

Insurance Woes

It has been said that real life is a tough teacher in that the test is given first and then the lesson. I find that many “real life lessons” provide great examples of the points I attempt to highlight through these articles. Insurance companies are a good case in point in that they (your insurance company or someone else’s) can be difficult to work with if you are not prepared with the facts about your aircraft and understand its value. Let me also say that this article is not intended to make the insurance companies out to be the bad guys. Typically, they are extremely helpful and willing to work with aircraft owners. The insurance companies are simply in a position where they have to make business decisions based on the information they have on hand such as the insurance contract itself, the insured value of the aircraft in question and the “risk value” of the owner. As aircraft owners, it is important for each of us to make sure they have the best legitimate information available when it comes to the value and contents of the aircraft we are insuring.

Not too long ago, an aircraft owner submitted an article to a leading aviation publication about the problems he suffered from his insurance company after an incident. For those who may not be familiar with this particular article, the owner was in the process of taxiing during a high wind condition and a strong gust of wind flipped his Cessna 206 over causing significant damage to the aircraft. His insurance company elected to repair the damage instead of totaling the aircraft. His problems began when the insurance company (or more precisely the policy) would only address those items caused by the incident itself. In this particular case, the aircraft had previous damage history that had not been repaired correctly. The shop had to correct these problems in order to make the aircraft airworthy again – plus fix the damage that occurred from the high wind incident. The bottom line was that the pilot was left with a \$14,000 bill after all repairs had been made and the insurance company settled the claim.

As I read the article, there were several questions and issues that came to mind because I have witnessed many insurance related problems – from both experienced and inexperienced aircraft owners and buyers. Most of these are related to the value of the aircraft either before the accident/incident or after (diminished value) and while hindsight is always 20/20, many value related problems could have been easily addressed or eliminated early in the buying process. Although the proper analysis is not always a 100% solution it does help identify potential value issues early so any surprise factor is reduced. Let me highlight a few areas I typically see when someone deals with an insurance company

Going back to the article I referenced, the first questionable action I thought about was the buyer’s decision to purchase this particular aircraft. I obviously do not know all of the factors that went into his decision but it sounds similar to

situations were the buyer believes that they have found a great aircraft at a great price and cannot write the check fast enough. Although the article indicates that the log books may have been examined before the purchase, it does not appear that any other analysis was performed. If the log books were thoroughly examined, I have to wonder if the issue of damage history was raised before the purchase was settled. Unfortunately, we will never know but given the extent of the previous damage and the type of repairs made, this is a good place to make a “gut check” on the purchase price. During this point in the buying process it is also a good idea to check the NTSB and FAA records for all of the registration numbers this aircraft has used over its life. Any accidents or incidents should correspond to log book entries regarding repairs. If entries are missing from the log books, then more investigation will be needed to ensure that you are purchasing the aircraft you believe you are purchasing and not an aircraft with multiple incidents of damage history that “accidentally” had its log books misplaced.

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The second questionable action was not formally documenting and evaluating the aircraft. It is always important to get a prepurchase inspection performed to determine if there are any mechanical or documentation issues associated with the aircraft but as I have stated many times, it is also important to have the aircraft professionally appraised. This is important for two reasons; the first is to establish the specific aircraft's market value but more importantly to document its contents and condition by an independent third party. If this aircraft would have been properly evaluated and documented, the owner would have most likely paid less for the aircraft (presuming that damage history was not accounted for during the negotiation of price) and he would have most likely insured the aircraft for the proper amount which would have most likely translated into lower premiums. If there was a question as to the aircraft's value or condition at the time damage occurred, the report could help quickly address the situation by clearing up any questions regarding the condition or contents of the aircraft. Having this aircraft insured for the proper amount could also have an impact on the insurance company's decision to total the aircraft instead of fixing it resulting in a very different outcome possibly saving the owner from the \$14,000 bill.

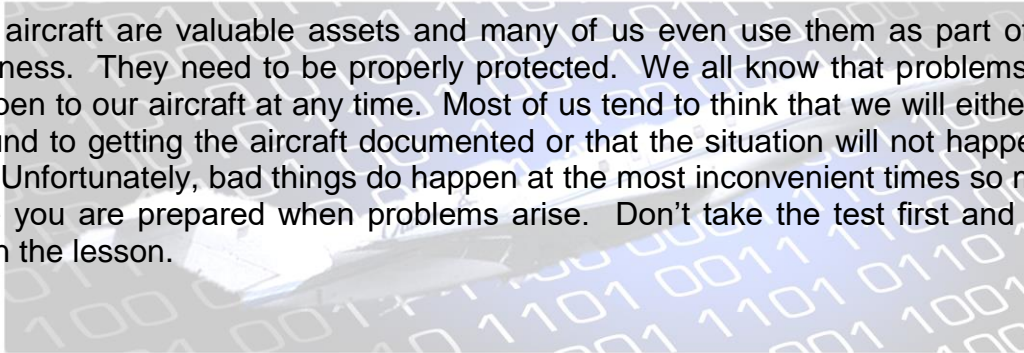
The really sad part about all of this is that getting a Cessna 206 appraised would cost only a few hundred dollars but in this instance could have saved the owner thousands in both lower premiums and repairs. Of course, this problem gets even more complicated when dealing with someone else's insurance company.

After one of the hurricanes blew through the Carolinas a few years ago, several aircraft were in a shop undergoing repairs from storm damage. The shop caught fire and several aircraft were completely destroyed. I was contacted by several of the impacted aircraft owners to provide a professional appraisal to help support their claims to the FBO's insurance company. Of course what most individuals do not understand is that an appraisal is performed on a specific aircraft “as is, where is” so if the aircraft is completely destroyed the report will

reflect the current condition and in some cases the owner is asking the appraiser to guess at the condition of certain items that were destroyed during the incident that could lead to credibility problems. However, if a Certified Appraisal Report was performed before the damage, then it is not too difficult to issue an updated report that provides current market information and any related changes since the original Certified Report. In these situations, if you have to hire an attorney to help you deal with someone else's insurance company, you are in a much stronger position with a Certified Report in hand.

I dealt with a gentleman several months ago whose aircraft was severely damaged by the shop during routine maintenance. The shop's insurance company was difficult to deal with and questioned the original value of the aircraft. There was also the question of diminished value resulting from the event which the insurance company also questioned. In this case, the owner needed an attorney to help drive his point home. When his attorney presented the insurance company with a copy of my report, the issue was settled immediately.

Our aircraft are valuable assets and many of us even use them as part of our business. They need to be properly protected. We all know that problems can happen to our aircraft at any time. Most of us tend to think that we will either get around to getting the aircraft documented or that the situation will not happen to us. Unfortunately, bad things do happen at the most inconvenient times so make sure you are prepared when problems arise. Don't take the test first and then learn the lesson.



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