

IT'S NOT A PLANE, NOT A BIRD, IT'S A DRONE!

AN OVERVIEW OF THE INSURANCE ISSUES PERTAINING TO DRONES FOR INSURERS

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Drones are everywhere, or at least they soon will be. The FAA estimates seven million drones will fly in U.S. skies by 2020, up from 2.5 million in 2016. In addition, Goldman Sachs estimates that the drone industry will grow to \$100 billion by 2020. As drones become more prevalent in our society, so too will drone-related insurance issues, both for insurers and their insureds. This is a comprehensive overview of issues related to drone use by both insureds and insurers:

DRONE USE BY INSURED

The Federal Aviation Administration (FAA) classifies drones as being used for either recreational or commercial purposes

and applies different regulations in each situation. Drones are also heavily regulated in a confusing hodgepodge of federal and state laws, and these regulations are constantly changing. Overall, 43 states have enacted or have pending legislation involving drones. Still, that leaves a few states with no laws at all that govern drones, and only 13 of those 43 states have laws that govern intrusions into privacy involving the craft.

In any case, however, drones present some of the same liability concerns: property damage, bodily harm or injury, and personal privacy issues that arise from a drone's onboard cameras. In general, homeowner's or renter's insurance policies should address drones' recreational usage and com-

mercial general liability policies should address drones' commercial usage.

However, the problem is that policy language tends to be vague and often does not address drone-related issues specifically. This leaves both insurers and insureds exposed to liability when drone-related issues occur. This is a serious concern, as recent headlines suggest: One person was recently fined \$55,000 by the FAA for violating aviation regulations when he flew his drone to take pictures of an event as a favor for a friend. A company was also recently fined \$200,000 as part of a settlement with the FAA regarding their commercial drone operations.

The solution for insurers to protect

both themselves and their insureds is to use policy language that specifically pertains to drones, either written into the policies themselves or added through endorsements.

Insurers of recreational drone users should also add language which asserts that insureds need to follow FAA guidelines on recreational drone usage. These guidelines currently include:

- Don't fly higher than 400 feet and stay clear of surrounding obstacles.
- Keep the aircraft in sight at all times.
- Stay away from manned aircraft operations.
- Don't fly within five miles of an airport unless you contact the airport and control tower before flying.
- Avoid flying near people or stadiums.
- Don't fly an aircraft that weighs more than 55 pounds.
- Use caution when flying your unmanned aircraft.

Insurers should also define best practices for commercial drone operation in their policies based on FAA-mandated best practices in addition to all federal, state, and local laws and regulations. Some practical guidelines are:

- A drone operator must be in full compliance with the FAA's Part 107 guidelines and all applicable laws, including federal, local and state, which must be monitored for changes, while limiting any images to the specific claim or property at issue.
- The operator and/or crew should complete a pre-flight checklist to evaluate any risks for each particular operation.
- Detailed maintenance logs should be kept regarding each inspection and all maintenance performed.
- Consider sending written/verbal notices to the surrounding property owners to the extent necessary for your drone use.
- Your drone should be analyzed for any potential data security issues.
- The drone operator should be wearing proper and professional attire, such as a helmet, safety glasses and a high-visibility safety vest. Warning or caution signs should be placed in the area.

Another solution is for insurers to offer drone-specific policies. This trend is already starting to develop as one major insurer has an online application for drone coverage. Rates for drone insurance currently range from about \$900 to \$10,000 per drone per year. There are also reports of insurance providers insuring commercial drone companies for up to \$500 million in liability and up to \$10 million in hull damage.

Furthermore, new services have developed that offer on-demand, or "episodic," policies for recreational and commercial users for an hourly rate. One such company, called Verifly, offers such episodic policies for about \$10 an hour. The policy covers a quarter-mile radius for up to \$1 million of third-party liability and unintentional invasion of privacy.

By using drone-specific policies and policy language, insurers will protect both themselves and their insureds from the potential liability that can arise from recreational and commercial drone usage.

DRONES USE BY INSURERS

Drones are also beginning to be used more often within the insurance industry itself. The reasons why include the fact that drones make insurance processes safer, more effective, and more efficient. In fact, the insurance industry could save as much as \$6.8 billion per year by using remote-controlled drones. Some of the benefits that drone technology offers the insurance industry include:

Safer, faster inspections – Otherwise dangerous or time-consuming inspections can be completed quickly and safely using drones. For example, inspecting a house for an insurance claim can take up to two hours or more, and a modestly sized office building can take four times as much time. Using a drone instead of manually inspecting a building can be 10 times faster and is much safer because the inspector's feet remain firmly planted on the ground in the same spot for the entire inspection.

In addition, drone inspections can reveal a larger amount of data than a manual inspection. For example, with a drone, data and photos can be collected that were never possible before, such as a video of the side of a building from seven stories up or a detailed photo of an entire roof. Drones can also use more sophisticated sensors, such as thermal cameras and lasers.

Increased customer satisfaction and loyalty – A J.D. Power study found that claim processing time from claim to settlement was the single most important factor in determining homeowner insurance customer satisfaction. The faster a company can process a claim, the happier and more loyal their customers will be. Thus, drones can help insurers with this immensely.

Fighting fraud – If an insured intends to use a recent event such as a storm to cover pre-existing damage, they can be undermined if their insurer uses drones to capture comprehensive images of their property before a damaging event takes place.

Improved risk monitoring – Drones can be used to determine where risks exist before damaging events take place, such as floods or other natural disasters. This can help address these issues before they become a problem, thus saving money and perhaps even lives.

Bespoke pricing and policy creation – Drones can be used to better assess risks that can't otherwise be assessed as efficiently or effectively. This would help insurance companies calculate premiums and write policies that more closely reflect their insureds degree of risk.

These benefits haven't gone unnoticed in the insurance industry, and insurers are beginning to make drones a regular part of their business models. One major insurer has an academy that includes a 200,000 square-foot facility where it trains nearly 7,000 professionals a year on data-driven claim analysis including the use of drones. A reinsurance company has also begun to rent drones to its insurance company clients. There are also drone operations vendors who will contract with insurance companies.

If you choose to use an outside vendor to conduct drone operations for your insurance company, then you should enter into a contract with them that requires compliance with all laws and best practices. It should also shift all risk to the vendor through a hold harmless agreement which ensures that company is made an additional insured under the insurance policy as evidenced by a Certificate of Insurance.

As drones continue to proliferate, the insurance industry should approach them proactively with policies that specifically address drone-related issues in both recreational and commercial use. Insurers should also explore the benefits of using drones for their own operations as well.



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