

Needs of the Fractional Owner

by Jeff Fleming

Many potential helicopter owners are faced with tough decisions when the expected utilization does not justify having all of the responsibility and costs involved with ownership. If you are considering the options of whether to buy your own helicopter or continue using a non-owned or chartered ship, there is another possibility you can look into: becoming a fractional owner. Fractional ownership will allow you access to the same class of ship and maybe even the exact same one that you have an ownership interest in now.

We all know the purchase price of a new executive-transport helicopter strains the purse strings of nearly every company, but being able to share that cost with many other companies will bring the initial investment down dramatically. For rotorcraft, it is typical that the portion of fractional ownership for an individual or company is 1/32nd of the ownership cost. That will give you an idea of the basic initial cost to enter this market. After that, there are many other fees and costs that will occur monthly, whether you fly that month or not.

One of the first and most basic goals is to find a management company who is familiar with the business of fractional ownership and will have charge of at least a few other helicopters of the same class you are considering. It is that company's responsibility to manage the care and upkeep of your ship, including regular maintenance, hiring of pilots and crews, and handling insurance needs.

When it comes to insurance needs for this fractionally owned ship, the management company will purchase and maintain an insurance policy with limits that will secure the assets of its company. Will that be the same as the needs of your company or corporation? In many cases, yes, it will suffice. However, it cannot be expected that the management company's insurance agent will have knowledge of any special assets you/your company may possess. Additionally, the operator and the owners both want to keep the premium reasonable and therefore the operating costs reasonable, so the level of coverage that is suitable for most would naturally be the one sought. After all, if the liability limit the operator carries seems inadequate for only one or two of the fractional owners, it would not seem fair to make all the owners chip in to cover the higher liability required for the few.

So, what do you do if you need higher liability coverage than the operators' insurance policy carries? Thankfully, there is a product that was recently developed for this area. It is an excess liability policy for the fractional owner. As the name implies, it is coverage above and beyond the primary policy purchased by the management company. This gives flexibility for you as the partial owner to purchase a limit that will sufficiently cover your/your corporation's assets.

Another concern is in regards to the realization that it is possible something the operator does — if it was inadvertently negligent — could make the entire insurance coverage invalid. This could be as simple as missing a required maintenance check or missing pilot recurrency training that was required by the insurance policy. If the operator is diligent on these items, as most of them are, there are no problems; but these are items that should be addressed in the contract with the management company. Also, it should always be the right of each fractional owner to be able to review the training records of the pilots and the maintenance records of the helicopter at any time. As the owner, you may need the help of an aviation consultant or attorney who knows what should be reviewed.

One option that is available for this concern is a contingent liability endorsement. This will provide coverage to the owner should anything prevent the primary policy from being in effect. This would be in case one of these issues, such as pilot non-currency or a non-current airworthiness certificate, should occur.

This is a very brief overview of the concerns of a fractional owner in the current marketplace. Remember, these and any other concerns are quickly and easily resolved by talking to a qualified insurance agent. Be sure the one you choose has experience with fractional owners and operators, as these are unique products and need to be properly handled and underwritten.

The contents of this column are informational in nature and not intended as a legal interpretation of your coverage. Contact your agent for specific questions about your policy.