

The complaint

Mr E complains Society of Lloyd's have declined the claim he made under his yacht insurance policy.

What happened

The events of this complaint will be well known to both parties and so I've summarised events. In February 2023 Mr E's yacht was returned to the water but the engine failed to start. Mr E submitted a claim to Society of Lloyd's for the damage to his yacht. He explained it appeared sea water ingress and corrosion had caused damage to the engine. Society of Lloyd's arranged an inspection of Mr E's yacht.

Following this inspection Society of Lloyd's declined Mr E's claim. It said the surveyor had concluded cooling water had accumulated in the exhaust system. He concluded that because of the overly long discharge hose on Mr E's yacht, water had entered the aftermost cylinder and this was substantial enough to cause the reported corrosion. The surveyor said the cause of the damage was found to be the result of poor installation, not consistent with the manufacturer's recommendations. Society of Lloyd's said Mr E's policy didn't cover damage to machinery caused by negligence.

Mr E disagreed with the decline of his claim. He provided an email from the engine manufacturer who said the installation drawing shown in the manual was flexible. Society of Lloyd's therefore arranged for a second inspection to be carried out. Following this inspection Society of Lloyd's maintained its decision to decline Mr E's claim. It said it was the engineer's opinion a siphon breaker should have been fitted to Mr E's engine in line with the manufacturer's recommendations and had this been done, the incident wouldn't have occurred. Mr E disagreed with Society of Lloyd's decision for a number of reasons and so raised a complaint.

Mr E's complaint was very detailed, but in summary he said his engine complied with all of the mandatory requirements confirmed by the manufacturer and neither engineer had explained why this incident would have only occurred five years after the engine had been installed. He also said the second engineer was incorrect about why a siphon breaker would be required, and the engineer's hypothesis regarding suction pressure wasn't recognised.

On 20 May 2024 Society of Lloyd's issued Mr E with a final response letter to his complaint. It said the experts view is clear about the role a siphon breaker plays and how its installation would have prevented the incident. It said the manufacturer had confirmed the siphon breaker should have been fitted. It said the decision to decline Mr E's claim was the correct one and was in line with the terms of the policy. Mr E didn't agree and so referred his complaint to this Service.

Our investigator looked into things. He said he thought both expert reports had reached the same conclusion that the issues had arisen from the failure to install a siphon breaker, and the reports were produced by the necessary experts. He said he thought it was reasonable for Society of Lloyd's to decline Mr E's claim.

Mr E didn't agree. He provided a detailed response but in summary he said:

- The manufacturer confirmed there were five mandatory requirements for the installation of the engine, which his engine complied with, and it confirmed the installation drawing in the manual was flexible
- Society of Lloyd's said the damage had been caused by a suction pressure effect and a siphon breaker would have prevented this, but the manufacturer has confirmed there is no suction pressure in the exhaust circuit
- The manufacturer had also confirmed the reason a siphon breaker needs to be installed and this is unrelated to any suction pressure effect
- Confirmation from the manufacturer that a siphon breaker should have been fitted is unreliable
- The comments by the surveyor about the likely cause of the damage contradict the conclusions reached by the engineer

As Mr E didn't agree with our investigator the complaint has been passed to me to decide.

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.

I want to acknowledge I've summarised Mr E's complaint in much less detail than he's presented it. I've not commented on every point he has raised. Instead, I've focussed on what I consider to be the key points I need to think about. I mean no discourtesy by this, but it simply reflects the informal nature of this Service. I assure Mr E and Society of Lloyd's I've read and considered everything that's been provided.

The relevant rules and industry guidance explain Society of Lloyd's shouldn't unreasonably reject a claim. Society of Lloyd's are relying on a policy exclusion to decline Mr E's claim and so I've considered the terms of the policy.

Mr E's policy provides cover for machinery damage as a result of stranding, sinking, fire, impact, theft or malicious damage. It excludes machinery damage caused by negligence.

Society of Lloyd's have said Mr E's engine, which was installed by Mr E and another engineer, should have been fitted with a siphon breaker and the lack of siphon breaker has resulted in the damage to Mr E's yacht. It considers the failure to fit a siphon breaker as negligent and so has declined to cover Mr E's claim.

For me to consider it reasonable for Society of Lloyd's to rely on the policy exclusion it has done to decline Mr E's claim, it would need to demonstrate that the failure to fit a siphon breaker is negligent and that the failure to fit the siphon breaker is the cause of the damage to Mr E's yacht. Therefore, I've considered each of these in turn.

Was the failure to fit a siphon breaker negligent?

The terms of the policy don't define 'negligence' and so I think it's reasonable to use the commonly understood definition of negligence which would be the failure to exercise the standard of care that a reasonable person would in similar circumstances.

The operator's manual for the engine Mr E fitted to his yacht explains there are two possible installations of the exhaust system. It states:

'You need to check the distance between the water injection point and waterline to decide which type of installation you need. This information is specified in the following drawings.'

The elements included in the drawings are essential for the correct engine operation:

...

- *Siphon breaker (supplied as accessory) – needed in case there is less than 150 mm between the water injection point of wet exhaust and the waterline, or if the point of injection is below waterline.'*

It's accepted by all parties that the distance between the water injection point and waterline for Mr E's yacht is less than 150mm. The second engineer who inspected Mr E's yacht measured this distance as 20mm. Therefore, the operator manual would require a siphon breaker to be fitted to Mr E's yacht.

Mr E has provided an email from the engine manufacturer who has said the diagrams in the operator's manual are flexible. It says there are five mandatory instructions which must be followed. One of these instructions is:

'Siphon breaker if the engine is under the sea waterline, and installed after the sea water pump.'

Mr E has said his engine isn't under the sea waterline and given the diagrams in the operator's manual are flexible, it wasn't necessary for a siphon breaker to be fitted.

I acknowledge the engine manufacturer has said to Mr E a siphon breaker only needs to be fitted if the engine is under the sealine. However, this was only confirmed to Mr E following the claim, and so he didn't rely on this when fitting the engine to his yacht. Additionally, the engine manufacturer has also confirmed to Society of Lloyd's in an email dated 22 September 2023 that a siphon breaker should have been fitted. Whilst I know Mr E believes the manufacturer wasn't given all of the information for it to provide an accurate response to Society of Lloyd's, I'm satisfied it was given sufficient information to allow it to appropriately answer the question Society of Lloyd's asked.

Having considered the evidence provided, I think it was reasonable for Society of Lloyd's to conclude not fitting a siphon breaker is negligent. There isn't anything within the operator's manual which suggests the diagrams are flexible. It specifically says the elements in the drawings are essential for correct engine operation. And so, I think a reasonable person in similar circumstances would have followed the operator's manual and would have fitted a siphon breaker.

Cause of the damage

As I think it's reasonable for Society of Lloyd's to conclude that not fitting a siphon breaker can be considered negligent, I've gone on to consider whether it can reasonably conclude the cause of the damage was due to the siphon breaker not being fitted.

I'm not an engineer, and so it isn't my role to say how the damage to Mr E's yacht has occurred. My role is to consider whether Society of Lloyd's have reasonably considered all of the available evidence when it has decided to decline Mr E's claim.

The surveyor who originally inspected Mr E's yacht in March 2023 has concluded that due to the overly long discharge hose, sufficient water had accumulated in the exhaust system. Water slopped back through the exhaust elbow and entered the aftermost cylinder. This is what caused the reported corrosion.

The engineer who inspected Mr E's yacht in May 2023 has said something different. Put very simply, he has said when the gasses in the exhaust system cool following the engine being shut off, it will create a vacuum. This vacuum will pull any remaining water within the wet exhaust up and toward the engine. He has said in his report:

'It appears that the saltwater was likely drawn to the engine exhaust manifold and combustion chamber by vacuum during cooling of the exhaust system, had the engine been fitted with a siphon breaker, as suggested in the manual and emails, same would have prevented the vacuum and thus water entry into the engine, preventing the corrosion damage as inspected.'

Mr E has provided an email from the manufacturer who has said the role of the siphon breaker isn't to prevent water from being drawn into the engine and there is no suction pressure in the exhaust circuit. Society of Lloyd's have said the information provided by the manufacturer is incorrect when considering the engine stopped and this information doesn't change its position.

Having carefully considered all of the evidence provided, I think Society of Lloyd's have acted fairly when it declined Mr E's claim. It has taken into consideration reports from two separate experts, and I don't think it's unreasonable it's relied on this when reaching its conclusion. I accept the experts have reached different conclusions about specifically what caused the damage, but both concluded the damage was due to poor engine installation and not due to an insured peril. I think it was reasonable for Society of Lloyd's to rely on the expert's opinion to conclude Mr E's yacht should have been fitted with a siphon breaker and had this been done, the damage wouldn't have occurred to Mr E's yacht.

I'm aware the engine manufacturer has provided some information which contradicts the engineer's report, however the engine manufacturer has given conflicting information during the claim. For example, it told Mr E a siphon breaker only needed to be fitted if the engine was under the waterline, but told Society of Lloyd's a siphon breaker should have been fitted to Mr E's yacht. It also was given the opportunity to disagree with the engineer's conclusions about suction pressure, but it has chosen not to. Overall, I'm not persuaded the information provided from the manufacturer means Society of Lloyd's are unreasonable to rely on the information provided by the surveyor and engineer who have the relevant expertise in the field. And whilst I know Mr E strongly disputes the conclusions the engineer has reached, I've not seen persuasive evidence the conclusions they have reached are unreliable or should be ignored.

I know Mr E feels very strongly about this, but for the reasons I've explained I think Society of Lloyd's have acted fairly when declining Mr E's claim and so I don't require it to do anything further.

My final decision

For the reasons I've outlined above, I don't uphold Mr E's complaint about Society of Lloyd's.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 7 May 2025.

Andrew Clarke
Ombudsman