

# PASSENGER AND CARGO INSURANCE IN AIR TRANSPORT

Petronela Fedorová - Slavomír Kiš

The aim of this work is analysis of responsibility and insurance of carriers and aircraft operators to their passengers, baggage, cargo and third parties. The first part describes the theoretical basis for understanding aviation insurance and categorizing the types of risks and insurance. The next section is accentuate on analysis risks and insurance of carriers. This analysis gives the readers a picture of the rates and minimum amounts of insurance, which are prescribed by the international conventions and regulations of the European Union. The main contribution of this work is to summarize and evaluate the obligation to insure risks of the two selected airlines – Czech Airlines and Opera Jet.

Key words : risk, insure, liability, aviation risks, claims

## 1 INTRODUCTION

Insurance industry is an integral part of modern society and economic life. The main task of insurance is to provide confidence for individuals, families, businesses and large corporations. The aviation industry is no exception, because of transportation a lot of passengers by expensive aircrafts. In 1929, the Warsaw Convention imposes liability fo air carriers, which was modified later in 1999 by the Montreal Convention. The European Union has also established rules for liability and minimum insurance requirements for air carriers, which are reflected in the regulations of the European Union.

Aviation insurance is not a simple matter or terms of insurance. Risks can be able to take on only insurance company, that can insurance risks by the reinsurers. Insurance companies to ensure for their clients insurance against liability for damages caused by aircraft and hull. Aircrafts must be insured also against other risks, such as the risk of war, hijacking, sabotage and biggest threat of today – terrorism.

The work is divided into three parts, which follow each other to form. The first chapter gives an idea of insurance with the basic definition of risk that are necessary for carrying out the practical part of work. Next part of this work is the analysis of aviation insurance risks in the European Union. It specifies the responsibility of the international air transportation for passengers, their baggage, cargo and third parties, that are anchored in intrenational conventions and regulations of the European Union.

This part of work continue with analysis of insurance carriers and aircraft operators, insurance of cargo, insurance of liability for

damages caused by aircraft, insurance of aircrafts and pilots. In conclusion of this part is a claim, which presents the end of each damage event.

The last chapter of the thesis evaluates the insurance situation in the specific circumstances of the two selected airlines – Czech Airlines and Opera Jet, who were willing to provide a basis for development of this work. Elaboration of the insurance situation of the two airlines to assess the condition and proposed corrective measures of the regulations of the European Union.

## 2 THEORETICAL DEFINITIONS

Risk is an essential feature of human existence, and an essential part of every activity. Risks are often perceived as a set of influences with which organizations must deal if they want to be successful.

For a business entity and its activities are the most important risks clasified as:

- internal and external risks,
- real and speculative risks,
- international risks,
- risks depend on size,
- risks depend on insurability.

The existence of risks is basic of insurance. If there was no objective risk, then insurance would be completetely unnecessary. Any commercial insurance company provides a variety of insurance products. For better orientation, these products are divided into several groups. There are several options how to classify insurance. The most commonly used division shown on Figure 1.

[1]

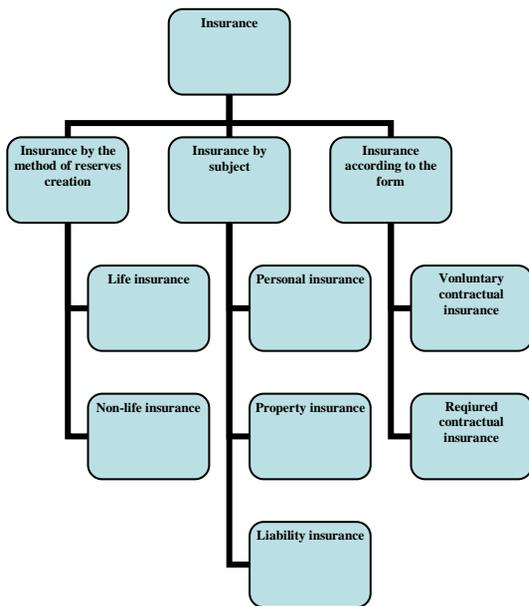


Figure 1 Classification of insurance

### 3 ANALYSIS OF AVIATION INSURANCE IN THE EUROPEAN UNION

The development of international transport and the growing number of transported passengers and goods originated a new problems from the fact that passengers and cargo were not regulated. Although, there were a right adjustment of international civil aviation in the form of Paris and Havana Convention, its provisions in no way oblivious to rules regulating the transport of passengers, baggage, cargo and liability of air carriers for services.

The need of regulation has resulted in the signing of the Convention on the responsibility for air transport of 12 October 1929 in Warsaw. We get a legal regime regulating the International Legal Liability of air carriers in the event of damage, delay or loss of goods, which was known as the Warsaw system, which was applied until recently and was replaced by the International Convention for unification of certain rules for international air transport, signed on 28 May 1999. The most common cases of liability in civil aviation are:

- air carrier liability for injury and death their passengers,

- responsibility for damage, destruction or loss of goods transported,
- liability for damage caused to third parties on the ground.

In the European Union was valid Regulation no. 2027/97 air carriers liability in case of accidents. It was very similar to the Montreal Convention, issued by the European Union Council decision no. 2001/539/EC, which committed member states of European Union to ratify the Montreal Convention. Also, the Regulation no. 2027/97 was modified, so as to comply with the regime of the Montreal Convention. [2]

Another regulation of EU, laying down rules on liability for damage to the Regulation no. 889/2002 of responsibility for the carriage of passengers and their baggage. It applies to union air carries and takes the limits of compensation under Montreal Convention.

Air carrier liability for damage caused to passengers in case of an accident is not subject to financial constraints. If there is damage to the passengers to 100 000 SDRs, the air carrier can not relieve of liability by showing that it has received all necessary measures to avoid damage.

Even maximum care is often case that the company or agents in carrying out their activities inadvertently cause damage to a third party. The third party is not direct participant in air traffic. Liability to third parties on the ground was regulated by Rome Convention on damage caused by aircraft to third parties on the ground signed on 7 October 1952. This convention was modified by the Montreal Protocol on compensation for damage caused by aircraft to third parties. The convention was revised due to modernization and the need to ensure adequate compensation to third parties who have suffered damage by an event that was caused by an aircraft during the flight. As the Rome Convention as well Montreal Protocol recognizes the importance of protecting the interests of third parties and the need for equitable compensation, as well the need to stability in the aerospace industry. [3]

The operator is responsible for damages caused to third parties only if the damage was caused by an aircraft during the flight. Liability of the operators is limited to the maximum take-off

mass of the aircraft specified in the certificate. This approach reflects the relationship between mass and the potential damage to third party, which may cause any type of aircraft. The category of aircraft, and their maximum take-off mass (MTOM) are shown in Fig. 2.

Category	MTOM (kg)
1	< 500
2	< 1 000
3	< 2 700
4	< 6 000
5	< 12 000
6	< 25 000
7	< 50 000
8	< 200 000
9	< 500 000
10	≥ 500 000

Figure 2 Categorisation of aircraft for third party liability

After the terrorist attacks in the United States became the European Union more interested in the aviation insurance industry. The common transport policy to increase consumer protection and avoid distortions of competition between air carriers. EU was trying to ensure a minimum level of insurance to cover liability of air carriers in terms of passengers, baggage, cargo and third parties.

European rules on licensing of air carriers asked only to be insured to cover liability in case of accidents, especially in terms of passengers, baggage, cargo, mail and third parties, without setting any criteria or amounts that would be needed followed. In 2002 the European Commission to ensure transparent, non discriminatory and harmonized application of the minimum insurance requirements proposed by the European Parliament and Council no. 785/2004 of insurance requirements for air carriers and aircraft operators. This regulation lays down minimum requirements for insurance carriers. The aviation

market in Europe the gap between domestic and international air transport. Do not change existing rules of liability as they are contained in international conventions, community and national laws of member states. It applies to all air carriers and aircraft operators flying within the territory, landing in the territory, fly or overfly the territory of the EU. Do not apply to:

- state aircrafts,
- models of aircraft with MTOM less than 20 kg,
- gliders (including motor gliders),
- ballons,
- kites,
- parachutes (including towing),
- aircrafts, including gliders with MTOM less than 500 kg.

Each air carrier and operator of the aircraft must be insured to cover specific aviation liability in respect of passengers, baggage, cargo and third parties. Insurance risks in this case include:

- war,
- terrorism,
- hijacking,
- sabotage,
- unlawful seizure of aircraft,
- civil unrest.

Insurance coverage must be provided for each flight. For liability in respect of passengers, the minimum cover is 250 000 SDRs per passengers. The minimum insurance requirements not only strict liability, as well as legal liability. However, due to non-commercial operations of aircraft with MTOM 2700 kg or less, member of EU may set a lower minimum insurance coverage, if it is not less than 100 000 SDRs.

Liability in respect of delay, damage or loss baggage is limited to 1000 SDRs. Regulation no. 785/2004 accordingly imposes minimum insurance requirements for liability in respect of baggage to 1000 SDRs per passengers.

Minimum requirements for cargo insurance provided for in Regulation no. 785/2004 of 17 SDRs per kilogram also reflect the limitation of liability of the Montreal Convention.

For third party liability is the minimum coverage per accident and for each aircraft by

maximum take-off mass of the aircraft divided into categories. If insurance coverage for damage to third parties caused by the risk of war or terrorism is not available to any air carrier or aircraft through the principle of an accident. The air carrier or operator may satisfy obligation to be insured for risks. The European Commission has review in detail to use of measures to ensure that the amount equal to the corresponding amount specified in Fig.3. [4]

Category	Maximum take-off mass MTOM /kg/	Special Drawing rights /SDR/
1	< 500	750 000
2	< 1 000	1 500 000
3	< 2 700	3 000 000
4	< 6 000	7 000 000
5	< 12 000	18 000 000
6	< 25 000	80 000 000
7	< 50 000	150 000 000
8	< 200 000	300 000 000
9	< 500 000	500 000 000
10	≥ 500 000	700 000 000

Figure 3 Cover for damage to third parties

#### 4 REVIEW ISSUES IN SELECTED AIRLINES

In this section are analyzed two airlines – Czech airlines and private airline Opera Jet. They were willing to cooperate and provide me information to issue of my work. Because it is an internal company information and some information can not be disclosed to third parties, I published only those which were mediated by both airlines workers.

##### 4.1 Czech airlines

The issue of liability and insurance is divided into three parts. First, the liability carrier to the shipper, which is governed by th Warsaw

Convention and the Montreal Agreement. Obligation of CSA is follow these agreements and regulations of the European Union.

Another area is the insurance carrier against damage that may arise in connection with the carriage of cargo, which is incorporated in CSA’s total insurance, which includes accident insurance, liability insurance and others. Insurance is concluded with an insurance company Allianz and responsibility for the cargo transportation with the concurrence of 10 000 USD. During the last three years has been applied to any insured event.

The last, but not less significant problem in the cargo insurance is insurance of sender. An example use of this insurance may be the reason that the insurance does not cover used only air transport, but also the way from warehouse to warehouse. Customer can this insurance concludes with any insurance company of your choice or may use an air carrier for additional insurance. The airlines CSA provides reinsurance through company Allianz. If the customer wishes to use this type of insurance, its duty is to notify value of shipment to the airline. The price of insurance is usually of 3 per mille of the value of shipments. Insurance covers only a section ensuring air carrier either by air or road, which offers CSA. The insurance amount is included in the air waybill in the ‘Amount of Insurance’. Internal sources of CSA indicated that since 2006 there has been no insured event, which was disposed by the insurance contract.

##### 4.1 Opera Jet

Insurance Services carries French broker company Aelia. As an insurance intermediary for Opera Jet, was selected without competition, only by recommendation in 2008. Since then, competitions have been conducted with other insurers, but despite the lower cost of insurance there was some doubt whether they will be able to comply offered with contract. Insurance is paid quarterly, but the amount which Opera Jet pays to Aelia is confidential information between insurance and company. Between Aelia and Opera Jet is organized the annual meeting of the new contract terms every year. Aelia is willing at any time of year change insurance for a specific flight, or to add new aircraft to the insurance contract.

Opera Jet uses:

- hull all risks,
- hull all risks in case of war,
- insurance of crew,
- insurance for damage caused to third parties.

Based on the fact that a particular insurance policy is subject to commercial confidentiality, it may be mentioned the issue only in context below. The insurance contract:

- insurance of damage or destruction of aircraft in flight and on ground is prepared for an agreed value basis with the concurrence of 10 000 USD for each insurance benefits in addition to war, hijacking and sabotage of aircraft.
- In respect of aircraft, minimum insurance cover of 7 000 000 SDRS,
- In respect of passengers, minimum insurance cover of 113 100 SDRs per passenger.

Liability to third parties, passengers, cargo, mail is regulated by legal responsibility and are used combined limits for each aircraft. (Fig. 4) [5]

Aircraft	Liability /USD/
Cesna 525 Citation Jet	15 000 000
Cesna C525A Citation Jet 2	30 000 000
Cesna 525B Citation Jet 3	30 000 000
Cesna C525B Citation Jet 3	30 000 000
Beechcraft B200GT	15 000 000
Dassault Falcon 2000	100 000 000

Figure 4 Insurance coverage for aircraft Opera Jet

## 5 CONCLUSION

The aim of the work was to analyze the liability and insurance of carriers and aircraft operators to their passengers and their baggage, cargo and third parties.

The first chapter gives to reader a picture about theoretical basis for the area of insurance. The content of this part is the classification of risks

and insurance. This section gives the reader a overview of the basic concepts and definitions.

Practical part of the work analysis the aviation risks a liability in accordance with EU regulation no. 2027/97 on air carriers liability in case of accidents. However, the regulation is amended by Regulation no. 889/2002 on air carrier liability for the carriage of passengers and their baggage, specific pay compensation to the victim. Finally is the issue of insurance carriers and aircraft operators whose insurance requirements are set out in Regulation no. 785/2004.

The third part was based on previous analysis. It assessment of the situation in terms of specific airlines – Czech Airlines and Opera Jet. The result, both airlines to suit their insurance broker, because does not occur situation, which would have fulfilled their obligations.

The final work plane was achieved by the analysis of passengers and cargo insurance in terms of Czech Airlines and Opera Jet. Draft amendment was not completed because of insurance companies are not willing provide information about aviation risks. Insurance companies provide information only to clients who are interest in this type of insurance.

## BIBLIOGRAPHY

- [1] ČEJKOVÁ, Viktória – MARTINOVIČOVÁ, Dana – NEČAS, Svätopluk: Poistný trh. Bratislava: IURA EDITION, 2011. ISBN 978-80-8078-399
- [2] Nariadenie Rady (ES) č. 2027/97 o zodpovednosti leteckého dopravcu v prípade nehôd.
- [3] Nariadenie Európskeho parlamentu a Rady (ES) č. 889/2002, ktorým sa mení a dopĺňa nariadenie Rady (ES) 2027/97.
- [4] Nariadenie Európskeho Parlamentu a Rady (ES) č. 785/2004 o požiadavkách na poistenie leteckých dopravcov a prevádzkovateľov lietadiel.
- [5] Interné informácie leteckých spoločností ČSA a Opera Jet

## AUTHOR(S)´ ADDRESS(ES)

Petronela Fedorová, Bc., Department of Air Traffic Management, Faculty of Aeronautics, Technical University Kosice, Rampova 7, 041 21 Kosice, E-mail: [petronela.fedor@gmail.com](mailto:petronela.fedor@gmail.com)

Reviewer: Ing. Robert Klír, PhD.