

Coverage Insights

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Manufacturers Errors & Omissions (E&O) Insurance

Consider the following 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. This scenario could expose your business to significant liability if you don't carry the right insurance policy.

Exclusions in General Liability Insurance

You might assume that your Commercial General Liability (CGL) policy would cover claims such as the one in the above example. However, 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 the following:

- Poor, incorrect or faulty products that are manufactured, handled, sold or distributed
- Errors and omissions 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 through litigation. 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 could still incur the cost of defending yourself. That's where Manufacturers E&O insurance can provide significant financial risk mitigation.

Manufacturers E&O insurance will cover both the customer's financial loss and your legal 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 MST Insurance Solutions, Inc. at 310-347-3100 to learn more about adding this important coverage to your risk management portfolio.

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