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Equipment breakdown insurance

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New technologies have made businesses more productive, streamlined and efficient. With the advent of computer-driven equipment and machinery, they are now able to produce goods, provide services and obtain, analyze, and deliver information at speeds that at one time would have been inconceivable. In the past, only companies in manufacturing, energy and a few other sectors relied extensively on machinery, but today machines are essential to almost every business. Even the most service-oriented companies make significant investments in computers, telephone systems and other office equipment.

To help protect their investments in expensive machinery, most companies purchase property insurance as has been customary for hundreds of years. However, the insurance protection that was once considered adequate leaves most modern day businesses exposed.

The result has been the creation of new insurance products, as well as the evolution of existing ones, that help protect against modern loss exposures. Boiler and machinery insurance, now referred to as equipment breakdown insurance, is a prime example of an insurance product that has gone through such an evolution. Once viewed as an obscure policy that was only considered by businesses that had boilers or production machinery, equipment breakdown insurance is today an essential coverage for just about every business.

Change in terminology

Boiler and machinery insurance was developed in the 19th century during the industrial revolution when factories relied on coal-fired boilers to create steam that powered production machines. During this period, boiler explosions were a regular occurrence, happening approximately once every four days in the United States. The high frequency and severity of these events created the demand for insurance protection. To capitalize on this demand, insurance companies determined it was necessary to first reduce the number of boiler accidents, and became involved in creating a new and improved boiler as well as a system whereby the equipment would be periodically inspected to ensure it was being properly used and maintained. Once in place, insurance companies began feeling comfortable with providing insurance protection. The result was the creation of the boiler and machinery insurance policy.

The basis of the coverage has remained the same since the 19th century – to help protect in the event of explosion and/or breakdown of steam, water tube, and fire tube boilers and accessory machines. Today however, with the development and use of new technologies such as computers and other devices, the insurance protection provided by the policy for accidental breakdown is much larger in scope than in the past. The name boiler and machinery insurance created some confusion with the modern insurance buyer. It leads people to believe that if their business does not have a boiler or machinery exposure, there is no reason to purchase the coverage. This assumption could not be further from the truth and just about every business has a need for this coverage. To eliminate this confusion, the name equipment breakdown insurance was introduced as a more suitable alternative. The new term has been used by most insurers since the late 1990's and finally by ISO (Insurance Services Office), a company that creates standardized insurance policy forms for the insurance industry, in 2006.



Every business that relies on any type of electrical or mechanical equipment should consider purchasing an equipment breakdown policy.

How equipment breakdown insurance works

Equipment breakdown insurance provides coverage for physical and financial damage that is a result of the explosion of steam boilers and/or breakdown of mechanical and electrical equipment, including equipment such as computers and telephone systems. The coverage provides businesses with insurance protection against exposures typically excluded by the standard property insurance policy. A property insurance policy will cover damage to a business's mechanical/electrical equipment if caused by an external event such as fire or windstorm. It will not however cover damages from an internal cause such as a short circuit, electrical arcing or boiler explosion. This gap in coverage creates the need for equipment breakdown insurance.

For example, a power surge caused by a faulty utility transformer damaged the refrigerator motors of a small family run grocery store. The loss resulted in not only a damaged refrigerator but also the spoilage of a significant amount of inventory. Because the loss was due to a failure of the refrigerator, an internal event, the store reported the claim to their equipment breakdown insurer rather than their property insurer. The policy provided coverage for the repairs to the damaged property as well as the replacement of the spoiled inventory.

Standard equipment breakdown insurance policies typically cover equipment that fits into one of the following categories:

1. Boilers or pressure vessels
2. Electrical or mechanical equipment that generates, transmits or utilizes energy
3. Communication and computer equipment
4. Equipment used by utilities to supply energy (transformers, electrical switch gears, motors, voltage regulators, generators, etc.)

The standard policy is a comprehensive policy that provides business owners with additional coverage above and beyond the replacement of damaged property. Coupled with a property insurance policy, a business owner should feel comfortable that the insurance protection they have is reasonable and appropriate. In the event of a covered loss, the standard ISO equipment breakdown policy provides coverage for:

1. Property damage
2. Expediting expenses (extra costs incurred to make temporary repairs)
3. Business income and extra expense
4. Spoilage damage
5. Utility interruption
6. Newly acquired premises
7. Ordinance and law
8. Errors and omissions
9. Brands and labels
10. Contingent business income and extra expense

Depending on their specific needs and exposures, a business owner can purchase some or all of the equipment breakdown protection mentioned above. If they are currently insured with a BOP (Business Owners Policy), the coverage can generally be added by endorsement. If they do not have a business owners policy, equipment breakdown insurance can also be purchased as a separate stand-alone policy, and, on some occasions, it can even be endorsed to a standard property policy.

Who needs equipment breakdown insurance?

Any business that uses electrical or mechanical equipment should consider purchasing an equipment breakdown policy; this includes even very small businesses. Manufacturers, utilities and other companies that use large and expensive mechanical devices are the traditional buyers of this type of insurance, but today almost every company has significant investments in essential information and communication equipment. The complexities of the insurance protection provided by an equipment breakdown policy demands that business owners work closely with an experienced insurance agent or broker to assure they buy the correct amount of the right coverages at an appropriate price. Yet the insurance protection and peace of mind that it provides business owners can be priceless.

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