



Insuring to Value

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“How do I know if I have enough insurance on my airplane? What’s the hazard of insuring it for too little? How much is too much?”

These are questions I hear all the time. Determining the proper insured value is one of your most important considerations in purchasing aviation insurance. The insured value is a major factor in how much you’ll pay for your policy. It also plays a big part in what happens if you have a major claim.

Unlike automobile policies, most aircraft insurance policies are written on a “stated value” basis. This means you and the insurance company agree what the aircraft is worth before the policy goes into effect. Then, in the event of a total loss, the company pays the agreed amount. A good rule of thumb is to insure your aircraft for the amount you could sell it for on the open market. This requires an honest appraisal of its worth. Say you spend \$35,000 loading your Cessna 172 with an amazing avionics package. Usually, your airplane’s market value won’t increase as much as you’ve put into it. It might make a buyer decide on your airplane over other similar ones that are for sale, but it probably won’t make him or her pay much more for it. Thus, the insured value should be an amount you could realistically sell it for, **not** what you’ve spent on it.

Too much insurance can be just as big a problem as too little. Not only will you pay more in premiums than you need to, you might find yourself in a position where the insurance company repairs your airplane when it was damaged to the point you’d rather walk away with an insurance check.

Underinsuring your aircraft has a significant and often misunderstood “downside.” Aviation insurance policies generally have a “constructive total loss” provision that defines when the insurance company can declare the loss a total, pay you the insured value, and take possession of the salvage. Avemco®’s policy, for

example, specifies we can exercise that option “when the estimated costs to transport and to repair or replace parts of your insured aircraft exceed 70% of the insured value.” Guess what? An underinsured airplane can be totaled pretty fast. And, that new \$35,000 avionics stack is part of the airplane, so it’s no longer yours, either.

Here’s another example: Suppose you have an aircraft worth \$100,000 in fair-market value. You insure it for \$60,000 to save on insurance premiums. One day, a storm damages your bird to the extent that it will cost \$42,000 to repair. Under these circumstances, your insurance company has the option of declaring a total loss, paying you the insured value of \$60,000, and keeping the salvage. You would be without an aircraft and \$40,000 short of what you’d need to replace it. From these examples you can see why you should always insure your aircraft at an adequate value.

If you are not sure what your aircraft is worth, Avemco can help you determine an approximate “book value.” You will be asked to provide basic information about the aircraft and its equipment. The value determined this way may not be exactly what you could sell the aircraft for right now, but it will give you a good ball park idea.

When you’re thinking about the value of your airplane, think like an aviator. Be honest with yourself, be accurate, get it right.

Mike is the Vice President of Underwriting at Avemco Insurance Company. A pilot since 1983, he learned to fly in Hillsboro, Oregon. One year later he became an agent for a local aviation insurance agency. Mike now holds a property/casualty insurance license in all 50 states, and combines his knowledge of both aviation and insurance to help pilots understand how Avemco’s coverage decisions are designed to help keep them safe. Mike routinely presents safety-based forums at Sun ‘n Fun, AirVenture and other events around the country.

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