

For The Record

Airfinance Journal December 2006/January 2007 Edition

Who owns what is very important in aviation, but that becomes meaningless if the records are not properly managed.

As the term asset risk becomes as frequently used as voyager miles, the importance of records management cannot be overstated.

The sophistication of this procedure has increased among aircraft owners and is separating the highly efficient from the could-not-care-less sectors of the aviation world.

To ensure records are properly maintained, owners and operators often outsource their records management to technical consultants. This practice has become a booming industry for the likes of technical records consultancy Waviatech, which has helped to secure aircraft records for lessors and airlines since 2002 and has protected about 100 aircraft to date.

The external management of an aircraft's records involves visits to the physical site where the records are held, in most cases this will be the location where the aircraft is based. Records include maintenance packages, pilot flight logs and manufacturer delivery documents. "We send people all over the world to capture these documents and provide an electronic representation to the aircraft owners," says Godfrey Ryan, a spokesperson for Waviatech. "Scanning and subsequent indexing of these records is key to what we do," says Ryan.

The immediate advantage of having the records backed up electronically is that if an aircraft owner needs to repossess an aircraft it has placed with a lessee, it is able to commence the remarketing process even if access to the physical copies is temporarily restricted. This scenario could arise if an airline goes bankrupt and legalities prevent access to its paper archive. "A prudent lessor would have the aircraft records scanned and the necessity and frequency of the scanning will depend on the asset risk" says Ryan. Aircraft owners are recognizing the value of scanning their records.

The transition of an aircraft can be a stressful time for the lessor, who has to get the aircraft from one airline to another according to a set timetable. A good set of records is key to a smooth transition. Some of the most important documents that will be looked for are AD and SB compliances, repair and damages information and copies of component certificates. Lost or missing documents can cause delays and thus financial penalties not only for the lessee (with whom responsibility lies to present a full set of records) but also to the lessor.

The lessor has another lessee awaiting the aircraft, if the scheduled timeline slips, then penalties will result for this delay. The best step would be to tackle the documentation issue early and this practice is becoming the norm.

The requirement for Waviatech's flagship product, Stream, arose when the company was scanning back to birth records for 12 aircraft at a US-based carrier for one of its clients.

Apart from wanting an entire set of records in an indexed and searchable format, the client also wished to compile a dirtyfingerprint binder containing the relevant 8130 and Form One documents for current components fitted. The operator stored these records for its entire fleet together, filed by line station and date received. It would have taken the carrier several weeks to search through the masses of stored documents for the certificates relating to each aircraft, more than 14,000 in all. Instead, Waviatech scanned the entire set of stored documents (about 300,000 pages). The scanned images were then made available in Stream and enabled the owner to collate its component certificates.

Risky business

Asset risk and records management are in many ways interlinked. Lessors have to receive lease payments on time, keep track of the aircraft's financial history and ensure payments are made to the owner.

If a lessor does not have the correct records, a problem could arise if the airline fails to pay the fees and the owners want to reclaim the aircraft.

Aircraft financiers such as RBS take asset risk very seriously and have inhouse teams devoted to maintaining the number of aircraft on their order books. Apart from the airframe, individual components on an aircraft have to be certified. An aircraft owner will receive a certificate when purchasing a part and the airline keeps all of the certificates when it receives the aircraft.

Until recently records management was only a worry for the technical staff at airlines, but owners are accepting that they are also at risk. Not only are airlines and asset owners accepting the value of aircraft records but the way these records are held will play an important role going forward. Lessors are already looking to integrate high-level data with technical data.

How do aircraft records affect asset risk?

Ron Spek, Aircraft Management Solutions

Within the life cycle of aircraft and engine asset management there are four major risk areas: contractual risk, asset value risk, technical risk and remarketing risk. The effective management of these risks involves an integrated approach for the entire portfolio.

This would equally apply to the asset managers of leasing companies, airlines, finance institutions and asset management organizations.

The management of these organizations' back office requires an integrated database, where all data relating to the contractual, technical, value and

remarketing risk are brought together and analyzed and evaluated in conjunction with each other. Only then can an organization really be in control of the total leasing business cycle. Reliable data and records are a condition sine qua non for a workable and trustworthy system. Such data should be inputted directly from the source.

People responsible for the asset should have direct access to the system, and from the system ready available reports should come to the decision makers.

Frank Wulf, DVB Bank

As a financial solutions provider that offers a range of products, including senior, mezzanine and junior debt and equity, DVB is naturally more exposed to asset risk than most of its competitors. Data quality and data availability are the key elements to monitoring and proactively managing any lending portfolio. However, when entering the asset risk arena, highly sophisticated transaction management tools are inevitable.

DVB realized this in 1999 and spent a large amount of resources in developing a comprehensive and user-friendly transaction management tool. Two years later DVB began developing a complex internal rating tool. These two systems, in addition to close cooperation between the marketing, credit, industry research and administration teams in each industry sector, enable DVB to proactively manage its respective portfolios.

Even the most sophisticated IT systems are only as good as the data that is fed into them. As such the timely availability, accuracy and the level of detail of the transaction documents – and more importantly – the technical records or inspection reports are essential for proactive and successful asset or portfolio management. To cope sufficiently with this issue, DVB has set up a dedicated asset management team that is capable of managing operating leases, which assist in monitoring the loan portfolio up to the point where it takes over in workout situations and ensures that all required technical data is on hand well in time.