

The complaint

Mr S complains that Allianz Global Corporate & Specialty SE declined to declare his plane a total loss after his claim for damage to the engine of his plane. Allianz have made an offer “in lieu of repairs” of £9421.02 instead.

What happened

Mr S had a policy with Allianz to cover his light aircraft. The aircraft was insured for £30000 in the event of total loss.

In August 2022 he experienced difficulties whilst in the air and made an emergency landing at a local airport. After landing he discovered that the engine was damaged beyond repair and the aircraft needed to be dismantled and removed.

Mr S made a claim under his insurance policy and was offered a settlement for repairs of £9421.01 less the policy excess of £1000.

Mr S was unhappy with this as he thought that he should receive the sum for total loss as the aircraft was no longer usable.

Allianz disagreed and so Mr S brought his complaint to us.

One of our investigators has looked into Mr S’s complaint but he thought Allianz had acted fairly and within the terms of the policy.

Mr S disagreed with our investigator’s view, and so the case has come to me to review.

What I’ve decided – and why

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

What I have to decide is whether Allianz have fairly applied the terms and conditions of the policy. Having done so, I’m not upholding this complaint.

The policy says at Clause 1.2:

The insurer will not pay for

- (a) wear and tear, deterioration, breakdown, defect or failure howsoever caused in any Unit of the Aircraft and the consequences there of within that Unit;*
- (b) damage to any Unit of the Aircraft by anything which has a progressive or cumulative effect, but damage attributable to a single recorded event is covered. For a single recorded incident to be covered with respect to an engine Unit the damage must be of such severity that it requires the engine Unit to be immediately withdrawn from service upon first landing of the Aircraft to which it is attached.*

Following the incident, Mr S sent his engine to an engine builders to establish the cause of the failure. They confirmed the engine had sustained a mechanical failure due to the No.3 cylinder piston failing as a result of a fatigue crack. As a result of this, further internal damage was caused to the engine, the propellor oil system and the propellor governor. Allianz's aviation surveyor agreed with this and said that the damage was excluded under clause 1.2 of the policy as the fatigue crack which led to the mechanical failure of the piston was excluded as "wear and tear".

Mr S argues that although it is agreed that the piston pin suffered a fatigue crack, the incident comes within clause 1(2)b as a single recorded incident with damage so severe that it required the engine to be immediately withdrawn from service. As such, he thinks that the matter should be settled as a total loss.

I have thought about this argument, and I've read Mr S's submissions about statutory interpretation. However, I can't agree.

The two exclusion limbs of clause 1.2 are separate and refer to different situations, and so if the damage is excluded under one of the limbs, the second limb wouldn't apply.

Clause 1.2(a) is clear that wear and tear is excluded, and so is any consequent damage caused within the "unit" as a result. Unit is defined in the policy as *"a part or an assembly of parts (including any sub-assemblies) which has been assigned an Overhaul Life as a part of an assembly. Nevertheless, an engine complete with all parts normally attached when removed for the purpose of overhaul or replacement shall together constitute a single Unit."* It's established that there is a fatigue crack to the piston – which is wear and tear - and that this impacted the functioning of the engine, caused consequent damage to other parts of the engine and resulted in the need for an urgent landing.

And so I'm satisfied that Allianz fairly excluded the claim finding that the damage to the engine was as a result of a fatigued part, impacting the whole engine, or "unit". A fatigue crack is something that appears over time as a result of use, rather than as a result of an event. And so I think it's fair to exclude the damage to the piston, and any consequent damage to the rest of the engine under paragraph 1.2(a).

Even though I don't think clause 1.2(b) is relevant given that I consider the exclusion under 1.2(a) has been fairly applied, I have also thought about what Mr S has said.

My view is that Clause 1.2(b) is also an exclusion clause – but with an exception. It excludes cover for damage to any unit of the aircraft by anything with a gradual or cumulative effect – which may be something for example like a build-up of debris or corrosion.

However, it allows for an exception to this exclusion where there is a single recorded event that led to the damage - so for example a bird strike or a lightning strike which may cause the damage suddenly and unexpectedly to, for example, a propellor, causing the aircraft to have to be landed and taken out of service. I can't fairly say that this is the case here, as whilst Mr S had not previously been aware of the fatigue crack in his piston, and so he felt it was sudden and unexpected, it was something that occurred gradually over time in a unit of the engine, rather than being a sudden event that happened "to" the engine.

For these reasons, I'm satisfied that Allianz's decision was fair in respect of the total loss. Allianz have confirmed that there is cover under the policy for the damage to the propellor oil system and governor. They advised that Mr S could arrange for these repairs to be completed himself and submit an invoice or accept a cash settlement for the repairs. A settlement of £8421.02 was offered which comprised of recovery from the airport, damage to

the propellor, and estimated assembly costs, minus the policy excess, which totals £8421.02. As Mr S hasn't complained about the settlement offer for repairs, I haven't considered this as part of my decision and it remains for Mr S to decide whether to accept this settlement offer

My final decision

I'm not upholding Mr S's complaint about and so I won't be asking Allianz Global Corporate & Specialty SE to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 21 December 2023.

Joanne Ward
Ombudsman