

MACHINERY AND EQUIPMENT BREAKDOWN INSURANCE EXPLAINED

The breakdown of key equipment can result in significant interruptions and financial losses for strata schemes.

To help minimise disruption, many strata insurance policies provide an optional section of cover called Machinery Breakdown or Equipment Breakdown. It provides relief for unexpected breakdowns that aren't triggered by an insured event like a power surge, storm damage or fire.



Communities under stress

Every strata scheme has equipment that facilitates the day-to-day operation of the property. Schemes are responsible for repairing and maintaining their common property and assets.

As extreme weather becomes increasingly common, the need to protect valuable assets from unexpected breakdowns has never been more important. These conditions intensify the strain on machinery and equipment, and the risk of overheating and malfunctioning escalates significantly. Air conditioning systems struggle to keep indoor spaces cool, electrical systems face increased demand, and mechanical components are pushed to their limits.

Typical equipment and machinery in strata schemes

- Lift motors
- Water pumps, generators, compressors
- Centralised air-conditioning systems
- Chillers and refrigeration units
- Security systems
- Fire detection system
- Electrical equipment and control panels

Machinery can be largely hidden, so when considering cover, think about what drives utilities such as water, drainage, air conditioning systems, sewerage and lifts.

- How does the water get to the top floor of a high-rise building?
- What stops stormwater from flooding the basement?
- Why is it so cool inside?
- How does water get to the fire sprinkler heads?

Prevention is always the best strategy

Machinery Breakdown insurance doesn't replace a Comprehensive Maintenance Agreement. It's about being better prepared for the unexpected, but it won't help strata schemes that have neglected to maintain their property.

Each policy has slightly different conditions, but some common exclusions include wear and tear, deterioration of existing damage or flaws, atmospheric conditions resulting in corrosion and lack of maintenance.

- A Comprehensive Maintenance Agreement is an agreement between the scheme and a contractor for an annual fee. This fee covers worn replacement parts and servicing but doesn't cover damage caused by an insurable event.
- Insurers view these positively and will determine their annual premium based on the extent of protection and service standards under the agreement.

Machinery Breakdown insurance is critical for larger and taller buildings because of the size of motors needed to drive equipment. These will typically exceed any limits under Fusion of Motors cover, where the repair/replacement value has a lower limit, usually \$5,000.

Cover and policy conditions

- Cover is optional and is purchased based on an onsite risk assessment of the plant and machinery.
- Breakdown is defined as sudden and unforeseen electrical or mechanical damage.
- Cover is triggered by the failure of plant or machinery caused by an event that isn't covered under the Building & Common Contents policy.
- Unless the policy specifies it, there's generally no limitation to the size of the plant and machinery claimable under Machinery Breakdown insurance, but always check the Product Disclosure Statement.
- Where the failure of an internal machinery part causes internal damage to machinery, the failed part is excluded from cover, but the damage to the machinery is covered.

Additional benefits of Machinery Breakdown insurance

In addition to the actual cost of repairing or replacing the equipment, some Machinery Breakdown insurance offers additional benefits.

- Expediting repairs, including overtime.
- Express or air freight.
- Hiring necessary temporary replacement items where the machinery drives a critical system.
- Temporary accommodation or loss of rent cover.
- Replacement for loss and spoilage of stock or loss of profits while waiting for the parts to repair machinery.

If you have any questions about Machinery and Equipment Breakdown insurance, please contact your local BCB office.

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ADELAIDE

Phone 03 8609 2311
Email sa@bcb.com.au

BRISBANE

Phone 07 5668 7800
Email qld@bcb.com.au

CAIRNS

Phone 07 5668 7800
Email qld@bcb.com.au

DARWIN

Phone 0434 909 555
Email nt@bcb.com.au

GOLD COAST

Phone 07 5668 7800
Email qld@bcb.com.au

MELBOURNE

Phone 03 8609 2300
Email vic@bcb.com.au

PERTH

Phone 08 6245 5300
Email wa@bcb.com.au

SYDNEY

Phone 02 9024 3850
Email nsw@bcb.com.au

QUESTIONS?

Please contact your nearest BCB office for any queries or advice.

