

Learning Unit 16: Mechanical and Electrical Breakdown

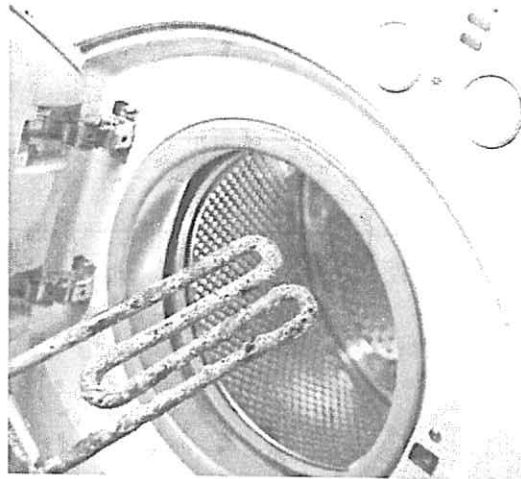


learning outcomes

Learning Outcomes

Upon completion of this learning unit, it is expected that you will be able to:

- Understand and provide definitions for terminology.
- List who we insure for mechanical and electrical breakdown.
- Describe what we insure under mechanical and electrical breakdown.
- Identify what we do not insure (exclusions) under mechanical and electrical breakdown.
- Identify the underwriting rules relevant to the insurance of mechanical and electrical breakdown.



Introduction

Imagine that your television set unexpectedly stops functioning and you are unable to watch that much-awaited sporting event. Imagine that a service contractor informs you that the TV has had an internal mechanical breakdown and parts need to be replaced to the amount of R2875. This type of mechanical breakdown is not covered under the Houseowner's and Household contents insurance policy so, unfortunately, the cost of replacement will come directly out of your pocket.

Now think about the many other items in your home that are subject to mechanical or electrical breakdown. Here are a few:

- Washing machine and tumble dryer;
- Dishwashers;
- Refrigerators and freezers;
- Ovens;
- Microwaves;
- Televisions, both plasma and LCD;
- Garbage disposal units.

All of these items are costly to purchase and just as costly to repair or replace. Often this equipment requires sophisticated diagnostic tools and skilled technicians to oversee a potential repair. Most Houseowner's and household contents policies typically exclude these events. Individual warranty plans are available but are unreasonably costly, confusing and frustrating to manage.

With mechanical and electrical breakdown coverage, both the policyholder's home and his/her budget are protected because the cover protects the policyholder against unexpected repair or replacement costs due to an unexpected mechanical or electrical breakdown.

16.1 Definitions

Word or phrase used	Definition and description
you, (your, yourself)	<p>The phrase you refers to the policyholder and other people we insure under this section.</p> <p>The policyholder is the individual or individuals who own (or are responsible for) the property being covered and as a result, the relationship has to be defined at the inception of the policy.</p>

we (us, our)	This is Mutual & Federal Insurance Company Ltd. Registration No: 1970/006619/06.
compensation	This means that the insurer will pay the insured the amount stated in the schedule when a claim against an insured event has been made.
What we do not insure (exclusions)	These are events, loss or damage which is <u>not</u> insured. Exclusions more accurately define the risk accepted by the insurer and exclude liability for loss not intended to be covered. Exclusions in the policy relieve an insurer of liability for those circumstances not intended to be covered.
home	The main buildings and outbuildings situated at the address shown in the policy schedule.
insured items	The insured items means any household appliances described in the schedule. Some examples are: <ul style="list-style-type: none"> • Televisions, DVD players, hi-fi's, home theatre systems; • Fridges, stoves, ovens, microwaves; • Washing machines, tumble dryers, dishwashers.
special conditions	Special conditions state the position or circumstances relating to the rights and duties of both the insured and insurer. Conditions will usually state what must or must not be done before the start of the policy cover or before a loss occurs or, on occasion, after a loss has occurred. Breach of a condition, which is a general condition, could result in a section or even the entire policy being rendered voidable. General conditions will apply to all sections of the policy. Special conditions only apply to the section in which they are stated. These override general conditions, but only the section of the policy where those special conditions appear.
wear and tear	Damage that naturally and inevitably occurs as a result of normal wear or aging. It is a form of depreciation and is used in a legal context for such areas as warranty contracts from manufacturers, which usually stipulate that damage due to wear and tear (even when an item is used competently and with care and proper maintenance) will not be covered. For example, repeated impacts may cause stress to a hammer's head. In the normal use of a hammer for its designed task, this stress is impossible to prevent and any attempt to eliminate it would make the hammer useless. At the same time, it is expected that the normal use of a hammer will not break it beyond repair until it has gone through a certain amount of use.

16.2 Who we insure

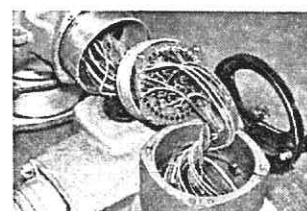
The following people are insured under this section:

- The policyholder;
- Members of the policyholder's family who live with them.

Even though an individual person is named in the policy schedule, there are times when a family is relatively large and extended family members who live with the policyholder on a permanent basis need to be included in the cover provided. For this reason, the definition is extended to include members of the family normally resident with the policyholder.

16.3 What we insure

This covers the policyholder for sudden mechanical and electrical damage to the insured items that he/she could not have foreseen, and subject to the insured item being in the home, as per the definition given, at the time of the damage.



We need to reflect on the meanings of certain words in the cover stipulation.

Sudden means happening without warning; unexpected.

Mechanical means a mechanical device which has parts that move when it is working, often using power from an engine or from electricity.



Electricity is a form of energy. It is sometimes called an unseen force because the energy itself cannot be seen, heard, touched or smelled. However, the effects of electricity can be seen, for example, a lamp gives off light, a motor turns and a buzzer makes a noise. The effects of electricity can also be heard, felt and smelt. A loud crack of lightning is easily heard, whilst a fuse blowing may sound like a soft pop or snap.

With electricity flowing through them, some insulated wires may feel warm and bare wires may produce a tingling feeling or quite a shock and, of course, the odour of burned wire insulation is easily smelled.

16.4 What we do not insure (exclusions)

There are a number of exclusions to this section which need to be considered.

Loss or damage that we do not insure

Theft

Damage caused by theft or attempted theft is not covered under this section of the policy. Obviously theft cover for these types of items would be more specifically covered under either the Houseowner's or Householder's sections of the Allsure policy.



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Wear, tear and deterioration

This exclusion confirms that the insurer will not compensate the policyholder for gradual causes such as:

- Wear and tear;
- Rust;
- Mildew;
- Corrosion;
- Decay,
- Deterioration.

Damage as a result from light, sunlight or normal climatic conditions is also excluded in terms of the policy wording.

What is the difference between wear and tear and mechanical breakdown?

A mechanical breakdown usually occurs suddenly. Wear and tear usually occurs over time. In instances where wear and tear occurs, performance of the equipment slowly declines and its capacity diminishes, however, the equipment continues to operate but does not perform as expected. Therefore, because coverage for wear and tear is excluded in the Houseowner's and household contents policy, and no equipment breakdown has occurred, there would also be no coverage provided by the equipment breakdown endorsement.

Cleaning, dyeing, renovating and repairing

The insurer will not compensate the insured for loss or damage caused by dyeing, renovating or repairing.

Confiscation and detention

The insurer will not compensate the insured for loss or damage to items that are confiscated or detained by a process of law.

Using or treating items in the wrong way

The insurer will not compensate the insured for damage because:

- Tools were used on the insured item in the wrong way;
- The insured or any other person made mistakes when installing the insured item;
- The insured item was not maintained as the manufacturer recommended;
- The insured item was used for something other than its normal home use;
- Provision is made for this damage in terms of the guarantee or warranty issued by the manufacturers of any electrical equipment.

Damage to glass and lenses

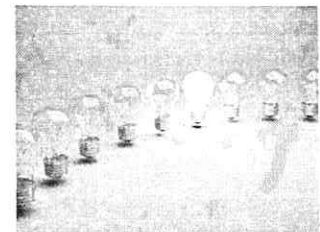
The insurer will not compensate the policyholder for damage to glass, including scratched lenses.

Damage to parts of the insured property that have short life spans

Electronic apparatus may have various component parts with a short lifespan, which are installed purely as protective measures to avoid damage to the equipment by over-voltage or low-voltage conditions. Generally speaking, such items or components have a limited lifespan in relation to the overall lifespan of the insured equipment.

The insurer will not compensate the policyholder for damages to parts of the insured item that have a short life span. Some examples are:

- Batteries, Bulbs;
- Speakers;
- Tapes, ribbons;
- Pilot lights;
- The plate inside the microwave;
- Globes, clocks;
- Hoses;



- Air and water filters;
- Fuses;
- Belts, knobs;
- Screen protectors;
- Accessory cables;
- Removable storage devices;
- Obsolete spare parts;
- Remote controls.



The component parts listed in the exception are not the only items that could be regarded as limited lifespan items, but are merely an indication of the nature of excluded items.

Damage to computers, notebooks, laptops, palmtops, iPads, tablets and data processing equipment

The insurer will not compensate the policyholder for damage to the abovementioned items as they are more specifically insured under the Personal Computer section.

Damage to electric gate motors

No cover would exist in respect of damage to electric gate motors.

16.5 Compensation

How we compensate you

The insurer can choose one or more of the following ways to compensate the insured:

- Paying the cost of the damage;
- Replacing whatever is damaged;
- Repairing whatever is damaged.

Limit of compensation

The policyholder will be compensated up to the limit shown in the schedule.

Excess

This advises the policyholder that an excess (first amount payable) will need to be paid for each item insured under this section, in the event of a claim. The excess amount is shown in the policy schedule for this section.

16.6 Special Conditions

There is only one special condition under this section of the policy which states that the insured must give the insurer acceptable proof that they own an item or acceptable proof of its value if so requested by the insurer.

Underwriting Rules

This section can only be selected together with a Household Goods or Houseowner's section.

Each category has its own rating structures and excesses, and under no circumstances should incorrect categories be chosen to reduce the premium or the excess. For rating purposes, the items that are covered in terms of this section are classified into different categories as follows:

1. LCD televisions
2. Plasma televisions
3. Burglar alarms
4. All household appliances

These categories reflect on the underwriting system as well.



ACTIVITIES

Activity 1

Elliot's television would not switch on. He took it to a repairer who advised that the television had experienced electrical breakdown to the media box and power supply which had to be replaced.

Would the repairs be covered in terms of the Mechanical and Electrical Breakdown policy wording, and why or why not?

Activity 2

Samantha's hi-fi was not functioning correctly. She suspected that it might have an electrical or mechanical fault and took it to a repairer. The repairer advised that the fuses in the speakers had blown due to a power surge.

Would this damage be covered in terms of the Mechanical and Electrical Breakdown policy wording?

Activity 3

Jack's property was hit with an artificially generated power surge. The washing machine, tumble dryer, fridge, desktop computer and gate motor were damaged as a result.

Would the damage to these items be covered in terms of the policy wording?



Summary

Having an electrical or mechanical household item or piece of equipment suddenly break down is a nuisance. Having to unexpectedly find the finances to repair the item is unpleasant. This section of the policy provides the peace of mind that a client would want, knowing that valuable items are covered for such circumstances.

Although this is a relatively short learning unit, it has covered everything that you need to know about insuring for mechanical and electrical breakdown. It distinguishes between normal wear and tear on electrical and mechanical items, and sudden breakdown. It also addresses the list of important exclusions that your client would need to be made aware of.



Notes
