



# COVID-19 | Impact on the Aviation Industry

April 16, 2020

*COVID-19 continues to spread throughout the United States, resulting in government and self-imposed quarantines and travel restrictions to control the pandemic. Here are just a few of the ways in which this unprecedented situation has affected the aviation industry.*

The Federal Aviation Administration (FAA) has suspended enforcement of pilot medical certificate expirations from March 31 through June 30.

- Most aircraft insurance policies with pilot clauses often establish requirements for training, experience, and certifications.
- The FAA's decision does not waive the requirement on insurance policies to have a valid FAA medical certificate.

*Insurance carriers should be asked for a written exception to extend the training requirement.*

Most simulator training centers and other formal ground and flight school training providers have suspended operations.

- Aviation insurance companies require annual simulator training for almost all turbine powered aircraft.
- Pilots are not able to schedule training and when ground and flight training centers open again, there will be a significant backlog.

*Insureds should seek a formal, written training extension from aviation insurance underwriters. Underwriters have been flexible and willing to accommodate training extensions due to the circumstances.*

Aviation products manufacturers have shifted production capabilities to making critical medical supplies. This is a great example of the aviation industry contributing to the fight against the virus.

- Aviation manufacturers that only have Aviation Products Liability policies need to be aware that those policies generally do not contain coverage for non-aviation products or components.
- An example: If aviation manufacturers begin manufacturing ventilators, they would not be covered for any potential product suits from these devices on the aviation products liability.

*Aviation manufacturers who begin production of non-aviation products should consult their broker or risk manager to discuss any coverage changes needed.*

## Crisis/Catastrophe Management Endorsements

Many insureds do not seem to understand Crisis/Catastrophe Management Endorsements on Airport Policies, and there is some confusion as to the relevancy.

- The real intent of this coverage is to pay expenses from retaining a public relations firm to help mitigate any adverse media the airport may experience after an "occurrence."
- The goal is to help restore public confidence in an insured's operation and help repair their reputation in the media.

There are some very specific triggers to this coverage and, generally, COVID-19 impacts do not trigger coverage under these endorsements.

- The endorsements require a “catastrophe management event” in order to trigger coverage. Part of the trigger includes an “occurrence.”
- Occurrence is defined in the policy as: An accident, including continuous or repeated exposure to substantially the same general harmful conditions.
- A “catastrophe management event” is defined as an “occurrence” that, in the good faith opinion of a “key executive” of the Named Insured, has (1) resulted or is reasonably likely to result in Bodily Injury, Property Damage, Personal and Advertising Liability covered by the policy; (2) Has exceeded any Self-Insured Retention (SIR) or deductible; (3) There is a need for “catastrophe management services” due to “adverse media coverage.”

## Potential for Premium Relief

Airport Liability policies and Products Liability products are not auditable; therefore, no premium relief is available.

- Certain aircraft policies may, however, contain lay-up credit endorsements, allowing return premium for a period of time during which the aircraft is not operated.
- There may also be situations in which “Ground Not in Motion”/“Ground Not in Flight” rates are available if the aircraft is grounded for an extended period.

Insureds should refer to small/medium business wage and expense relief clauses in the Coronavirus Aid, Relief, Economic and Security (CARES) Act as it pertains to their particular size business. On renewal accounts, installment payment plans can be requested. Most aviation insurers will not offer this option for small accounts, but it may be available for accounts with higher premiums.

## The Coronavirus Aid, Relief, Economic and Security (CARES) Act

The CARES Act was signed into law on March 27,

2020. The Act provides more than \$2 trillion of help to the economy in response to the COVID-19 pandemic. The general aviation community has the potential to realize significant relief with the provisions in the Act, but specifics about how to apply for the relief are still being created. Impacts include:

- Passenger air carriers and Part 145 repair stations are tagged for \$25 billion of the \$500 billion economy stabilization fund.
- Cargo air carriers have been granted an additional \$4 billion loan opportunity.
- Passenger air carriers have a \$25 billion grant program to cover salary payments to employees.
- Air cargo carriers have a \$4 billion grant for their salary payments.
- Grant recipients for each category may be expected to enter agreements to maintain staff to a certain level.

## The CARES Act and Small Business Relief

There are many provisions in the Act directed toward small businesses with less than 500 employees that may impact some aviation businesses.

- A “paycheck protection” program helps with zero-fee loans and rewards to companies that retain employees and their salary levels.
- This program can be used with other COVID-19 assistance programs and some other loan programs.
- Money is also provided to cover existing loan payments.

## The CARES Act and Business Tax Implications

There are various tax credit programs for eligible employers who have suspended operations or have suffered more than a 50% decline in business.

- Some eligible employers will be able to defer social security tax payments that would have been owed.

- The Act includes increased interest deduction limits for taxpayers.
- The Act suspends the 7.5% tax on amounts paid for commercial air transportation through Jan. 1, 2021.
  - Domestic and international segment fees are subject to suspension.
  - The 6.25% tax on air transportation of property is suspended until January 1, 2021.

### The CARES Act and Airports

The FAA will award approximately \$10 billion in funds to commercial and general aviation airports from the CARES Act.

- Primary commercial service airports, with more than 10,000 annual passenger boardings will receive additional funds based on the number of annual boardings in a way that is similar to how they currently receive Airport Improvement Program (AIP) entitlement funds.
- All commercial service airports will receive funds based on the number of passengers that board aircraft and the amount of any debt and/or money that the airport has in reserve.
- General aviation airports will receive funds based on their airport categories, such as National, Regional, Local, Basic and Unclassified.
- The CARES Act provides funds to increase the federal share to 100% for the AIP and supplemental discretionary grants already planned for fiscal year 2020.

### Other Market Challenges

Following many years of depressed rates, the aviation market insurance rates started to climb last year and continue to increase with no relief expected until at least next year. Experts agree increases could last even longer depending on the impact of 2020 aviation market losses.

- Along with these increases, some coverages have become difficult to obtain, and others are now structured with restrictive limits, terms, and conditions.
- With fewer insurance carriers and an inordinate number of submissions, many insurers have responded by adjusting their portfolios and risk appetite.
- Underwriters are now spending two-to-three times longer evaluating risks, and brokers are urging their renewal clients to start discussions very early – at least six months in advance – to leave adequate time for researching appropriate options.

Here are a few ways in which aviation businesses are being affected by current market challenges:

- **Owner-Flown Aircraft:**
  - Higher liability limits are scarce, coverages are being slashed, and high deductibles are being added.
  - Pilot training is being scrutinized more heavily, resulting in more stringent pilot warranties.
  - Relaxed approaches to recurrent training requirements have been replaced by non-negotiable training/safety protocols.
  - Premium increases are in the high double digits – between 50-100% on single pilot operations.
- **Charter Operations:**
  - Those with a clean loss history may be placed on a quota share basis (in which multiple markets share in the risk), resulting in premium increases, lower liability limits, higher deductibles, and fewer supplemental coverages.
  - Extensive loss history could mean difficulty in finding 100% placement.

- **Rotor Wing Aircraft:** Especially hard hit, with rate increases of 50-150% and climbing, depending on loss history.
- **Manufacturers' Product Liability:** Potential rate increases of 40%+, depending on the critical nature of the product and limit needed.
- **Airport and Municipality Coverage:** Potential rate increases of 50%+, with every coverage scrutinized, reduced, or eliminated.
- **Coverage Enhancements:** Potential to be discontinued, including popular options like Excess Auto Liability.
- **Grounding Liability/Product Recall:** Potential to become severely limited or discontinued.
- **Multi-Year Terms:** Potential to become severely limited or unavailable.

## How USI Can Help During the COVID-19 Crisis

USI is working closely with aviation clients to help navigate this global health and economic crisis, understand the impact of the COVID-19 pandemic on the future of their businesses, manage unique aviation risk exposures, and mitigate total cost of risk. A clearly defined, comprehensive risk management strategy can help keep pricing, exposures, and potential losses in check, whether buying or renewing coverage. This is all part of the USI ONE Advantage<sup>®</sup>, our fundamentally different, team-based consultative approach to risk management that simplifies processes, maximizes results, and provides our aviation clients with greater peace of mind.

Processes include:

- Generating complete analytics to understand and quantify exposures including new issues resulting from COVID-19.
- Reviewing program options and retention opportunities.
- Evaluating program limits and coverage needs.
- Developing an extensive, comprehensive underwriting submission and loss mitigation narrative highlighting training and safety protocols, risk control/claim management

measures, and more (demonstrating “best-in-class” status).

- Researching markets and identifying carriers with whom your company can build strong relationships.

The USI ONE approach is especially valuable when purchasing/renewing coverage during challenging times like these, when companies may be pressured to accept the pricing, terms, and conditions imposed on them by restrictive carriers.

## Helpful Tips

Your company can support USI's ONE Advantage approach – and improve your chances of a favorable outcome - by following these helpful suggestions:

- Provide detailed information so we can better understand your risk management situation and needs.
- Complete applications and questionnaires fully and completely.
- Highlight your focus on safety and pilot training protocols – especially any training that goes above and beyond FAA requirements.
- Be open to underwriter visits and loss control visits.

## Learn More

To better understand the current aviation market conditions and to learn more about how USI can help your company develop an effective risk management strategy during these challenging times, contact your USI representative or visit us at [www.usi.com](http://www.usi.com).

For access to USI's latest resources and guidance on the current pandemic, visit our COVID-19 Preparedness and Response web resource page: <http://www.usi.com/public-health-emergencies>.