

POWER OUTAGES AND SHORT-TERM INSURANCE

With power outages uppermost on everyone's mind people are asking to what extent there is cover on short-term insurance policies, for the consequences of power outages? A good question and as dreary as it may be, I am going to try and provide a quick overview, in so far as the major classes of short-term insurance concerned.

MATERIAL DAMAGE

Houseowners, householders, sectional title, fire and similar policies

Houseowners and householders policies (Personal Lines) are generally on a "perils" basis, meaning that the type of events covered are specified, for example, fire, lightning, explosion, theft and so on. So, damage caused **purely** by a power surge (for instance, when the electricity is restored after a failure) may not be covered. If however the power surge causes a fire to start from an appliance that "burns out" following the restoration of electricity after a power outage, the resultant fire damage would be covered.

This applies equally to Commercial Fire, Building Combined, Sectional Title, Office Contents and other policies covering tangible assets on a perils basis.

The householder's policies often have an extension covering deterioration of the contents of refrigerators and deep freezes, due failure of power supplied by public authorities. It's usually subject to a monetary limit.

With regard to theft cover on personal lines and commercial policies, there is some concern over the effect of power outages in so far as burglar alarm warranties are concerned and at least one short-term insurer has said they will treat each claim on its merits.

Of course business insurance consumers in the manufacturing sector may wish to consider the provisions on the fire policy which exclude damage to property undergoing any heating or drying process, for instance an industrial kiln producing baked enamel products, or panel beaters baking ovens, just by way of example. Damage caused to such "work in progress" by the failure of electricity supply would not be covered, even if you could show there was an intervening peril such as fire.

Office Comprehensive or Office Contents as it is known on Multimark has an optional extension for Loss of Documents cover. It should be noted that in terms of this extension, electrical or electronic or magnetic injury, disturbance or erasure of electronic documents is not covered, unless the damage is caused by lightning in which case an additional excess is payable.

All Risks

All risks policies both on personal lines and commercial policies contain an exclusion regarding mechanical, electronic or electrical breakdown, failure, breakage or derangement unless caused by an accident or misfortune not otherwise excluded.

Asset All Risks

Assets All Risks policies often used on large corporate risks may or may not cover mechanical, electrical or electronic breakdown, depending on how the programme has been structured.

Electronic Equipment

Electronic equipment policies, such as that contained in the Multimark policy specifically deal with power surge, in that power surge is covered, but there may be an additional excess of 10% of the claim subject a Rand value, if the property insured is not appropriately and adequately protected by suitable safeguards against electricity supply fluctuations. This begs the question if the protection fails, was it adequate?

Engineering (Machinery Breakdown)

On the engineering side, machinery breakdown policies would cover damage to insured machinery caused by a power surge.

CONSEQUENTIAL LOSS

Accounts receivable (Outstanding Book Debts)

Accounts Receivable basically covers the in-ability to collect outstanding books debts as a consequence of damage as insured, to the insured's books of account. The accounts receivable policy is likely to have an exclusion concerning electrical or electronic or magnetic injury, disturbance or erasure of such records, unless duplicate records are maintained "offsite".

Business Interruption

With limited exceptions, the business interruption policy will only trigger when there has been damage as insured by an underlying material damage policy, such as a fire or engineering policy. It is important to note therefore that the extent of protection in terms of the business interruption policy is governed by the perils covered in terms of the underlying policy.

One exception is the failure of public utilities extension on the business interruption policy which follows the underlying fire policy. In this case cover can be purchased on an all risk basis for failure of supplies of water, gas or electricity, however it is important to note this extension has exclusions which negate cover in the event the loss resulting inter-alia from pollution of water, shortage of fuel or water and the deliberate withholding of supplies.

These covers have limits for the amount insurers will pay and for the period of the interruption which will be covered. A time excess may also apply.

Deterioration of Stock

Although dealing with this here, this cover is sometimes dealt with as a material damage item on a fire or engineering policy or as an extension to the business interruption policy, against a fire or engineering policy. It is unlikely any cover will be granted for the deliberate withholding of electrical supplies.

One suggestion is to have power surge added as a peril on the fire policy. This would mean damage to machinery and stock caused by power surge would be covered on the fire policy and any resultant loss of profits would be covered under the corresponding business interruption policy.