

BUSINESS AVIATION

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# advisor<sup>TM</sup>

*The Business of Business Aviation*

## Time for a New Aircraft – or Not?

Consider Three Options When Your Needs Change

## Higher Standards

Improving Ethical Business Aviation Transactions

**RU READY FOR RMU?**

**1-2-3-4 CONNECT!**

**COSTLY ASSUMPTIONS**

**ACCURATE INSURANCE  
OFFERS ASSURANCE**

**DEMAND DRIVING UP PILOT PAY**

# Accurate Insurance Offers Assurance

## The Hidden Risk of Over-Insuring Your Aircraft

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**T**he market — not you — determines the worth of your aircraft. In the case of aircraft disappearance or serious damage, that market value also determines what action your insurer will take. And therein lies the danger in overvaluing an aircraft on your insurance policy.

Aircraft physical damage (or “hull”) policies are written on an Agreed Value basis. In the event of destruction of the aircraft, the insurance company will pay the Agreed Value in the insurance contract, less any deductible.

When an airplane sustains significant damage, the insurance company will consider the cost of repair, the value of the salvage, and the insured Agreed Value in order to determine whether to pay for repair of the airplane, or pay to the owner the insured value as a “total loss.”

**For Example:** in 2014 an owner took delivery of a new Gulfstream G450 and insured it for the purchase price of \$42,200,000. During the next three years’ insurance renewals, the owner elected to reduce the insured value to \$31,000,000 — despite the fact that the average retail price at the third renewal in 2017 was closer to \$21,500,000, according to industry sources. This decision may have been driven by bank loan requirements, the stipulated loss value in the lease, or simply by the owner’s denial of the declining market value — motivation is immaterial.

Later that year, the aircraft was struck by an airliner taxiing on the adjacent taxiway and sustained significant structural damage, with repair costs estimated at \$7,300,000.

Although the decision whether or not to repair ultimately is the owner’s, the agreed value insurance contract determines the insurance company’s payment responsibility. Every policy differs slightly, but most state that an aircraft will be considered a total loss and the insured value will be paid when:

The cost to repair plus the salvage value equals, or exceeds the insured aircraft value.

Using this formula, assume a salvage value of \$14,500,000.

$$\text{\$7,300,000 Repair Cost} + \text{\$14,500,000 Salvage Value} = \text{\$21,800,000.}$$

This falls \$9,200,000 short of “equaling or exceeding” the \$31,000,000 insured value as required by the policy. Convincing the insurance company to pay a total loss is going to be a tough sell!

Now, consider if the aircraft had been insured at the market value of \$21,500,000. The math as outlined by the policy terms leads clearly to the aircraft being declared a total loss and paying the owner the agreed value indicated in the policy.

$$\text{\$7,300,000 repair cost} + \text{\$14,500,000 salvage value} =$$



\$21,800,000 which equals/exceeds the agreed value, resulting in a total loss.

**The Bottom Line?** The insured value must accurately represent the market value of the airplane. Although the insurance industry commonly uses value publications like the *Blue Book* or *vRef*, it’s best to have your aircraft evaluated by a qualified appraiser. He or she can provide a certified appraisal report based on an onsite physical examination of the aircraft and records, its maintenance history, specific equipment, and any damage history.

The downside of over-insuring your aircraft may be more than just paying too high a premium:

- You may be forced to repair an aircraft that should be totaled.
- You may lose the use of your aircraft for a significant period of time: up to a year or more. While most policies have some provision for the “extra expense” of replacement charter or lease, this coverage is limited.
- You could be left with an aircraft that, even after repair, you and your passengers may feel is unsafe.
- You now may have a hard-to-sell aircraft which commands a lower sale price due to its damage history.

These are the real potential dangers in over-insuring your aircraft, which make it imperative that your insurance policy accurately reflects the market value of your airplane. **BAA**



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