

A SIMPLE GUIDE TO MITIGATE AGAINST AOG LOSSES



AIRCRAFT ON GROUND

In this article Zoë Layden, Chief Business Officer, Falcon MGA Services, Ltd, discusses the issues behind AOG incidents in Business Aviation and available remedies to them to help de-risk your business.

If you are reading this then you most likely know what an “AOG incident” is. If you are reading this now you are also likely to be digging out from the most unprecedented event to occur in our lifetimes – the Pandemic. What are your new priorities; what are your new worries? Amongst them is clearly the need to protect your bottom line profits; the need for increased financial resilience has never been greater. Mitigating the cost and impact of AOG incidents on your fleet will help you in your goal to maintain your forecast bottom line. An AOG occurrence means the charter passenger is quite likely not getting away on time and people in the supply chain will definitely be getting angsty. While this may sound merely annoying and benign – and in the safety conscious world of aviation it is, since it has caused no accident, no sudden damage or harm to passengers and crew – what an AOG can cause is:

- Tension between contract parties
- Loss of Management time trying to determine liability for increased costs
- Passenger dissatisfaction if no solution is immediately offered – reputational damage: #dontusetthem
- Working time lost while sourcing a new aircraft for the journey on short notice and at increased cost
- Financial loss to one or all of the contract parties

THE AOG STORY

What are the true statistics to the AOG issue – does it really merit trying to mitigate the impact of these incidents? World-wide, there are approximately 21,500 private and business aircraft in operation – expected to increase to circa 25,000 by 2025. There are in the region of 3,000,000 flights globally per annum, which can generate something

in the region of 80,000 events defined as AOG incidents. If you were to express this as a ratio, each year worldwide there are nearly four AOG incidents per aircraft flying. OK, so far not so bad. Here’s more: This also means that approximately 3% of all flights operated are likely to experience an AOG.

It is estimated that:

- One third of AOGs are resolved without any issue
- Of the remaining two thirds 20% are resolved with no extra cost
- This means that, ultimately, 53% of AOG incidents usually result in financial loss, and on some occasions a financial loss in excess of 50% of the original charter cost (Case study 1)
- It is also estimated that AOG incidents generate in excess of \$350,000,000 in replacement aircraft charters per annum and a corresponding excess of \$150,000,000 in lost revenue to contract parties (Case study 2)

EBAA BEST PRACTICE GUIDELINES

Certified by the AGM and members, the “Guidelines and Recommendations for Charter Contracting” cites the management of AOG occurrences as one of the major weak spots in the advancement of charter industry. With environmental challenges becoming more persistent and the industry under consistent scrutiny, the professional acumen of the charter industry must strive to be unimpeachable in other regards.

While in the past there has been uncertainty between broker, operator and client about who should pay the cost of an AOG, the Best Practice Guidance states the following:

“ *In the event that a replacement aircraft different from the agreed aircraft is contracted by the Operator, the costs related to the replacement aircraft shall be paid by the Operator unless otherwise agreed in writing.* ”

Private business clients cite “time saving” as one of the main benefits of choosing business aviation – this should be a key deliverable in all steps of the experience.

To ensure that the customers continue to choose Business Aviation as their preferred mode of travel, AOG incidents must be managed as seamlessly and effortlessly as possible – just as the flights are meant to be. Can you prepare for the expected-unexpected?

Yes. The first step is to mitigate against the occurrence of an AOG with attention to operational practices. Take a note from the CRM practices and review the AOG history of your fleet:

- Why did they happen?
- What are the patterns, similarities, are they geographic, supply chain or training related?
- What could have been done differently to prevent any one of them?
- Quantify the cost to the organisation – identify AOG costs hidden in “operational costs”

HOW TO MITIGATE THE EFFECTS OF AOG ON YOUR BUSINESS

- Prior careful selection of aviation service partner to offer time critical and OBC (on board courier) solutions
- Keep up to date and accurate maintenance records
- Maintain tight supply chain management
- Consider choice of aircraft – what has the most sales and service back up should something go wrong?

WHAT DOES THE MAINTENANCE NETWORK LOOK LIKE?

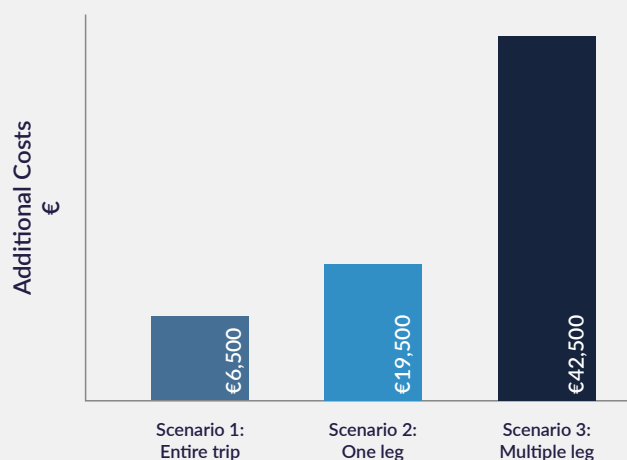
- How easy is it for operators and maintenance facilities to obtain certifications for a particular aircraft
- How easily does crew get type rated on the particular aircraft you intend to use? What happens when a pilot falls ill? How quickly can you get qualified type rated pilots to fly the charter?
- Ensure third party suppliers who are your go to contacts for AOG aircraft replacement /maintenance
- Clear contractual conditions for flying client
- Purchase a specialised insurance protection to offset the increased costs of last-minute charter arrangement
- Insurance enables a higher degree of certainty in forecasting operational costs by helping remove the major unknown of an AOG
- Enhances reputation by allowing automatic sourcing of replacement aircraft without spending management time on disputing liability between contracting parties
- By removing the need for dispute – the client's valued time will not be wasted

CASE STUDY 1:

Three scenarios depicting potential AOG extra cost on charter costing €65,000.

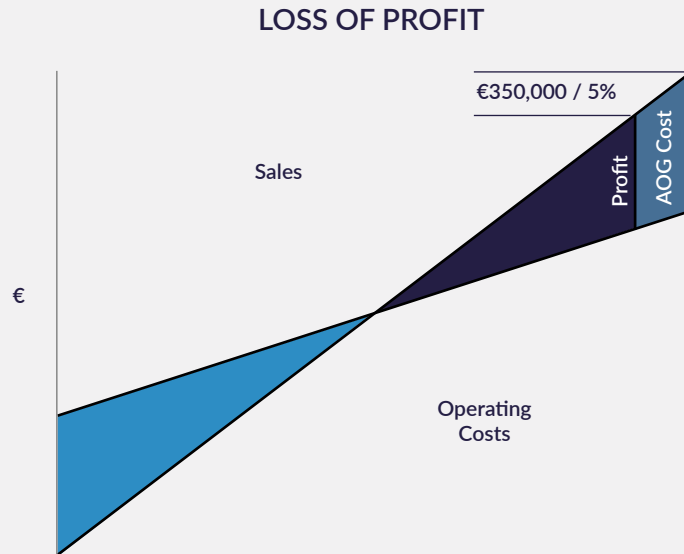
1. AOG discovered prior to start of trip
2. Single leg sub-charter required – additional cost €19,500
3. Multiple leg replacement required – additional cost €42,500

FINANCIAL LOSS OF AOG



CASE STUDY 2:

Top charter airline suffered a €350,000 bottom line loss in respect of replacement aircraft costs in relation to identified AOG incidents representing 5% of their total operating profit.



Note: There may also be other ancillary costs associated with the sub-charter, such as; staff and executive time taken in managing the situation, any required amelioration to the client, additional maintenance time for the aircraft, etc. Notwithstanding that one AOG has the capacity to remove the profitable return of several subsequent charters and also the potential damage to the brand value of the operator.

Conclusion

While technology allows further innovation and safety of flight – there are some aspects that remain unpredictable. For these, the insurance industry continues to collaborate with aviation specialists to devise innovative and creative solutions to the unique set of risks posed. While AOG incidents will never be fully avoidable, with operational preparedness and creative financial solutions the Business Aviation industry has every chance to maintain its title as the best way to fly.

References:

EBAA: “Guidelines and Recommendations for Charter Flight Contracting”

<https://www.ebaa.org/news/guidelines-and-recommendations-for-charter-flight-contracting>

FALCON MGA SERVICES: “JetSure”

<https://falconmga.com>

EBAA/AMAC: “Managing Risks in Business Aviation”

<https://www.ebaa.org/publications/ebaa-insurance-guide/>

Claveaux Consulting Ltd: Risk management and insurance expertise for aviation companies and their insurers

<https://claveauxconsulting.com/index.html>



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JetSure

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