

Exclusions

What is Not Covered

By Jeff Rhodes

All insurance policies explicitly state what is covered and to what extent or limit that coverage applies. Policies also explicitly state what is not to be covered by the policy. It is expected that the policy holder – the insured – read and understand exactly what would be excluded in the event of a loss (We all do, right?) If you need a refresher, open your favorite aviation insurance policy and turn to the EXCLUSIONS section. In the “plain language” policies, it is called “What Is Not Covered,” or “What We Do Not Cover.”

Almost all language in an insurance policy is there in order to define EXACTLY what the Company is agreeing to do. Exclusions define certain loss scenarios that ARE NOT COVERED under the policy and are written into a policy for several reasons including, but not limited to:

1. Losses that are not insurable under any circumstances.
2. Coverages that are available, but at additional risk to the company and, therefore, for which the Company needs to charge additional premium.
3. Losses that would be, or should be covered by another policy.

In some cases, coverage is excluded in the body of the policy and then “written back” by an endorsement attached to the policy. Coverage may be further limited or taken away altogether by an exclusion added by endorsement. As is our usual suggestion in these articles, be sure to read your specific policy in its entirety. If you have questions about what is and is not covered, call your agent to discuss the specifics.

Let’s take a look at some of the most common exclusions that appear in an aircraft hull and liability policy. For simplicity, I will paraphrase many of the descriptions. Your specific policy’s language will differ to some degree.

No Brainers

Some exclusions are fairly logical and minimal explanation is required to understand them. We’ll look at those first.

Pilots and Use – There is no coverage unless the aircraft is being operated by approved pilots and is being used as allowed by the policy.

There is no liability coverage for injury to YOU, the Named Insured. Liability coverage protects you against claims from other people in the event that you injure them or damage their property. Health insurance may be available to cover your own medical treatment.

There is no coverage for bodily injury to your employees. If your employees are injured while they are working in their capacity as your employee, Worker's Compensation Insurance may be the sole remedy for their injury. Since coverage for employee injuries is available under other policy forms, your aircraft liability policy will exclude it.

There is no coverage for intentional losses. If you decide to destroy your airplane on purpose – no coverage.

There is no coverage for bodily injury or property damage caused by aircraft noise or pollution generated by the airplane.

War Exclusions

War exclusions have been brought to the forefront of our thinking since the terrorist attacks of September 11, 2001 involving civil aircraft, but war risks have been excluded from insurance policies since the 1960's. Losses caused by the following are generally not covered:

War, martial law, or coup.

Hostile detonation of atomic or nuclear weapons.

Strikes or riots.

Terrorist acts

Sabotage.

Confiscation or seizure by any government

Hi-Jacking.

While once thought to be fairly unlikely loss scenarios, recent events have unfortunately made many aircraft owners realize that many of the items in this list do carry some risk of loss. War exclusions can be "written back" on most policies for additional premium. Additionally, since the Terrorism Risk Insurance Act (TRIA) of 2002, the Federal Government has required that coverage be offered for specific acts of terrorism. Make sure that your policy includes war risks if you wish to insure against these losses.

Wear and Tear

An exclusion that claims adjusters and aircraft owners often wrangle with is the "Wear and Tear" exclusion. Losses caused by *mechanical or electrical breakdown or failure, deterioration or freezing are excluded. Also excluded – losses to any part that is designed to wear out (tires, brakes, fading of paint) and losses due to mechanical breakdown of the engine or any of its components.*

This exclusion does not apply to "downstream damage" from these failures or breakdowns. The following are a few examples to help illustrate this point.

Situation # 1 Let's assume that you are in cruise flight in your Piper Cherokee. Due to some latent defect, the engine loses oil pressure, begins to overheat and then seizes and stops operating. You are within gliding distance of the nearest airport and you make an emergency landing without further damage to the aircraft. In this situation, there is nothing for the insurance company to pay. The only damage is due to a mechanical failure of the engine - and that damage is excluded by the wear and tear exclusion.

Situation # 2 Let's change the circumstances a little. Your Piper Cherokee begins to lose oil pressure, then parts within the engine suddenly break and fly free of the engine compartment. Metal engine parts tear holes in the cowling and impact the leading edge of the wing. You make an emergency landing at a nearby airport. Now you have a covered loss. The mechanical breakdown and damage to the engine is still not covered, but the "downstream damage" to the cowling and the wing is covered.

Situation # 3 Rather than a safe landing at an airport, let's assume that you crash-land the Cherokee off airport after the engine fails. The landing results in significant damage to the airplane and perhaps someone is hurt. Again, the wear and tear exclusion precludes payment for the mechanical breakdown of the engine itself. But, the damage to the aircraft incurred after the engine failure or any injuries that result from the accident are covered.

In all of these situations, the actual damage to the wear and tear item (engine) is not covered. The company will not pay to restore your engine to working order when the aircraft is repaired.

Exclusions that you may not have considered.

Other exclusions deserve some discussion because they are often unnoticed or misunderstood.

The policy does not pay for losses caused by:

Radiation – If the aircraft is contaminated by radiation for any reason, there is no coverage.

Y2K Date Changes – Introduced in the late 1990's, this exclusion appeared by endorsement to exclude coverage for losses arising from the failure of any aircraft system to recognize the rollover of the date to 2000. Although probably not much of a risk as of this writing, the exclusion still appears on most policies.

Embezzlement, Conversion, or Secretion – This is similar to theft, which is covered, but differs in that it involves the taking or misuse of the aircraft by an authorized user of the airplane.

Assumed Liability – If you sign any agreement assuming liability that you otherwise would not have had, the company may not be obligated to cover that liability exposure. One of the most common places where this assumed liability can be found is within a hangar lease agreement. Before you sign any agreement that says that you will be responsible, let your agent review it and submit it to the underwriter for approval.

Take the time to familiarize yourself with the exclusions and other limitations of coverage in your specific policy. Use your agent as a resource to help you stay out of trouble in the event of a loss. Remember that policy language can be as important as premium when comparing insurance policies. The objective when buying insurance is to maximize your coverage per dollar of premium paid. Understanding the exclusions in your policy is a step in that direction. →