

# Equipment Breakdown Coverage For Property Owners



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March 2010

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Many property owners have the misconception that their property policies include coverage for equipment that is installed in their buildings. While the standard property policy can provide coverage for the structure, contents, and potential loss of revenue in the event of a loss, equipment breakdown is excluded. In order to avoid a coverage gap, property owners also need an Equipment Breakdown policy, which is tailored to cover the loss exposures for equipment and systems installed in their buildings.

Equipment Breakdown was formerly known as Boiler and Machinery coverage, but was rebranded to more accurately describe the expanded range of covered equipment. Equipment Breakdown includes coverage for electrical systems, air conditioning and refrigeration, boiler & pressure vessels, electronic technology systems, and mechanical equipment. Without an Equipment Breakdown policy, owners are self-insuring substantial loss exposures to their property.

## ELECTRICAL SYSTEMS

Electrical systems, which can be a significant investment in the overall building value, are critical for the normal operations of all businesses. A breakdown can impact both building owners and tenants. Since transformers, panels, and electrical systems are typically interconnected, a short circuit can quickly spread and destroy large sections of the system. The costs most often associated with this type of loss include system repairs, generator rental, relocation of tenants (when required due to extensive damage), and loss of revenue caused by building inaccessibility.

## AIR CONDITIONING AND REFRIGERATION

Air conditioning and refrigeration breakdown can result in business closures, spoilage issues, and revenue loss for both property owners and tenants. This equipment seems to break down at the most inconvenient times and repairs can be very expensive. HVAC units are often located on the roof of the building and so replacement can require rental of a crane or helicopter.

Breakdown during a heat wave could require taking actions that result in additional expenses and loss of revenue, such as closing a restaurant, moving hotel guests to another location, or sending employees home and shutting down operations until repairs are completed.

## BOILER AND MACHINERY

Boilers and pressure vessels are subject to explosion, cracking, collapse, and bulging. Any of these can result in loss of hot water or heat for a building, and would require that the owner arrange for necessary temporary equipment, as well as take care of the permanent equipment repairs or replacement. An attractive perk to the Equipment Breakdown policy is that the insurance carrier performs annual inspections of insured boilers to ascertain that they meet jurisdictional requirements.

## ELECTRONIC TECHNOLOGY SYSTEMS

The Equipment Breakdown policy covers damage to sensitive electronic equipment caused by a power surge. In addition to the obvious electrical equipment described above, a surge can impact phone systems, computers, satellite systems, retail systems, security and fire alarms, and other equipment that relies upon electronic technology. Frequently, the surge protection systems in place are inadequate, providing protection only for computers and not the other items that can also be affected by a power surge.



## **MECHANICAL EQUIPMENT**

Mechanical equipment includes water pumps, ventilation fans, elevators, escalators, motors, engines, and most other mechanical equipment used to run your building. A breakdown can instantly place a building owner or tenants in a serious situation. For example, water pump failure can result in extensive water damage to owner's and tenants' property. In the event of an elevator system breakdown in a high rise building, tenants may be inconvenienced or trapped, and look to the building owner for compensation.

### **EQUIPMENT BREAKDOWN COVERAGE**

The Equipment Breakdown policy covers damage to insured equipment and resulting loss of revenue (Business Income) while the equipment is being repaired or replaced. It does not pay for normal wear and tear. The policy can be endorsed to include Contingent Business Income, which responds if a key vendor or supplier can't meet their obligations to the insured due to a mechanical breakdown of their own. Primary causes of loss include power surges, short circuits, and mechanical breakdown.

Equipment Breakdown coverage can be obtained through your property carrier or as a stand-alone coverage. Not all property insurers write this Equipment Breakdown coverage, but the important point is that this cost effective coverage is available. If Equipment Breakdown is not already included in your current property insurance program, we will be happy to discuss coverage options with you.