

## Errors or Omissions for Manufacturers

As digital and physical processes continue to converge, manufacturers are modernizing their production methods, enhancing their products, and changing the way they service and support their customers. They are:



Embracing digital technologies through the incorporation of automated processes, sensors, computer controls, big data, and the Internet of Things



Facing increased regulatory pressure, creating additional exposure to “pass-through” claims as their clients are threatened by fines and penalties arising out of product or service performance failure



Positioning themselves as “total solution providers” by offering bundled products and services



Increasingly required by contract to carry Errors & Omissions insurance

**These changes present an array of new risks that manufacturers may not be adequately protected against through a traditional General Liability (GL) policy. It's important to understand the scope of what GL policies typically respond to:**

- A GL policy is typically built to respond to claims for Bodily Injury, Property Damage, Advertising Injury, and Personal Injury.
- A GL policy generally is not built to respond to liability claims alleging financial or economic injury due to defects, deficiencies, inadequacies and dangerous conditions in products and services, in the absence of physical damage.

**Errors or Omissions (E&O) insurance plays a critical part in protecting a manufacturer's balance sheet by responding on a manufacturer's behalf to third-party claims alleging financial or economic injury.**

### Why Chubb?

At Chubb, we are committed to serve manufacturers and ensure they are adequately protected from the risks associated with actual or alleged product or service defects, deficiencies, inadequacies or dangerous conditions. That's why we developed a simple, standardized endorsement which adds Errors or Omissions liability insurance to a manufacturer's Customarq® General Liability policy with a focus on ease of business.

### Highlights of the endorsement include:

- Dedicated limit of insurance for Errors or Omissions
- Written to encompass the full scope of insured Products and Services
- Duty to defend, even if suits are groundless
- Limits available as low as \$250,000
- Claims Made coverage trigger
- Insurance written specifically with the needs of Manufacturing companies in mind
- Pays on behalf of the policyholder (vs reimbursing)
- Deductibles available as low as \$1,000

**A combined General Liability and Errors & Omissions insurance program will respond to a broad array of exposures. However, manufacturers should also be sure to understand how other key products fit in:**



#### Cyber Insurance

- Protects against legal liability and expenses incurred as a result of acts such as a failure of network security or unauthorized access or disclosure. Cyber insurance generally is not meant to provide insurance for economic injuries arising out of products and services.

#### Product Recall Insurance

- Costs associated with the removal, recall, rework, correction and testing of products that are defective, dangerous, harmful or adulterated pose a substantial risk that can expose a manufacturer's balance sheet. These are costs that are not typically addressed on a GL, E&O, or Cyber policy.

**Talk to your Chubb representative for more information.**

# Claims Scenarios

## **Integrated “Solution Provider”**

A claim was made by a shipping company against a manufacturer of an integrated temperature monitoring “solution” used to monitor the temperature of cargo while in-transit. A wholesale grocery distributor rejected a load of perishable goods from Mexico. The shipper alleged that the in-transit temperature monitoring “solution” did not accurately record temperatures at established intervals.

## **Mislabeling of Consumer Products**

A claim was made by retailers against a costume jewelry manufacturer that failed to comply with Federal Consumer Product Safety labeling requirements. The retailers incurred costs to remove the non-compliant product from their shelves, and also lost revenues and were fined by the Consumer Product Safety Commission for the violations.

## **Manufacturer of Conveyor Systems**

Several large distributors filed claims against a manufacturer of conveyor systems, alleging that such systems are defective, resulting in additional costs, late deliveries and lost income.

## **Embedded Sensors and “Internet of Things”**

In an initial effort to capitalize on the “Internet of Things,” an advanced manufacturer embeds sensors into automated processes that provide real-time data on production outputs. Unfortunately, a flaw in the software controlling the sensors enables an unauthorized user to access the data. Several end users of the sensors file a lawsuit against the manufacturer for damages sustained by the unauthorized access.

## **Contract Terminated due Supplier’s Error**

A claim is made against a manufacturer of custom bolts used by a farm equipment manufacturer. A raw material supplied to the bolt manufacturer by a third party was found to be defective, rendering the bolts unsafe. The farm equipment manufacturer couldn’t use the bolts and terminated the supply contract with the bolt manufacturer.

## **Contract Manufacturer**

A claim is made against a contract manufacturer of medical products for a device manufacturer. The device manufacturer is required to report production data (provided by the contract manufacturer) to the FDA. The data is later discovered to be inaccurate and the device manufacturer is fined by the FDA.

**Chubb. Insured.<sup>SM</sup>**

Chubb is the marketing name used to refer to subsidiaries of Chubb Limited providing insurance and related services. For a list of these subsidiaries, please visit our website at [www.chubb.com](http://www.chubb.com). Insurance provided by ACE American Insurance Company and its U.S.-based Chubb underwriting company affiliates. All products may not be available in all states. This communication contains product summaries only. Coverage is subject to the language of the policies as actually issued. Surplus lines insurance sold only through licensed surplus lines producers. The claim scenarios described here are hypothetical and are offered solely to illustrate the types of situations that may result in claims. These scenarios are not based on actual claims and should not be compared to actual claims. The precise coverage afforded by any insurer is subject to the terms and conditions of the policies as issued. Whether or to what extent a particular loss is covered depends on the facts and circumstances of the loss, the terms and conditions of the policy as issued and applicable law.