

## Equipment Breakdown: Not just boilers

Equipment breakdown coverage, an often misunderstood coverage, can be an attractive complement to a company's product line. Historically, coverage was marketed as "boiler and machinery." A common misconception is that a risk has to have a boiler for the coverage to apply. Boiler and machinery coverage was purchased mainly by large manufacturing firms. Advancements in technology have greatly expanded the types of equipment that are subject to equipment breakdown. From farm machinery that uses GPS capabilities to operate, to restaurant refrigeration systems, to a homeowners air conditioning system, virtually every commercial and personal risk has some type of exposure.

Partnering with a reinsurer makes it possible for even the smallest insurance company to offer equipment breakdown coverage. These partnerships are a win-win situation. The insurance company broadens its product offerings, and can be more competitive, and the reinsurer has a ready made market for their product. Some reinsurers have many years of experience in boiler and machinery coverage and services. For example, Hartford Steam Boiler (part of Munich Re) has been in business since 1866. Mutual Boiler Re started offering coverage and services in 1877, and Travelers BoilerRE started in 1907.

"Technology advancements in equipment have made equipment breakdown coverage a necessity rather than an option," said Christopher Magendantz, national director for Travelers BoilerRE. Mike Devlin, vice president and corporate reinsurance manager of Mutual Boiler Re adds "With technology expanding so quickly, the value of equipment breakdown continues to grow. Through the years, the equipment breakdown industry has evolved from being strictly boiler related. Now less than 5 percent of losses are actually boiler related and 70 percent of losses are electrical in nature. That's a significant difference from just a few decades ago."

Equipment breakdown reinsurers work with companies to tailor coverage. They also offer inspection and engineering services, which help to reduce frequency and severity of losses. Most jurisdictions require that boilers be inspected on a regular basis, often every 12 months. New York City requires that air conditioning systems be inspected as well. Reinsurers employ engineers and inspectors who are familiar with local requirements. The cost for equipment breakdown insurance, including inspection service is commonly less than the cost of a government inspection alone.

Coverage can be written as part of another policy, or on a standalone basis. Examples of equipment that can be covered include: air conditioning and refrigeration systems, boilers and pressure vessels, electrical systems, mechanical and production machinery. Office exposures include photocopiers,

computers and phone systems. Residential exposures can range from air conditioning systems, backup generators, boilers and water heaters, central vacuums, to pool and spa equipment and ventilation systems. Most homeowners find out too late that breakdown of these systems is not covered under traditional homeowners insurance policies.

Claims handling is another valuable service provided by the reinsurer. In the event of a claim, the reinsurers' experts handle the claim from start to finish. Losses typically excluded under a standard property policy, but included in an equipment breakdown contract include bulging and cracking of pressure vessels, centrifugal force, electric arcing, and mechanical breakdown. "Line disturbances" such as power surges and other conditions are now seen as the leading cause of commercial equipment breakdown according to Hartford Steam Boiler. An example of a residential loss is replacement of a well pump that burned out. In most cases, there still needs to be physical damage for coverage to apply. A power outage that does not damage equipment would not constitute a "loss."

As with other property exposures, direct damage to covered property may be only a small part of the overall claim. Consequential loss exposures, such as loss of business income and extra expense to expedite resumption of business can also be significant. Examples of consequential loss include the need to relocate residents while the apartment heating system is being repaired, or loss of business while the restaurant's refrigeration equipment is fixed, not to mention the cost to replace the spoiled food. According to Hartford Steam Boiler, "spoilage expense can easily surpass equipment repairs."

Two important considerations are expediting and extra expense coverages. Expediting expense provides coverage to make temporary repairs and speed up permanent repairs or replacement of damaged equipment. Extra expense covers the additional costs the insured incurs after a loss to keep the business operating. These expenses would not have been necessary if the loss had not occurred. Examples include renting alternate space or equipment. For some businesses, such as newspapers and dairies, discontinuing operations for even a short period of time is not acceptable.

More and more businesses operate in "the cloud," relying on offsite providers to house network servers, and backup and maintain the system. This does not eliminate the need for equipment breakdown coverage. In fact, in addition to suggesting service interruption coverage for the business, the offsite provider should also have equipment breakdown coverage.

Equipment breakdown coverage is an important component of a comprehensive insurance program. Companies who offer coverage availability to agents and insureds can open up greater marketing opportunities. Partnering with reinsurers can improve the process, by providing access to engineering,

inspection and claims services.

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