



what are the main things you should know about deductible insurance

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*what are the main things you should know
about deductible insurance....*



- *In perspective... 2006-2009*
 - 31% increase in deductible claim advices
 - Average claim value rose 13%
 - Commodity price indices have risen up to 70%
 - Airlines suffered spectacular financial losses
 - Unsurprising that more operators opt to buy Deductible insurance cover?

what are the main things you should know about deductible insurance....



- *Why does deductible insurance exists as a separate class?*
 - Deductibles have always been applied
 - Accepted prerequisite
 - Deductibles were applied haphazardly
 - Standardised in the mid 80s
 - Wide body US\$ 1,000,000
 - Hybrid US\$ 750,000
 - Narrow US\$ 500,000
 - Limited cover available prior

what are the main things you should know about deductible insurance....



- New levels led to greater demand for cover
 - opportunities - new market created
- Overwhelming support to standardise
 - Strict application exists without flexibility
 - Strong resistance to lower
 - Lobby to increase more likely
- The Deductible market is now well established
 - The only means to vary the amount retained by policyholder

*what are the main things you should know
about deductible insurance....*



- *Are Deductible policies underwritten by the same markets as the All Risks? Why not?*
 - 46 Aviation insurers of All risk cover
 - 4 core Deductible insurers
 - Exclude local markets/captives
 - All Deductible Insurers write All Risks
 - Deductible insurers are keen to maintain a separate market
 - Unquestionable that Deductible levels must be maintained
 - London market based

what are the main things you should know about deductible insurance....



- Appetite for risk is extremely limiting
 - Majority markets regard the business as too risky
 - Considered illogical
 - “deductibles are for policy holders to pay”
- Why does a market exist at all?
 - Originally a niche market product
- Is the lack of markets a cause for high premiums?
 - 46 insurers provide 210% capacity All risks
 - 4 insurers provide 400% capacity Deductible
 - Supply and demand = competitive pricing

what are the main things you should know about deductible insurance....



How do Deductible Underwriters rate their business?

- Technical assessment
 - Per aircraft rates
 - Engine type/Engine position/ingestion risk
 - Fleet discount
 - Risk mitigation and general analysis
 - Aircraft value / Total Loss Factor i.e. will the deductible apply
 - Claims frequency
 - Annual claim burn factor strong consideration
- Market driven factors
 - Cycle is less volatile than All Risks
 - A perpetually soft market

what are the main things you should know about deductible insurance....



- *What is covered?*
 - “Claims covered under the All Risks but for the application of the Deductible”
 - I.e. Accidental Physical damage
- *What is not covered?*
 - Mechanical breakdown
 - Wear and tear
 - All Risk exclusions but of greater interest to Deductible insurers

what are the main things you should know about deductible insurance....



- *Mechanical breakdown exclusion*
 - loss of or damage to any part of an Aircraft which is due and confined to wear and tear, deterioration, freezing, mechanical, structural, or electrical breakdown or failure,
- *Wear and tear exclusion and Ingestion*
 - ...the ingestion of stones, grit, dust, sand, ice or any corrosive or abrasive material, or any other substance which has a progressive or cumulative damage effect is deemed to be wear, tear, or deterioration and is excluded from this Policy. Nevertheless, damage caused by the accidental, sudden, immediate, and unexpected ingestion of an object or objects, attributable to a single recorded incident requiring the immediate withdrawal of the engine from service or if this is impractical upon first landing thereafter is covered hereunder.
- Ingestion cover is clearly defined but requires adherence to policy conditions

what are the main things you should know about deductible insurance....



- *Why is Ingestion so important?*
 - Agreed Ingestion claims account 50% of all
 - Majority Ingestion claims (70%+) remain within Deductible
 - Most difficult to adjust and open to dispute
 - Is it a single recorded incident ?
 - Is it wear & tear or Ingestion
 - Is it mechanical breakdown
 - Is there a proven date of loss?
 - Was the engine removed or is it discovery damage?

*what are the main things you should know
about deductible insurance....*



- Engine definition
 - Resultant loss following MB is covered.
 - Engine is defined as a single Aircraft part
 - “each Aircraft engine inclusive of the ancillaries necessary for its operation as an engine shall be regarded as a single Aircraft part.”

what are the main things you should know about deductible insurance....



- *The Deductible Wording*
 - Follows the All Risks
 - Except as specifically contained therein
 - Deductible cover may be more limiting
 - Clearer because greater risk exists
 - All risks now at increased risk due to claim inflation
 - Deductible insurers have influenced All Risks
 - Seamless cover
 - New developments
 - Engine trend monitoring

*what are the main things you should know
about deductible insurance....*



- *Are deductibles due for revision?*
 - They are out of date?
 - 25 years old
 - Divided opinion
 - What is better for the client?
 - Larger retained loss
 - Inexperienced new markets

what are the main things you should know about deductible insurance....



- *A dramatically larger proportion of deductible claims are turned down by the Underwriters compared to All Risks.*

Why?

- More loss advices within the Deductible
 - The Deductible does what it is intended to do
 - Ambiguous claims unavoidable
 - Many losses on the Deductible won't even reach All Risks
- Larger losses are easier to determine
 - Smaller losses require closer scrutiny
- Ingestion claims can be complicated
- Some claims will not be covered

*what are the main things you should know
about deductible insurance....*



- *Deductible claims sometime take quite long to settle.
Why? What an airline can do to get its claims processed
quicker?*
 - Non incident related adjustments
 - Gathering of associated costs
 - Third party invoicing
 - Closer communication between technical and insurance departments will assist

*what are the main things you should know
about deductible insurance....*



- *What are the main things the airline shall know about deductible insurance*
 - Limited market but still excessive capacity
 - Understand the cover, key responsibilities and definitions
 - Ingestion risk is of significant importance & interest
 - Understand it is a separate policy
 - More claims are denied but only by definition
 - Airlines can assist in faster claim payment