

AOPA Flight School Business

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AOPA sets "lowering insurance rates" as 2004 priority

AOPA members, including many who own flight schools, say that one of their biggest concerns is the rising cost of insurance. With that guidance from its membership, the association has made working with insurance companies for relief a priority for 2004. Other AOPA priorities for the year are protecting airports, monitoring TFRs, and battling user fees.

AOPA points out, however, that flight schools may be able to help themselves lower their insurance premiums. Woody Cahall, AOPA's vice president of aviation services, offers these techniques that flight schools should incorporate into their insurance buying plans:

Work with an insurance broker who specializes in aviation insurance. Rather than going through a broker who writes the rest of your business insurance, find someone who is pro-aviation. Cahall says, "A generalist insurance broker may be a good guy you've worked with before, but he may not know enough about the ins and outs of running a flight school and its unique insurance needs to get you the best rates. He might not even know what questions to ask you or what information to provide to the underwriter."

Give the broker complete information, including your years in business, loss history, pilot requirements, and CFI qualifications. Cahall says, "This goes hand in hand with the first suggestion." He says that you must provide a complete picture. For example, you will want to talk about the experience of your instructors.

But what if you have less-experienced CFIs when it comes to total time? That's not a problem if these CFIs have more recent experience in your training aircraft. In fact, that may even make them more desirable to an insurance company.

Cahall notes that you have to be proactive in presenting your flight school in the best possible light. He stresses that you include information on your dispatch system. "Flight schools should talk about their strict system for dispatch. Stress that your system ensures you that the capability of the pilot matches the conditions of the day. That's how a loss rate goes down," he says.

Insure all aircraft under one policy. When you add an aircraft to your school's fleet, it is easy to fall into the trap of shopping for the best premium for that particular aircraft. However, when you insure your aircraft one at a time, you lose the clout of insuring a fleet. "There's discount in volume. Don't shop each airplane; shop your fleet," Cahall says.

Carefully examine the aircraft insured value, and do not overinsure. Since the premium is based on the insured value of the aircraft, don't try to insure beyond that value. Cahall says, "Some flight schools mistakenly believe that if they overinsure, they will be able to replace the airplane with a better one. They think they'll get an Arrow instead of an Archer, but that's not going to happen. What will happen, though, is that they'll pay a premium as if they already own that Arrow."

Consider a higher hull deductible. Most sound flight school businesses can afford a higher deductible. "It's a little more out-of-pocket expense if there is an incident, but well worth the lower premium," Cahall says. He says that if you are operating at low risk, the risk of having to pay that deductible is low too.

Require all pilots to have nonowned "renter's insurance" policies with limits equal to the school's deductible. If your underwriter knows your risk is shared, your rates should be lower. Cahall adds, "The easiest way to think about it is that you're sharing your risk with your renter."

Consider requiring higher pilot qualifications for retractable-gear aircraft. Cahall says this is not just an issue with retractable aircraft, although it's most important there. If your pilot qualifications to rent an aircraft are higher, you should mention this to your insurance broker. For example, it's been fairly standard policy to require 20 hours of retractable time and five hours in make and model to rent a retract. Cahall explains, "If you increase those qualifications to 50 hours of retractable time and 10 hours in make and model, that small change can make a difference in the premium." The change may reduce the number of pilots qualified to rent your retracts, however, so usage may decline—make sure you understand the impact of your decisions.

Make a portfolio about your flight school. Cahall recommends that you make a presentation folder that tells all about your school. He says, "Show what a professionally run operation you have. Include photos." According to Cahall, your broker is "re-representing" you. That's why you want him to have all the facts and figures about your flight school. This includes pilot qualifications, instructor qualifications, and dispatch procedures. Even if the agent doesn't forward it, he's got it in front of him and will be able to present your case well."

For more on the subject, see AOPA's insurance information resources online (www.aopa.org/fsb/resource.html).

Help yourself with renter's insurance for your customers

Greg Sterling is executive vice president and general manager of the AOPA Insurance Agency, Inc. (AOPAIA). AOPA Flight School Business Editor Patricia Luebke recently spoke to Greg to hear why it's crucial for flight schools to familiarize their customers with the benefits of renter's insurance.

Why is it a good idea for flight schools to make sure the people who rent their aircraft are covered by renter's insurance?

Many renters don't understand that they are usually not covered by a flight school's coverage. The flight school's

insurance protects the school. If you rent a car from Hertz and have an accident, you don't ask Hertz if you're covered under their policy. Hertz's coverage protects Hertz. A flight school's policy normally does not extend any coverage to an individual.

What does renter's insurance cover?

Renter's coverage can have two components: liability coverage and aircraft damage. Liability coverage responds if the aircraft is involved in an accident and people are injured or property damage—other than to the rented aircraft—occurs. Aircraft damage [coverage] covers damage to the rented aircraft itself. If the renter pilot has no coverage, then the flight school becomes the sole deep pocket and the litigant's attorney will go where there's coverage. The flight school will get named, and if the renter pilot has no coverage, the flight school becomes the only source of insurance money.

That doesn't seem right.

In fact, ABC Flight School may have done everything right—maintained the airplane beautifully, and it may be totally the renter's fault that an accident happened. That pilot might have taxied the flight school's airplane right into a hangar. It can be 100 percent the renter pilot's error, and yet, since the flight school owns the aircraft, the flight school will be named.

So renter's insurance can divide the financial liability between the renter and the school...

It at least can provide an alternate source of insurance. It's always better to have two insured entities rather than just one. And that's one reason to have good liability coverage. And the second reason is, when there's a simple accident, not something horrible, but a hard landing, that sort of incident, if a renter doesn't have coverage, it could be a significant financial loss to that person. That could erode their disposable income and even affect their assets. That person's income may be disrupted for years, and now you've lost a customer.

Every FBO and flight school knows that you need a stream of customers. You want this person to remain a viable source of revenue. Even if the renter can pay the bill, he may have an attitude of "You should have told me." One way or another, you stand a strong chance of losing a pilot/customer and that's a bad thing.

So renter's insurance is an indirect way of retaining customers.

Yes, and I want to mention something about deductibles. It used to be that an FBO's average in-motion deductible—meaning the part of the loss they are responsible for when the airplane is moving—was about \$500. That deductible size has grown to \$2,500 and \$5,000 and sometimes higher. If someone handed me an unexpected bill for \$5,000, that's going to hurt me. If an FBO's aircraft gets banged up, he wants to get it fixed and back in service. If you know a renter has coverage for physical damage, you know there's an insurance policy to bridge the gap and that you're more likely to get the aircraft back in service more quickly. If he doesn't have the coverage, you have to go after him for the deductible. So here you have a good customer and you have to go after him to get your money. You either eat the deductible yourself or you go after a customer. Neither are good outcomes.

How does the flight school go about acquainting its customers with renter's insurance?

Think of it this way. The flight school is teaching him how to fly—covering weather, preflight, all about flying, but are we teaching him how to rent an aircraft? I think we're doing a good job on teaching people how to fly but not the skill of how to rent an aircraft. You need your customers to know that there's no insurance coverage. You need to say, "You need to go out and get a renter's policy because I want to keep you as a customer and you need to protect yourself." Remember that the customers have care,

custody, and control of an asset of yours that might cost more than \$100,000.

What else do customers need to know?

Things beyond their control happen even to the safest pilot. For example, a renter might fly to an airport, park the airplane, and come back and find the lock is broken and the Garmin 430 is stolen. That could be a \$10,000 bill. Did the pilot do anything wrong? Could he have hangared it and chose not to? Remember: We're in a legal environment. Was he responsible at all? You're going to court to find out, and it's going to be expensive.

Legal costs are another aspect of this?

Yes, you also have to consider defense costs. No matter what limit of liability you buy, in addition to those amounts, you are provided with coverage for your legal defense. The insurance company will defend you. In the case of the stolen avionics example, if the FBO says it's the renter's fault and they are going to sue you, it will cost that renter thousands of dollars to go to court. That's a huge bill to pay out of pocket. Those defense costs come out of a separate pool from the liability costs so the renter is covered.

So how much does renter's insurance cost?

There's good news here. Renter's insurance is more affordable than ever. The costs have actually gone down for 2004.

How can that be?

From the insurance company's point of view, the losses have been favorable. Renters are doing a good job, even though losses still happen. So renter's insurance is available from a number of sources, including online from AOPAIA at www.aopaia.com. If you have Internet access and a credit card, we can put coverage in place in minutes.

So a renter could buy the insurance right there at the FBO, right before a flight.

Sure. Let them use your terminal, and if they have a credit card, they can be flying and covered in minutes.

What's a typical premium cost?

The lowest coverage limit available is less than \$100 a year. That's for liability only, but no coverage for damage to the airplane. Beyond that, for \$500,000 in coverage, subject to \$50,000 for injury to any one passenger, and \$5,000 coverage for the aircraft—which would cover most deductibles—the premium is \$240 for the year. This covers the pilot, not any particular airplane. It applies for the non-commercial use of any single-engine, piston-powered, non-pressurized airplane having less than 450 horsepower and no more than seven seats.

It really is affordable for most pilots.

Yes, but some FBOs don't believe it is. They say, "This sounds well and good, but I don't want to make flying more expensive. I don't want to hand my customers another bill." Well, that's just penny wise and pound foolish. By trying to avoid making your renter spend a couple hundred bucks, you run the risk of incurring a bill for that renter in the tens of thousands of dollars. If you're going to go flying, you need money to buy proper insurance. This is a cost you're going to incur if you're a pilot. If you're going to rent airplanes, you'll need renter's insurance.

We know exactly how much fuel is in our tanks, and what the weather and winds aloft are, because we have been told time and time again to check these things. We are taught that. In the community of flight schools, insurance matters need to be part of the training. Pilots need to know what kind of coverage they have and whether that is adequate. We have to show our customers how easy it is to be covered. You can spend 10 minutes on the Internet with a credit card. We can get them into the habit of getting their flight review, getting their medical, and getting their renter's insurance.



AOPA RENTERS ADVISORY

Dear Renter Pilot:

We are concerned that you may be flying uninsured and are unaware of the risks. In fact, without insurance, you could be placing yourself and your family at considerable financial risk every time you fly. AOPA is dedicated to informing you of those risks, and of the importance of renter's insurance.

Before you rent your next airplane, get the facts about renter's insurance.

If you don't have renter's insurance, you're probably flying unprotected. The FBO's insurance policy is designed to cover the FBO — not you. Most FBO policies **DO NOT cover the renters' liability**. Even minor mishaps, such as a hard landing, could cost you thousands. And, major damage or passenger injuries could make for a financial disaster!

You can have liability coverage for as little as \$95 a year.

In an effort to make renter's insurance more affordable for all renter pilots, the AOPA Insurance Agency has recently negotiated lower rates for you. You don't have to take a chance and fly unprotected. Ask your FBO for a copy of our easy application and see for yourself. Or, if it is more convenient for you, apply online at www.aopaia.com/rentersinsurance2.

Approved and strongly recommended by AOPA.

I urge you to fill out an application today. It is extremely important that renters have protection when they fly — and are protected by a name they can trust. The AOPA Insurance Agency is the only insurance agency qualified to carry the AOPA name.

Get protected today!

Getting Renter's Insurance from the AOPA Insurance Agency could be one of the smartest decisions you'll make this year. **To get covered today, ask your FBO Manager for a copy of our application**. You can mail it to AOPA Insurance Agency, P.O. Box 9170, Wichita, KS 67277-9870 or fax to 1-316-942-0091. Or, apply online at www.aopaia.com/rentersinsurance2. It's as easy as that! Please feel free to call us directly if you have additional questions at 1-800-622-AOPA.

No renter pilot should fly without renter's insurance. With low rates...comprehensive coverage... and AOPA approval, Renter's Insurance from the AOPA Insurance Agency gives you the protection you need — and peace of mind — every time you fly.

Sincerely,

Phil Boyer, President

P.S. Don't put yourself at risk. With rates as low as \$95, you can make sure you are covered whenever you fly with Renter's Insurance from the AOPA Insurance Agency. Get protected today, visit www.aopaia.com/rentersinsurance2.

Application for Renter's Insurance from the AOPA Insurance Agency

IMPORTANT: This insurance is for your Personal and non-commercial use of non-owned fixed wing, non-pressurized, land aircraft having a non-turbine single engine of 450 horsepower or less (including non-powered sailplanes) and capacity of no more than seven (7) total passengers and/or seats (1 pilot and 6 other passengers), and a "Standard" Airworthiness Certificate, and not furnished to you for more than thirty (30) consecutive days. Multi-engine and rotorwing aircraft are not included in this coverage. For multi-engine and rotorwing aircraft non-owned coverage, contact the AOPA Insurance Agency at 1-800-622-2672.

PILOT INFORMATION

All fields must be completed. One individual only. No corporations.

Name _____

Address _____

City _____ State _____ Zip _____

AOPA Member Number _____

Phone (H) _____ (W) _____

E-mail address _____

Birthdate _____ Occupation _____

Describe type of non-owned aircraft you usually fly: _____

Hours as PIC in type: _____ IFR: Yes No

Pilot Certificate: Student Private Commercial
 ATP Recreational

Logged Hours: (Total) _____ (Last 12 Months) _____

WITHIN THE LAST 36 MONTHS HAVE YOU*:

Been involved in any aircraft accident/incident or aviation insurance claim? No Yes

Been cited for violation of any Federal Aviation Regulation? No Yes

Had your pilot's/driver's license surrendered, suspended or revoked? No Yes

Been convicted of operating an aircraft or motor vehicle while under the influence of drugs or alcohol? No Yes

*If you answered yes to any of these questions, please call the AOPA Insurance Agency at 1-800-622-AOPA. Additional information may be required to determine your eligibility for this insurance program.

NOTE: Not available in Hawaii or Alaska. Not available to pilots under the age of 16.

I. REQUIRED COVERAGE

Check below to protect against claims for Bodily Injury and Property Damage that may occur during your operations of a non-owned aircraft. Damage to the non-owned aircraft is not covered, but you can purchase that protection separately.

BODILY INJURY AND PROPERTY DAMAGE LIABILITY LIMIT

	Each Occurrence	Passenger Sub-Limit	Annual Premium
<input type="checkbox"/>	\$ 250,000	\$ 25,000	\$ 95
<input type="checkbox"/>	\$ 500,000	\$ 50,000	\$115
<input type="checkbox"/>	\$ 500,000	\$100,000	\$180
<input type="checkbox"/>	\$1,000,000	\$100,000	\$240

II. OPTIONAL COVERAGE

A. LIABILITY LIMIT DESIRED FOR DAMAGE TO NON-OWNED AIRCRAFT

This coverage provides you protection against claims for damage to the non-owned aircraft, including its loss of use. This coverage may be purchased only if Bodily Injury and Property Damage coverage above is also purchased.

	Limit of Liability	Annual Premium		Limit of Liability	Annual Premium
<input type="checkbox"/>	\$ 5,000	\$125	<input type="checkbox"/>	\$ 60,000	\$ 600
<input type="checkbox"/>	\$ 10,000	\$175	<input type="checkbox"/>	\$ 80,000	\$ 775
<input type="checkbox"/>	\$ 20,000	\$250	<input type="checkbox"/>	\$100,000	\$ 975
<input type="checkbox"/>	\$ 40,000	\$450	<input type="checkbox"/>	\$150,000	\$1,425

B. TERRORISM RISK INSURANCE ACT OF 2002 COVERAGE

This law gives insurance policyholders the right to purchase insurance coverage for losses resulting from certain acts of terrorism.

	Annual Premium
<input type="checkbox"/> I hereby decline terrorism coverage. I understand that I will have no coverage for losses arising from acts of terrorism.	n/a
<input type="checkbox"/> I am carrying liability coverage (I.) only and hereby elect to purchase Terrorism coverage.	\$25
<input type="checkbox"/> I am carrying liability and damage (I. + IIA.) coverage and elect to purchase Terrorism coverage.	\$50

C. CIVIL AIR PATROL COVERAGE

This optional coverage includes civil air patrol missions defined as flights in conjunction with or on behalf of the Civil Air Patrol. Civil Air Patrol uses include search & rescue missions, aerial photography, courier flights and aerial surveillance flights ordered by a corporate officer of the Civil Air Patrol or his/her designee.

	Annual Premium
<input type="checkbox"/> I hereby elect to purchase CAP coverage	\$50

D. ADDITIONAL INSURED FOR EMPLOYER

<input type="checkbox"/> Additional Premium for Employer as Additional Insured*	\$50
Employer Name: _____	

* Coverage does not apply if your employer is involved in the business of designing, manufacturing or repairing aircraft, their engines or accessories, operation of an airport, aircraft hangaring facility, aircraft sales organization, flight instruction, flying schools/pilot services facility or any other commercial aviation operation.

PREMIUM CALCULATION

Enter the Annual Premium chosen (using the charts to the left) for the Required Coverage and any Optional Coverage desired.

	Annual Premium
I. Required Coverage	\$
II. Optional Coverage A (Liability Limit)	\$
Optional Coverage B (Terrorism Coverage)	\$
Optional Coverage C (CAP Coverage)	\$
Optional Coverage D (Add'l Premium for Employer)	\$
Tax (Applicable in: WV 1%; KY 1.5%; NJ 1%)	\$
TOTAL	\$

Rates are subject to change.

The premium is 50% fully earned at inception date of the policy. The maximum the company will return is 50% of the total premium if the policy is cancelled.

Please start my coverage on ____/____/____, however, I realize my policy will only become effective upon receipt and approval of this application by the Company, my medical and pilot certificates are current with necessary ratings required by the FAA and when I have paid the premium in full.

PAYMENT INFORMATION

I've enclosed a check for the above total amount, payable to AOPA Insurance Agency, Inc.

Please charge my: VISA MasterCard

Name on Card _____

Account No. _____

Expiration Date _____

It is important that you read and understand the following: All information provided in this Application is true and complete to the best of my knowledge and no information has been withheld. I agree that this Application and the terms and conditions of the policy in use by the insurance company shall be the basis of any contract between the insurance company and me. I understand that no insurance is in force unless and until the insurance company or its authorized agent effects a binder of insurance or issues a policy. I authorize the insurance company or its authorized agent to investigate the qualifications or statements contained herein.

Any person who, with intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement or conceals information concerning any material fact thereto for the purpose of misleading is guilty of insurance fraud.

Applicable in New York State. Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each violation.

Signature _____ Date _____

Please mail this completed application to: AOPA Insurance Agency, Inc., P.O. Box 9170, Wichita, KS 67277.
 Or, fax it to 1-316-942-0091 or visit www.aopaia.com/rentersinsurance2