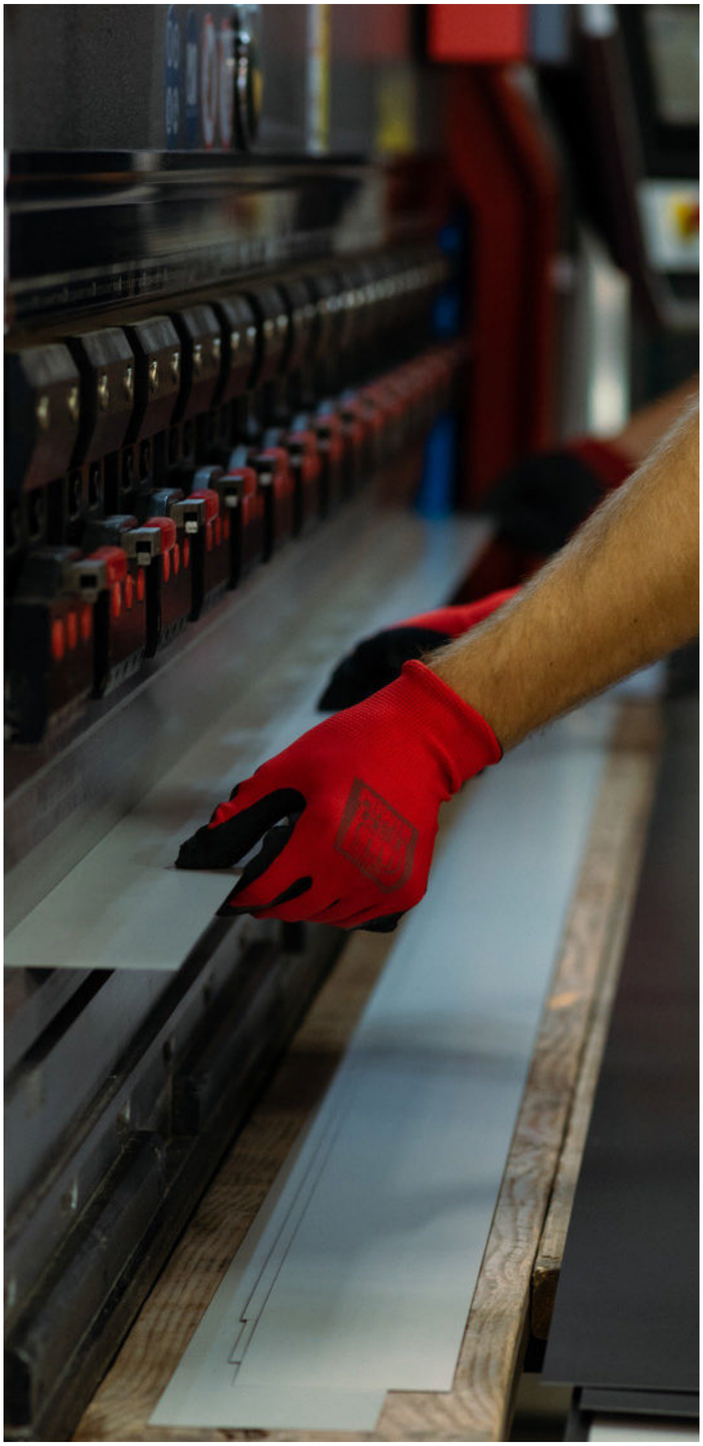
Manufacturers E&O Insurance

Consider this scenario: a customer asks your company to manufacture a part according to certain specifications, which were outlined in a contract.



He needs to add the part to his product and ship it to his customers by a set deadline. Your company creates the part, but due to an error that occurs during the production process, the part isn't made to the customer's specifications. He receives the part, realizes he can't use it in his final product and requests that the part be remade. The delay in production causes him to miss the deadline to ship the final product to his customers, so he files a lawsuit against your company for the financial loss. *Now what?*

Exclusions in General Liability Insurance

You might assume that your Commercial General Liability (CGL) policy will cover this claim, but in many cases it will not. Most CGL policies contain "damage to impaired property" and "property not physically injured" exclusions. That means that unless the manufacturing error results in *bodily injury or property damage*, the CGL policy will not cover the loss.

The customer's financial loss in the scenario described above would not fall into either of these two categories, so it would not be covered under a typical CGL or products liability policy. In order to protect your business from a product failure resulting in a third-party financial loss without bodily injury or property damage, you will need to add Manufacturers Errors & Omissions (E&O) coverage.

Manufacturers E&O Insurance

Manufacturers E&O is professional liability insurance that covers a manufacturing mistake or negligent service that results in a third-party financial loss without bodily injury or property damage. *E&O insurance covers damages that result from:*

- Poor, incorrect or faulty products that you manufacture, handle, sell or distribute
- Errors and omissions when caused by material defect, including property damage to the product, property damage to the work and property damage to impaired property
- Negligence or failure to deliver promised services

If customers allege that your product failed or that you were negligent in performing services outlined in a contract, they will likely seek to recoup their financial losses by suing you. You could be saddled with significant legal costs, as well as potential damages if the case is lost. Even if the customer's lawsuit is found to be frivolous, you'd still incur the cost of defending yourself. That's where Manufacturers E&O insurance comes in.

Manufacturers E&O insurance will cover both the customer's financial loss and your defence costs. Most E&O policies are "claims-made policies," which means that in order for the claim to be covered, both the work in question must be performed and the claim must be made during the policy period. E&O premiums vary based on the type of product or service you need coverage for, your company's financial stability and the policy's limits.

Contact HK Henderson at 888.661.5959 to learn more about adding this important coverage to your risk management portfolio.

If you have questions specific to your business, or would like additional information, please reach out to your HK Henderson Advisor.

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