

MACHINERY BREAKDOWN INSURANCE (MBD)

Machinery Breakdown policy is an ideal cover for all kinds of plant and machinery, to cover cost of repairs or replacement of damaged parts as a result of *unforeseen and sudden* physical damages.

The cover affords protection to the insured machinery whilst at work or at rest and also when they are being dismantled for the purpose of cleaning, inspection and overhauling or removal to another position or in the course of their operations or subsequent re-erection, *provided these are performed in the same premises.*

SCOPE OF COVER

The MBD policy covers:

- ❖ *unforeseen and sudden physical damage* to the insured machinery by
- ❖ *any cause not specifically excluded*
- ❖ whilst in the specified premises,
- ❖ *necessitating its immediate repair or replacement.*

The MBD insurance also covers loss or damage due to fire, in insured electrical machineries, *originating from within such insured machinery and resultant fire damage to such machinery only.* The Standard Fire & Special Perils Policy specifically excludes this risk.

For loss or damage occasioned by *spread of fire*, so originated within electrical machinery, to surrounding property, cover is available by “Oriental’s Standard Fire and Special Perils Policy.

Thereby, the following major electrical and mechanical breakdowns risks, faced by plant and machinery, are covered by this policy:

- Short circuiting, excess voltage & electrical arcing
- Faulty design, faulty material and faulty casting (manifesting after warranty period)
- Abnormal operating conditions
- Carelessness and lack of skill in the operation and maintenance of machinery

- Entry of foreign bodies
- Falling, Impact, Collision etc
- Bursting or disruption of turbines, compressors, cylinders of steam engines, hydraulic cylinders or fly wheels or other apparatus subject to centrifugal force, internal pressure.

Significant Exclusions:

The exclusions under the MBD Policy are grouped into the following two categories:

1. General Exclusions
2. Specific exclusions

Significant General Exclusions:

- ❖ War & civil war or riot, strike and kindred risks
- ❖ Nuclear risks

Significant Special Exclusions:

- The excess as stated in the schedule.
- Fire & allied perils, theft. (Insurable under Oriental's Fire and Oriental's Housebreaking policy respectively)
- Loss, damage resulting from overload experiments or tests requiring the imposition of abnormal conditions.
- *Gradually* developing flaws, defects, cracks or partial fractures in any part *not necessitating immediate stoppage and repair* although at some future time repair or renewal of the parts affected may be necessary.
- Wear and tear losses arising out of ordinary usage or working. (The intention of this exclusion is simply to exclude the actual wastage, wear or deterioration *but not sudden and unforeseen damage* to other parts resulting there from.)
- Faults or defects which were in existence when the insurance was arranged and known to the insured.
- Damage due to faults or defects for which the manufacturer or the supplier is responsible either by law or under contract.
- Loss of use of the insured's plant or property of any other consequential loss incurred by the insured.

(Cover for loss of gross profit consequential upon business interruption arising out of machinery breakdown losses is available under Orientals' "Loss of Profits Insurance (following Machinery Breakdown)".

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- Loss, damage/and/or liability due to explosions in Chemical Recovery Boilers.
- Loss of or damage to belts, ropes, chains, rubber tyres, knives or exchangeable tools and such other parts; unless loss or damage to the equipments/machinery is indemnifiable in terms of the policy.
- Loss or damage for which the manufacturer or supplier or repairer of the property is responsible either by law or contract.

Explosion / implosion risks, *other than those specifically covered by the MBD policy*, are insurable under the fire policy and boiler explosion policy. (Please see note below).

NOTE 1:

- Explosion / Implosion cover, is available in Oriental's "Standard Fire and Special Perils" Insurance. (See the "Standard Fire and Special Perils" policy.)
- Explosion / implosion of boilers, economizers or other vessels, machinery or apparatus(in which steam is generated) or their contents resulting *arising out of a defect of their own internal working*, is available in Oriental's "Boiler & Pressure Plant Insurance" as well as Oriental's "Machinery Breakdown Policy".

NOTE 2:

- The Standard Fire & Special Perils Policy indemnifies loss or damage to steam generating boilers and other pressure vessels due to insured external causes and consequent fire or non-fire (concussion) damages only.
- However, loss or damage to the boiler or other pressure plant due to excessive steam pressure, arising out of a defect of their own internal working, is not covered under the Fire Policy.
- It is, therefore, recommended that Boiler and Pressure Plant are insured both under Oriental's "Standard Fire and Special Perils Policy" and also under Orientals' "Boiler and Pressure Plant Policy" or "Machinery Breakdown Policy" to have a cover for both set of perils.

Extensions Available Under This Policy

The following extensions are covered under MBD Policy on payment of additional premium:

1. Express freight (air freight excluded), holiday and overtime rates of wages.
2. Air Freight Only.
3. Surrounding Property
4. Third Party Liability
5. Custom Duty
6. Escalation

GUIDELINES FOR DETERMINING SUM INSURED:

- The insured has the responsibility for declaring the Sum Insured (SI). The SI for each item covered must represent the *New Replacement Cost*.
- For this purpose the Sums insured should be reviewed at frequent intervals and, if possible, values should be linked to an acceptable index showing the fluctuation in prices. An annual revaluation of the items of plant and machinery should also be carried out in order to ensure that the Sums Insured are always kept up-to date.

This can be determined in various ways depending on the information available. Some of the usual methods are suggested here under:

Computation Of Sum Insured:

Situation	Sum Insured
1. Currently available for sale:	<ul style="list-style-type: none"> ❖ Valid current list price for the item <li style="text-align: center;">+(plus) ❖ Taxes & Duties, Delivery Costs to the site, Erection Cost <li style="text-align: center;">+(plus) ❖ Suitable escalation for the policy period
2. Equipment no longer available for sale and only spare parts price is ascertainable	<ul style="list-style-type: none"> ❖ List price from last available Price List <li style="text-align: center;">+(plus) ❖ Loading/Discounts for price variation (Where relevant) <li style="text-align: center;">+(plus) ❖ Taxes & Duties, Delivery Costs to the site, Erection Cost <li style="text-align: center;">+(plus) ❖ Suitable escalation for the policy period
3. If no Price List is available:	<ul style="list-style-type: none"> ❖ Purchase/Delivery Price <li style="text-align: center;">+(plus) ❖ Loading/Discounts for price variation (Where relevant) <li style="text-align: center;">+(plus) ❖ Taxes & Duties, Delivery Costs to the site, Erection Cost

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	+(plus) ❖ Suitable escalation for the policy period
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Note:

- Depending on the type of system and the individual circumstances involved, delivery cost could be quite substantial. Hence, it is advisable to realistically account for the same.
- Discounts and special price agreements upon purchase of the items to be insured *should not be taken into consideration* when determining SI because after loss usually insured would not get these discounts.
- Under-insurance should be avoided; otherwise claims for repairs or replacements are paid only in the proportion which the Sum Insured bears to the current new replacement value. In other words, the claim settlement becomes subject to the condition of average.

CAUTION:

If the declared sum insured is found to be less than the amount required to be insured (*on the date of loss*), then the claim amount will be proportionately reduced. Hence purchase of the Escalation Extension is recommended to reduce the possibility of under insurance.

Example

Sum Insured Opted:	Rs.10, 00,000/-
Sum Insured <i>required to be opted</i> as per policy conditions:	Rs.14 ,00,000/-
Loss:	Rs. 3,00,000/-
Loss payable will be proportionately reduced	Rs. 2,14,286/-
$(10,00,000 / 14,00,000 \times 3,00,000)$	

GENERAL

1. All equipments should have a serial number (Full nameplate details of the machine i.e. manufacturer's name, type, year of manufacture, serial number) or any identification mark. The same is to be mentioned in the proposal.
2. Risks are usually accepted only after satisfactory inspection.

3. Machines, which are under erection or testing and commissioning, should be insured only after initial performance / test operations have completed successfully.
4. *Machines proposed for insurance should be in worthy working condition with proper preventive maintenance programme. Safety devices wherever provided on the machines must be in proper operating condition.*
5. A Machinery Insurance Policy does *not* cover electronic equipments such as Computers, Medical and Biomedical Equipments, Microprocessors, Audio/Visual Equipments. These equipments can be covered under Oriental's "Electronic Equipments Insurance" (EEI) Policy. ([Hyperlink](#))
6. Option to insure under either MB or EEI Policy

Equipments having computerized controls and operations, which are integral to the equipments, can be insured either under MBD policy or under EEI policy. If value of electronics portions is predominant, it is recommended to take the EEI policy for such equipments / machines.

8. Cover for part of machinery and Gear Boxes under Machinery Insurance (MI) Policy -

- Gear Boxes should *not* be insured in isolation but should be insured either with the 'drives' or the driven equipment.
- Parts of machines should *not* be insured separately; their values should be included in the total value of the machine to which they are related.

9. In respect of Turbo generator sets proposed to be covered under Machinery Insurance Policy, for the purpose of Sum Insured, the following break-up is acceptable:

- Turbine, Alternator, Gear Box, Control Panel and Cables

10. Insurance of Foundations -

In cases where insurance of foundations or oil in transformers and other electrical equipment is specifically required, *their values should be declared separately.*

11. Spares/Standby Equipments:

- For all standby or spare electrical and mechanical equipments, 50 % discount is permissible; provided only one machine remains in operation, at any one time.
- MB cover for insurance of spares of machines like rotors of generators, compressors, turbines or windings of transformers etc. can be granted. The same can be covered along with the machines separately by charging 50% of premium rate applicable to the corresponding machine under the MB Policy.

BASIS OF CLAIM SETTLEMENT:

Partial Loss:

- The full cost of repair / replacement of parts damaged. No deduction shall be made for depreciation in respect of parts replaced, except those with limited life.
- Incidental expenses like cost of dismantling, re-erection, freight, taxes and duties etc. *to the extent such expenses have been included in the Sum Insured.*
- Allowance for life consumed (of limited life parts), salvage, underinsurance and policy excess will be taken into account.

Total Loss:

- If insured machine or equipment is totally damaged to such an extent that the cost of repairs is more than the actual value of the machinery insured immediately before the accident, the claim is settled Total Loss Basis (explained below):-
- New replacement value less depreciation for the period the equipment was in use.
- Incidental expenses like cost of dismantling, re-erection, freight, taxes and duties etc. *to the extent such expenses have been included in the Sum Insured.*
- Any extra charges incurred for overtime, night-work, work on public holidays, express freight, are payable *only if especially agreed to in writing.*
- Expenses for overhauling, maintenance or modification are not payable.
- In cases where the Insured item is subjected to total loss and meanwhile it becomes obsolete, all costs necessary to replace the lost or damaged insured item with a follow-up model (similar type) of similar structure/ configuration (of similar quality) will be reimbursed. Allowance will be made for the improved version / model.
- Where the Insured is unable to replace the damaged equipment for reasons beyond their control, claims can be settled on 'Indemnity Basis'.
- Important: As from the date of indemnifiable occurrence, the *Sum Insured shall be reduced* for the remaining period of insurance by the amount of claim paid, *unless the same is reinstated by payment of pro-rata extra premium.*