

Boiler and machinery insurance explained

Boiler and machinery – an integral part of property/casualty insurance

Boiler and machinery Insurance is an integral part of property/casualty insurance. The property exposed to physical loss under a boiler and machinery insurance policy can also be exposed to loss under the standard fire policy. However, the perils covered by the two policies differ. Business interruption coverage is similar.

The boiler and machinery peril is synthetic in that it is "man made". It is identified as an internal operational hazard related to boilers, pressure vessels, mechanical or electrical apparatus and machinery. The property insurance policy, however, deals with perils involving natural or external circumstances such as fire, explosion, hail, windstorm, earthquake, etc.

When developing the definition of the boiler and machinery peril, it was necessary to select words which are generally confined to the unsuspected and unforeseen happenings relating to the operation and use of pressure, mechanical and electrical equipment. Occurrences of a maintenance nature not sufficiently serious to warrant repair or replacement are not intended to be included. The exclusion of "wear and tear" has a meaning, which is well established.

If "repair or replacement" is specifically excluded, coverage is limited to the actual cash value of the damaged property taking into account depreciation however caused.

The boiler and machinery breakdown peril is known as an "accident". "Accident" is defined as a sudden and accidental breakdown of a piece of equipment with accompanying physical damage that is of such magnitude or is sufficiently serious to necessitate repair or replacement of the equipment or part thereof.

Prevention of accidents is fundamental to all forms of insurance, but nowhere else is this so emphasized as in boiler and machinery insurance. Despite every precaution, accidents do occur hence the need for insurance protection in combination with inspection services.

To fully understand what it is that the boiler and machinery policy covers, we can review the property policy to see what it excludes from coverage and what the boiler and machinery policy includes as coverage.

Property form excluded	Boiler and machinery form included
Loss or damage to or caused by pressure vessels operating at 15 psi and above.	All pressure equipment.
Mechanical breakdown of machines including rupture or bursting caused by centrifugal force.	All mechanical equipment.
Loss to electrical equipment caused by electrical currents artificially generated.	All electrical equipment.

These exclusions exist, in some form, in all commercial property forms. So no insurance programme can be complete until it includes an evaluation of the loss potential from occurrences involving boilers, machinery and electrical equipment owned, operated, or controlled.

If this loss potential is greater than wish to self-insure, the boiler and machinery policy is necessary. The need for insurance against catastrophic losses involving mechanical and electrical equipment becomes clear when you consider the mechanical breakdown exclusion in the commercial property policy. This provision is so broad that it is not possible to fully describe. However, we can provide a list of some of the objects to which the mechanical breakdown exclusion applies:

- Boilers, pressure vessels, refrigeration/ air-conditioning equipment, air compressors, pumps, blowers, fans, enclosed gear sets, motors, transformers, generators, miscellaneous electrical apparatus, internal combustion engines, turbines, production machines such as plastic injection machines, molding machines, milling machines, printing presses, rolling mills, stamping mills and paper machines.

The range of mechanical and electrical equipment that can be insured for mechanical and electrical breakdown is endless. Thus the reason for a boiler and machinery insurance Policy.

In addition to physical damage protection provided by your boiler and machinery policy, you want to consider purchasing business interruption, consequential loss and extra expense coverage to fill in coverage gaps that may exist due to property policy exclusions. Property damage that is covered under the boiler and machinery policy includes loss due to direct damage to property that you own and for which you are legally liable for while in your care, custody or control. Business Interruption coverage can provide a valuable supplement. During a period of restoration following an accident, this coverage is designed to help keep you in the same financial position, with regard to sales or services that you would have earned if an accident had not occurred. Business Interruption coverage should be obtained to pay the loss incurred from lost sales during any power outage.

Another coverage that must be considered is consequential loss, which can occur when a refrigeration compressor fails either mechanically or electrically. If spoilage occurs because of a mechanical or electrical failure, boiler and machinery coverage is required in order that the you do not suffer a loss of stock which was dependent upon refrigeration.

Extra expense coverage is applicable for business that must incur expenses to operate as near normal as possible during the restoration period after an accident, even if the cost to do so exceeds normal operating expense. Extra expense coverage does not pay for business interruption.

It is a general underwriting requirement that there must be direct damage coverage in order to provide business interruption coverage. The reason for this is that only by having a degree of control over the repair or replacement of damaged property following a loss, can we have some control over the extent of the business interruption loss.

A loss control survey, indicating approval of the actual physical condition of the object and the likelihood of loss, along with the business interruption analysis of the exposure, is a normal prerequisite to writing boiler and machinery insurance.

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