

Insurance for Unmanned Aircraft (UA)

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What is an unmanned aircraft (UA)?

- Basically, any aircraft that flies without a person on board.
- FAA defines it as ‘an aircraft that is operating without a possibility of direct human intervention from, within or on the aircraft’

While terms such as ‘Drones’, ‘Remote Piloted Aircraft Systems (RPAS)’ and ‘Unmanned Aircraft Systems (UAS)’ are not exactly the same, for the purpose of this presentation they are used interchangeably.

Challenges for the Insurance Industry

- Regulation is constantly evolving, converging and on the agenda for updates in most jurisdictions;
- Regulation might be quite different from jurisdiction to jurisdiction;
- Very limited claims experience with commercially used UA so far;
- A huge variety of use/activities and therefore a huge variety of different potential claims;
- Potential for misuse of UA (e.g. invasion of privacy, terrorism, hijacking);
- Use of UA in different jurisdictions.

UA Incidents become more popular in the Media



M · News · UK News · Heathrow Airport

Drone crashes into British Airways passenger jet as it comes in to land at Heathrow Airport

The FAA logged more than 500 drone incidents in six months

by Russell Brandom · @russellbrandom · Mar 25, 2016, 6:04p



Neue Zürcher Zeitung

Unfall bei Paris verhindert

Passagierjet kollidiert fast mit Drohne

Opinion: Tragic drone strike with plane 'inevitable'

Potential Sources of Liability Risks from UA

- Private use
- Incidental Commercial use
- Core business UA Operator
- Use for Military or National Security purpose
- UA manufacturer
- UA software developer/supplier

UA for Incidental Commercial Use

General Liability (GL)

- In most markets operating UA is considered an aviation activity and will therefore fall under the often very broad aviation exclusion within the GL policy;
- Therefore the commercial use of UAs is not automatically covered under the GL policy;
- The insurance industry has developed and still is developing solutions to provide cover for commercial use of UAs.

Exclusion Example Switzerland

General Liability (GL)

Land Vehicles, Watercraft, Aircraft and Spacecraft

Liability as the owner of and in connection with the use of

- land vehicles which are subject to mandatory insurance or registration. For bicycles and motor vehicles which have a similar status in terms of liability and insurance, the exclusion only concerns the part of the indemnity covered by mandatory insurance. This restriction does not apply if such vehicles are used without a registration or license plate in accordance with road traffic legislation;
- aircraft or spacecraft;
- watercraft which are subject to mandatory liability insurance in Switzerland or which are registered abroad.

Exclusion Example UK

General Liability (GL)

Aviation or Marine Liability

the ownership possession or use under the control of the Insured of any Aircraft or Watercraft (other than Watercraft not exceeding 10 metres in length for use on inland or coastal waters)

Aircraft

Aircraft shall mean:

Any vessel or thing made or intended to fly or move in or through the atmosphere or space

Exclusion Example USA

General Liability (GL)

g. Aircraft, Auto Or Watercraft

"Bodily injury" or "property damage" arising out of the ownership, maintenance, use or entrustment to others of any aircraft, "auto" or watercraft owned or operated by or rented or loaned to any insured. Use includes operation and "loading or unloading".

This exclusion applies even if the claims against any insured allege negligence or other wrongdoing in the supervision, hiring, employment, training or monitoring of others by that insured, if the "occurrence" which caused the "bodily injury" or "property damage" involved the ownership, maintenance, use or entrustment to others of any aircraft, "auto" or watercraft that is owned or operated by or rented or loaned to any insured.

Defining a clear risk appetite for the use of UA is obviously key. Below some considerations to take into account:

- Type of use (incidental use, military use, core business is operating UAs etc.)
- Maximum Take off Mass (MToM), which includes the UA and its on-board equipment.
- Frequency of operation
- Complexity of operation
- Selected industries or all industries
- Segment (SME vs Corporate clients)
- Jurisdiction
- Coverage extend
- Limits and deductibles

Insurance Solutions for UA Users

GL for Incidental Commercial Use of UA

- The insurance industry started to develop insurance solutions to provide cover for the incidental commercial use of UA;
- Since this is a 'new' field for the insurance industry, the need of information about the UA operation might be considerably depending on the use, weight or other parameters;
- There are basically two ways, how the incidental commercial use of UA can be covered:
 - By endorsement to an existing GL policy;
 - By separate stand-alone policy (package policy).
- Normally there is a sublimit and/or a special deductible for the UA coverage.

Coverage Consideration

GL for Incidental Commercial Use of UA

- Bodily Injury and Property Damages;
- Invasion of Privacy, this is granted only on a very restricted basis;
- Specific exclusions (e.g. violation of legal and/or regulatory requirements/restrictions);
- If the coverage for incidental commercial use of UA is granted on an endorsement basis, normally sublimits and/or special deductible apply;

Note: There is the potential that invasion of privacy is granted unintentionally. The definition of bodily injury is key. If mental anguish and/or emotional distress is part of the bodily injury definition, you most probably will pick up invasion of privacy claims.

Underwriting Consideration

GL for Incidental Commercial Use of UA

- Maximum Take off Mass (MToM) which includes the UA and its on-board equipment. If an UA exceeds a certain MToM (in most markets 30 kg) the UA might need to seek coverage in the aviation market.;
- Type of activity and industry (construction, mining, agriculture, media, surveying, inspection etc.);
- Geographical considerations (e.g. rural vs densely populated area);
- Number of UA;
- Frequency/time of use;
- Flight range (within or beyond visual line of sight)

Of course there might be more consideration depending on the jurisdiction the UA is used.

- The risks and the insurance needs for UA manufacturers are significantly different from the commercial users of UA;
- The product liability and product recall are the main risk for UA manufacturer;
- The availability of the product liability coverage depends on the specifics of the UAs manufactured. It might get challenging to find coverage for certain types of UAs, depending on their weight, size and/or the potential use of the UA (e.g. military use).

Questions



Thank you

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