



REVISITING THE PRINCIPLES OF INSURANCE IN MODERN AVIATION

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Abstract

The aviation industry has undergone profound transformation with the advent of advanced technologies, complex operational models, and deeply transnational structures. Despite the changes, aviation insurance continues to be governed largely by traditional principles of insurance law, including utmost good faith, insurable interest, and proximate cause, which are doctrines originally developed for far less complex risk environments. This raises a critical question, whether these foundational principles remain adequate to address the contemporary realities of modern aviation.

This paper examines the continued relevance and practical application of traditional law principles within the modern day aviation industry, with particular focus on the Indian legal and regulatory context. It explores how these doctrines operate amidst increasingly common leasing arrangements, cross border ownership structures, airline insolvencies, and multiparty liability regimes.

This paper analyses statutory frameworks, judicial decisions, and industry practices in India, alongside comparative international approaches, and highlights significant ambiguities and enforcement gaps. It ultimately advocates for a contextual reinterpretation and selective reform of insurance law doctrines to better align them with the technological, operational, and cross border

complexities of modern aviation, while maintaining the core objectives of fairness, predictability, and risk mitigation.

Keywords : Aviation Insurance; Insurance Law Principles; Utmost Good Faith; Insurable Interest; Proximate Cause; Indian Aviation Law; Aircraft Leasing; Airline Insolvency; Cyber Risk

Introduction to aviation insurance

The aviation sector is highly dynamic, global, interconnected and more complex in nature than any other industry where insurance operates. Its ambit is also often mistaken to only revolve around airplanes. However, it is not just a singular unit consisting just of airlines, contrary to popular belief. It is a broad umbrella sector that includes aircraft manufacturing industries, air control teams, hospitality catering sector, among others as well. India also holds the title of being the third largest civil aviation industry in the world¹. It has witnessed significant boom over the years, and despite the setback the covid 19 pandemic had on several industries, the Indian aviation sector has managed to survive and thrive. This has been made possible because of the several advantages it holds including a steady demand, more investment, proper availability of trained and maintenance and operational personnel, and well structured insurance policy support.

Aviation Insurance is tailored especially to suit the unique needs of this sector, specifically covering operations of airplanes and perils involved, incorporating the specific clauses and terms that are specific to the aviation sector.

Indian insurance companies have over time specifically developed the principles to cater to the industry, with the main factors² determining

¹ Press Information Bureau, Ministry of Civil Aviation, *Soaring Skies, Thriving Economy: India's Aviation Vision 2047* (Oct. 23, 2025), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2181865>

² Global Aerospace Editorial Team, *Top 10 Factors That Affect Aviation Insurance Premiums*, Global Aerospace (June 15, 2022), <https://www.global-aero.com/top-10-factors-that-affect-aviation-insurance-premiums/>



premium amounts being the type of the aircraft, the experience it has, its valuation in the industry, ratings it has got, the demand it has in the market along with parking prices among several other factors.

Some of the most prominent insurance policy types³ available in general include life, fire, health, accident, etc. However the insurance types developed specifically for the aviation industry include passenger's liability, hull all risk insurance, public liability insurance, in flight insurance, among others.

How the principles of insurance work in Aviation Industry

Most traditional insurance law aspects and principles are still relevant in application in the modern aviation industry, though this industry, which now includes several cyber, technological, logistical and operational facets that these principals were not originally made to accommodate. Hence, it is essential to analyse especially with how core insurance principles like good faith, insurable interest and proxima causa have evolved and have been developed by insurance companies to meet the demands of the aviation industry to function among various emerging risks and perils of modern day.

Some of these main principles include insurable interest, the principle of uberrimae fidae (of utmost good faith) and the proxima causa, all of which are now incorporated with certain key clauses and features that ensure it is customized to fit the needs of the aviation industry while staying true to its core value.

The Principle of Insurable Interest

The principle of insurable interest is a core principle in aviation insurance, just like it does in the traditional sense. It refers to how an individual or party claiming insurance must have a financial stake in the insured object, and how they benefit from its security and would be prejudiced with its damage. This principle is applicable across several types of coverage policies in aviation.

These include the following examples:-

- **Hull Insurance⁴** : This is with regards to physical damage to the aircraft, wherein the party with insurable interest that is the Airline or a private owner, will have a direct financial interest in the aircraft itself, which is the hull, especially in this case, as it is a high value asset. Its loss or damage would directly lead into a financial loss to them in order to replace or repair it.
- **Liability Insurance⁵** : This is with regard to third party claims wherein the airline would be held legally liable to financially compensate passengers for any bodily injuries, casualty, or property damage. Their insurable interest hence being to protect themselves from such huge financial costs arising from compensations, legal costs and settlement payments.

Similarly, airport operators have an insurable interest in protecting themselves from the liability they have to shoulder with regards to any accidents occurring on their premises. Maintenance and manufacturing companies also have an insurable interest in protecting themselves from any claims arising

³ Avion Insurance, *Types of Aviation Insurance*, Avion Insurance (May 19, 2015), <https://avioninsurance.com/aviation-insurance-types/>

⁴ Bob Mackey, *Aircraft Physical Damage "Hull" Insurance: Protecting Your Aircraft*, EAA (Apr. 27, 2017), [https://www.eaa.org/ea-news-and-publications/ea-news-and-aviation-news/news/04-](https://www.eaa.org/ea-news-and-publications/ea-news-and-aviation-news/news/04-27-2017-aircraft-physical-damage-hull-insurance-protecting-your-aircraft)

[27-2017-aircraft-physical-damage-hull-insurance-protecting-your-aircraft](https://www.eaa.org/ea-news-and-publications/ea-news-and-aviation-news/news/04-27-2017-aircraft-physical-damage-hull-insurance-protecting-your-aircraft)

⁵ FEIC (Asia) Limited, *Aircraft Hull, Spares and Liability Insurance and Reinsurance*, FEIC (Asia) Limited, <https://www.feic-asia.com/aviation-insurance/aircraft-hull-spares-liability-insurance/>



demanding compensations from faulty products or maintenance work.

- **Loss of Income Insurance⁶** : The insured party would be the aircraft operator, who has a financial stake in protecting themselves from any losses that might arise due to the grounding of the aircraft due to any repair or maintenance work. This type of insurance covers the losses they might have in this period and protects their financial stream.

How insurable interest in aviation law differs from traditional sectors?

While the fundamental principle of the how the insured must incur a loss if an insured event occurs remains same, it differs on the following grounds –

- **Primary Parties** : While in traditional insurance setting, insurable interest lies only with the Owner, Bank, lender, in aviation law, there is wider ambit, with Airline lessee, Air Traffic Control, maintenance provider, etc also have a financial stake and hence insurable interest.
- **Risk focus**: While insurable interest is usually just based off of two parties and location placed traditionally, in aviation insurance its highly mobile, global and multi party. The interest must be protected across several jurisdictions and legal systems.
- **Protection clauses** : Aviation industry policies also require the Breach of Warranty⁷ clauses to protect financiers or lessors even if the operator or lessee breaches policy terms, such as hiring unqualified pilots for example.

This is because in aviation insurance, the term ‘interest’ goes far beyond just simple ownership, as the sheer scale of potential loss especially that of passenger and third party liability means that this interest is protecting against catastrophic financial or/and legal burden.

Gaps in aviation insurance

- **The Pilot Warranty** : In many insurance claims, if an unqualified pilot is observed to have been in charge when an insured event occurs, the insurer denied the payment of claim to the aircraft owner.

Case Law example

Lima Delta Co V Global Aerospace Inc⁸

In this case, the insurer had denied the claim of the insured, on the grounds of violation of breach of warranty clause. The court had also found out that the insured had actually violated the clear term that was already put in place, which was the Open Pilot Warranty clause of the policy because one of the pilots had not completed the manufacturer’s required ground and flight training within the previous 12 months. The insurer’s right to void coverage based on breach was protected, irrespective of whether the breach caused the accident was upheld, demonstrating the strict enforcement of aviation policy warranties.

- **In cases of war, terrorism** : Standard insurance policies often exclude perils related to war and terrorism, cyber attacks and confiscation by government authorities.

⁶ Sofema Online, *Considering the Role of Insurance within Aviation Operational and Maintenance Contracts*, Sofema Online, <https://www.sofemaonline.com/about/blog/considering-the-role-of-insurance-within-aviation-operational-maintenance-contracts>

⁷ Aviation Insurance Resources, *What is a Breach of Warranty in Aircraft Insurance?*, Aviation Insurance Resources, <https://air-pros.com/what-is-a-breach-of-warranty-in-aircraft-insurance/>

⁸ *Lima Delta Co. v. Global Aerospace, Inc.*, C.A. No. N14C-02-101 JRJ, 2017 WL 373030 (Del. Super. Ct. Jan. 26, 2017).



Application of Insurable Interest in Indian aviation

Indian general insurance companies often tend to reinsure a significant portion of high value aviation risk policies with other international insurance companies. They are also influenced by international aviation insurance policies and include clauses with forms like the AVN 48B which specifically excludes the perils of war, terrorism, etc.

The Breach of Warranty Endorsement (BOW) is also a standard policy in India, wherein if the insured that is the airline owner or lessee, violates certain condition or warranty, such as flying in a no fly zone or appointing an unauthorized pilot to fly, then the policy claim shall be rejected. This is vital towards international licensing in the Indian market.

The principle of Uberrimae Fidae (Utmost Good Faith)

This principle, just like in traditional insurance settings, in the aviation industry also mandates that the insured (the airline, operator or owner) and the insurer which is the insurance company must both always have good faith and act with complete honesty and must disclose every material fact that could effect the policy's conditions, term, premium amounts, or any other fact that might effect the insurer in deciding regarding the premium amount or regarding granting of policy.

Application in Aviation Industry

Aviation insurance also strictly applies the principle of good faith, requiring the insured to proactively disclose any material facts known to them that might effect the insurer's decision regarding the policy, and any concealment or misrepresentation can lead to the policy being declared void ab initio and denial of claims.

The ambit of material facts include those like the operational history of the flights, such as its accident,

maintenance and airworthiness history, its crew experience, areas of operation, among others.

While the principle is same, the intensity and consequences of this principle's application are far more greater in aviation, similar to marine insurance policies.

With regards to warranties in cases of BOW, the nuances are far greater in aviation that compared to traditional insurance policies, as it includes numerous specifically enforced factors, such as pilot warranty, geographical limits, etc. Breach of a single warranty condition, even if unrelated to the insured event can lead to denial of entire claim, even if the breach was unrelated to the loss occurring loss.

With regards to asset mobility as well, aviation insurance is quite vast, because in traditional insurance, the location of the insured subject is specific, however the insured in an aviation insurance policy must provide the insurer with specific and detailed information on all kinds of risks associated with operating globally in different regions and changing international jurisdictions.

Hence the risk in aviation in insurance is very high compared to traditional sectors hence the law demands a higher, detailed and nuanced honesty from the insured's end.

The principle of Proxima Causa

The proximate cause (Causa Proxima Non Remota Spectator) is fundamental to all insurance including aviation sector. It refers to how a loss is covered by identifying the most dominant cause that set in motion with broken or unbroken chain of events that led to the happening of the insured peril that eventually led to loss.

In the complex environment of aviation insurance, multiple factors often contribute, for example in the case of a crash or grounding, the factors of faulty maintenance, pilot error, weather issues, operator



issues all come into play, hence this principle plays a very clear role in identification and assigning of the cause, which is crucial for settling insurance claims.

In Aviation Insurance

The primary rule is that the insurer is liable for the loss proximately caused by an insured peril but not for loss caused by an excluded peril.

Proximate cause does not always have to be the last event, but the the most dominant event leading to the loss caused. In aviation claim adjusters meticulously reconstruct the sequence of events, frequently using the Flight Data Recorder(FDR), Cockpit Voice Recorder(CVR)⁹, the blackbox,etc, to determine the proximate cause.

An example for this being how a plane is grounded for a minor technical maintenance of a hull which is an insured peril, and during the maintenance a terror attack breaks out in the Hangar which is an excluded peril. The proximate cause in this attack and not the maintenance of the hull itself, hence the claim would be denied.

How Aviation policies differs from traditional insurance policies

The complexity of investigation is one of the main factors that differs in intensity. In traditional claims of fire, theft, there is often a surveyor from the insurance company who sets out to inspect the veracity of the insured's claim. However in aviation insurance, due to high stakes, high value environment, with complexity of the claim, there is severe technical expertise required to conduct such surveyance or investigations, Hence, certain bodies like the National Transport Safety Board or the Directorate General of Civil Aviation¹⁰. There are

special techniques used for data analysis using the blackbox recordings, FDR and CVR data.

Application in Indian Law

In India, the principle of Causa Proxima is consistently applied and is part of established jurisprudence, as inspired from the english case of Leyland Shipping Co, which laid out the foundation and is applied in marine insurance to today.

Indian courts and tribunals often face challenges when when applying proximate cause principle in high value high stakes cases with respect to aviation insurance losses, and look into-

- The technical cause- which could arise from faulty maintenance, mechanical parts, engine failure.
- Human or operational causes - Which could include human negligence or error during inspection, maintenance, operations.
- Excluded causes which could include acts of terrorism, seizure by government, act of war.

The legal precedent in India though being varied, hence focuses and reinforces the common sense approach, which is identifying the efficient, predominant cause, which is the one the court will ultimately determine liability and indemnity.

Conclusion

It can finally be understood that aviation insurance, due to its complex and multifaceted nature unique and different from most other industries where insurance comes into play, is hence carefully structured, keeping ing mind to cater to the multiple factors involved to ensure that the legal frameworks balance the high risks of the aviation sector along with the utmost importance given to technical

⁹ Phyllis Kayten & Carol A. Roberts, *The Application of CVR and FDR Data In Human Performance Investigations*, 18 Int'l Soc'y of Air Safety Investigators, at 27 (Sept. 1985)

¹⁰ Kavish Sharma & Mahima Katal, *Legal and Insurance Implications of Airline Crashes in India*, Verdicto News (June 13, 2025), <https://verdicto.news/airline-crashes-india-legal-insurance-framework>



expertise and precision in verifying claims, by applying the core principles of insurance in a much more scrutinised and careful fashion. Though significant gaps still lie, such as that of the ambiguity remaining in case of war, cyber attacks, terrorism, which is yet to be addressed in most cases and jurisdictions. With such modern day perils, insurance law in the aviation sector keeps adapting to keep up with the dynamics it deals with, and there is still a long way to go in the area.

