



# Machinery Inherent Defects Insurance



A market-leading insurance solution covering machinery inherent defects in newly-constructed and refurbished buildings.

Modern buildings are becoming 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.

A traditional remedy has been the provision of collateral warranties by contractors. But with construction industry insolvencies running at over 2,600 a year<sup>(1)</sup> in England and Wales alone (more than almost every other sector), 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. HSB Engineering Insurance, as part of Munich Re, has developed a market-leading Machinery Inherent Defects Insurance (MIDI) product to meet these risks.

## What is Machinery Inherent Defects Insurance?

Available for periods of up to 12 years<sup>(2)</sup>, our policy 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.

Our MIDI policy applies to the mechanical and electrical services installed in the building, including:

- Heating, ventilation and air conditioning systems
- Lifting and access equipment
- Electrical generation equipment and distribution systems
- Building security, management and environmental control systems
- 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
- Energy efficiency retrofits

## Example claims

**Lift breakdown:** A defect in a drive motor of a lift was discovered; this was 1 of 38 identical lifts within the building. Repairs were scheduled to replace the defective drive motors of all 38 lifts.

**Claim: £1,900,000**

**Transformer failure:** A defect in one of a pair of transformers resulted in the transformer's failure. The building went without power for two days, resulting in the building being evacuated. The second transformer also displayed signs of distress.

**Claim: £2,000,000** - replacement of both transformers  
**£3,000,000** - loss of rental income

## Technical audit

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.

## Benefits of MIDI

Our MIDI policy can provide 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
- A building that can be easier to sell or rent due to enhanced purchaser/tenant confidence

## Why choose HSB Engineering Insurance?

Our underwriters and engineers have extensive experience in providing covers for plant and equipment in a vast array of applications and are recognised as experts in this field. Drawing on our considerable engineering expertise, we are able to provide tailored insurance products to meet the needs of developers, owners, funders and occupiers of new commercial buildings.

- Policy wordings specifically designed for mechanical and electrical services in new buildings
- Wordings designed with all interested parties in mind
- Loss of rent cover available on all policies
- Extensive expertise in building services technology
- Access to experienced mechanical and electrical engineers
- Access to specialist claims handlers and loss adjusters

## Other complementary HSB products and services

We have a range of innovative products and services which can complement our MIDI policy:

- Contractors All Risks
- Machinery and Technology Insurance
- Inspection Services
- Energy Efficiency Insurance

### Footnotes:

<sup>(1)</sup> Per The Insolvency Service statistics, published 27/07/2018.

<sup>(2)</sup> Cover is available for up to 12 years following practical completion of the building.

<sup>(3)</sup> Example claims are for illustrative purposes only.

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**This is an overview of HSB's Machinery Inherent Defects Insurance product. For full details of the cover and further information, please contact your local HSB Engineering Insurance office.**

## Broker/intermediary use only

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