

## Critical Equipment Quiz

### Can your business pay the price of replacing critical equipment?

One devastating fire, one catastrophic storm or one unexpected event can bring down the equipment you've invested so much in — as well as your profits.

If disaster strikes, are you prepared to replace your vital equipment at today's costs? Take this quiz to test your knowledge. The results may surprise you.

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### Radial Arm Drill

Radial arm drills have been manufactured since the early 20th century. Company A, a metalworking manufacturer, has a radial arm drill that was purchased at auction in the 1990s for \$22,000.

**Question: If Company A had to replace the drill, how much could it cost?**

**Replacement Cost New**

1. \$15,000
2. \$26,000
3. \$75,000

**Answer:**

\$75,000

**Used Market Value**

1. \$15,000
2. \$26,000
3. \$75,000

**Answer:**

\$26,000

**Used Liquidation/Auction Value**

1. \$15,000
2. \$26,000
3. \$75,000

**Answer:**

\$15,000

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## Turret Lathe

Type #4A machine was built in 1975. It has a 12" hole thru and a 25" swing. Turret lathes have not been manufactured since the 1980s. Even though they are now obsolete, many are still hard at work in manufacturing facilities. Company B relies heavily on one it initially purchased for \$75,000, but hasn't considered what might happen if the lathe needs to be replaced with a new machine that serves the same function.

**Question: What could be the cost of a new machine?**

1. \$55,000
2. \$250,000
3. \$25,000

**Answer:**

\$250,000 – Because the turret lathe is obsolete, a new machine may need to be purchased to replace the function of the old machine. This is the approximate cost of a new Computer Numerically Controlled (CNC) machine necessary to replace the function of the obsolete lathe, including applicable taxes, delivery, installation and training.

## CNC Lathe

Company C is leasing a \$200,000 CNC machine. The machine is damaged in a fire.

**Question: Is Company C responsible for the replacement cost of this machine?**

1. YES: The lessee is always required to insure and replace damaged equipment.
2. MAYBE: Determining who bears the responsibility for replacing the damaged equipment depends on the terms of the lease.
3. NO: The lessor is required to insure and replace damaged equipment.

**Answer:**

Maybe. If the terms of the lease place the risk of loss on Company C, then Company C is responsible for replacing damaged equipment. It is important for Company C to understand its responsibilities prior to a loss.

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## Generic Equipment

Ten years ago, Company D purchased a key piece of manufacturing equipment for \$500,000. Due to inflation, the price of the equipment increases every year.

**Question: Assuming that the price for this type of equipment increased by 15% in 10 years, what would be the cost of a new machine today?**

1. \$500,000
2. \$425,000
3. \$575,000

**Answer**

\$575,000 – Because this value takes into account the inflation in price of 15% over 10 years, it reflects the cost of a new machine.

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## Replacing What's Lost

Knowing the cost of replacing critical equipment allows a company to make a more informed decision when purchasing insurance coverage. Don't let underinsured equipment limit your recovery.

## **Have you considered the six risks to financial stability during business disruptions in manufacturing?**

### **1. Asset Valuation**

How did you derive the Business Personal Property values used for insurance (i.e., fixed asset register, cost to replace with used equipment, depreciated cost on balance sheet, acquisition cost, market value or liquidation value, or cost to replace with new)?

### **2. Out-of-Date Limits**

Has your Business Personal Property stayed constant over several years, while revenue and payrolls have increased?

### **3. Critical Equipment**

What is the replacement cost of your three most critical pieces of equipment? What is the business impact if you couldn't replace those pieces right away?

### **4. Used Equipment**

Did you purchase any equipment used? Can you replace your equipment with used equipment or parts in today's marketplace, and how much lead time would be needed? Have you valued your equipment at replacement cost?

### **5. Delivery Downtime and Costs**

In the event of a loss, would your equipment require the following: Substantial shipping costs? Engineering or installation costs? Training costs?

### **6. Building vs. Equipment**

Have you considered what it might mean if your building values are higher than your Business Personal Property values?

Talk to your Travelers representative today.

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