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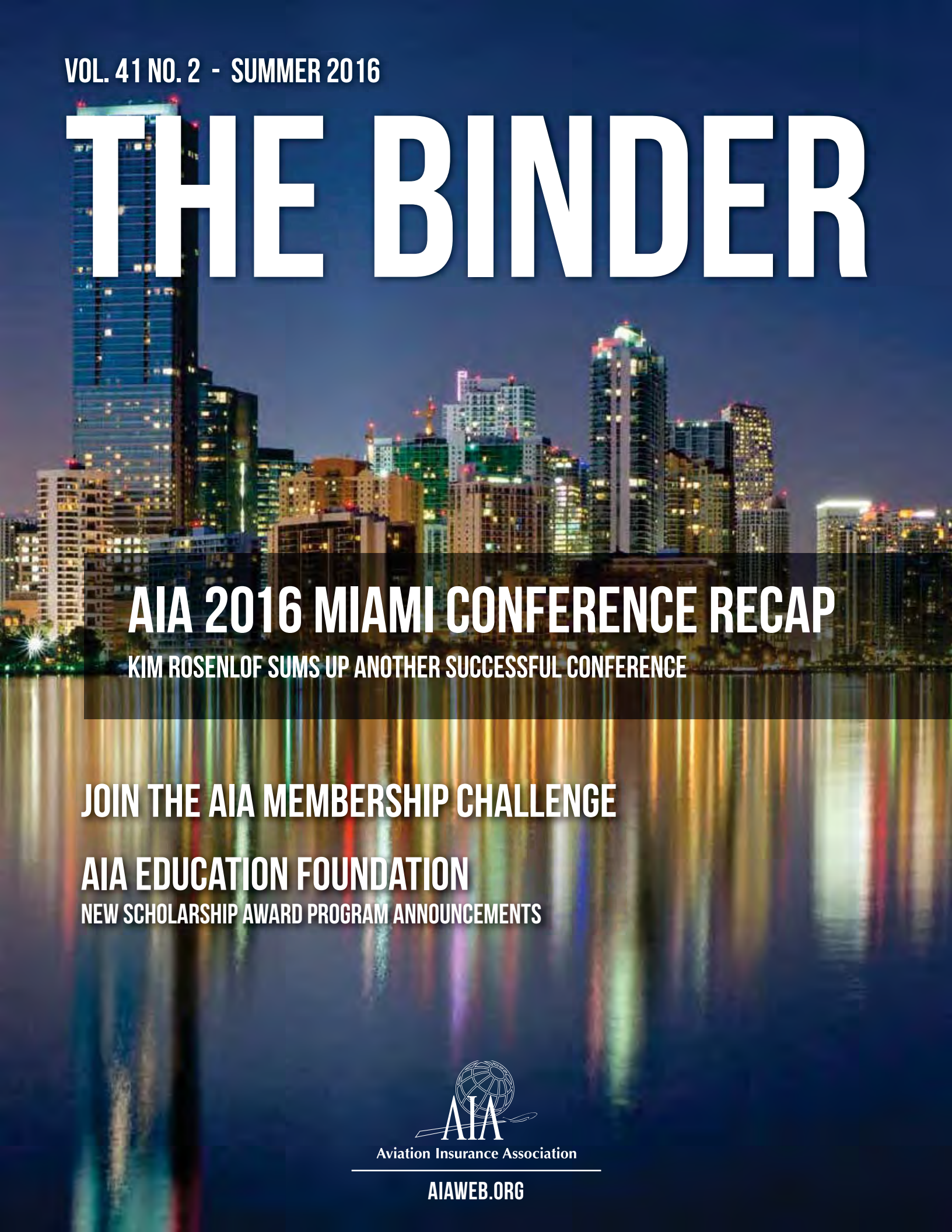
THE BINDER



AIA 2016 MIAMI CONFERENCE RECAP

KIM ROSENLOF SUMS UP ANOTHER SUCCESSFUL CONFERENCE

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PRESIDENT'S MESSAGE

DAVID SALES - CGNMB LLP

I consider myself to be incredibly lucky that over the years my job has meant frequent trips to various destinations all over the U.S., a country I adore.

I have many favourite places in the U.S. and one of those near the top of the list is Miami. For me, there is something particularly special about Miami, something exciting, something very unique.

So I was delighted when we chose the venue for our conference this year as the vibrant Bayside area of downtown Miami.

I like to think that now the dust has settled I can safely say that it was an immensely enjoyable and successful conference and, as a venue, the Inter-Continetal, did us proud.

Overall, at the conference we had around 500 registered attendees plus a number of guests, which is above average for us and about the same total as last year at Colorado Springs.

Certainly all of the immediate feedback I have received has been extremely positive. My sincere thanks go to Mandie Bannwarth, the AIA Executive Director, and Elton Ching, together with the rest of the Onyx team, for all of their hard work and for making things run smoothly.

The caliber of our keynote speakers was outstanding and I am sure, from the way it was going, the Q&A for FAA Administrator Michael Huerta could have lasted all day.

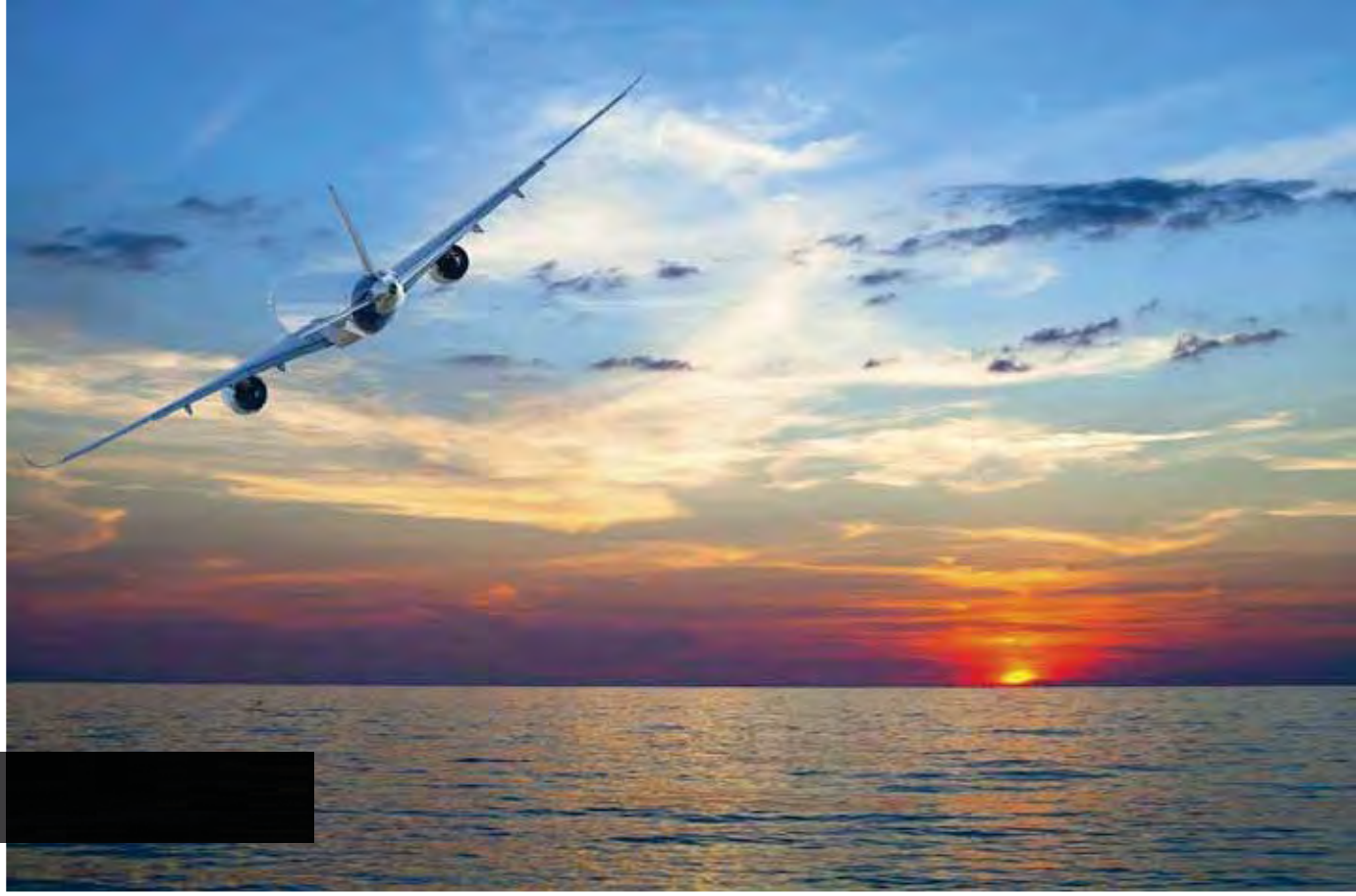
We were also honoured, of course, to welcome as keynote speakers, Mike McGavick, Chief Executive Officer of XL Group PLC and the charismatic Roger Woolsey, Chief Executive Officer of MillionAir.

Our lunchtime speaker, Mike Durant, gave a highly inspirational and dramatic account of his horrific experiences of being shot down and captured in Somalia. Mike had the audience absolutely spell-bound throughout. I feel sure that the DVD sales and downloads of the movie Black Hawk Down increased significantly in the days following.

We do, however, owe an enormous debt of gratitude to all of our speakers throughout the conference. I am only too painfully aware of the amount of effort and preparation that goes into a presentation.

I am glad to say that the Miami sun was shining on us when we particularly needed it, and the Monday night party on the boat around Biscayne Bay was an especially enjoyable event.

Once again we were treated to some superb and tal-



ented performances from the AIA band 'Smooth Limits'. Well done to Paul Herbers, our Vice President, and Jack Harrington for putting this all together so successfully. We were also entertained by a slice of stand-up comedy given by John Howard and Jon Morse. All in all, certainly a night to remember.

We did have some changes to the Board during the conference and sadly we said goodbye to Nic Stratta, Chris Morin and Marcos Shuster who all stepped down. I know that I speak on behalf of everyone in thanking them for their commitment and zeal during their time on the Board. I hope that we will see them all back involved, in the not too distant future, in one guise or another.

Also stepping down from the Board is Franklin Bass, our Immediate Past President, and I would like to take this opportunity to thank Franklin, on behalf of the Association, for his dedication and passion over his 10 years on the Board. He showed tremendous vision and initiative during his leadership.

I am very pleased that both Jon Doolittle and Matt Rowley will remain on the Board as Directors at Large.

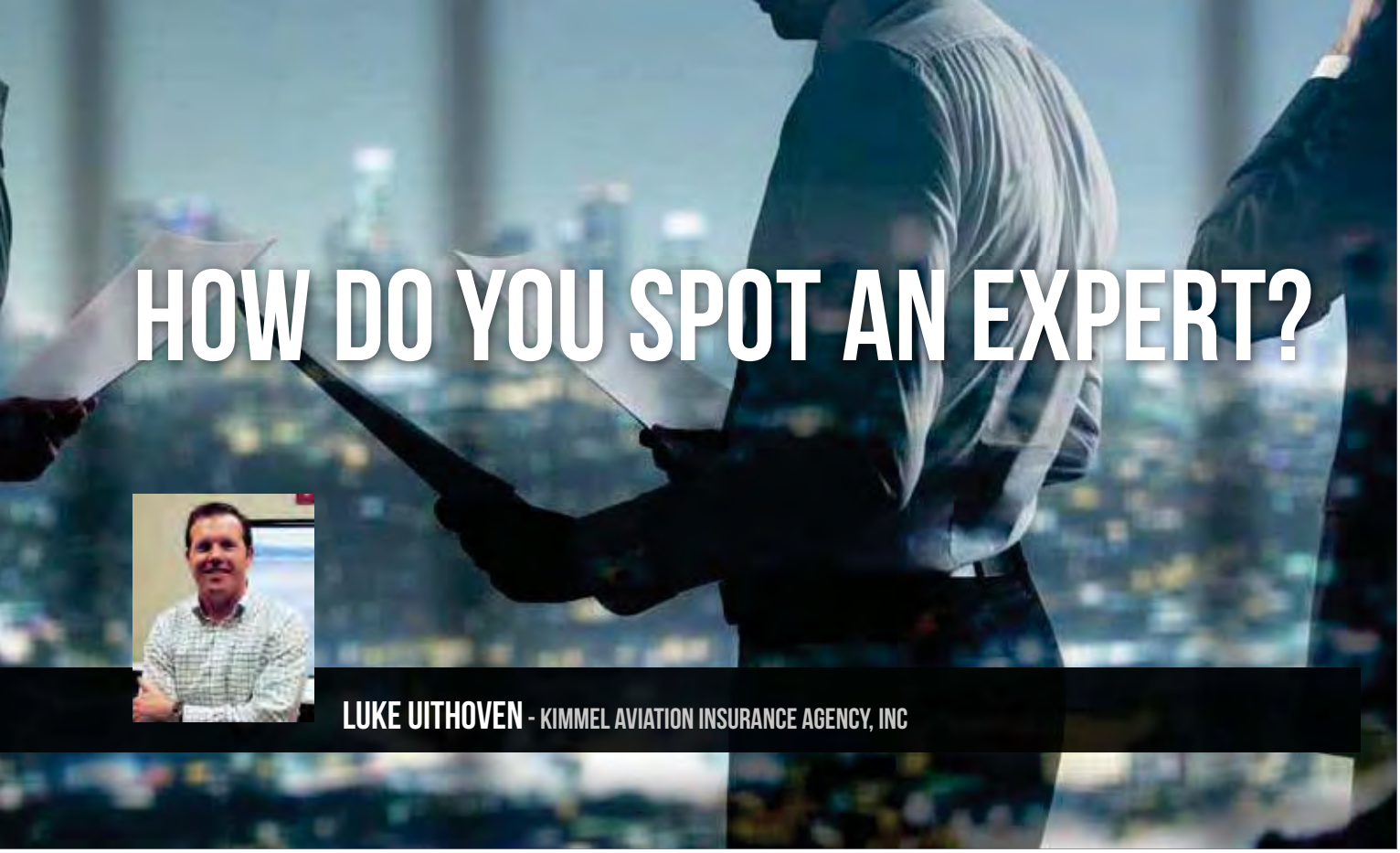
I want to also congratulate and formally welcome to the Board; Nicole Wolfe Stout of Strawinski & Stout, P.C. as Director Elect for the Attorney's Division and Greg Sterling of AIG Aerospace as Director Elect for the Underwriters Division.

It's a fine Board they are joining with lots of great camaraderie and I am sure that they will enjoy their respective roles immensely.

Please remember that the Board and I are here to serve you, the AIA members. So please let us know if there is anything we can do to enhance your membership experience. We obviously like to hear when we get things right but, more importantly, we are also eager to hear from you when you feel improvements can be made.

Finally I would like to add my congratulations to our Pinnacle award winner, Doug Johnson. Doug is a good friend and the award is a very well deserved accolade for an exceptionally hard working guy. His energy and commitment as the Chair of the Education Committee has been phenomenal.

Well, as one conference concludes so the preparation for the next one begins. As an early reminder from 29th April to 2nd May we will be at the iconic and grandiose Hotel del Coronado in San Diego. Please save the date!!



HOW DO YOU SPOT AN EXPERT?

LUKE UITHOVEN - KIMMEL AVIATION INSURANCE AGENCY, INC

As everyone is very aware, we are in full swing with election season. In this day and age, it seems everyone on the Internet is an "Expert" on this policy or that politician. We are constantly fed information on these candidates which is so often shared, forwarded, re-tweeted, and blogged about when no one has actually looked into the validity of the claims. This is also something we face as an industry. Every now and then, these "Experts" may actually have an original idea or a contribution worth reading. Unfortunately, too often, a bad opinion can be taken as truth and create a rabbit hole of confusion and misinformation. There are no guidelines or governing body to validate these "Experts" to make sure that what they are saying is valuable or even the truth. Thus, how do we know if we are being delivered correct information? How do we know when we dealing with a real "Expert?"

We deal with experts every day in the aviation industry and our customers consider us the experts in our field. Our customers rely on us as aviation experts to give out information that is right and true. They rely on the Aircraft Broker to sell them a reliable and decent aircraft, or their Agent / Broker to sell them the right insurance policy suited to their needs, and the proper safety expert to give them the right training for that airplane; just to name a few. It may seem like an elementary concept, but there are a lot of variables to consider and giving out bad information can have disastrous repercussions. Many of our customers want our honest opinion on the next airplane to purchase or training program to use and that leaves a lot of room for an "Expert" to push a personal agenda or give information that is not in the best interest of the client. This is a very vulnerable spot for the client because they expect the "Expert" to be unbiased and give good advice, however, they have no idea if the "Expert" will receive a bigger commission if he purchases one aircraft over another, or if one insurance company is giving a little more commission than another. As a player in this industry, we have a lot of power to sway customers to form opinions based on our expertise, so it's our responsibility to make sure this power is being used for the good of the client.

With that being said, how do we know if we can honestly consider ourselves an expert? Webster's Dictionary defines an expert as: "having or showing special skill or knowledge because of what you have been taught or you have experienced." Another source states that a person must have 10,000 hours in their field before they are fully competent in their craft. The average American works 2,080 hours a year if they are a full-time worker. Obviously, experience matters and to become an

expert in your field, experience is pivotal to understanding the subject at hand and relaying the proper information. Experts also don't focus on themselves in their stories or explanations, but relay information gathered from personal experiences, other people's experiences or research. True experts also are not afraid to admit that they do not know everything and will gladly pass the question on to someone more knowledgeable than them on the particular topic.

As Aviation Insurance professionals, we have a big responsibility to our client to be experts in our field or be willing to pair them with an expert more knowledgeable than ourselves. It is very easy for us to act like we know everything and ramble on to the client, not considering the actual repercussions of what we are saying. The client's best interest should be our motivation because it should be our goal to provide them the best customer service possible. There are all kinds of self-proclaimed Aviation "Experts" out there that are chasing the commissions and the best deal for themselves. To be a real expert, we must be able to separate what benefits our client the most from what benefits us the most. There is a major burden on the Aviation Insurance Professional to pass on the proper information to our clients because the margin for error is very slim. If we put in the time and effort to learn our craft and truly put the client's best interest first, then we will be giving the best customer service and become Experts that can be trusted.

As a player in this industry, we have a lot of power to sway customers to form opinions based on our expertise, so it's our responsibility to make sure this power is being used for the good of the client.

ATTORNEY'S DIVISION REPORT

DEBORAH ELSASSER - CLYDE & CO US LLP

We had a great turnout at the annual conference in Miami and especially at the Attorney CLE Program. On behalf of the AIA Board of Directors, I want to thank all of our speakers for their insightful and informative presentations. The presentation materials can be found on the AIA website under the Post-Conference Section.

I also want to congratulate the new Attorney's Division Director-Elect, Nicole Wolfe Stout of Strawinski & Stout, P.C. in Atlanta. Nicole and I will work closely in planning next year's CLE program and in creating additional membership benefits for the Attorney's Division.

Looking ahead to next year's conference, which will be held in San Diego, our planning process for the Attorney's CLE program will begin this Summer. We welcome any suggestions for topics that you would like to see covered in next year's program. As always, we also encourage members to submit an article on a topic of interest for publication in the AIA Binder Magazine.

Please feel free to send your comments and suggestions to me at deborah.elsasser@clydeco.us, Nicole Stout at nws@Strawlaw.com, or Mandie Bannwarth at Mandie@aiaweb.org. We look forward to hearing from you!

READY FOR DRONE AVOIDANCE FLYING?

RANDALL NELSON - BONANZA A36 PILOT, AVIATION ENTHUSIAST, AVIATION ATTORNEY, AIA MEMBER

Decades ago the aviation community slowly realized the dangers of wake turbulence, and so it implemented rules and training for its risk mitigation. By the time I was a student in the 90's, wake turbulence avoidance was well ensconced in the consciousness of a generation of student textbooks and training. The ensuing generation of pilots embraced this training and today, wake turbulence casualties have become increasingly rare in the United States.

Similar to the evolution of wake turbulence training, I suspect drone avoidance flying will one day become routine in pilot training. At present, there has not been a single accident involving contact between an aircraft and a drone. However, we all know it is coming. Americans will turn on the news one day to learn of a GA plane crash where all aboard were killed by a drone collision. Here's a likely scenario: The young kid who borrows his dad's new drone will not pay attention to airport proximity, and will just want to see how fun it would be to fly his drone at 2,000 AGL. He will be so sorry the accident happened. He couldn't have imagined hurting anyone, he was just having fun, and didn't see the Cessna 182 until it was too late. Is the risk that serious? Each month, the FAA receives more than 100 reports from pilots (and civilians) who spot what appear to be drones operating too closely to an airport or an aircraft.[1] The FAA is taking the threat extremely seriously. It has worked with a British technology firm, which has developed a ray gun designed to see and destroy drones, and the FAA is testing it for airport applications.[2]

Consider what we learned in Miami -there are approximately 200,000 registered GA aircraft in the United States, there are already 400,000 drones. Everyone expects that number to reach into the millions soon. Everyone has a cell phone; is there a day when each of us will own a drone? Drone/plane conflict in the airspace is surely coming. And it will change the way GA pilots fly at low altitudes.

My purpose in writing is not to whine about drones or lament their access to the nation's low-level airspace. At the AIA Miami conference, we saw the video about the commercial applications of drone technology. Lives will be saved when drones replace humans in routine tasks such as roof and cell tower inspection. The safety and productivity increases are limitless. Yes, drone use of the airspace is dangerous and will inevitably produce accidents. Yet the cost/benefit analysis yields a positive result in the column for drones. And put in perspective, drone accident risks are less than that of most transportation activity. The commercial promise of drone technology is worth the inevitable accident, and no doubt drones will continue to fill the skies at an increasing pace. Drones are here to stay, and pilots need to get on with the matter of flying accordingly.

Naysayers will surely demur on grounds that drones are prohibited within 5 miles of an airport, and cannot fly above 500 AGL, so an accident is unlikely. Sure, if you assume every drone user will always follow the rules, no exceptions. No use above 500 feet AGL is a rule, not a performance limitation on the part of the drone's power system. Recently I spoke with a drone owner who has operated his drone at 2,000 AGL with no decrease in performance. It's not realistic to expect human behavior to suddenly be perfect when it comes to drone usage. If the nation's automobile traffic laws were followed perfectly, there wouldn't be a motor vehicle accident every five seconds. The insurance industry employs actuaries who can already tell

a drone may look little and cute, but some weigh in at 55 pounds, and this size drone will be absolutely lethal to any GA pilot who sustains a windshield strike.

you the statistical probabilities of a plane/drone accident in the next few years. When driving a car, I would much rather drive defensively than count on the possibility that the texting teenage driver on the road next to me is going to carefully comply with the traffic rules.

It certainly piques my curiosity when attorneys suggest the "see and avoid" flying rule (FAR 91.113) arguably applies in rendering a pilot responsible to see and avoid a drone. Anyone who has sat left seat and looked out on the horizon after hearing ATC say, "Traffic 11 o'clock, two miles a Cessna maneuvering at your altitude," knows that a third of the time, you never see the traffic by the time you hear "traffic no factor." Pilots know the standard response after a traffic alert: "looking." The point is nobody spots other traffic quickly, even when looking for an airplane the size of a bedroom. It is dubious to suggest that a pilot will see and avoid a drone before impact. Also, a drone may look little and cute, but some weigh in at 55 pounds, and this size drone will be absolutely lethal to any GA pilot who sustains a windshield strike. Such a collision would also possibly be lethal in the event of a strike on the elevators or rudder. I'm not betting on my propeller to sufficiently shred or deflect the drone before reaching my windshield (or to have a usable propeller after the strike). A strike on the wing may be sufficient to tear the metal and throw the sparks into the ripped open gas tank in the wing. A light aircraft strike with a drone isn't going to produce fatalities every time, but the probabilities are far more than just hull damage. In my hometown of Billings, the local hospital deploys its helicopter routinely around dense neighborhoods at 200 AGL. Anyone want to take bets on the effects of a drone strike on the helicopter's rotor blades over the top of a building full of thousands of hospital patients? I assume the little toy size plastic drones are not a concern. But the new FAA rules allow drones to weigh 55 pounds and fly at 100 mph. At that weight and speed, the collision won't be pretty.

So back to the matter of drone avoidance flying, it's probably not much of an issue for an Airbus 320 with a one-inch thick windshield. Today's jet aircraft windshield is a $300,000 marvel of engineering technology; mine is not. My windshield is thin, and 35 years old. And unlike the 767, I can't be flying at 1,000 AGL by the end of the runway. So, like the defensive driver, I have my own plan for drone defensive flying. I suspect after a few accidents, drone defensive flying will make its way into the textbooks and student pilot curricula. For now, I intend to handle it on my own.

Let's start with take-off. I can think about reducing my risk of a drone strike even before entering the airspace. I can consider the population center location in relationship to the airport. In VFR conditions might an area surrounding the airport be less likely to be subjected to drone use? Can I request a runway that would have me on a vector over an area less likely for drone use, assuming acceptable winds? I certainly hope no errant drone operator wants to try his skills in IMC around an airport because standard departures (SIDs) eliminate most of the foregoing options discussed for VFR flight.

Once off the runway, let's talk about climb rate. Most pilots are accustomed to selecting their best rate of climb rate (VY), or perhaps a rate that produces the most favorable engine temperatures. Not me. Upon rotation, I go to VX every time.

I climb at just above stall speed with my climb rate pushed to maximum rate for the temperate/gross weight/density altitude considerations of that flight. If my engine gets hot on climb-out, so be it. My goal is to be as far out of drone range as possible by the time the end of the runway disappears. I can deal with an engine temperature at redline better than I can a 55 lb drone coming through my windshield in 100 sharp pieces after an encounter with my propeller.

One aspect of safety training is to leave the gear retracted on take-off until the runway disappears. Of course, the thinking goes, if you lose an engine or have another emergency requiring an immediate landing, at least your gear is already out and ready for landing. I used to employ that technique, but no more. I'll take my chance of needing to throw the gear in a hurry; I'd much rather have the increased rate of climb to avoid the drones out there.

Speaking of rates of climb, pilots recall from their first lessons what it's like to try to climb in a C152 on a hot summer day. You're lucky get 100 fpm. That means leaving the airport environment at very low altitudes and remaining at low altitudes long after you've passed the 5 mile mark where drone activity is prohibited. I love flying almost more than anything, but if my only option were low altitudes over drone territory, I might consider hanging it up or upgrading to a high performance aircraft. Drones provide an entirely new reason to be interested in high performing aircraft. For me, this concern augments the list of excuses to pay a September visit to Tornado Alley Turbo in Ada Oklahoma. My A36 will soon be turbo-normalized with a Continental IO550, and I'll be climbing away from the drones at 1,500 fpm after leaving the runway.

As you know, the FAA allows flight 1,000 AGL above populated areas and 500 AGL above rural areas, mostly in class G airspace. As a Montana pilot, we love our wide open class G; within bounds do what you want to do. While that type of flight might have been fun a few years ago, I suggest the proliferation of drone activity ought to end any consideration of flight at those AGL levels. Fly close to the ground ever again? No thank you.

Then there's the issue of the stabilized descent- typically regarded as a 3 degree descent rate. This is the descent currently taught. Of course, that rate of descent places an aircraft fairly close to the ground 5 miles from the runway. From now on, I'll be staying high and dropping in steeply with full flaps to avoid more than just the bugs on my windshield.

Consider the rectangular patterns which pilots are taught to fly

So there is a strong case to be made that the 5 mile prohibition just isn't going to cut it for the airport environment.

in the pattern for landing. Many of these standard rectangular patterns will place an aircraft close to the perimeter of that 5 mile area where drones are free to operate and require 1,000 AGL. Worse, when I'm in the pattern at 1000 AGL, it's not unheard of to receive a vector for sequencing from ATC that turns me miles out away from the airport. Just the other day in Helena, Montana, the tower extended my downwind; I practically had to start climbing for McDonald pass before being allowed to turn inbound. The route took me directly over the most densely populated part of Helena. This situation throws all of my carefully conceived drone avoidance plans out the window. So there is a strong case to be made that the 5 mile prohibition just isn't going to cut it for the airport environment. Please take note, FAA.

Let's move on to considerations beyond the flight environment. I've mentioned what pilots need to consider for drone risk mitigation. But, that said, drone owners need to bear the burden of risk mitigation as well. What about requiring TCAS? TCAS was once a luxury exclusive to jetliners, but now ADSB now functions just like TCAS in concert with my Garmin 430 WAAS. The FAA requires ADSB out by 2020 (I bought it early for the safety), so why not impose the same burden on drone owners? We all know the technology is there to arm these drones with the avionics to link into the ADSB-in/out system and create alerts to the drone user, or better yet, automatically divert the drone out of the aircraft's path. The DJI Phantom 4, for instance, comes equipped with a collision avoidance system, so it's not a huge leap to suggest it. Some might say the cost is prohibitive, an unreasonable burden on drone users. I beg to differ. The cost to comply with the burdens imposed on GA pilots is mind numbing, and getting worse every year. It may sound conspiratorial, but many in the GA community believe the FAA wants us GA pilots out of the air for good. Hopefully that is urban myth. I do know, personally, of the annual expense and time commitment to maintain

my license, rating, plane, and medical certificate. If GA pilots can be burdened to such an extent, fairness dictates imposing similar systems (and the attendant expenses) on drone users to mitigate the risk of the inevitable drone user who carelessly allows a collision with a small plane.

And when the risk mitigation fails, what about loss compensation? Many states provide that an aircraft may not enter its airspace without insurance coverage- New Mexico is one such state. What about mandatory drone liability insurance? When the aviation insurers start to pay hull loss claims for $600,000, (or worse passenger death liability claims in the millions against the pilot based upon the silly negligence allegation that the pilot failed to see and avoid the drone), how do you think the subrogation prospects will look against the young kid who is so sorry? When the insurer gets its million dollar subrogation judgment against him, how will it collect it- a judgement execution sale of his Xbox?

I apologize for my curmudgeonly whining about the good old days before drones. I do love the new technology. When it comes to aviation technology like my Stratus enabled Foreflight AHRS and real time weather streaming in my I-pad, I wouldn't care to go back. The new technology is simply amazing, and we are all far safer for it. Occasionally, the technology development will produce a few down sides. For GA pilots, drones are such a downside- another hassle and restriction on the freedom of flight. Drones ought to change the way we fly- or at least how we fly at low altitudes. I know my grandchildren will one day love their drones more than my old Bonanza. And I like that it will be hard for the FAA to kick us GA pilots out of the airspace if that same FAA is going to be accommodating to drone enthusiasts. So, you GA pilots-just be careful, and stay out of the low altitudes- climb quickly and descend at the very last moment for a safe landing. If you're vectored for sequencing out of the pattern and over the city, consider asking to gain altitude until you're on back inbound on short final.

What does the future hold for drone avoidance? Stay tuned- it's likely to be a wild ride as the nation's airspace makes room for millions of drones. Let's hope this wild ride does not include a drone crashing through a pilot's windshield. And let's also encourage regulations that require drone owners to share the burden and expense of risk mitigation.

1: www.faa.gov/news/updates/?newsid=84810
2: https://www.theguardian.com/technology/2015/oct/07/drone-death-ray-device-liteye-auds. & http://www.hstoday.us/channels/global/single-article-page/faa-is-testing-british-ray-gun-to-shoot-down-drones.html

AVIATION GROUND ACCUMULATION

PAUL HAYES - DIRECTOR OF AIR SAFETY AND INSURANCE AT ASCEND FLIGHTGLOBAL CONSULTANCY

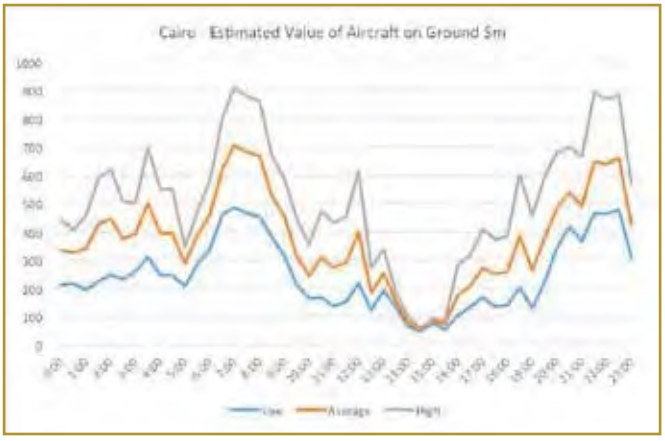
Aircraft on the ground may be at risk from a number of perils including: natural catastrophes such as wind storm or earthquake, operational accidents such as a 'veer off' where an aircraft veers off the runway on landing or take-off and collides with aircraft parked at the terminal, or deliberate acts of violence where parked aircraft may be specifically targeted. However, the actual exposure can vary very considerably from airport to airport and even from hour to hour.

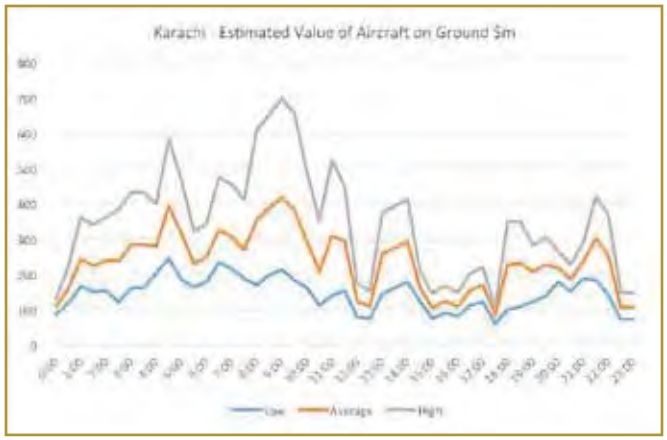
Lloyds Realistic Disaster Scenarios (RDS) describe a number of catastrophic events which, if they occurred, could significantly impact the insurance industry. These RDSs include a number based on natural perils including RDS 8 and 9, California Earthquake – Los Angeles and San Francisco.

Although it is generally thought that aircraft parked in the open on the ramp are, in most cases, at less risk of damage from an earthquake, the agreed value of the aircraft at Los Angeles or San Francisco potentially at risk can well exceed $5 billion. However, the actual exposure at the two airports, reflecting their different traffic patterns, is different with the market value of aircraft on the ground at Los Angeles being, typically, about twice that at San Francisco.

The peak exposure time at both airports is in the late evening, at around 10pm, but at Los Angeles this then rapidly decreases so that it is at its lowest during the early morning hours. After about 6am exposure at Los Angeles gradually increases throughout the day, building back to a new peak in the evening.

At San Francisco, although the peak exposure time, more or less, matches Los Angeles at 10pm, there is then only a gradual reduction during the night and exposure is still relatively high at 6am. However, it then falls rapidly to its lowest point between 7 and 9am and stays relatively low throughout the day, only increasing again after about 7pm.





Over the years there have been a number of attacks at airports where significant numbers of aircraft have been damaged or destroyed either 'by accident' or as the result of being deliberately targeted.

Two airports, which might be considered at risk of attack, are Cairo and Karachi. The value of aircraft on the ground at these airports at any time is far less than at the two Californian airports but can still approach $1 billion, in market value terms, during peak times.

Karachi's peak exposure time is at 9am but this then falls rapidly to a low at around midday before climbing slightly in the early afternoon; Exposure then falls back later in the afternoon before climbing again in the evening.

At Cairo the peak times are at 7am and between 9 and 11pm. Exposure falls back after midnight but remains relatively high throughout the night. The lowest exposure time at the airport is during the afternoon.

Looking at other airports around the world, the two with the highest peaks for ground accumulation for aircraft operating scheduled services, in 'average' value terms, are Dubai at $5.6 billion and London Heathrow at $5.4 billion. In 'maximum' value terms and, certainly, in insurance agreed value terms, the exposure will be far higher, and could approach $10 billion. However, the peak for Atlanta, one of the busiest airports in the world, using average values, is only $1.4 billion.

The profile of the ground accumulation at these airports is very different. Atlanta, during the peak hour, could have 99 aircraft from 10 different airlines operating scheduled services on the ground but 85 of these will be narrow-bodied aircraft with relatively low values. At the peak time in Atlanta there are typically only 14 wide-bodied aircraft on the ground.

London Heathrow, at 92 aircraft, has almost as many aircraft on the ground during the peak as Atlanta but the profile of this exposure is very different. During Heathrow's peak times there are aircraft from 32 different operators on the ground with almost all of these being wide-bodied jets; 82 aircraft. This wide-body total includes 10 Airbus A380s from eight different operators, 25 Boeing 777s and 10 Boeing 787s.

At its peak, Dubai may have only 65 aircraft on the ground from seven different operators but these include 12 Airbus A380s and 30 Boeing 777s/Airbus A330s. There will be a total of 44 wide-bodies on the ground with all but one of these, a Cathay Pacific A330, being operated by Emirates.

Notes.
1. Values shown are aircraft 'market values'. The insurance values (agreed values) can be assumed to be significantly higher.
2. Data is for scheduled operations only.
3. Data is held at the individual flight level so that analysis can be performed for specific airlines and/or aircraft types.

PH 28 April 2016

2016 ANNUAL CONFERENCE REPORT

KIM ROSENLOF - AVIATION INTERNATIONAL NEWS

Broadly speaking across the marketplace, we as insurers have actually been declining in relevance." That was the opening salvo from XL Group CEO Michael McGavick, as part of his "state of the industry" presentation at the recent Aviation Insurance Association (AIA) Conference in Miami, Fla. According to several speakers at the conference, the aviation insurance industry continues to be plagued with high competition, low premium revenues, rising claims costs and a continuously changing risk management landscape. While the words "irrelevant," "unprofitable" and "unsustainable" were bandied about, there were also positive messages, especially around the blossoming commercial UAS market.

McGavick defended his somewhat tongue-in-cheek comment about decreasing relevance by pointing out that while the insurance industry is "superb at insuring physical things," nowadays there are fewer physical items to insure. "If you look at what's making the world more valuable these days, it isn't necessarily physical things," said McGavick, citing the time functions on cellphones, which are driving down sales of wristwatches. "Much of the world's economy has shifted to intangible assets, such as software code, ideas and reputations. We as insurers have had a tough time with that transition." Self-insurance is also dimming the industry's relevance as many corporations forgo traditional insurance in favor of keeping funds–and their corporate best practices–to themselves.

To remain relevant, the insurance industry must "race ahead and match the rate of change that our clients are experiencing and be relevant to the things that create value to them today," said McGavick. As an example, he explained that XL Catlin is "now partnered with the largest artificial intelligence transportation organization in the world, trying to figure out the new liability theories that will allow this technology to come forward. Because we know that if the liability theory doesn't move, the whole technology could be sitting on the sidelines instead of being used by mankind."

McGavick listed five factors currently driving the insurance sector: clients facing greater global exposure; data mined with new analytic tools; consolidation in the broker community; pension funds providing alternative capital sources for re-insurance; and regulation making capital more inefficient to use. He says these five drivers, combined with low premium rates, point to future consolidation in the industry.

"This is a really difficult time in the pricing cycle," McGavick

said. “The rates currently being charged for risk are not sustainable. In this environment, the only way to grow is consolidation.”

While the macro view of the industry may be that of an industry struggling to stay relevant, for business aircraft owners and operators the insurance broker is far from irrelevant. Maintaining a close relationship with your insurance broker can be a good source of information on industry best practices that can help lower rates and losses.

“The [insurance] broker’s role is to help the helicopter community,” said Larry Mattiello, director of aviation for Aviation Specialty Underwriters in Addison, Texas. “The broker has been recognized by the FAA, NTSB, HAI [Helicopter Association International], and IHST [International Helicopter Safety Team] as the resource who is closer to the helicopter end user than any other person or entity in our society.”

Mattiello emphasized the importance of ensuring that the broker knows the type and value of all equipment that could be attached to the aircraft and the cost of installing any permanent equipment. For example, specialized mission-specific interiors for EMS aircraft significantly add to the value of the aircraft, and the installation and equipment costs should be factored in when the broker goes to the underwriter for the coverage and the quote. Failing to do so may result in an under-insured aircraft that can leave the operator financially short in the event of a loss. Helicopter operators in particular need to be sure that external equipment such as cameras are covered, possibly in an addendum.

“Hull insurance typically covers just the aircraft itself,” said Mattiello. “If you have a ten-percent deductible on a helicopter used in the motion picture industry, and you have a $500,000 camera attached that’s owned by someone else, that camera may become a self-insured item that nobody is going to be happy about [if there is a loss]. Someone must pay for that camera, and it’s usually going to be the operator.”

CLAIMS ISSUES: LIMITS TOO HIGH OR NOT HIGH ENOUGH?

It’s not just aircraft that are often under-insured. During a panel discussion titled “Current issues in aviation claims resolution,” Michael McGrory, partner in SmithAmundsen’s Aerospace group in Chicago, described a common problem with claims involving automobiles damaging aircraft when driving up to the airplane at a general aviation airport. “Some drivers are not familiar with parts of the airplane that might be close to the ground, and collisions often ensue. The auto carrier often

doesn't have nearly enough limit to pay for damage to the business jet. This [should be] a simple liability; you ran into a fixed object. But try to get them to settle when the general insurance adjusters find out how much it costs for an engine cowl. They just don't believe it. So litigation goes on. It's unfortunate because usually these claims should be settled quickly but very often they're not."

Over-insured aircraft can also create difficult claims. According to Michael Peterson, senior vice president and national director at Willis Aerospace Americas, the underwriter's desire to repair the aircraft rather than pay out the agreed value can lead to problems. "The initial reaction of the insurers is that they're looking at paying out a lot of money, so they look for ways to repair the aircraft," Peterson said. "And it can get challenging dealing with their expert in this area versus experts hired by the policy holder. A lot of these aircraft are subject to financial arrangements that essentially require the policy holder to insure the aircraft for more than market value. So there's a legitimate basis for it, but from the claims side it's a big challenge."

One area where some aircraft operators and other airport tenants may find themselves under-insured is in environmental insurance. According to Edwin Baez, vice president of Berkley Specialty Underwriting Managers Environmental division, the exceedingly high cost of environmental cleanup and remediation has prompted many airports to add environmental insurance stipulations to contractual agreements.

"We're seeing more requirements for purchasing environmental insurance even for something like a hangar, which most people would see as low risk," Baez said. "If you set foot on an airport, you'll need to carry environmental insurance… and name [the airport] as additional insured. That's becoming commonplace."

Baez cited several aviation activities with environmental exposures, including fueling, de-icing, aerial chemical application, aircraft repair and painting, part manufacturing, and fuel transportation and storage. Fuel storage tanks–both above ground and subterranean–can incur significant environmental costs in the event of an accidental release.

"Cleanup and remediation of underground storage tanks can cost up to $1 million per tank," said Baez. "If you're in a difficult state like California, Florida or Texas, and you contaminate drinking wells, it could go way beyond $1 million."

Baez said that most airport owner and operator general liability policies include broad pollution exclusions, which is why separate environmental insurance is required. FBOs typically need three types of liability coverage: site-specific pollution, contractor's pollution liability and coverage for tankage, including financial responsibility. These cover first-party losses for on-site and off-site cleanup, third-party claims of bodily injury and property damage, emergency response costs, business interruption costs and more. Because aviation doesn't have the best track record and some environmental insurance carriers are still intimidated by aviation operations, many entities are requiring the purchase of environmental insurance in performance contracts, lease agreements and in financial real estate transactions, mergers and acquisitions.

Corporations that own aircraft should review their liability policies to ensure that the corporation and all pertinent individuals are named insureds. According to Jonathan Morse of The Morse Law Group, the language used in various policies can differ, and can actually result in the corporation not being covered at all.

"Different insurers will have different language in the policy," Morse said. "Read the policy to find out if the individual is covered as well as the corporation, and whether the corporation is really covered at all. Suggested language for corporate-insured aircraft should name the insured as: '[name of the corporation

or LLC] and all of its officers, directors, shareholders, members and employees, past and present.'"

FAA ENFORCEMENT ACTIONS AND COMPLIANCE PHILOSOPHY

In an effort to improve aviation safety through the open sharing of apparent violations and a collaborative approach to solving problems, the FAA encourages airmen and other certificate holders to disclose voluntarily any regulation violations they have incurred through the Voluntary Disclosure Report Program (VDRP) or Aviation Safety Action Program (ASAP), depending on the certificate and the FAR Part under which they are operating. But Attorney Paul Lange warned that while participating in one of the federal voluntary disclosure programs after a known regulation violation can help certificate holders avoid hefty penalties and enhance safety, there may be severe unintended enforcement and litigation-related consequences.

"The FAA is seemingly unaware that there are other things out there like civil litigation," Lange said. "It [says] that you are protected under Part 193 because it thinks the world is limited to FAA enforcement."

Lange said that certificate holders–who have as little as 24 hours to report a violation after it occurs to be given the full protection of either program–must be careful about the admissions they make. Not only can the FAA revoke protection under certain circumstances, but the information gathered through these programs can be used by other federal or state agencies or by plaintiff's legal counsel. The VDRP, for example, requires at least oral notification of violation within 24 hours, written notification through the web-based system within 72 hours, and a full report within 10 days that describes the apparent violation, immediate action taken and that the non-compliance has ceased.

"That sounds like an awful lot of admissions to me," Lange said. "They ask what regulation you have violated. They ask you in a variety of ways what you did wrong. That's a plaintiff's lawyer's dream." Lange noted that while the FAA may extend the time to file the written report past the 10 days, you'll need to provide reasons why the extension is needed and those "admissions tend to be harmful."

Participating in voluntary disclosure programs has become expected (or a standard of care in legalese), and not using one can be used against the certificate holder or his company in tort litigation. But on the positive side, Safety Management Systems (SMS) have also become a standard of care, and companies that implement SMS, especially if they are not required to, are seen during litigation to be demonstrating a higher regard for safe practices.

"If you use the FAA's own definition of the SMS components,

Not only can the FAA revoke protection under certain circumstances, but the information gathered through these programs can be used by other federal or state agencies or by plaintiff's legal counsel.

it establishes senior management's commitment to continually improve safety," said Lange. "The safety promotion portion talks about other actions to create a positive safety culture. This is not a bad thing to have in front of a tort jury, or when arguing to an FAA lawyer on an enforcement case. When you've got an SMS in place, you can argue that you have management commitment to continually improve safety and create a positive safety culture, notwithstanding what may or may not have gone wrong."

Beyond implementing and updating an SMS, companies can avoid FAA enforcement actions by measuring accountability against policies and procedures, recognizing risk factors and using periodic third-party audits. But it also helps if you don't advertise violations of the Federal Aviation Regulations on your website, which is largely how SkyPan International incurred a $1.9 million penalty for unauthorized unmanned aerial systems flights in New York and Chicago class B airspace.

While SkyPan's initial response to the FAA says that the company "has been conducting aerial photography…for 27 years in full compliance with published FAA regulations," the FAA used images from the company's website and documentation subpoenaed from SkyPan's insurance company to determine that 65 unauthorized UAS flights occurred between March 2012 and December 2014, and 43 flights were in restricted New York class B airspace without ATC permission. Because SkyPan purchased insurance on a per-flight basis, its insurance carrier had detailed information about each flight, including the date and location flown.

"The basic takeaway to consider," said Donald Mark of Minnesota law firm Fafinski Mark and Johnson during his discussion of the FAA v SkyPan International case, "Is that there's no indication that anybody at the FAA caught SkyPan in the act. All of these illegal flights had been previously recorded, and the information was gathered under subpoena from either Skypan directly or the insurance carrier that had referenced all of the flights flown. So it's interesting that the FAA is able to recreate violations even if you're not caught in the act."

FAA Administrator Michael Huerta chose not to comment on the SkyPan case during a Q&A session after his remarks addressing the AIA conference, but he responded to a question about the "disconnect between FAA senior management and the FSDOs (Flight Standards District Office)" regarding the FAA's new "compliance philosophy" as spelled out in FAA Order 8000.373 effective June 26, 2015.

"It's very much a work in progress," said Huerta, referring to applying the new philosophy. "Different FSDOs, CMOs [certificate management office], and MIDOs [manufacturing inspection district office], are at different places. The principal concern from an ASI [aviation safety inspector] or regional counselor is that if we are asking them to exercise judgment, which is effectively what the compliance philosophy is all about, what if they get it wrong? They want to be assured that the agency will stand behind whatever decision they make."

Huerta indicated that some ASIs are having difficulty switching from an enforcement stance to a collaborative mindset focused on helping the industry achieve compliance. "This is an important cultural change because you're taking a world that was black and white, and you're turning it into interpreting different shades of gray. And that is much harder for people to work through. I feel good about the progress we're making.

I don't believe you flip a switch and suddenly everyone will change overnight, but it's something we're committed to and we're tackling it one on one with conversations with employees."

Huerta also commented on the upcoming FAA Reauthorization bills making their ways through the U.S. House of Representatives and the U.S. Senate, stating that the agency would like two things from the final bill: flexibility and stability. "There are a lot of things that get in the way of our ability to allocate resources or redefine business processes," said Huerta. "We'd like to have more flexibility to set priorities. The second thing is stability. During my tenure at the agency, we have been through 25 short-term extensions, two shutdowns and a sequester. That wouldn't meet anyone's definition of stability. So what we would really like to have is a long-term authorization that would give us the stability to carry out the work that we're supposed to do."

UAS OPERATIONS PRESENT BOTH RISK AND OPPORTUNITY

While the booming unmanned aircraft system (UAS) population had already gained the aviation insurance industry's attention a few years ago, UAS and the impact on risk management was a hot topic at this year's AIA conference. The sheer numbers of UAS being sold represent both risk and opportunity. The FAA estimates approximately 2.5 million UAS will be sold this year. Of these, approximately 600,000 will be for commercial use;, with the remainder flown by hobbyists. Some 435,000 recreational UAS operators have already registered an average of 1.5 drones each on the FAA Small UAS Aircraft Registry. While some hobbyists are joining the Academy of Model Aeronautics (AMA), which provides education on regulations and procedures to new UAS pilots and liability coverage under its $2.5 million general liability insurance program, those who do not may remain unaware of registration requirements, airspace restrictions and even operational safety procedures (such as always flying with a spotter and keeping the UAS within line of sight).

"There are essentially two sides to the UAS manufacturing industry," said James Van Meter, aviation practice leader for UAS at Allianz Global Corporate & Specialty, who is himself a fixed-wing pilot and UAS operator. "Some of them view themselves as airmen and maintain that airmen will always be the ones operating this equipment. The others are roboticists, who feel they can make the technology so good that anyone can operate it…It will be interesting to see in the next few years which party wins out. As aviation insurers, we feel that to operate UAS safely, operators need to be airmen and they need to approach the operations like pilots."

Chris Proudlove, senior vice president for complex/unmanned risk at Global Aerospace, echoed this sentiment when discussing underwriting UAS policies. "We look at the applicant," said Proudlove. "A 30-year aviation company that's diversifying into unmanned aircraft will approach the business of flying the drone with a different mindset from a wedding photographer who is simply using a drone to get a better shot. We look at things like checklists and logbooks, things that are part of the fabric of aviation. Companies that blend the best of technology with solid aviation background seem to do the best job of getting through the startup process and operating safely."

According to Van Meter and Proudlove, the aviation insurance industry has developed aviation-specific products for UAS operations, including changing the definition of aircraft to account for drones. Nearly every insurance product available for manned aircraft is now available for unmanned aircraft, including up to $1 million hull insurance and up to $300 million liability limit.

"We've figured out solutions for how to write [insurance policies for] the cameras, the sensors, the launches and the recovery equipment," said Van Meter. "Someone asked me if we've ever actually quoted $300 million [in liability limits]; it's pretty rare. Most of the [commercial UAS] buyers in this space are

Huerta also commented on the upcoming FAA Reauthorization bills making their ways through the U.S. House of Representatives and the U.S. Senate, stating that the agency would like two things from the final bill: flexibility and stability.

in the $50 million [liability limit] range. But those higher limits are available."

Proudlove indicated that the fledgling UAS community still has some maturing to do when it comes to writing legally binding contracts. "We've seen a lot of fairly loose contracts," Proudlove said, "Decisions [are] being made over a beer and not with legally binding contracts. We had one claim where a $70,000 camera was wrecked. It had been lent by one operator to another and there was no contractual agreement. No one knew who was responsible for it. We figured it out and paid the claim, but it highlighted that there's a great deal to be done to make sure the proper contracts are being used to support this industry as it grows."

Lester Forsythe of the Unmanned Safety Institute discussed safe UAS operations, including the need to have a minimum of two adequately trained people operating the UAS (a pilot and a spotter). "One of the biggest UAS operation technology issues is lack of training," said Forsythe. "Even commercial users that have Section 333 exemptions today, most still don't get professional training or have the aviation mindset. We're trying to make sure that people understand that we have to treat these things as aircraft."

Forsythe listed a number of operational considerations that non-aviation UAS operators may not think of, including proximity to an airport, GPS non-availability in certain areas and winds aloft. "If the UAS has operating limitations of 30 mph, and there is a 25 mph wind on the ground, the operator might say it's OK to launch without realizing that winds aloft are likely stronger. As soon as the UAS gets up a couple of hundred feet, the wind could exceed the UAS's capability."

Forsythe also pointed out that the majority of UAS manufacturers are not aircraft manufacturers. "They are using consumer-grade components, not commercial- or military grade-components, so there are going to be failures. You get what you pay for. If you buy a $1,000 drone and use it every day for commercial activity, expect a failure."

One UAS risk voiced by Richard Morris, attorney at Fowler White Burnett, is that while the FAA limits the majority of UAS operations to a maximum altitude of 400 feet, manned aircraft are reporting seeing UAS at altitudes much higher than 400 feet. Morris tied this statistic to a 2011 study of 71 business aviation accidents featuring loss of control in flight (LOC-I) that found 63 percent of these accidents began at less than 1,000 feet. "These incidents typically occur on takeoff, approach to landing and on go-arounds," said Morris. "So you can see the potential conflict between lots of drones up to 400 feet and an aircraft trying to land."

As part of his LOC-I presentation, Morris identified proposed FAR Part 23 changes that could reduce the number of LOC-I incidents overall, including new verbiage in Sections 23.200

and 23.215 requiring warnings to improve pilot awareness of imminent LOC-I.

"The Part 23 rules are part of the FAA's new approach to performance-based requirements as opposed to prescriptive rules dictating a certain type of compliance," Morris said. "The performance-based requirements propose requiring warnings to improve pilot awareness of stall margins, angle of attack (AoA) or energy awareness."

Morris also noted other regulatory changes aimed at reducing LOC-I, among them the new 14 CFR Part 21.8(d) regulation for the approval of non-required AoA systems, and the newly revised 14 CFR Part 60 for flight simulator evaluation and qualification guidelines that include certain upset recognition and recovery procedures that became effective on May 31.

"There's a question about the cost of [the simulator upgrades], and from what I've seen there's only one simulator that's compliant with the new requirements," Morris said. "The FAA estimates that it will cost $80 million for airlines to upgrade these simulators; some wonder whether the [airframe] manufacturers who typically would provide the data from flight-test are going to give that up easily or charge for it. The FAA has recognized that might be an issue and will allow third-party providers to offer more type representative simulators covering a wider range of aircraft. However, the biggest issue with the new simulator capabilities is that there are no instructors that have used them before because they haven't been required."

AWARDS AND RECOGNITIONS

The AIA presented its annual Pinnacle Award to Doug Johnson, president of JSL Aviation. Having worked in the aviation insurance industry since 1975, Johnson has earned the Certified Aviation Insurance Professional (CAIP) Gold designation and currently serves as the chairperson of AIA's Education Committee.

The association inducted nine members into its Eagle Society this year: Vickie Adams of Global Aerospace; former AIA president Franklin Bass of XL Catlin; Peter Eden of Lockton Companies; Dave Garvey of Aviation Training Management; Chris Morin of Murray Morin & Herman; Lisa Ouellette of JCL Aviation Services; Michael Pechloff of Global Aerospace; Nick Redgrove of CGNMB; Denny Shupe of Schnader Harrison Segal & Lewis; Nic Stratta of Aviation LS; and Kim Weisel of Wings. The association also recognized Nick Davies for earning the CAIP designation.

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Aviation Insurance Association

COMMITTEE REPORT

DOUG JOHNSON - CHAIRMAN, AIA EDUCATION FOUNDATION

For the first time in a very long time, our CE offering on Sunday was granted a full 8 hours of credit in every single state applied to. The sessions were well received and several people have offered ideas for next year. We hope to continue to build on this success.

As many of you know, the AIA with the help of Dr. Bruce Chadbourne and Dr. Alex Wells had been offering an introductory course in aviation insurance based on the text book authored by the professors. Affectionately known as "the weekend course" it had been an integral part of the CAIP curriculum for many years. In a "perfect storm" of events, the book became outdated, the professors decided to retire and the AIA decided to create a new course with more in depth, original content developed by AIA members and owned by the AIA.

It is fair to say that this project was indeed an industry-wide collaboration and every discipline within the AIA made a significant contribution.

While the idea was germinated in the education committee, it could not have come to fruition without the full support of the AIA Board of Directors and the AIA Education Foundation. We appreciate their commitment.

It is especially important to thank all of the members of the education committee and also every contributor, who was recruited, cajoled, hoodwinked or otherwise convinced to assist with this massive undertaking.

The AIA education committee is pleased to announce that the first offering of "Aviation Insurance, Core Principles and Concepts" will be presented in the Dallas Texas area on September 30-Oct 2. The specific details will be forthcoming shortly.

It is important that we have excellent participation in this first offering so we can receive maximum feedback on what works and what we can do better.

Please mark your calendar and support our efforts by attending yourself or sending someone from your office.

Aviation Insurance Association
EDUCATION FOUNDATION

FOUNDATION UPDATE

C. ALAN SMITH - CHAIRMAN, AIA EDUCATION FOUNDATION

This current year has been very productive at the AIA Education Foundation.

First, let me thank those of you, both corporate and individual, who have so generously contributed to your AIA Education Foundation. Those of you who have not done so already, please give the AIA Education Foundation serious consideration in your future planning for giving. You can support our funding initiatives through your purchase of the AIA merchandise on-line throughout the year 24-7. Those of you who attended the golf outing at the annual convention have contributed through your participation in the event for which we thank you.

Your generous support allows us to develop NEW scholarship and award programs such as these three new academic merit award programs:

THE WELLS-CHADBOURNE AWARD

The name of the award preserves the dedication and academic excellence of the authors of the Aviation Insurance and Risk Management Course textbook written by Drs. Alex T. Wells and Bruce D. Chadbourne. Their examples of excellence in academic pursuits, both with us and throughout their careers, motivate us all to continue our personal pursuit of excellence. There will be a $1,000 award for the individual with the highest grade score on the new aviation course exam, which is now known as, AVIATION INSURANCE, CORE PRINCIPALS AND CONCEPTS.

- All CAIP courses to have been completed
- The individual must me an AIA Member in good standing

THE DISTINGUISHED GRADUATE AWARD

There will be a $1,000 award given to the individual in the aviation insurance industry over 5 years, with the highest score on the AVIATION INSURANCE, CORE PRINCIPALS AND CONCEPTS course during the preceding 12 months.

- The individual must be employed more than 5 years in the aviation industry
- Be an AIA Member or employed by an AIA Member Company in good standing

THE ACADEMIC EXCELLENCE AWARD

There will be a $1,000 award given to the individual in the aviation industry under 5 years, with the highest score on the AVIATION INSURANCE, CORE PRINCIPALS AND CONCEPTS course during the preceding 12 months.

- The individual must be employed less than 5 years in the aviation insurance industry
- Be an AIA Member or employed by an AIA Member Company in good standing

Finally, we are always looking for future AIA Education Foundation Initiatives. Help us by becoming one of, what we are calling, AMBASSADORS for the AIA Education Foundation. If you think you might be interested in joining us please email me at alan.smith@usi.com or call me at 786-454-2103. We need your ideas in our continuing efforts in support of academic excellence.

AIA EDUCATION

Aviation Insurance Association

MEMBERSHIP CHALLENGE

JIM GARDNER - AIA SECRETARY

It has been guestimated that there are as many as 40,000 professionals currently working in the Aviation Insurance Industry worldwide. This would include everyone in all of our divisions within the AIA (Agents & Brokers, Attorneys, Claims, International, Re-Insurers and Underwriters) which create and deliver our insurance products and services. Currently the AIA membership stands at about 725. Granted, many of these members are the Who's Who of aviation insurance, but if the 40,000 number is anywhere near correct, we are reaching less than 2% of our population. Even if the total population were only 10,000, we are still reaching less than 10% of Aviation Insurance Professionals.

The AIA Board of Directors began looking at this issue this past year. Two ad hoc committees were created – one focused on membership growth; the other on our dues structure. The two committees have now been combined into one.

There may be some among us that believe the status quo is working and we don't need to grow beyond what we are now. Others, like myself, believe that only through growth can we sustain our association and provide a good foundation for future generations in our industry as our current membership ages and retires. Weather we adopt the status quo or pursue growth is purely a collective board decision.

WHY DO WE WANT TO GROW OUR MEMBERSHIP?

One obvious answer is for the association to become more relevant and more valuable to the careers of more people in our industry as well as attract the best and the brightest to our industry. Just as importantly, a larger membership can provide a stronger financial base for our Association to the point where our financial stability can become independent to the success of our annual conference.

If we are to grow there are two quintessential questions: How do we reach the other 90%; and why would they want to be members?

HOW DO WE REACH NON-MEMBERS?

We know who our members are. We also know who are past members that have dropped their memberships. What we don't know is who our non-members are. It is not as simple an issue to solve as it might first appear. First, the aviation insurance industry does not share information like other insurance sectors. This applies to employee information as well. Secondly, our primary communication tool is our quarterly magazine, "The Binder." We have vastly improved it with better layout, articles, and an online version in addition to the printed version. Every member gets one. Hopefully, every member shares it with a non-member, but that may be as far as it goes. We need to develop better methods and ideas on how to communicate with the industry at large. We want and need your input on how we may reach new members. Some of the suggestions that have been proffered are:

1. More aggressive use of social media like Facebook and LinkedIn.
2. Attendance and visibility at other trade shows like the NBAA and HAI where our members attend.
3. Grassroots programs such as encourage our members to be self-appointed Ambassadors for the AIA as well as AIA visits to various member and non-member companies.
4. Articles and visibility in other aviation industry publications.
5. Learning from other associations and getting ideas from our current members.

WHY SHOULD YOU JOIN THE AIA?

Current Benefits of AIA Membership.

The current benefits of being an AIA member are considerable. Better communicating these benefits to our membership might also be a great way in reaching out to non-members.

The Annual Conference and Networking

From its original formation, the AIA's pinnacle advantage has always been the annual conference. Over the years it has grown beyond our original founders' expectations. It remains the single best place to network with the best people in the industry. For that short 3 or 4 days, it truly becomes a small world. For instance, in 2 short hours a broker can meet someone from every underwriting market, learn about their appetite for business and make relationships you just can't do on the phone. While attending the conference is an investment, the vast majority who attend will tell you it's worth it. Some might even say it has "made their career."

Continuing Education

Our conference is the only place in the world where you can get up to 8 hours of pure aviation related continuing education credit for licensed insurance professionals. Attorneys can receive up to 10 hours of CLE if they attend both education sessions. Presenters in these education sessions are some of the best experts in the aviation industry providing their experience and knowledge on a full spectrum of topics relating to aviation.

New CAIP Course Curriculum

The Education Committee over the past year has written a brand new curriculum called "Aviation Insurance Core Principles and Concepts." All the material used in the new course was written by AIA members who are experts in their particular fields. The first class will be taught in the traditional weekend format but as we work out the bugs in the course we plan to offer it in webinar format which will greatly reduce the cost for individual and corporate members.

Online Continuing Education

We currently have two online courses for CE credit. The AIA Education Committee is looking for ways to offer more online courses. The material for the Core Principles and Concepts course could be the basis for new, online courses for CE credit as well.

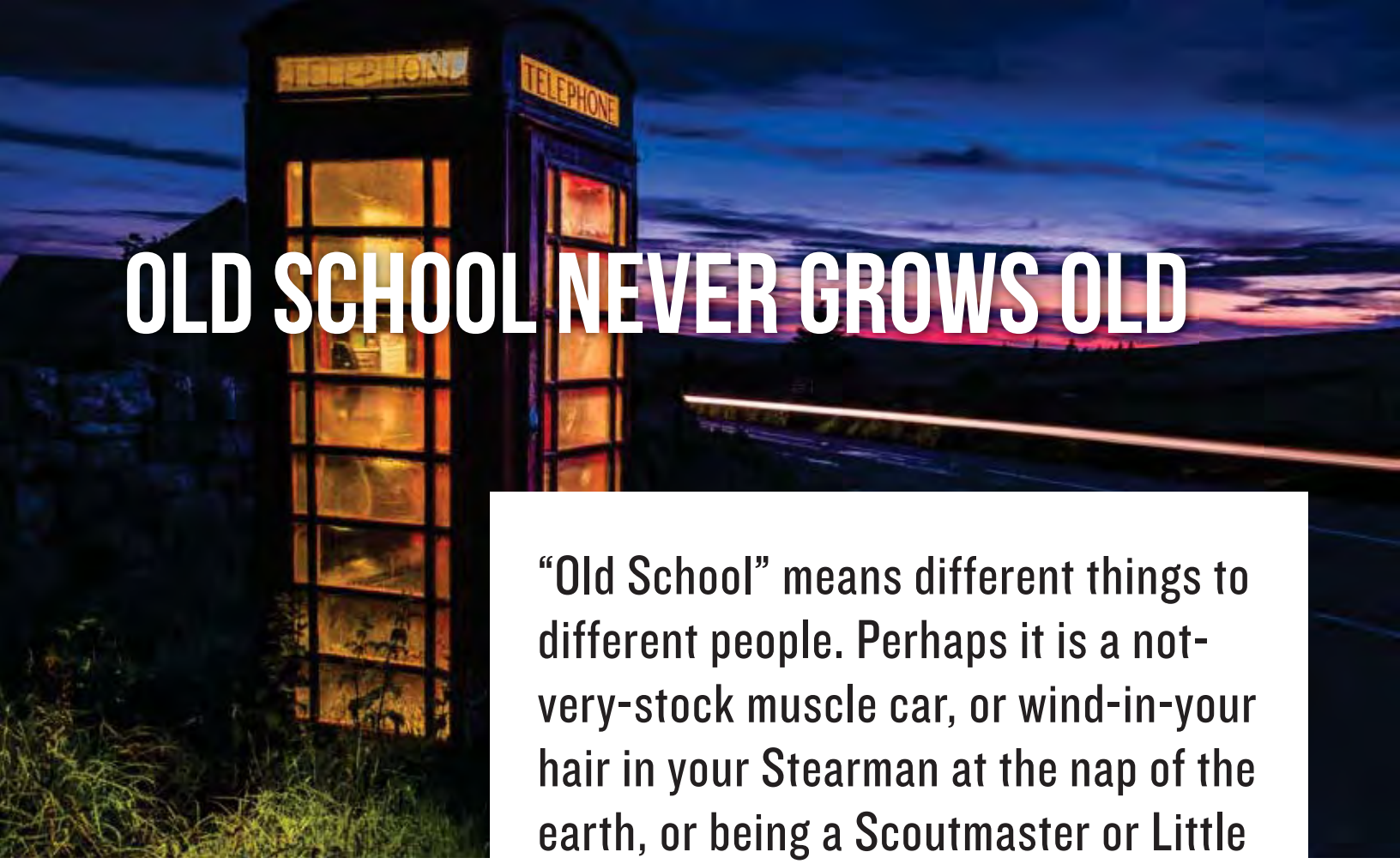
The Binder

As I said earlier in the article, our association magazine has gotten better with more improvements to come. It is becoming a true industry magazine rather than just a report from the different divisions and advertisement for the annual conference. We are soliciting articles from authors outside our association that relate to aviation risk management and insurance. We continue to look for new article from within our industry as well. Hopefully our members receiving The Binder will share it with everyone in their office.

IMPROVING THE VALUE PROPOSITION

The Board of Directors, our Management team and the Membership Committee realize that to grow we need to improve the value of being an AIA member. Conducting a "Needs Assessment" for each division within the association may be a good place to start in identifying what our current members want and need as regards future programs and services. We need to find ways to reach beyond the conference to attract new members who can benefit from our association every day.

These are some of the issues the Membership Committee will be taking up in the coming months to try to find a better solution that will insure that the AIA continues to grow and provide the tools, services and opportunities that our individual and corporate members want and need. We will be reaching out to each Division Board Member for their input as it relates to their division members. Your help is also absolutely essential. Tell us what you would like to see from your association and how we might provide it. Tell us how we can make the Aviation Insurance Association better.



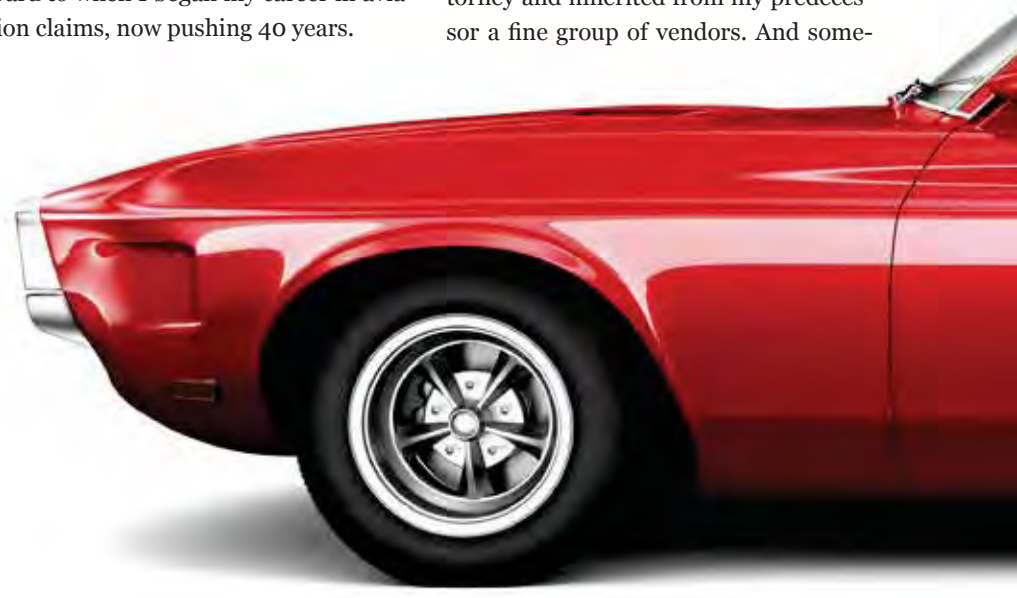
OLD SCHOOL NEVER GROWS OLD

"Old School" means different things to different people. Perhaps it is a not-very-stock muscle car, or wind-in-your hair in your Stearman at the nap of the earth, or being a Scoutmaster or Little League Coach.

STEVE TELLER
AVIATION, LS

Maybe it is thoroughly enjoying a single malt (neat) after work with friends, or wearing a really great suit. Besides savoring all of the above, and after a quick time travel holiday to Kitty Hawk on October 19, 1900, I fast forward to when I began my career in aviation claims, now pushing 40 years.

I was extremely fortunate from the outset to share an office with a regional underwriter. I was equally fortunate to have an excellent supervisor and quickly began what still is a great relationship with my local brokers. I met a terrific attorney and inherited from my predecessor a fine group of vendors. And some-



what to my surprise, though very young, I brought with me an Old School temperament and perspective to my work.

It is said that our most important (Old School) lessons, personal and professional, we learn when we are young, very young. Like saying please and thank you, respecting our elders, sharing with others, or opening a door for someone. And a little later, we learn about going the extra mile (after a 16 hour day), about the (real) Golden Rule, and that our word is our bond. We learn about acknowledging Emails right away, even if we don't have time to get the answer at the moment, and then always following through. And if we are very fortunate, we learn that our customers' and our colleagues' needs are greater than our own, and that when we have someone's file open and them on the line that they are the center of the universe.

I learned very quickly that getting a claim settled was a team effort. It might have meant that I called my broker and asked if he could explain to the Insured that I really did need to see the plane before he fixed it, or he called me to see if I could see it tomorrow instead of a week from next Thursday. It meant that humility must be my default (still working on that one). With my attorney and my vendors it meant that I was always learning, even on my own time, and that I had to remain in charge, even when some of them would forget more than I would ever know.

When I began, we used ancient archaeological artifacts called "pay phones" to communicate, and we had no voice mail. I kept a roll of dimes in my big Old School briefcase and called in at lunch and at the end of the day for messages. I wrote "letters" on non-sustainable "paper", and used an ancient method of payment to send them called "stamps". I learned how to use a next-gen Telex, and then a fax with thermal paper that erased after six months (which came in mighty handy during audits). Then I got a very big and VERY slow computer sans Windows (!), a "car phone" that had a ten pound power adapter in the trunk (with a $600 first month's bill-see rejected expense report, attached), and then a "mobile" phone that looked like a walkie-talkie (Old School) GI Joe used. Then came the Internet, Voice Mail, Email and Federal Express…

Now every stakeholder (plus the blogger who still lives with his Mom and anyone with a smartphone) can know most of what we are all doing, how well we do it, fast. Soon a UAV will deliver the settlement check (if he has no Pay Pal account) to the grandson of the poor Bonanza owner who just totaled his new Lancair.

Old School never grows old. Gratefully it has shed a lot of its old narrowness, biases and arrogance. Good work, be it in claims, or in any other insurance aspect, is getting even better, more relational, and more interdependent. And I say, as I raise my single malt (neat), that we must get even more Old School, until we get that last digital Proof of Loss electronically signed, or until we reach our professional TBO, whichever comes first.

THE PRODUCTS LIABILITY CRISIS AND GARA

ALEXANDER T. WELLS, ED.D - AIA EDUCATION CONSULTANT

The post-war 1950's were a time of innovation and entrepreneurial spirit in the field of general aviation aircraft manufacturing. Alongside the world-class commercial products of Boeing, Douglas and Lockheed, a multitude of single and multi-engine light piston aircraft were emerging from backyard garages, small town factories and major manufacturing plants. World War II aircraft, as well as new designs from manufacturers like Cessna, Piper, Beech, Stinson, Mooney and Luscombe filled the skies. Small town airports flourished and surplus military airfields were transferred to civilian use. A growing support industry drew on the talents of former air corps personnel. These individuals propelled further growth in maintenance shops, fuel services, sales and support, and training of the next generation of pilots.

Growth continued through the 1960's and 1970's in the number of pilots flying and the number of aircraft produced. This was due in large part to the efforts by the "Big Three" – Cessna, Piper and Beech. Consolidation of the general aviation manufacturing industry had taken place in the late 1960's and the Big Three were now in a position to offer a comprehensive product line. They also had the infrastructure necessary to support sales and training. Their aggressive marketing of general aviation and the resultant explosion in sales of general aviation aircraft reached its peak in the late 1970's. This naturally spurred sharp growth in the support industries such as FBOs, mechanics and support personnel.

By 1978-1979, there were 29 manufacturers of general aviation aircraft, including the Big Three. These manufacturers produced over 14,000 light piston general aviation aircraft and had record revenue of $2.2 billion. This revenue achieved a consistent balance of trade surplus with foreign countries. In turn, these sales supported about 11,000 FBOs and over half million jobs.

The tremendous growth of general aviation came to a halt in the early 1980's when it entered a period of stagnation and decline. A number of structural factors are helpful in explaining the declining fortunes of general aviation.

- A two year recession during the early 1980's.
- The GI bill ended which stopped the financial support to secure pilot licenses and ratings.
- Interest rates soared and the cost of maintaining and operating general aviation aircraft grew significantly.
- Traditional target markets, such as age groups from the mid 30's to the mid 40's turned to boating and more expensive cars.
- The 10 percent investment tax credit ended in 1985.

Despite attempts to bolster its sagging market, these economic and demographic challenges proved too much for the general aviation industry. For the average American, profitability and affordability evaporated for operation and ownership of general aviation aircraft. Consequently, production stalled. Construction of light piston-engine aircraft by major established manufacturers during the 1980's virtually ceased.

The costs associated with a product's liability 10, 20, 30 and 40 years long rose dramatically; in fact, it became the number one concern of all general aviation manufacturers. The number of frivolous legal actions aimed at general aviation manufacturers increased as well as the size of awards. Insurance premiums increased from $51 per new airplane in 1962 to $2,111 in 1972. It would be a sign of things to come for the aircraft manufacturers and no doubt, one of the major causes for the precipitous decline in the production of general aviation aircraft during the 1980's. Product liability insurance costs for the general aviation airplane builders totaled about $135 million in 1985 and based on unit shipments of 2,000 aircraft that year, the price exceeded $70,000 per airplane. This was more than the selling price of many basic two- and four-place aircraft.

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Other factors were also working against the private business and pleasure flyer. Airline deregulation in 1978 caused a decrease in the use of business aircraft. Business aircraft were harder to justify. In 1980 Beech Aircraft was acquired by Raytheon Corporation which eventually dropped the Beech name in 1997. Beech survived the 1980's by concentration on its traditional role as a supplier of business airplanes. Cessna was acquired by General Dynamics in 1985 but apparently found the field of general aviation to be too far removed from its core military business, which was in decline during the post-cold war period, so Cessna was sold to Textron in 1992. Cessna dropped its piston aircraft production in 1986 and self-insured up to $100 million. Piper decided to operate without the benefit of product liability coverage and Beech insured the first $50 million annual aggregate exposure with their own captive insurance company. Piper's owner, Banger Punta Corporation was bought by Lear Siegler, which was bought by Forstmann Little & Company. In 1987 M. Stewart Miller and entrepreneurial businessman purchased the company and unlike the other light aircraft manufacturers redirected the company's attention to single-engine aircraft. Unfortunately, the company slipped into chapter 11 bankruptcy in 1991. A. Stone Douglas, another entrepreneur purchased the company in 1992 under the protection of the court. Finally, in 1995, The New Piper Aircraft Corporation was formed from the assets sale of Piper Aircraft Corporation.

In 1993 only nine manufacturers of light pistons produced approximately 500 light piston aircraft. In that year, Piper was still in the process of emerging from Chapter 11 bankruptcy protection and produced two percent of their 1978 total production; Beech was producing 18 percent of their 1978 total production; and Cessna was producing no light piston general aviation aircraft. As the business of the Big Three dropped precipitously, so did the fortunes of their enormous network of suppliers and support providers. Component part manufacturers and general aviation support services suffered an equally sharp contraction. FBOs declined from a high of 11,000 to less than 4,000. The number of people beginning pilot training (pilot starts) dropped to their lowest levels since the early 1960's.

By the mid 1980's the industry came to the conclusion that it was necessary to focus on limiting its tremendous exposure to product liability actions. In their minds, this became important if the production of light piston aircraft for general aviation was to survive in this country.

In no field of law did this crisis have a more profound and devastating effect than aviation products liability. From being the unqualified world leader in the field of general aviation (from the number of aircraft produced to the number of pilots certified), the United States general aviation manufacturing industry was dying. Members of the general aviation industry,

including the General Aviation Manufacturers Association (GAMA) and other members of the pilot community became major advocates in an outspoken lobby favoring reform of the current tort system particularly aviation product liability. These efforts at reform were focused at the federal level, where it was believed that federal authority over aviation safety offered the best chance of achieving uniformity of legislation.

The General Aviation Revitalization Act (GARA)

After an eight year legislative battle, a modest effort at reforming the United States' aviation products liability system was signed into law by President Clinton on August 17, 1994. GARA amended the Federal Aviation Act of 1958 in order to offer general aviation "some measure of relief from the onslaught of product liability litigation." It provides an 18 year federal statute of repose on civil actions for death or injury or damage to property relating to general aviation aircraft and their component parts.

Many people are familiar with the term *statute of limitations* which establishes the time from the date of the injury by which one must bring a lawsuit. A typical statute of limitation or injury or death due to product defect is one year. Some state laws are different and allow two or three years to bring a product liability lawsuit.

This statute of repose is not a statute of limitation. GARA simply cuts off the general aviation product liability tail which had dragged manufacturers like the Big Three into litigation involving old aircraft.

General aviation aircraft are broadly defined under GARA as all aircraft (unpowered, single or multi-engine, piston, turbine or jet and fixed or rotary-winged) holding a valid FAA type or airworthiness certificate, carrying fewer than 20 people and not engaged in passenger carrying operations at the time of the accident. Not surprisingly, GARA provides four major exceptions. The 18-year statute of repose does not apply to cases in which:

1. The manufacturer misrepresents certain safety information to the FAA;
2. The claimant was a passenger for purposes of receiving medical or emergency treatment;
3. The claimant was not onboard the aircraft; or
4. Actions are brought under a manufacturer's written warranties.

The expectations notwithstanding, the 1994 House Committee on the Judiciary report on the bill makes it clear that GARA's goal is to cut off the product liability tail for general aviation manufacturers of aircraft and component parts after 18 years. On the other hand, the bill preserves all civil actions against all other elements of the general aviation industry. In addition, and most importantly, GARA affirmatively preserves a role for state law. State law governs the adjudication of aviation products liability cases involving claims for defective design, manufacture, or failure to warn. The House Committee on the Judiciary was very careful to emphasize that it was voting the bill out of committee as "a very limited federal preemption of state law" which would be viewed as a "narrow and considered response to the perceived liability crisis in the general aviation industry".

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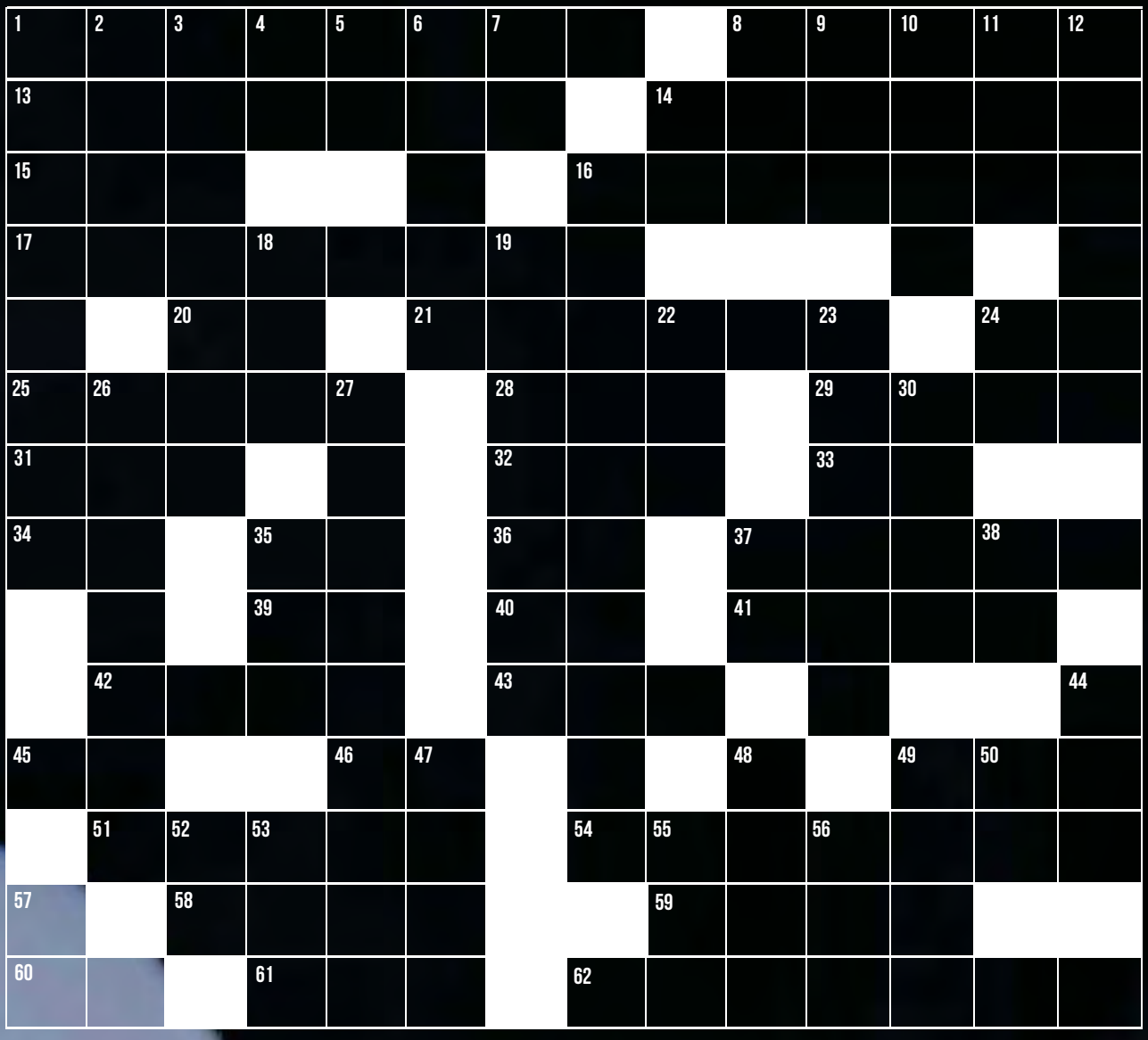
ACROSS

1 An unexpected and undesirable event
8 VP candidate in 2008
13 Early aircraft manufacturer
14 To make secure or certain
15 Russian space station
16 A contract that provides a periodic income at regular intervals for a specified period of time
17 Percentage of the amount borrowed
20 State in which we find the Hawkeyes football team (abv)
21 A London based corporation that neither underwrites (subscribes) policies of insurance nor directly issues them itself
24 One of the original 13 colonies and location of the Tea Party (abv)
25 To distinguish the flavor of by taking into the mouth
28 Medical organization (abv)
29 Open to the air
31 Lowest ranking naval officer (abv)
32 Sput _____
33 Formerly a Spanish colony, its people are now U.S. citizens (abv)
34 The Lincoln Memorial is located here (abv)
35 A province located on the west coast of Canada (abv)
36 The Wizards play in this city (abv)
37 A particular period in history
39 Abbreviation for an island country in the eastern Caribbean
40 Initials for the first popularly elected African-American to serve in the U.S. Senate
41 Ash Wednesday to Easter
42 An aviation school in Florida (abv)
43 To decompose gradually
45 State in which we find the football team Gophers (abv)
46 Second lowest enlisted rank in the U.S. Navy (abv)
49 Colloquialism for a girl
51 A line of connected railroad cars
54 Unlawfully striking or touching another person
58 Third largest city in France. Notorious NAZI, Klaus Barbie was located there during WWII
59 A type of money issued by government
60 Physician (abv)
61 180 degrees from WSW
62 Plentifully supplied

DOWN

1 Guest voluntary settlement
2 Metal currency
3 Manufacturer of the JN-4 "Jenny"
4 An investigative official in a civilian or military organization (abv)
5 IATA code for the oldest airline still operating in the United States
6 A frame to support an artist's canvas or a picture
7 Abbreviation for the Canadian Maritime province whose capital is Halifax
8 Abbreviation for the most important number assigned to a person who is allowed to work
9 Southwestern University with an aviation program (abv)
10 The remains of a fallen building
11 Creative work
12 The time of greatest health, vigor or success
14 Indefinite article
16 A type of bomb
18 To chew and swallow food
19 A falsehood damaging a person's character or reputation
22 Soviet built jet aircraft first designed in 1946
23 A soldier employed in laying mines
24 Mister (abv)
26 Of times long past
27 Clauses in a policy that specify situations in which insurance coverage would not apply
30 Very common and important metal
35 Very popular boys organization (abv)
37 "The" in Spanish
38 Southern most state in the region of the United States known as New England (abv)
44 First pilot to take off and land on a ship in 1911
47 First name of Charles Lindbergh's wife
48 On the top of
49 _____ Roddenberry, legendary creator of the original Star Trek series
50 Razorbacks football team is from this state (abv)
52 Initials for the corporation whose known for its famous Polo line of clothing
53 An affirmative vote
55 A tennis serve that an opponent is unable to return
56 _____ de, a mark over a letter in Spanish
57 Short for Certificate of Deposit

CROSSWORD PUZZLE



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