

Boiler & Machinery Insurance

If your community association's air conditioning breaks down this month, who's going to pay to fix it?

If you don't know, maybe you should find out. It's too late to determine who'd pay after an equipment breakdown or failure.

Where would the money come from for repair or replacement? Hopefully the right kind of insurance would be in place to pay for it—

boiler and machinery (or comprehensive equipment) insurance.

Boiler and machinery insurance is a form of property insurance that protects against financial loss from property damage, business interruption, and

spoilage that is the result of sudden and accidental mechanical breakdown. It fills the gaps left by property insurance policies.

Coverage can extend to all pressure-driven, mechanical, and electrical equipment, including circuitry. Many common equipment failures, such as broken gears, cracked or ruptured pipes, and electrical motor burnout, are not covered by most standard property insurance policies, so boiler and machinery coverage has become a necessity for community associations.

But we don't have a boiler.

Although your community association may not have a boiler, steam pipes, turbines, or

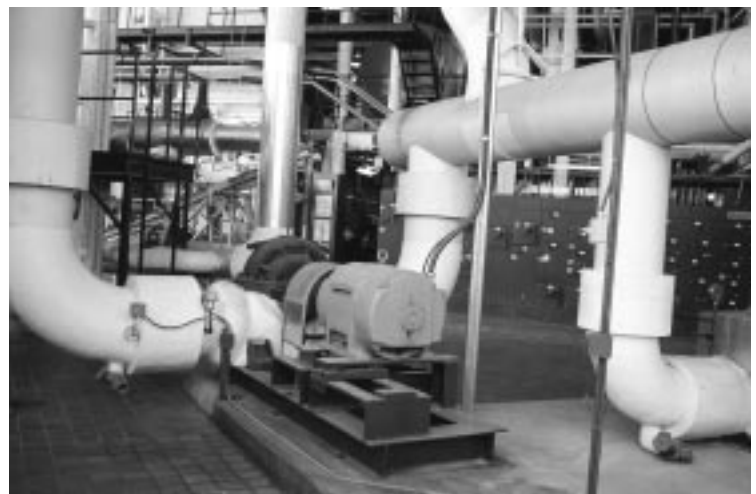
engines, chances are some form of the following equipment exists, which is covered under boiler and machinery insurance:

- A/C and refrigeration systems,
- boiler and pressure vessels,
- diagnostic equipment,
- electrical equipment,
- mechanical equipment, and
- production equipment/machinery.

Doesn't property insurance cover this?

Most property policies have four basic exclusions that make boiler and machinery coverage necessary. These exclusions include all losses as a result of—

- explosion of steam boilers, steam engines, steam turbines, or vessels under steam pressure;



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- electrical arcing (short circuits) of motors, generators, circuit breakers, electrical distribution boards, cables, and transformers;
- mechanical breakdown; and
- centrifugal force.

Any loss resulting from these might not be covered by a property insurance policy. This would include not only physical damage to the property (building, contents, equipment, and inventory), but also indirect damage, such as business interruption, extra expense, or consequential damage (spoilage).

Few, if any, of these exposures are covered by most “open perils” policies. Most common equipment failures (broken gears, cracked or ruptured pipes, electrical motor burnout, rupture or explosion of pressure vessels) are not covered. Even mechanical breakdown and explosion from centrifugal force are excluded.

Our policy covers “explosions.”

Although most standard property insurance policies list “explosion” as an insured peril, this refers to fireboxes—but not the types of violent explosions that statistically have the highest probability of happening to equipment: burst pipes, rupture of pressure-relief devices, explosions from expansion or swelling of contents of buildings, and breakdowns from centrifugal force.

Boiler and machinery policies cover losses caused by a “sudden and accidental breakdown of insured objects.” These

failures can be caused by, but are not limited to, internal arcing, negligence, power surges, and brownouts. Typical accidents include—

- explosion of steam boilers and steam piping;
- burning, bulging, cracking, splitting, or collapsing of boilers or pressure vessels;
- electrical arcing damage, which can include burnout of air conditioning motors and electric motors, electrical panels, circuit breakers, bus ducts, transformers, computer control equipment, and emergency generators; and
- mechanical breakdown of compressors (air conditioning and refrigeration), pumps, fans and blowers, gears, turbines, internal combustion engines and miscellaneous production machinery.

What does boiler and machinery insurance cover?

The coverage sections are as follows:

Coverage A—Pays for loss of property directly damaged by an accident.

Coverage B—Pays a limited amount for expediting expenses to get equipment back into operation.

Coverage C—Pays for property damage for which the insured might be liable.

Coverage D—Pays for bodily injury, sickness, disease, or death for which the insured is liable. The coverage includes payment for immediate medical

and surgical relief rendered at the time of the accident.

Coverage E—Provides legal defense, court costs, interests on judgments rendered, and premiums for appeal bonds for any claim or suit that alleges liability under C or D.

Coverage F—Provides coverage for any object similar to those described in schedule, which insured may install.

The coverage can be written for a specific item, e.g., an air conditioner, or it can be written to cover a number of items on a blanket basis. Limitations should be clearly understood to avoid problems later.

In most cases, the premium for comprehensive equipment coverage will be relatively small but well worth the expense to any association that maintains such machinery.

How about inspections?

Inspections are an important aspect of loss reduction whenever equipment is concerned. Many states have local laws requiring periodic equipment inspections. In most cases, these jurisdictions will accept insurance company inspections, and the policyholder will have to pay only the certificate fee, not the local inspection fee. This can result in significant savings to the insured.

Also, service contracts and warranties should be studied carefully to see what help they would be in the case of an equipment failure or accident. Check to see, for example, if the warranty or service contract covers electrical burnout

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caused by a line surge, the cost of refrigerant to purge or recharge a system after an accident, the mishandling of equipment by unauthorized personnel, damage caused by improper installation, labor and overtime expenses, or motor burnout caused by the out-of-phase condition of a utility-owned transformer.

Where should I go for more information?

Boiler and machinery or comprehensive equipment insurance is often overlooked because the need for this type of coverage is not apparent until serious damage has occurred. Anyone

responsible for machinery should check the community association's existing policy to be sure of coverage when needed.

If you have any questions, please contact Steve Dickerson at Morgan & Cheves (703-739-2346 or sdickerson@usisoutheast.com).

“Ask the Expert” is a regular column in *Insurance Focus*, featuring an interview with an expert about an important insurance issue facing community associations. This month our expert is Elaina Dickey, boiler and machinery account executive for Travelers Property & Casualty, a company fully committed to providing its agents with the best boiler & machinery products, services, and pricing available. She has 12 years of experience in equipment breakdown coverage and may be reached at 800-947-0314 ext. 3310.

Q: Why equipment breakdown insurance?

A: An equipment breakdown policy can protect against the effects of catastrophic property losses, such as an expensive breakdown of machinery and equipment.

The physical damage caused by a breakdown is not the only area of concern. While repairs are being made, the community association must be kept in operation, regardless of cost, and valuable time and profits are lost. These expenditures would be covered under an equipment breakdown policy.

Equally important is the valuable inspection service equipment breakdown coverage provides. Not only does this service satisfy most jurisdictional inspection requirements, it can also benefit the community association through sound loss control recommendations. These recommendations can help assure more efficient operations and longer equipment life.

Q: Who needs equipment breakdown insurance coverage?

A: All community associations have some type of equipment exposure. Mechanical breakdown coverage consists of more than just boilers and pressure

vessels—it includes refrigeration/air-conditioning equipment, piping, turbines, engines, pumps, compressors, blowers, generators, transformers, and other types of electrical and mechanical equipment.

In fact, many equipment coverage policies are written for businesses that do not own or operate boilers and pressure vessels, yet have sizeable mechanical and electrical exposures. It is not just the large steel mills, electrical utilities, or chemical plants that have these exposures. Any business that provides heat or cools a large building is likely to have a boiler and/or sizeable air conditioning exposure. All businesses use electricity, which means an electrical apparatus and possibly transformer exposure is present.

The starting point for identifying an equipment breakdown exposure is by asking a simple question: Does your community association have any boilers, pressure vessels, or mechanical or electrical equipment that would be expensive to repair or replace or would cause a business income/extra expense loss should it break down? If the answer to this question is yes, you should contact your insurance agent and arrange for a proposal to be made.

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COMPREHENSIVE EQUIPMENT COVERAGE INSURABLE EQUIPMENT

Type of Equipment	Typical Failures	Some of the Causes
Boilers and fired pressure vessels	Explosion Burning Bulging Cracking	Overpressure; inadequate or inoperative relief valves; structural weakness Control failure; low water from leakage or feed pump failure; flame impingement Scale or sediment buildup; flame impingement Thermal stresses; rust buildup; over-tightened tie rods; porous castings; vandalism
Unfired vessels (hot water tanks, air tanks, cookers, process vessels)	Explosion Bulging Implosion Cracking	Overpressure; chemical reaction; inoperative or inadequate relief devices; structural flaws Thinning of metal from erosion, corrosion Sudden loss of pressure; control failure Vibration; structural flaws; poor welding
Refrigerating and air conditioning vessels, piping	Cracking (piping) Cracking (vessels) Explosion	Vibration; support failure; vehicle impact (forklift trucks); chipping ice off piping Failure of flow switch; improper layup; freeze-up Overpressure; control failure; corrosion
Piping (steam, air, etc.)	Explosion Cracking	Vibration; support failure; vehicle impact Support failure; freeze-up; vibration
Electric motors, generators, and other rotating electrical equipment	Electrical burnout Burned bearings Shaft, frame, or rotor breakage	Arcing; line surge; excessive moisture; dirty windings; brittle insulation; vermin; lightning Misalignment; inadequate lubrication Overspeed; metal fatigue; shock load; misalignment; erosion
Centrifugal compressors, pumps, fans, blowers	Explosion Burned bearings Shaft, blading, impeller breakage	Loss of load; control failure; metal fatigue in rotating element Misalignment; inadequate lubrication Misalignment; metal fatigue; foreign material; overload; progressive crack
Reciprocating compressors, pumps, internal combustion engines	Cylinder damage Shaft, rod breakage Jacket, frame, engine block damage	Liquid slugging; contaminated oil; seizing or scoring from inadequate lubrication Misalignment; shock load; progressive crack; loosening of parts Freeze-up; loosening of bolts; progressive crack; loss of cooling medium
Turbines	Explosion Blading damage Shaft breakage Casing breakage Failure of driven generator, pump, etc.	Overspeed; loss of load; control failure Shroud ring failure; erosion; imbalance; progressive crack; contaminated steam; vapor induction Misalignment; bearing failure; lack of lubrication; shock load Vibration; progressive crack; thermal stress (Refer to particular equipment section above.)
Gears, gear sets	Broken teeth Burned bearings	Vibration; misalignment; misapplication, progressive crack; metal fatigue Misalignment; inadequate lubrication
Transformers	Electrical burnout	Lightning; line surge; excessive moisture; deterioration of insulation; overload; contaminated insulating liquid
Miscellaneous electrical apparatus (switchboards, cables, bus ducts, circuit breakers)	Electrical burnout	Lightning; line surge, excessive moisture; poor maintenance of relays and connectors; loose connection; overload; carelessness
Air conditioning units; small refrigerating and compressing units		(Refer to comments relating to particular components of the units: motors, compressors, vessels, etc.)

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