

Breaking Down Equipment Breakdown



History

History

The **S.S Sultana** was a **Mississippi River side-wheel steamboat** that **exploded** on April 27, 1865

This event is the **greatest maritime disaster** in the United States' history



An estimated **1,700 of its 2427** passengers died when **3 of the ship's 4 boilers exploded** and it sank near Memphis

Evolution of the term “Equipment Breakdown”

1

Initially Called Boiler Insurance

Insurance policies became available covering accidental explosion of boilers. Also included an inspection component which was of considerable value to insureds.

2

Later Included The term Machinery

Coverage expanded to include mechanical machinery and continued to expand to include the various equipment covered today.

3

Currently Called Equipment Breakdown Insurance

It is no longer commonly referred to as B&M Insurance but now as Equipment Breakdown Insurance (EBI)



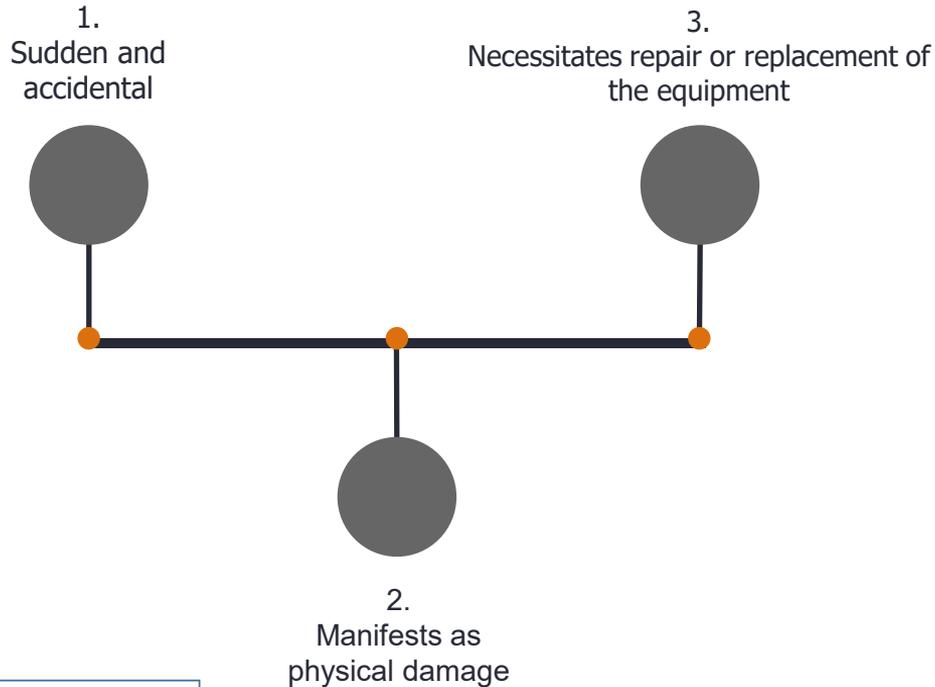
Understanding EBI

What is Equipment Breakdown Insurance (EBI)?

- First Party Insurance
- Insures against:
 - financial loss due to property damage
 - business interruption
 - extra expense
 - which result from a breakdown of Insured Equipment
- There has to be a breakdown to insured equipment



What is a "breakdown"?



All three components must exist to satisfy the definition of breakdown

But a Breakdown does not mean...

- Deterioration, leakage, corrosion or erosion of material
- Misalignment, testing, explosion of gasses vibration or wear and tear
- The functioning of any safety or protective device
- The breakdown of any structure, foundation or setting supporting or housing of any Insured Equipment



What is insured equipment?

Pressure Equipment

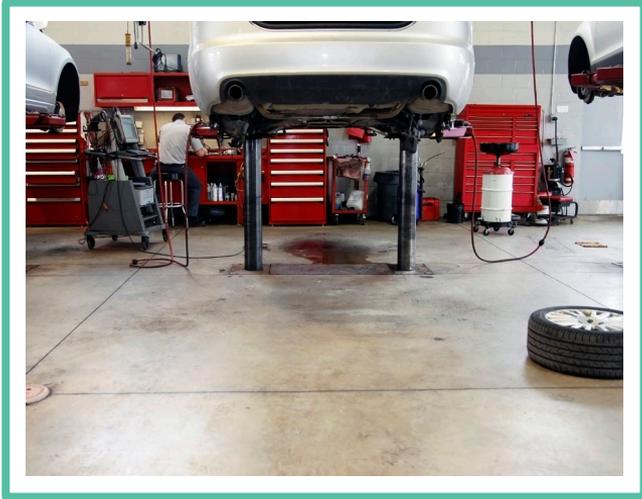


Pressure Equipment



- A vessel with an internal pressure different from that of the static pressure
- Equipment that produces:
 - hot water
 - steam
 - compressed air
 - liquids and gases

Pressure Equipment – common examples



- Boilers (water tube and electric)
- Water Heaters
- Hydraulic Cylinders
- Pressure Piping
- Air Tanks

Pressure Equipment – common examples



- Cookers
- Sterilisers
- Autoclaves
- Refrigeration Systems

Pressure Equipment – Potential Causes of Equipment Breakdown



- Overpressure
- Defective Welding
- Scale or Sediment Buildup
- Lack of Maintenance
- Human Error
- Failure of Safety Device

Pressure Equipment – claim example

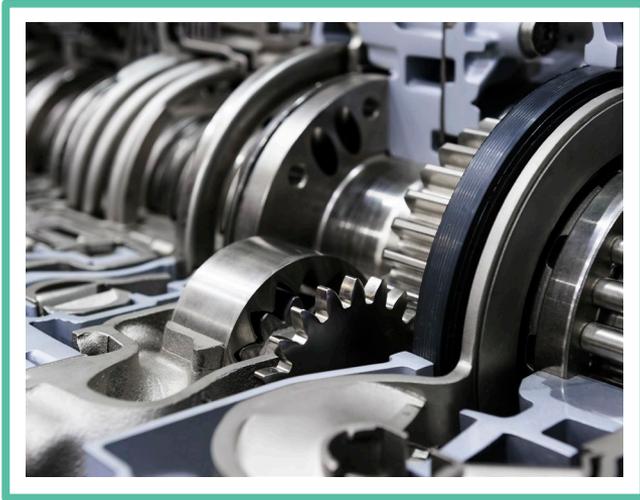


- A boiler tube ruptured causing no damage except to the boiler.
- The damage was a result of thermal shock due to the failure of its low-water cut-off and filler control. Essentially, the boiler ran dry and tubes of the boiler cracked and broke.



Mechanical Equipment

Mechanical Equipment



- Used for generation, transmission or utilization of mechanical power

Mechanical Equipment – common examples



- Air Conditioning Systems
- Generators
- Motors
- Pumps
- Fans
- Alternators

Mechanical Equipment – Potential Causes of Equipment Breakdown



- Faulty Design
- Metal Fatigue
- Lack of Lubrication
- Operator Error or Error in the Assembly of the Equipment
- Excessive Use of the Equipment
- Foreign Object



Electric Equipment

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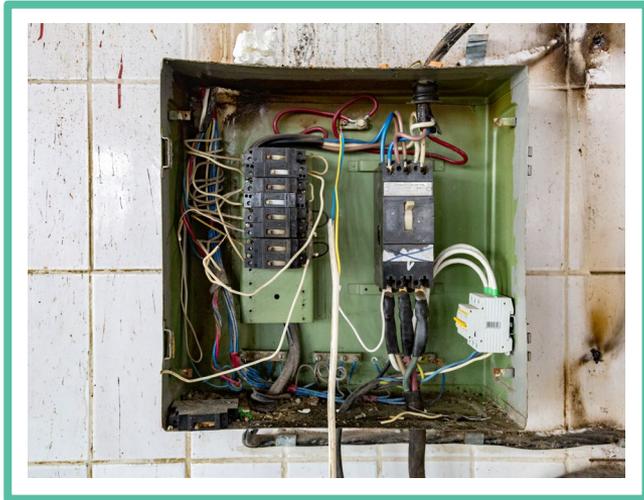
Electric Equipment – common examples



Any Equipment generating, transmitting or utilizing electrical power:

- Transformers
- Electrical Panels
- Cables
- Electric Motors
- Fuses

Electric Equipment – Potential Causes of Equipment Breakdown



- Power Surges
- Electrical Fluctuations
- Short Circuit
- Electric Arc
- Human Error
- Deterioration of Insulation
- Humidity
- Rodents



Air Conditioning & Refrigeration Equipment



Air Conditioning & Refrigeration Equipment



- Air Conditioning and refrigeration units are the most common sources of EBI losses
- They contain several different components
- Losses can be substantial and difficult to replace
- Breakdowns can lead to Business Interruption and Spoilage losses

Example of Perishable Goods



- Fruits and Vegetables
- Meats
- Seafood
- Dairy Products
- Flowers
- Medication

Potential Causes of Air Conditioning & Refrigeration Equipment Breakdown

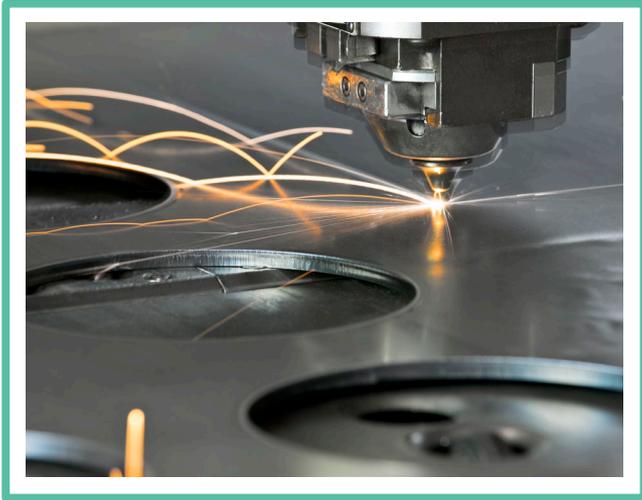


- Refrigerant Leak (Pressure)
 - Compressor Breakdown (Mechanical)
 - Thermostat Breakdown (Electronic)
 - Motor that Operates Compressor (Electric)
 - Inadequate Maintenance
 - Foreign Objects
 - Human Error
- **Extra Costs: Rental of Crane for Replacement



Production Machinery

Production Machinery



- Any complete production machine that processes, forms, cuts, shapes, grinds and conveys raw stock, stock in process or finished stock.

Production Machinery – types of equipment



- Printers
- CNC Machines
- Extrusion / Injection Machines
- Automated Systems (robots)
- Majority of equipment is manufactured in Europe or Asia making a repair or replacement of the equipment costly for direct damage and business interruption



Other Coverages

Data Coverage



- If, as a result of a breakdown, data is lost or damaged, the Insurer will pay for the cost of gathering or reproducing the data
- The Insurer will not pay for data which is lost or damaged as a result of programming errors

Extra Expense



- This insurance is extended to cover the necessary extra expense incurred by the Insured in order to resume as nearly as practicable, their normal business operations that have been interrupted as a direct result of breakdown

Hazardous Substances



- If a hazardous substance is involved in or released by a breakdown the Insurer will pay the increase in cost to repair, replace, clean up or dispose of, affected insured property

Spoilage



- The Insurer shall pay for spoilage of stock caused directly by a change of temperature or humidity resulting directly from breakdown occurring at an insured location or premises



Inspections

Inspections



- Certain boilers and pressure vessels are required by law to be inspected and certified every 1, 2, or 3 years depending on the type of equipment.
- These inspections are mandatory in certain provinces but are handled by the provincial governments in others.

Thanks!

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