



WHAT IS AAIRRG? The Aviation Alliance Insurance Risk Retention Group (AAIRRG) is a risk retention group that will provide Aeronautical Repair Station Association (ARSA) members with an opportunity to take control and ownership of their liability insurance. AAIRRG will enable FAA-certificated repair stations to achieve long-term savings on insurance for products and completed operations.

WHAT IS A RISK RETENTION GROUP (RRG)? A risk retention group is a homogeneous group of independent companies, joining together to form and capitalize a licensed captive insurance company. An RRG operates under the Federal Liability Risk Retention Act of 1981 (as amended in 1986) to write common commercial liability insurance for its members. Each insured must be an owner of the RRG and all owners must be insured by the RRG.

WHY DO WE NEED AN INSURANCE ALTERNATIVE? The insurance industry views aviation as a special “high hazard” industry. Consequently, there are few insurers who provide coverage. As a small subset of the aviation insurance market, when repair stations do find coverage, too often they encounter premiums that represent an average of all aviation exposures. An examination of FAA and NTSB statistics on aviation accidents reveals that this should not be the case.

WHAT IS THE STATUS OF AAIRRG? On Friday, June 18, 2010, AAIRRG received its I certificate of authority (insurance license) from the Montana Department of Insurance (MT DOI). Montana is AAIRRG’s domicile state. AAIRRG will then register as an RRG with each state it chooses to write business.

WHAT IS REINSURANCE AND WHY IS IT NEEDED? Put simply, reinsurance is insurance for an insurance company. As an insurer, AAIRRG will retain exposure for a certain dollar amount of every claim, up to the first \$500K. It will then “sell off” the balance of any claims in excess of \$500K up to the policy limits. Reinsurance companies accept this risk in return for a portion of RRG’s gross premiums.

DO I HAVE TO BE A MEMBER OF ARSA TO JOIN THE AAIRRG? The opportunity to participate is one of the benefits of ARSA membership; therefore, if you are not currently a regular member of ARSA, you will have to become a member before joining the AAIRRG. Please refer to ARSA’s website at www.arsa.org or contact ARSA at arsa@arsa.org | 703-739-9543 to determine what level of membership best suits your company.

WHAT LINES OF INSURANCE WILL AAIRRG OFFER? AAIRRG will insure general and completed operations liability, including products and hangar keeper’s liability. In the future, the group may offer other lines of insurance.

WHAT ARE THE COSTS OF JOINING AAIRRG? Membership has two cost components:

1. **Capitalization:** The members of an RRG are the owners. As with any corporation, ownership involves a contribution to capital. Government regulations require a minimum level of capitalization in an RRG. The required RRG capitalization contribution for each member is projected to be approximately 30% of a typical potential member’s current annual insurance premium. So, if your current annual premium for liability insurance is \$100K*, the up front capital investment will be approximately \$30K*.
2. **Annual Premium:** As with any insurance, there is a premium component. A member’s annual premium during the first few years is expected to approximate the premium the member would pay to a competitive insurance broker in the open market.
3. **AAIRRG has arranged for premium financing and, for those who qualify, your capital can also be financed.**

ARE THERE ANY OTHER POTENTIAL COSTS? For AAIRRG to be a success, every member must prepare for some additional costs. These costs could include inspection fees and assessments.

Assessments: If everything goes as planned, an assessment will never be needed. However, if the RRG ever finds itself in a position where the annual claims exceed the net received premiums (including reserves) and recoverable reinsurance, the RRG may assess each member up to 100% of their annual premium to keep the RRG solvent. The RRG could purchase stop-loss reinsurance to eliminate the need for assessments, though this type of reinsurance can be a more expensive option.

* All figures cited are hypothetical and are provided to explain principals through the use of examples. Figures are not predictive of actual costs, returns or other potential liabilities or assets.

As an example^{*}, if AAIRRG were to write \$5,000,000 in annual premium:

Gross Premium	\$5,000,000
Cost of Reinsurance	(\$2,500,000) – estimated* at 50% of Gross Written Premium
Other operating expenses	(\$875,000) – estimated* at 17.5% of Gross Written Premium
Loss Fund	\$1,625,000 – dollars left after expenses to pay claims

In the example above, if the RRG pays annual aggregate claims (excluding claims paid by the reinsurance) in excess of \$1,625,000, then the RRG members must make an assessment to replenish the loss fund. Alternatively, the RRG could purchase aggregate stop loss reinsurance in anticipation of such a loss; this type of reinsurance is very expensive and would exceed the 50% of Gross Written Premium. In that case, the stop-loss reinsurance would pay the claims on behalf of the RRG, to a pre-determined limit.

WHAT ARE THE BENEFITS OF JOINING AAIRRG? As a member of AAIRRG, you will take greater control over your liability insurance. You will participate in an active Risk Management Program, have more input and control over the Claims Process, and own your share of the Underwriting Profit. The RRG is a business management tool that will give its members the opportunity to *manage* their liability insurance expense rather than *accept* it as a “tax.”

WHAT ARE THE RISKS OF JOINING AAIRRG? Up-front capitalization and any ongoing contributions in the form of assessments are a risk if the program’s claims exceed net premiums received and recoverable reinsurance. RRGs are also not eligible for state guarantee funds, similar to insurance obtained in the Excess and Surplus Lines Insurance market.

WHAT LIMITS OF COVERAGE WILL AAIRRG PROVIDE? The RRG aims to provide limits of \$1M/\$3M and up to \$10M/\$10M on a primary basis for each insured. The RRG will work to provide higher limits as needed, either individually or on a group basis.

WILL MY REGULAR INSURANCE BROKER BE INVOLVED? The AAIRRG Board of Directors has determined that AAIRRG will write insurance on a direct basis. One of the central goals of AAIRRG is to operate more efficiently with less operating expenses. Writing direct eliminates the commissions usually paid to your broker. That money will instead go towards increasing AAIRRG’s bottom line. You can still utilize your broker for all of your other insurance needs and coverage.

WHO WILL OWN AND CONTROL AAIRRG? AAIRRG will be a unique corporation, owned solely by its member insureds and controlled by its own board of directors. AAIRRG has an appointed an interim board that leads its operations prior to operation. Members of the Board of Directors are listed with their e-mail addresses below:

Interim Board of Directors

President: & Board Member:	Bill Perdue, Sonico – pbill@sonicoinc.com
Vice President:& Board Member	Roger Reynolds, Aircraft Electric Motors – rodger@airelec.com
Treasurer & Board member:	Edward Kennedy, Penn Yan Aero – ekennedy@pennyaneraero.com
Secretary & Board Member:	Karen Odegard, Pacific Aero Tech, Inc. karen@pacificaerotech.com
Board Member:	Mathew Bickel, EB Airfoils, LLC – mbickel@ebairfoils.com
Board Member:	David Cort, Precision Engines, LLC – davec@precisionengines.com
Board Member:	Mark Nelson, L. J. Walch Company - mnelson@ljwalch.com
Board Member:	Mitch Steinberg, Rocky Mountain Avionics, Inc. – mnelson@ljwalch.com

Sponsor:

The Aeronautical Repair Station Association

Sarah MacLeod, Executive Director

Facilitators

Christian Klein, Obadal, Filler, MacLeod & Klein, P.L.C – christian.klein@arsa.org
Paul Hawthorne, Obadal, Filler, MacLeod & Klein, P.L.C. – paul.hawthorne@arsa.org
Cameron Crebs, President - Polaris Enterprise Group, Inc. – cam@peg-inc.net
Rick Crebs, Consultant - Polaris Enterprise Group, Inc. – rick@peg-inc.net

WHAT ARE FACILITATORS? The representatives from ARSA and Polaris facilitated the formation process on behalf of the Association members. The team will formulate and implement risk management programs as well as conduct onsite inspections. The Polaris Group specializes in facilitating the formation and management of group captives. For more information on AAIRRG or the Polaris Group please visit their web site at www.peg-inc.net or call 415-885-2700.

HOW DO I COMMIT TO JOIN AAIRRG? Go to www.aairr.com/forms and complete the [Instant Quote Form](#). Return it to rick@peg-inc.net at Polaris.

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IF I COMMIT NOW WHAT TYPE OF OWNERSHIP, WILL I HAVE? Any new company wanting to become and insured and owner of AAIRRG will be a Class C common shareholder. The levels of ownership are delineated as follows:

- Class A shares receive a 10% preference on any declared dividend pro rata. The opportunity to purchase this class of stock expired on July 15, 2009;
- Class B shares along with Class A shares receive the next 5% preference on any dividend declared of the remaining funds pro rata. The opportunity to purchase this class of stock expired on July 15, 2009;
- Class C, or common, shares receive any dividend declared pro rata with all shareholders, after deductions for Class A and B preferential dividends.
- Each share is currently priced at \$500.00 each.

WHAT IS THE POTENTIAL OF HAVING TO COME UP WITH ADDITIONAL CAPITAL IF THERE ARE TOO MANY AAIRRG CLAIMS IN ONE YEAR? AAIRRG's actuaries examined 15 years of NTSB data and opined that AAIRRG should expect 2.6 claims per year. Typically, there is a great amount of latency in aircraft products claims, with claims from year one typically are not reported until at least year three. By that time AAIRRG's pro forma indicates that AAIRRG will have retained in excess of \$10M (net of the major expense of reinsurance). Since AAIRRG only retains the first \$500,000 of exposure to each claim, the expected financial exposure would be \$1,300,000 ($\$500,000 \times 2.6$ claims). That equals 13% of anticipated revenues.

HOW DO I KNOW WHAT "TOO MANY CLAIMS" WOULD BE? Based upon the math outlined in the previous answer, it would take more than 20 claims in one year to cause a capital call. That would be almost a 100% increase from the historical NTSB data. (Please be advised that there are other possibilities which could alter the outcome).

WHAT LIABILITIES WOULD I HAVE TO ABSORB IF THE GROUP CANNOT COME UP WITH ADDITIONAL REQUIRED FUNDS? Each AAIRRG shareholders liability is limited to one times their annual premium. **There is NO joint liability.**

WHAT IS THE PERSONAL LIABILITY EXPOSURE IF THE COMPANY CANNOT PAY? There is no personal liability.