Crisis Management OEM's Manufacturer's Liability

Q&A

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What does it cover?

OEM Manufacturer's Liability means:

If as a direct result of a Defect or Accidental Contamination of an Affected Product, which the Insured is manufacturing for a Third Party, the Insured becomes legally liable to pay Third Party Loss of Earnings incurred by the Third Party. LIU's OEM Manufacturer's Liability also includes cover for Defence Costs.

Why cover?

Globally there is a growing trend toward companies outsourcing their manufacturing. Many of these companies will be large brand names who are particularly sensitive to any brand and reputation impacts resulting from a Defect or Accidental Contamination.

For OEM Manufactures, in the event of a Defect or Accidental Contamination during the manufacturing or packaging of the product, there is the potential for substantial third party lost profits. Unfortunately there may be only very limited cover under either a client's General Product Liability policy or Recall policies for these losses.

Stand-alone General Product Liability policies in the market limit the coverage provided to any property damage that occurs at the Insured premises, or to goods under their care, custody or control. This means that clients may not have adequate cover for the financial loss suffered by their customers as a result of a Defect or Accident Contamination.

Under most recall policies, third parties have very limited cover - they commonly may have Third Party Recall Costs – however any claim from a third party for their loss of profits is usually not covered.

LIU's OEM Manufacturer's Liability Endorsement looks to provide this cover that is often excluded from standard General Product Liability and Recall policies.

Case Example

The following is an example of a OEM's Manufacturer's Liability exposure:

Kids Toys Ltd manufactured Krason plush toys for Krason Ltd. The cost to Kids Toys Ltd per product was $7.50, while Krason sold the plush toys to retailers for $20.00.

The products were released to market and within the month multiple consumer complaints were received by both retailers and Krason. Further investigation revealed the complaints related to four weeks production of the product.

Kids Toys Ltd was informed of the complaints and upon investigation discovered that pieces of metal had inadvertently made their way into the product. Both Krason and Kids Toys Ltd agreed a recall needed to be conducted.

Krason conducted the recall and sent the following bill to Kids Toys Ltd:

		Recall Policy	GPL	Recall with OEM
Retailer recall costs	$ 150,000	✓	?	✓
Advertising expenses	$ 50,000	✓	✗	✓
Replacement Product	$ 250,000	✓	✗	✓
Krason's Profit Margin	$ 666,666	✗	✗	✓
Krason's lost sales	$ 150,000	✗	✗	✓

Total losses charged to Kids Toys Ltd: $ 1,266,666

Total uninsured losses without OEM: $ 816,000

The total loss incurred by Krason was $1,266,666, however a typical Recall policy would only cover $450,000 of this loss. The difference in the amounts arises from the lost sales and profit margins by Krason which are specifically covered by LIU's OEM Manufacturers Liability Endorsement.

What sort of clients would be faced with this type of exposure?

Any manufacturer who OEM manufactures or co-packs for any third party. This can include the manufacture of generic products for retailers, as well as the manufacture of products for other parties.

What are the key benefits of the cover?

- Third Party Loss of Earnings covered for up to twelve (12) months
- Automatic inclusion of Defence Costs
- Ability to offer limits up to USD 10,000,000

About Liberty International Underwriters

LIU is part of the Boston-based Liberty Mutual Group, a global insurer established in 1912, which ranks 81st on the Fortune 100 ranking based on 2012 revenue. As of December 31, 2012, Liberty Mutual Group had $120.1 billion in consolidated assets, $101.5 billion in consolidated liabilities and $36.9 billion in annual consolidated revenue.

That scale, capacity and experience stands behind every policy we write. Just as importantly, LIU puts its trust in its people on the ground, wherever they are in the world. So clients get the benefit of local understanding and autonomy – quick, efficient underwriting and a more responsive claims service.

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