



Crisis Management Contract Manufacturer's Liability Q&A



Liberty
International
Underwriters

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What does it cover?

Contract Manufacturer's Liability means:

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

Why cover?

In Australia there is a growing trend toward client's contract manufacturing for third parties. Many of these third parties will be large brand names who are particularly sensitive to any brand and reputation impacts resulting from an Accidental Contamination.

In the event of an Accidental Contamination while the Insured is manufacturing or packaging 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 Liability policy or Contaminated Products policies for these losses.

Stand-alone General Liability policies in the market limit the coverage provided for 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 an Accident Contamination.

Under most Contaminated Products 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 Contract Manufacturer's Liability Endorsement looks to provide this cover that is often excluded from standard General Liability and Contaminated Products policies.

The information in this document is presented by Liberty International Underwriters (LIU) (a trading name of Liberty Mutual Insurance Company ABN 61 086 083 605 Incorporated in Massachusetts, U.S.A. The liability of members is limited). This information and the claims examples are intended to illustrate broadly some, but not all, of the kinds of product recall exposures a business can face. How LIU's policy responds to any circumstance will depend on the particular facts. Refer to the policy wording for the complete terms and conditions. The information about the policy coverage is a general comment only on the subject matter, and should not be relied upon as advice. This information is accurate as at October 2015.

Case Example

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

Muesli Bar Pty Ltd manufactured Krason branded muesli bars for Krason Ltd. The cost to Muesli Bar Pty Ltd per product was \$1.50, while Krason sold the muesli bars to retailers for \$3.00.

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 two weeks production of the product.

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

Krason conducted the recall and sent the following bill to Muesli Bar Pty Ltd:

		CPI Policy	CGL	CPI with CML
Retailer recall costs	\$ 150,000.00	✓	?	✓
Advertising expenses	\$ 50,000.00	✓	✗	✓
Replacement Product	\$ 500,000.00	✓	✗	✓
Krason's Profit Margin	\$ 500,000.00	✗	✗	✓
Krason's lost sales	\$ 100,000.00	✗	✗	✓
Total losses charged to Muesli Bar Pty Ltd:			\$ 1,300,000	
Total uninsured losses without CML:			\$ 600,000	

The total loss incurred by Krason was \$1,300,000, however a typical Contaminated Products Insurance policy would only cover \$700,000 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 Contract Manufacturers Liability Endorsement.

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

Any manufacturer who contract 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 A\$15,000,000

About Liberty International Underwriters

LIU is part of the Boston-based Liberty Mutual Group, a global insurer established in 1912, which ranks 84th on the Fortune 100 ranking based on 2011 revenue. As of December 31, 2011, Liberty Mutual Group had US\$117.1 billion in consolidated assets, \$99.3 billion in consolidated liabilities and \$34.7 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, quick, efficient underwriting and a more responsive claims service.

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