

Loss Scenarios for Manufacturing Companies

In the technology sector, manufacturers face a diverse range of loss scenarios, ranging from errors or flaws in the product design, to errors or contamination arising during production. No matter how stringent a company is with their quality control procedures these errors are often not discovered until thousands of end products have been distributed.

The cost to manufacturing companies can be vast, rectification expenses, damages, compensation and of course legal costs are just some of the ramifications of these errors manufacturers can face.



Consider the following loss scenarios and then ask yourself whether you have adequate insurance protection in place.



IoT Software Failure

Potential Cost: \$1.5M

A company designs and manufacture a smart coffee pot that is distributed to consumers globally. The coffee pot connected to the internet, allowing users to make selections on a mobile application. The software on the coffee pot was not properly secure and as easily accessible to hackers, who were then able to access user's mobile phones and obtain personal data. Customers sued the company over the privacy breach. The company was also forced to recall their coffee pot.



Auto Part Failure

Potential Cost: \$20M

A manufacturer produces a chip used in multimedia systems of several popular automobiles. During testing, the automobile manufacturer discovered that the chip did not function properly, and it was determined that the cause was due to a design defect. The chip manufacturer was forced to recall the product, and was sued for breach of contract for failure to deliver a properly functioning product.



Hardware and Software Failure

Settlement: \$440,000

A company provided timekeeping hardware and software to its customer. The software didn't function correctly, failing to maintain employee hours worked and correctly apply the hourly and overtime rate of pay. The failure resulted in over/underpaying employees and the need to replace the timekeeping clocks. The customer sued the provider of the hardware and software.



Hardware Performance Failure

Potential Cost: \$20M

A manufacturer agreed to develop and supply mobile point of sale devices to a reseller in the US. Due to alleged defective design by the manufacturer, the reseller terminated the contract and sought compensation of up to \$20m for their future losses, costs and punitive damages.



Repeated Hardware Failure

Potential Cost: \$10.5M

A telecommunications equipment manufacturer supplied network equipment to a mobile phone company. The mobile phone company alleged the equipment was faulty, causing systems to crash and outages to the network. As a result the mobile phone company alleged there had been a breach of warranty and sought \$500,000 in damages for lost business and \$10,000,000 in future lost revenue.



Higher than Normal Failure

Potential Cost: \$4M

A manufacturer faced allegations of an epidemic failure rate of its hard disk drives. Following investigation it was found that during hot weather the drives failure rate increased due to a faulty mould compound. A PC OEM claimed compensation for its resultant lost revenue, return of purchase costs and replacement costs arising from hard disk drives failing to operate.



Product Recall and Product Failure

Settlement: \$2.8M

A printer circuit board manufacturer has a contract with a vehicle tier 1 supplier. Upon investigation, it is determined that the circuit boards manufactured are defective and must be recalled, and the claimant alleges total losses of \$4.5M. After investigation, it was determined that a flaw in the manufacturing process led to the defect and the case settled for \$2.8M.



Faulty Chip Causes Product Failure

Potential Cost: \$11M

This manufacturer supplied a specifically designed interface card that contained a faulty chip. The customer was unable to monitor transactions or collect information for payments. The claimant alleged they suffered \$11m in damages due to recovery, replacement and installation costs, lost monitoring revenue, fault servicing costs, additional staffing and testing services.



Design Correction

Settlement: \$300,000

A telecommunications equipment manufacturer was sued by a disabled customer as their product did not accommodate their disability. The manufacturer was ordered to make amendments to their design as it was found they did not identify barriers to disability accessibility and usability as part of the product design and development process as required by law. Resultant costs and damages were sought.



Product Failure

Potential Cost: \$2M

The manufacturer of semiconductor devices supplied capacitors to a major PC hardware manufacturer to be used in sub-assemblies for train braking systems. Although the capacitors were tested by both the semiconductor manufacturer and the PC manufacturer, many failed after final installation, causing the braking system to shut down and taking the trains out of service.



Hardware Damage

Potential Cost: \$500,000

A semiconductor device manufacturer supplied integrated circuits (IC's) to a major medical device manufacturer to be used in CAT scanning machines. Although the IC's were tested by both the semiconductor manufacturer and the medical device manufacturer as meeting specifications, one of the IC's did not work after installation. This resulted in a claim for nearly \$500,000 in lost revenue due to the closure of the CAT scanning unit.