

FAQs ABOUT EQUIPMENT BREAKDOWN

QUESTION 1: Why does my client need Equipment Breakdown coverage? What if they have no boilers?

RESPONSE 1: Equipment breakdown insurance provides coverage for the following causes of loss typically excluded by property policies:

- Electrical arcing (artificially generated electrical current)
- Mechanical breakdown (rupture) or busting caused by centrifugal force
- Explosion of steam boilers, steam pipes, steam engines or steam turbines

Over 60% of equipment breakdown claims are due to electrical breakdown/failure. Even if you have no boilers, you may still have Equipment Breakdown exposures to the following:

- Business and computer equipment
- Heating, air conditioning and refrigeration equipment
- Electrical equipment
- Mechanical equipment
- Production/process equipment
- Pressure vessels

In addition to coverage for direct loss or damage, time element exposures such as Business Income, Extra Expense and Utility Interruption coverage on the property policy extend to Equipment Breakdown losses.

QUESTION 2: Why does my client need spoilage coverage?

RESPONSE 2: Spoilage coverage pays for damaged product whenever a breakdown (covered loss) occurs that prevents the insured from maintaining the controlled environment needed to preserve that product.

Here are a few examples:

- A boiler failure or control failure leads to the malfunction of a kiln where lumber is drying. The lumber does not cure properly and the whole batch, or a percentage of the batch, is ruined and cannot be sold. If the failure that led to the kiln malfunction is determined to be a covered loss, spoilage coverage would pay for the ruined lumber.
- A pump supplying water to spray nozzles in the yard of a veneer mill fails during the hot, dry summer. Logs stored in the yard cannot be kept moist and they begin to crack and split. Many of the split logs can either not be used or will have a reduced yield. If the failure of the pump is determined to be a covered loss, spoilage coverage would pay for the split logs.

QUESTION 3: Does covered equipment include overhead transmission lines under Utility Interruption?

RESPONSE 3: Yes. If there is a "Breakdown" to "Covered Equipment" that directly results in an interruption of utility services, including the transmission of electricity or communication services via overhead lines, there is coverage under Utility Interruption that extends from Business Income, Extra Expense and Spoilage Damage coverages.

The "Covered Equipment" must supply electric power, communication services, air conditioning, heating, gas, sewer, water or steam to the Insured premises and must be owned, operated or controlled by the local private or public utility or distributor that directly generates, transmits, distributes or provides utility services.

Here's an example:

- Utility transmission line (off-premises) arcs or shorts and as a result, power is interrupted to the insured's premises. The insured could have coverage for any loss of business income, extra expense and/or spoilage due to the loss of utility services.