



## Insuring to Value

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How do I know if I have enough insurance on my airplane? I have heard it is not good to insure my airplane for less than I could sell it for, but I am not certain what exactly is considered being under insured. What is the downside to under insuring my airplane?

Determining the proper insured value is one of the most important considerations in purchasing aviation insurance. Unlike automobile policies, most aviation insurance policies are written on a "stated value" basis. This means that the policyholder and the insurance company agree to 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 will require an honest appraisal of its worth. If you have loaded your Cessna 172 with an avionics package including all the bells and whistles, the market value may be less than you have invested because a buyer is not willing to pay as much as you have spent on the aircraft. Thus the insured value should be an amount that you could realistically sell it for.

If you are not sure what your aircraft is worth, your insurance counselor can help you determine the "book value". He or she can determine that value if you provide them with some basic information about the aircraft. The value deter-

mined this way may not be exactly what you could sell the aircraft for, but it will give you a good "ball park" idea.

Underinsuring your aircraft has a significant "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 that 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".

Let me give an example. Suppose for a moment that you have an aircraft that is worth \$50,000 in fair market value. You decide to only insure it for \$30,000 in an attempt to save on insurance premiums. (By the way, you might be surprised how little more it would cost to insure the aircraft for its proper value).

One day a storm blows through your city and does damage to your bird that would cost \$22,000 to repair. Under these circumstances, your insurance company would have the option of declaring a total loss, paying you the insured value of \$30,000, and keeping the salvage, which they would then sell to the highest bidder. You would be out the \$20,000 in real value. Instead, you would receive the \$30,000 of insurance that you had paid for. From this example you can see why you should always insure your aircraft at an adequate value.



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