

Drones: New Challenges For Property-Casualty Professionals

Craig Andrews, CPCU ARM ARRe AU-M AMIM ASLI AAI
Business Insurance Product Development Officer
State Auto Insurance Companies
Columbus, Ohio

What's A Drone?

- As per the Federal Aviation Administration Modernization and Reform Act of 2012:
 - **Unmanned Aircraft (UA)** – an aircraft that is operated without a possibility of direct human intervention from within *or* on the aircraft
- **Many** drone/UA applications!
- <https://www.youtube.com/watch?v=qmHwXf8JUOw>

What's An Unmanned Aerial System?

- As per the Federal Aviation Administration Modernization and Reform Act of 2012:
 - **Unmanned Aerial System (UAS)** – an unmanned aircraft (**UA**) *and* its associated elements (*including communication links and the components that control the unmanned aircraft*) that are required for the pilot in command to operate safely and efficiently in the National Airspace System

Fixed wing



Drone Types

Quad Rotor



Drone Types

Octocopter



Banggood
com

Micro Air Vehicles



Flight Features

- **Mini drones:** low altitude, short duration
- **Tactical drones:** low to medium altitude, up to several hours flight time, within line-of-sight
- **Strategic drones:** medium to high altitude, hours to days flight time, long-range

Navigation Possibilities

- Remote control ground station
- Automation Systems
- Satellite Data Link

Reported and Potential Uses

- **Military**
- **Law Enforcement**
- **Security Surveillance**
- **Emergency Operations**
- **Agriculture**
- **Communications**
- **Delivery**
- **Photography**
- **Inspections**

Regulatory Environment

- **FAA Modernization and Reform Act of 2012**
 - https://www.faa.gov/uas/regulations_policies/
- **Major FAA Provisions of Proposed Rules for Small Drones (up to 55 lbs.) – As of February 2015:**
 - **UA must remain close enough for operator to see UA unaided by any device other than corrective lenses**
 - **UA must yield right-of-way to other aircraft, manned or unmanned**
 - **UA may not fly over people, except those directly involved with the flight**
 - **Maximum altitude: 500 feet**
 - **Maximum speed: 100 m.p.h.**
 - **Daylight use only**
 - **Operators may not operate in certain airspace areas for airports, etc.**

As Per Section 336 of the FAA Modernization and Reform Act of 2012

- Includes a “special rule” for model aircraft
- A model aircraft is defined as “an ‘unmanned aircraft’ that is:
 1. Capable of sustained flight in the atmosphere;
 2. Flown within visual line of sight of the person operating the aircraft; and
 3. *Flown for hobby or recreational purposes only*”

- **Bodily Injury and Property Damage Liability**
 - Collision with persons or property
 - Interruption in data-link transmission, communication failure
 - Potential defect in design or manufacture
- **Personal Injury**
 - Invasion of privacy
 - Trespass and nuisance
 - Infringement and defamation
- **Property**
 - First-party property damage, perils of aircraft, falling objects
 - Business Interruption
 - Hacking

**The Federal Aviation
Administration has determined
that a drone is an “aircraft”**

**A drone is therefore an
“aircraft” for insurance
purposes**

- **Commercial Property Insurance**
 - Aircraft not covered
 - Personal property while airborne not covered
- **Commercial Inland Marine**
 - Aircraft not covered
 - Photographic Equipment Coverage Form ***does*** cover “cameras and photographic equipmentused for commercial purposes” while airborne
- **Commercial General Liability**
 - Excludes liability “arising out of the ownership, maintenance, use or entrustment to others of any aircraft.....*owned or operated by or rented or loaned to an insured*”
 - **Exclusion does not apply to “liability assumed under any ‘insured contract’ for the ownership, maintenance or use of aircraft”**

A Major Concern:

Contractual Liability under the CGL

Example:

An insured business contracts with a drone operator which has the required FAA waiver to perform certain drone services. The insured assumes – via an “insured contract” – the tort liability of the drone operator for the use of the drone.

Covered By An Unendorsed CGL!

New ISO Endorsements

- **Optional Exclusion Endorsements** (filed effective 6-1-2015)
 - **CG 21 10 06 15 – Excludes Coverage A only**
 - Excludes only Premises/Operations
 - **CG 21 11 06 15 – Excludes Coverage B only**
 - Excludes only Personal and Advertising Injury
 - **CG 21 09 06 15 – Excludes both Coverage A and B**
 - Excludes all coverage for unmanned aircraft under the CGL

New ISO Endorsements

- **Optional Endorsements providing coverage for Unmanned Aircraft** (filed effective 6-1-2015)
 - **CG 24 51 06 15 – Provides Coverage A only**
 - Delineates existing aircraft-related exclusion
 - Adds a schedule to designate
 - Drones to which the exclusion will not apply
 - The types of projects of operations to which the above exception will be limited
 - An optional designated aggregate (a sub-limit) when coverage will apply

New ISO Endorsements

- **Optional Endorsements providing coverage for Unmanned Aircraft** (*continued*)
 - **CG 24 52 06 15 – Provides Coverage B only**
 - Introduces exclusion addressing unmanned aircraft
 - Adds a schedule to designate
 - Drones to which the exclusion will *not* apply
 - The types of projects of operations to which the above exception will be limited
 - An optional designated aggregate (a sub-limit) when coverage will apply

New ISO Liability Endorsements

- **Optional Endorsements providing coverage for Unmanned Aircraft** (*continued*)
 - **CG 24 50 06 15 – Provides Coverage for A and B**
 - Combines aspects of the separate Coverage A- and Coverage B-only endorsements
 - Optional designated aggregate deductible applicable to both Coverage A and B
- **Insurers have either filed – or are in the process of filing – these new ISO endorsements**

- **Insurance Services Office**

- Currently researching the introduction of a stand-alone drone policy encompassing both first-party and third-party coverages in a single coverage form.
- Currently researching and reviewing the drone exposure relative to:
 - Commercial Property
 - Businessowners Program
 - Farm Program
 - Commercial Inland Marine

- **American Association of Insurance Services**

- Currently developing
 - First-party Inland Marine and Farm Property coverages
 - Third-party Farmowners and Agribusiness coverages
 - **Target:** forms ready to file by 12-31-2015

Thank you!

Craig.andrews@stateauto.com

614-917-4736