

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.

The second most critical factor is equipment performance and reliability. The following are key to proper aircraft maintenance.

- Keep a comprehensive maintenance log on all aircraft in you, fleet.
- Review carefully any manuals on aircraft that are on loan or in temporary use as substitutes in your fleet.
- Adhere the most severe levels all FAA or CAA regulations.
- Avoid the using parts of unknown origin, specifications, or time life.
- Have a qualified mechanic, other than the one who did the actual work, inspect and sign off on all repair or replacement of flight-critical components, including inspection, time life component changes, and overhaul replacement.

Assessment of the nature of your operations and identification of high-risk flight characteristics are obvious components of operational safety. Risks can be minimized even in the most hazardous of operations if careful consideration is given to the following:

- selection of appropriate aircraft suitable for operation contemplated,
- assurance that flight personnel are qualified, experienced, and well rested,
- environmental considerations of weather, terrain, altitudes, and lightning,
- in conjunction with the above, increasing all operational tolerances sufficiently to further remove risk of miscalculation, and
- avoidance of "doing the wrong thing", whether it be the extra payload, the last bucket drop, one more take, one more pass flying lower and faster, etc.

In summary, the objective of any operation is to avoid accidents—a conscientious and prudent effort to operate safely. A comprehensive safety manual should be obtained and adhered to. All operational employees should be required to review and familiarize themselves with the company safety manual.

Compliance with safety procedures will contribute greatly to reducing operational loss and insurance-related expenses, and this will ultimately contribute greatly to your economic viability.

SHOPPING WITH YOUR INSURANCE UNDERWRITER

A quandary we all face in making a major purchase event is that of relationships. It is always easier and less cumbersome to continue to do business with those with whom we are familiar. There are many good reasons for continuing a familiar course. On the other hand, there is always a side of our subconscious that says "how do I really know this is the best if I don't compare."

There is no correct answer. The best course is to do what you already know and most likely practice—pursue the relationship that is best suited to your buying personality. If you elect not to obtain competitive quotations each year, you may want to talk to your colleagues in the industry and listen to what they say about their level of satisfaction with their coverage and rates and their renewal results. If you are not comfortable with how your experience compares, let your insurance representatives know and ask for justification.

Assuming that you feel compelled every few years to ask for competitive bids, you may be surprised by what you receive. If you operate a commercial helicopter fleet, there are at least a half a dozen markets and several dozen brokers that are capable of handling this type of account and will to offer competitive terms. An operator must make strategic choices about which broker is to procure quotations from which market. Special attention should be given to which of these markets will obtain reinsurance from London. Failure to control London can cause great confusion if not carefully understood.

The future may influence your procurement. The market is firming up. This means that once again accounts will be underwritten based on their individual merits. Accounts that provide thorough and accurate underwriting data, presented by a reputable and knowledgeable representative, will have more successful results. Even if the data are not favorable or something extraordinary is contemplated, the insurance buyer will benefit from thorough and professional disclosure to underwriters.

PASS-THROUGH INSURANCE COSTS

Another cost factor that operators must incur indirectly is pass-through of the manufacturer's product liability premiums. Each aircraft produced by a manufacturer includes in the sales price a portion of the manufacturer's insurance expenses. This is also true of all component manufacturers that carry product liability insurance.

Several manufacturers of light fixed-wing aircraft have literally been forced out of business due to the high cost of product liability. As a result, many airframe and critical component manufacturers have been forced to accept high self-insured retentions and/or deductibles. These unknown costs are also passed through to the customer. Obviously, any pass-through premium or self-insured funding expense is compounded when added to the acquisition costs.

Again, a proactive maintenance program with frequent inspection and strict compliance with the manufacturer's suggested maintenance and operating specifications will, over the long run, contribute to the reduction of aircraft accident or loss. This will ultimately provide lower pass-through premiums and lower aircraft acquisition costs.

INSURANCE MARKET FORECAST

The insurance marketplace is ever-cycling, with unpredictable peaks and valleys. Market fluctuation are supposed by economists to be controlled by two factors: loss record and interest rates. We are, however, just finishing a downward cycle of the market that was driven by an altogether different factor—the basic economic phenomenon of supply and demand, or more specifically oversupply. This occurred in the aviation insurance market because other classes of insurance coverage (primarily marine) were unprofitable for underwriters, so they chose to pursue a more attractive class, aviation, where the premiums are large by comparison and the probability of loss somewhat remote.

Unfortunately, the world markets were caught up in a sort of "feeding frenzy" of competitiveness. Soon there was virtually no operation underwriting being conducted, and accounts were pursued on a "what will it take to get it" basis. This resulted in accounts and entire portfolios of business being written for premiums far below the "burning cost". (Burning cost is the actuarial long-term cost of writing a class of business.) What this brought us to is a market that now realizes it cannot cover the ultimate costs of loss with the current written and investment premium income.

We are now entering an upsurge in the aviation insurance marketplace. The areas of loss have appeared to move from claims for hull damage to liability claims. Liability losses have grown, not as a result of occurrence, but as a result of judgments delivered by the courts and settlements offered by insurance carriers for fear of what may happen if they end up in a courtroom, either with the actual accident litigation or a derivative suit.

Increases in premium for the balance of 1991 should be limited. With favorable loss experience, most commercial helicopter operators may achieve a "renew as is" renewal. Those with loss experience that is adverse yet not catastrophic may see an increase of 5-10 percent.

There are indications that underwriters in 1992 will be looking for an across-the-board premium increase of 25 percent for commercial aircraft operators. Depending on loss experience and other pertinent underwriting factors, the rise in premiums could reach 35-40 percent.

If we all had a crystal ball, we could better predict and plan for the future in our lives and businesses. Since we do not have such an infallible source of information, the best we can do is make an educated guess about loss experience, interest rates, or market capacity. Suffice it to say that the market will cycle again and that it will probably not return to 1984-1986 rate levels. Most likely current rates will double over the next three or four years, and then a new soft market cycle will inevitably begin.