

HSB Machinery Inherent Defects Insurance

HSB Distributor Product Information

Information for distributors of
HSB insurance products only



A Munich Re company

This document has been produced by HSB in accordance with our regulatory responsibilities as a Product Manufacturer. This document provides high level information on the product, including information on the main features and exclusions, target market, fees, commissions, distribution channel, as well as Fair Value outcome and Consumer Duty regulations. It is intended for use by our Distributors and not for customers or operational staff. For more information, please speak to your HSB representative.

It is not a sales or marketing tool and should not be used as such.

Requests for insurance coverage should always be placed under the most suitable product based on the Insured's needs and in their best interests.

Carrier name:	HSB Engineering Insurance Limited
Broker name:	As stated in TOBA
Product name:	HSB Machinery Inherent Defects Insurance (MIDI)
Reference/UMR (Binder):	POL-UKG-IDR-001-TRA POL-ROI-IDR-001-TRA
Reference (class of business):	Machinery Inherent Defects
Date:	September 2023

Product information
<p>Product oversight and governance</p> <p>HSB Engineering Insurance Limited has an established Product Approval Process that covers the entire product lifecycle, from new product development to product review. The following elements are included within the process:</p> <ul style="list-style-type: none"> ▪ Extensive research of the product concept is undertaken to identify an appropriate target market. ▪ Customer type, distribution channel, charging structure as well as the wider market and legal developments are identified and considered. ▪ Risk assessments and regulatory reviews are undertaken to ensure fairness to customers and that any risks to the identified target market are appropriately managed. ▪ Product marketing, training and technical support ensures knowledge of the product is accurately assessed and competence is evidenced prior to distribution of the product. ▪ Post launch, the overall product performance is interrogated and reviewed. This includes claims reports, systems reviews and customer feedback being processed to identify on-going product and market suitability. <p>Product summary</p> <p>The HSB Machinery Inherent Defects Insurance (MIDI) policy is a commercial product which provides cover for damage to newly installed equipment/property resulting from a defect. In addition, dependent on the product version, cover is available for loss of business or rental income resulting from these events.</p> <p>The main MIDI product targets modern buildings which have become increasingly complex with up to 40% of construction costs relating to the mechanical and electrical services that support them. These mechanical and electrical services can be plagued by defects caused by poor design, materials or workmanship and this can be highly problematic for the owners and occupiers of affected buildings.</p> <p>A traditional remedy has been the provision of collateral warranties by contractors but with the risk of insolvencies in the UK construction industry these cannot always be relied upon and can be very difficult and costly to enforce. Increasingly developers, owners, investors and occupiers are turning to the security and reliability of inherent defects insurances (such as MIDI) to satisfy requirements.</p> <p>Cover is available under MIDI for periods of up to 12 years. The product covers damage caused by an inherent defect in insured property that existed prior to practical completion of the building. Additional cover is also available for the loss of rental income suffered as a result of a defect.</p> <p>Typically the product applies to the mechanical and electrical services installed in the building, including:</p> <ul style="list-style-type: none"> ▪ heating, ventilation and air conditioning systems;

- lifting and access equipment;
- electrical generation equipment and distribution systems;
- building security, management and environmental control systems; and
- water and waste processing equipment.

Cover is available for:

- new buildings undergoing construction;
- 'shell and core' building refurbishments;
- completed buildings less than two years old;
- district heating installations and energy centres; and
- energy efficiency retrofits

The MIDI product provides a number of advantages for developers, investors and occupiers of new buildings including:

- the removal of reliance on collateral warranties;
- the removal of reliance on professional indemnity insurances;
- cover that is fully transferable to future owners of the building;
- cover that complements structural building defects insurance;
- the availability of funds for repairs following the discovery of a defect;
- no aggregate claims limit over the lifetime of the policy; and
- a building that can be easier to sell or rent due to enhanced purchaser/tenant confidence.

All projects insured on our MIDI policy are the subject of a technical audit during construction of the building, carried out by our highly-experienced engineers. Designs and specifications are audited and inspections take place throughout the installation period to ensure that quality is maintained.

Other information

- **Territorial limits** – the product is available only to customers domiciled in the UK and Republic of Ireland (ROI).
- **Policy renewal** – the policy does not renew.
- **Claims notification** – all claims are notified to the carrier whose claims team manages the lifecycle of each claim in line with corporate claims handling procedures.
- **Complaints notification** – all complaints are notified to the carrier whose complaints team manages the lifecycle of each complaint in line with corporate complaints handling procedures.
- **Carrier fees** – None.

Target market

The HSB Machinery Inherent Defects (loss of rental income) Insurance policy is a commercial product designed to protect commercial and residential property owners from the risk of damage caused by mechanical and electrical defects within the buildings infrastructure.

Types of customer for whom the product would be unsuitable

The product is not suitable for consumers or retail customers

Distribution Strategy

This product is designed to be delivered to customers via UK and ROI open market brokers and also by both reinsurance and co-insurance arrangements with partner client companies or MGA.

Any notable exclusions or circumstances where the product will not respond

Restrictions

Any requirements for alterations or risk improvements resulting from the technical audit must be fully complied with.

Exclusions (what is not insured)

Damage caused by:

- property perils (for example fire, water damage or theft);
- intentional overloading, testing, experiment or deliberate misuse of equipment;
- solidification, unless resulting from damage to the equipment; or
- wear and tear, or any fault known about at the start of the period of insurance.

Financial loss resulting from:

- the suspension or cancellation of a lease, contract or license; or
- penalties or guarantee of performance.

Other information which may be relevant to distributors

Cover under this product may be affected where:

- a fair presentation of the risk is not provided to the carrier;
- a delay in the notification of a claim prejudices the position of the carrier;
- the requirements of any condition precedent (an important term which sets out a step or action that the customer must take) are not met.

Consumer Duty and Fair Value

In accordance with the FCA PROD4 rules and consumer duty requirements, a product review and fair value assessment are completed annually for this product.

The requirements of these annual exercises consider good customer outcomes based upon the following areas:

- Product and services
- Price and value
- Consumer understanding
- Consumer support

For each of the four key areas, we have assessed what we understand the customer would consider a good outcome. These identified outcomes are:

Product and Services

- Customers are provided with a product that meets their needs
- Customers are provided with a product where the policy limits are appropriate and sufficient
- Customers are provided with a product where the policy coverage meets their expectations
- Customers are provided with clear and easy to understand policy and associated documentation

Price and Value

- Customers are provided with a product where the cost price is fair
- Customers are provided with a product where the distribution costs do not adversely affect the product's value

Consumer Understanding and Consumer Support

- Customers view marketing content that is clear, fair and not misleading
- Customers deal with intermediaries that are well informed and understand our product
- Customers that are vulnerable are identified and appropriate adjustments made
- Customers are provided with all the necessary information to make an informed decision
- Customers receive relevant documentation in a timely manner
- Customers individual needs are considered when they need to use their policy
- Customers can understand all of the terms and conditions of their policy and understand their obligation
- Customers are responded to a timely manner in an appropriate way
- Customers clearly understand how to make any adjustments to their policy and what happens next
- Customers clearly understand how to make a claim and what happens next
- Customers have easy access to making a claim and are well informed throughout the claims process
- Customers are satisfied how they are dealt with when making a claim
- Customers clearly understand how to make a complaint and what happens next
- Customers have easy access to making a complaint and are well informed throughout the complaint process

The review and assessment include insight from the monitoring of key reporting indicators surrounding but not limited to the following areas:

- Customer satisfaction surveys/market research

- Broker feedback
- Service delivery data
- Product reviews including testing of the customer journey
- Fair value assessments
- Retention rates
- Cancellation rates
- Complaints data
- Claim acceptance rates
- Declinature rates
- Frequency of claims
- Loss ratios
- Call handling data

Date of last fair value assessment:	Q3 2023
Outcome of last fair value assessment:	Fair Value
<p>Comments</p> <p>The product provides fair value to customers and is working as designed. Key metrics on usage and product value are monitored and there are no concerns that the product cannot be used or that there are any barriers to claim.</p> <p>This product meets the needs within the Target Market Statement (as noted above)</p> <p>The product has been subject to HSB Engineering Insurance Limited's full product review process and signed off by our authorised approvers as representing fair value to customers and may continue to be marketed and distributed.</p>	
Expected date of next fair value assessment	Q3 2024

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