and must make the best of the current opportunities.

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Insurance Underwriter— Friend or Foe?

In the past few months there have been some negative media reports about recent events that occurred within our helicopter community. It concerns us all to read such public statements that put our industry in a negative light. Your helicopter association has been aware of these reports, and, through the Public Relations Advisory Council, and other resources within the association, has been working to deal with such problems.

But what about negative opinions that aren't so public? The association has brought to my attention the possibility of a negative opinion within the insurance industry.

Some underwriters have expressed their opinions, through articles and seminars, some concerns that may affect us in providing competitive insurance programs for helicopter operations.

In dealing with any opinion that affects our industry, it is up to you the helicopter owner, or operator, to work together through your association in helping to educate other businesses and industries about the safe and successful uses of the helicopter.

You are the spokesperson of the industry. Whether it be to your corporate risk manager, local insurance broker, or to the Helicopter Association International (HAI), your thoughts and ideas are very important.

HAI has taken some steps in working with the insurance community to develop an

understanding and to enhance communications. During Heli-Expo '91 in Anaheim, the first meeting of its kind between officials of the insurance community, and the HAI Board of Directors, took place to discuss some common problems and concerns that affect all of us.

Everyone in the helicopter business knows only so well the cost of parts and services to keep your machine flying. These costs also affect the overall loss ratio when helicopters are damaged in an accident. This is so because premiums during the last several years were not enough to pay the overall claims suffered by the aviation underwriters—particularly with more expensive equipment such as helicopters.

Although most aviation underwriters realize that helicopters are very safe, the cost to repair helicopters is what increases the claims. Damage such as tailboom separation, main rotor strike, torsional damage or bowed landing skids can be quite exorbitant to return a safe and airworthy helicopter to the owner.

Most underwriters are aware of the diverse uses of helicopters. This variety of uses may generate higher insurance premiums not because of unsafe applications of the helicopter, but because the equipment is in a more exposed category than a fixed wing aircraft flying from airport to airport. Such utility uses of a helicopter should not be viewed by the underwriter as a

deterrent in securing insurance and working together to make any use of helicopters safe and successful.

This will produce lasting benefits by preventing losses and minimizing the premiums. This educational process between the helicopter community and the insurance industry is very important; not all underwriters understand the many diverse uses of a helicopter.

Helicopter operators should take the time to have their insurance representatives know and understand the various uses, training procedures and maintenance guidelines that you have incorporated in your operation. This will enable the underwriter to make a realistic appraisal of your insurance needs.

This exchange of ideas between the helicopter user and the insurance underwriter is basic risk management. One consideration that underwriters must review is fleet size. The more equipment and supporting premium an underwriter has to deal with, the lower the hull rates that are applied.

Other factors that are critical to underwriting and pricing include specific uses or applications of the helicopter; pilot experience in the various models; and the overall experience of the pilot. Also very important is any pilot training that may take place; the location of equipment whether at home base (or on the

job site); and the maintenance procedures on your aircraft.

Each category of helicopter has developed its own loss experience either due to its design, or specific use.

For example, piston helicopters may experience higher rates when used for primary student instruction and low-time pilot rental. This application is very important to our industry as tomorrow's pilots are being trained in piston-powered machines. The loss experience during training, however, often requires a higher than average premium.

Also, the piston helicopter is generally valued less than its turbine counterpart. In order for an underwriter to meet

minimal premium requirements, there is a need for a higher rate. A piston-powered helicopter valued at \$50,000, utilizing a 10% rate, would generate the same premium as a turbine helicopter valued at \$250,000, utilizing a 2% rate.

The helicopter has proven itself as a versatile tool and the experienced underwriter has gained an appreciation and even admiration of the helicopter. Many underwriters are very active in participating in such organizations as the HAI, and its various committees, as well as in regional helicopter associations.

Understanding the concerns the insurance community may have towards the helicopter industry will enable us to work

together in promoting safe applications of the helicopter. Some of the tangible results will be less negative press reportage.

This process has been taking place on the national level under the auspices of the HAI. I would like to end by requesting a real concerted effort at the local level to bring together the various underwriters and helicopter operators. It is vitally important that we be friends—not foes!

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THE INSURANCE COEFFICIENT

Storm Bartling
Rollins Burdick Hunter

The number one factor in containing the cost of insurance for operating a rotorwing aircraft—turbine or piston, twin or single, personal use or commercial—is safety procedures and practice. For this reason, insurers strongly recommend that you, as operators, have a formal safety manual and adhere to it faithfully.

The HAI safety manual is a good model. It is comprehensive and accurate. It can be used as is or adapted for your specific type of operation, but it should be similar to the original in structure and content.

In this paper, the first part is devoted to safety—preventing accidents. Following this I address other aspects of insurance and how they can affect your relationship with insurance underwriters and the cost of coverage.

PREVENTING ACCIDENTS

The most critical safety component is the pilot of the aircraft, whose attitude, skill, and experience will do more than anything else to enhance the probability of safe operation and minimize the risk of loss. The basic capabilities that the pilot must have are:

- sufficient training and familiarity with rotorwing operations,
- specific experience in the make and model aircraft in use,
- capability and experience in making operational decisions,
- fatigue control, and
- destination intelligence.