

The Importance of Equipment Breakdown Coverage

Part 1

Tim McClendon, CIC, CWCA
Hertel McClendon, L.L.P.

Most property insurance policies do not provide protection for direct or indirect losses arising from artificially generated electrical current (such as a power surge) or from mechanical breakdown. These two causes of loss are clearly excluded in even the broadest ISO form, the Special Form Causes of Loss, and in most company specific forms.

Without coverage, a commercial business would have no insurance recovery for many kinds of losses such as:

- Arching damage to transformers
- Over voltage to equipment
- Bearing or gear seizure resulting in shutdown of heating or air conditioning equipment
- Valve failures
- Motor burnouts

These kinds of losses not only involve expensive repair costs, but may leave the business shut down for days, weeks or months.

One example of a recent loss occurred when a loose lead connection in a transformer caused a burnout to equipment of a light manufacturing company. The loss to the damaged equipment was **\$10,500** and the loss of income due to the interruption of operations was almost **\$79,000**.

In another, a bearing was scored and broken due to lack of lubrication on a printing machine in a commercial printer - **\$45,396**.

The solution is an equipment policy (or equipment breakdown insurance), formerly known as “boiler and machinery” insurance. Equipment breakdown policies are designed to fill the gaps created by exclusions found in most property insurance forms. In addition to paying for repair of equipment damaged by an “accident”, they also will pay for damage done to other property of both the insured and others.

Most equipment policies provide an option to cover loss of business income due to an accident from the equipment. It often gives the option of paying the actual business income loss sustained by the business, or paying a *per diem* amount during the shutdown. Many forms include coverage for “expediting expenses” for situations where time is critical in getting repairs completed or to make emergency repairs. In addition, most equipment policies provide options for spoilage of temperature-sensitive property.

Equipment breakdown insurance is critical for the printing and graphic arts industry. Next month we will look at some of the types of equipment that can be covered. We will also look at some valuation issues in both equipment breakdown and property insurance policies.

As always, should you need a professional assessment of your firm's exposures to loss and ways to reduce your firm's total cost of risk, please contact Tim McClendon at Hertel McClendon, L.L.P. Phone: (817) 514-9520. Email: tmccclendon@hertelmccclendon.com



Tim McClendon is a Certified Insurance Counselor, licensed risk manager and a Certified Work Comp Advisor with over 30 years experience in the insurance industry. Hertel McClendon, L.L.P. is the plan administrator for the PIA MidAmerica Workers' Compensation Safety Group underwritten by Utica National Insurance Company exclusively for PIA members.