

Machinery Breakdown

Product briefing

Keep things running

Machinery Breakdown insurance should be an important consideration for any enterprise reliant upon plant or machinery for the smooth running of their business. Air conditioners, boilers, drills, grinders, heating booths, lathes, presses, pumps, refrigeration units, turbines, ventilation... the list is virtually A to Z.

The purpose of a breakdown policy is two-fold:

1. to ensure your clients have the funds to repair or replace crucial damaged* machinery;
2. to ensure their business can survive any resultant interruptions without adversely impacting expected profits.

* Damage is defined as 'sudden and unforeseen physical damage requiring repair or replacement to allow continuation of use provided such damage is not otherwise excluded'.

Maintenance and breakdown

Machinery Breakdown insurance cannot be used as a parts warranty and is not an alternative to a responsible maintenance programme because it does not cover worn or deteriorated parts that should have been identified and replaced through routine servicing. Rather it is designed to cover any resultant damage from the unexpected failure of a part and, if required, any consequential loss of profits.

For example, if a worn bearing causes lubricant to leak, thereby seizing an engine, a Machinery Breakdown policy would not pay to replace the bearing but could cover the cost of:

- dismantling and overhaul;
- in-house overtime charges;
- hire of temporary plant;
- repair or replacement of all broken parts, (except the original bearing), or if necessary;
- replacement of the entire machine;
- express or air freight to fly in replacement parts;
- re-erection and re-commissioning (although not the initial commissioning of a new machine);
- loss of profits.

Note: The root cause must always be a breakdown rather than fire, storm, flood, earthquake, accidental damage etc. which are all insured under a Material Damage policy.

QBE's Machinery Breakdown Policy

QBE's Machinery Breakdown Policy breaks down into three important sections.

Section 1 – Machinery Breakdown

Repair or replacement of any insured machine which breaks down whilst working, resting, being dismantled, moved, re-erected or re-commissioned within the boundaries of the 'situation' (insured premises).

This section is compulsory to obtain cover for Sections 2 and 3.

Section 2 - Spoilage

Resultant damage to any refrigerated goods being stored which are owned by, or the legal responsibility of, the Insured. (Deterioration or putrefaction must be caused by either temperature change or the refrigerant leaking.)

This section is only relevant when the insured machine is refrigeration plant.

Section 3 – Business Interruption

Loss of profits caused by the breakdown interrupting normal business. This takes into account both reduction of turnover and any increased cost of working throughout the chosen 'indemnity period' (normally between twelve (12) to thirty-six (36) months).

This section should be discussed with all clients as the consequences of non-insurance could jeopardise business survival.

The policy also contains some valuable optional extensions applicable to Section 1.



Optional extensions	Standard sub-limits are NZD 5,000 any one event but these can be increased upon request.
Hire of Temporary Plant and Cost of Temporary Repairs	To protect contracts and ensure orders are fulfilled it is often necessary to hire machines until repairs are undertaken.
Express Freight	To minimise downtime, replacement parts need to arrive quickly. 'Express' also includes domestic airfreight.
Overseas Airfreight	For many machines, replacement parts might not be available locally and will have to be sourced quickly from overseas.
Labour Overtime	If damage can be repaired in-house it is likely that, to minimise downtime, such repairs will be undertaken on overtime.

QBE is able to underwrite this product for any New Zealand company including any Australian exposures they might have.

Who needs it?

QBE's Machinery Breakdown Policy is relevant to any client who relies upon machinery for the successful continuation of their business. Engineering, industrial, manufacturing and printing companies are common purchasers but by no means the only relevant market.

Machinery Breakdown should be explained to all new clients and put on the agenda for all renewing clients.

How is it underwritten?

QBE looks at four (4) main rating factors (amongst others) when assessing breakdown risks:

- age and condition of the machine(s);
- maintenance programmes in place;
- loss history;
- seasonal/shift use and operational hours.

What isn't covered?

Some key exclusions include:

- natural wear and gradual deterioration;
- fire, smoke, soot, chemical explosion (except flue gas in boilers);
- wind, storm, flood, hail, snow, frost, ice, water;
- accidental leakage or spillage (except under Section 2, Spoilage);
- alterations, overhauls or maintenance;
- experimenting or overloading;
- consequential loss (except where Section 3, Business Interruption, is taken).

(Please refer to a copy of the full policy wording for details of exclusions, terms and conditions.)

Common questions

What is the Basis of Settlement?

When dealing with repairable damage, QBE will pay for dismantling, freight to/from a repair shop, the cost and freight of replacement parts and re-erection. Parts are indemnified on a 'new for old' basis (ie no depreciation is deducted) but the value of salvage is taken into account. If repairs are undertaken by the Insured at their own workshop, we will pay the cost of materials, apportioned wages and a reasonable percentage of overhead charges.

A machine will be treated as 'destroyed' if the cost of repair exceeds its actual value prior to breakdown. In this case, QBE will either pay the actual value of the machine (less salvage) or will supply a replacement item of similar type, capacity and condition.

In both scenarios we will also pay for removal of the destroyed item plus any freight, customs and erection costs connected with the replacement machine.

What Indemnity Period should I be recommending for the Business Interruption?

This depends on the type of machine being insured and, more importantly, the time required to repair or replace. Some machines can be ordered 'off the shelf' whilst others are highly specialised and 'made to order'. They could take over a year to be made and then as long again to transport, re-erect and commission. Obviously, the same indemnity period needs to be considered for the 'sister' Material Damage policy as either wording could pick up the business interruption costs depending upon the cause of damage.

QBE can underwrite indemnity periods ranging from one (1) to thirty-six (36) months.

Claims scenarios

Shopping mall

The air conditioning condenser at a shopping mall failed, resulting in the air conditioning system being shut down for six days whilst repairs were undertaken. For health and safety reasons, the mall was forced to close during this time and the mall owners lost six (6) days' rental income from each of their fifty-five (55) retail tenants.

As the shopping mall had insured both the machinery breakdown and their business interruption risk, the claim for NZD 181,369 was met in full.

Coolstores

A thermostat failed on a refrigeration plant of a coolstore causing a drop in temperature and damage to the large stock of butter held within. The plant was up and running again within a week but by this time the butter was unsellable.

There was a successful claim for NZD 247,000 comprising of the repair, the spoiled butter and resultant loss of profits.

Printer

A printing company ran three different presses, the busiest of which was an older Roland Rekord. Due to natural wear and tear, a sheet guide broke and was carried into the press, going through the printing cylinders and necessitating a major gearing and bearing overhaul with cylinder repairs. Original parts had to be shipped from Germany but, due to the age of the model, it took a month to track them down and it was nearly two months before the Roland was finally re-commissioned.

Unfortunately the company did not hold business interruption cover. The cost of the breakdown was covered (NZD 33,750 which covered parts, freight and labour), but the company lost significant turnover and as a result were forced to lay off two (2) experienced members of staff.

At renewal, the company extended cover to include both the optional Overseas Airfreight extension and Section 3, Business Interruption.

For more information contact your QBE underwriter.

The objective of this Product Briefing is to summarise the purpose of the product, the main market for which the product has been designed and key aspects of cover. For full details of cover, please refer to a copy of the policy wording.