

The sky's the limit

Keeping up with today's high-flying lifestyles

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Rising corporate profits and soaring bonuses for high-earning individuals have accelerated the use of executive jet aircraft to record levels. With strong economic development in Europe, Russia, the Middle East and Asia, corporations within these markets are increasingly utilising jets to save time and increase employee productivity by avoiding major airports with their increased security procedures and check-in times. The same benefits are recognised by “cash-rich, time-poor” individuals who use executive jets for their personal convenience. As a result, deliveries of such aircraft rose worldwide by 18% last year.

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An executive jet provides its passengers with the highest level of comfort coupled with the freedom to fly practically anywhere, at any time. However, these aircraft do represent the most expensive means of air travel. In addition to the actual purchase price of the aircraft itself there are a number of associated costs, such as fuel, maintenance, taxes, landing fees, insurance and crew. Such costs prove prohibitive to those other than large corporations or the extremely wealthy, and the average income of private jet owners is estimated to be \$10 million a year.

Other than purchasing the aircraft itself there are other ways of accessing the convenience of an executive jet, such as fractional ownership and air taxi services. Fractional ownership enables corporations or individuals to become part owners of aircraft. They are likely to pay a one-off acquisition fee, starting at a minimum of one-sixteenth of the cost for 50 hours' flight time per annum, a monthly maintenance fee, and a per hour flight time fee. The cost of ownership is reduced by the fact that fractional owners are only paying for their flight time. In addition, they do not pay the total cost for maintenance fees and pilots, as these fees are shared equally among all fractional owners. They are also spared the need to justify this very expensive asset – up to \$45 million – sitting idle. The typical duration of a fractional ownership contract is five years.

Air taxis are a new concept in the executive jet market. For many years, one option was to charter a jet, using the aircraft for a round trip as the sole client. The main difference with an air taxi is that it can be chartered by more than one party, and the trip may involve a stop *en route* to discharge and pick up other passengers. Things are changing in the private air travel business, however, making it available to a wider market later this year with the advent of the Very Light Jet (VLJ). North American customers have traditionally

dominated the executive jet market, but it is estimated that up to a third of VLJ orders are from Europe, which is seen as a major growth market.

A VLJ will be priced between \$1 million and \$4 million, which is on average half the purchase price of the most inexpensive business jets currently in service. They weigh less than 10'000 pounds, and generally have two engines, five or six passenger seats, and the ability to use runways as short as 3'000 feet, compared with the 4'000-5'000 feet required by the smallest jets currently in use. This last fact is a major selling point for the VLJ as it saves time and money by utilising those less expensive and congested airports not available to larger jets.

Hoping to catch a piece of this emerging market, eight manufacturers are currently designing, testing and manufacturing their own VLJ. Both fractional ownership providers and to a greater extent the air taxi and private owner markets are fundamental to the concept of VLJs.

Providers of aviation insurance will be closely monitoring progress of these new developments, too. When the concept of the VLJ was announced, insurers voiced concerns about the aircraft and its target market. Some manufacturers have since approached insurers, aware that for the

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product to be successful, there needs to be discussion between parties early in the product's development. Hence insurers and manufacturers are now taking a more collaborative approach to the concept.

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One of the major concerns for underwriters is the operational safety of the VLJs, which depends on the quality of the pilot. One important target market of these jets is the “owner driver” who buys the aircraft for personal use. Such owners will not be professional pilots and may have little, if any, experience of flying jet aircraft, or of their characteristics. As these owners will not be operating the aircraft commercially — i.e., not charging a fee to passengers — they will not be required to operate with two professional pilots, but can fly with just one non-professional pilot. This increases the workload for the pilot, particularly on take-off and landing, the most critical times of a flight. While control of the aircraft is dependent on the decisions of only one person, who may not be very experienced, these pilots are not under any pressure to perform flights in marginal weather conditions, and typically the aircraft will not be used as much as most commercially operated aircraft. This trade-

off may be attractive for some underwriters.

Concerned about the prospect of the negative publicity of an aircraft crash, which would affect future sales, some manufacturers have implemented pilot training schemes which must be successfully completed prior to delivery of the aircraft. Post-delivery training, however, will be at the discretion of the aircraft operator. Currently in the executive jet insurance market, underwriters offer favourable discounts in premium rates for pilots who receive annual training, and this is expected to be applied in the VLJ market.

Prudent insurers will treat the risks with caution and implement consistent structured underwriting philosophies when underwriting this class. However, as with any new product, underwriters know from past experience that some of the risks these aircraft bring may not be apparent until they are actually in use.

The VLJ brings the latest technology to the aviation market. Yet however welcome this innovation, the new aircraft need to be treated with respect and caution by owners and insurers alike. **XL**

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