



Manufacturers' Errors & Omissions Insurance

Imagine a scenario where you are a manufacturer of water pumps.

Have you considered any one of these possibilities?

- You sell a water pump to a customer, who installs it on their production machine. When production starts, the water pump fails. There are no injuries, and no property is damaged. However, the customer's production line is out of service for three days and results in a \$150,000 of lost business.
- You use components supplied by a 3rd party vendor to manufacture your water pumps. A component fails in a pump and your customer experiences a loss of revenue during the time the production line was not in service. Your customer is holding you liable for this financial loss alleging that you did not exercise appropriate quality control over the supplied components and in your final assembly of the pump.
- Your customer provides you with specifications to produce a custom water pump that will become a component of a product being produced by the customer. Your customer is unable to produce his product alleging the pump was not built to specifications and is holding you liable for financial loss resulting from his inability to meet a contractually obligated deadline.

Manufacturers' E & O coverage can help you manage these types of loss scenarios, but how can you control your exposure and reduce the risk of being held liable?

⦿ Responsibility

Product defects arise from many different phases of an organization's activities. Ideally, an organization should assign a highly qualified individual to deal with potential problems. This role can be fulfilled by a Product Safety Manager, or Quality Control Manager.

⦿ Quality Control

An effective quality control program includes a written Quality Control Manual. The document should contain clear and explicit information on the duties, responsibilities and methods used by the Quality Control Department. Functional testing and inspection of finished products, combined with corrective action to maintain quality is critical.

⦿ Manuals and Instructions

Manuals and instructions on how the product is to be used, installed, operated, serviced, and proper disposal after its useful life, must be developed. This will help ensure that the customer has an understanding of the product's purpose, limitations, and dangers.

⦿ Record Keeping

Record keeping is an essential and integral part of effectively managing the products you manufacture. Design records show that your product was carefully designed and complies with safety practices and standards if applicable. Quality control data shows that your product was carefully manufactured and tested during all phases of production. Also, test data on vendors and purchased components included in your product should be collected. All records, properly dated and signed, can provide an important means of defence and will help substantially in establishing that you are not liable.

Risk Insights

Self-Audit Checklist



A self-audit checklist as outlined below is a good measure of how effectively you have controlled your potential Manufacturers' E & O exposure.

Management:

- Has a Product Safety Committee or Manager been established or appointed?
- Does it meet at regular intervals?
- Does it review new products?
- Are written records kept of its decisions?
- Are records maintained for the life of the product?
- Does it have the full authority necessary when potential problems are encountered?

Engineering:

- Are design decisions recorded?
- Are tests on models and prototypes recorded?
- Are mandatory and voluntary standards in use?
- Are products reviewed by a consultant?

Quality Control:

- Does the department have a Quality Control Manual?
- Is it actively used?
- Is it updated and reviewed on a regular basis?
- Are records maintained on all inspections?
- Are records kept on vendors?
- Are gauges and test equipment regularly calibrated?
- Are customer complaints handled promptly?
- Is corrective work documented?
- Are defective products and parts segregated?
- Have recall procedures been established?

Manufacturing:

- Is the reliability of production machinery (lines) reviewed?
- Is the reject rate on parts reviewed?
- Is vendor performance evaluated?
- Are production records maintained daily?

Marketing:

- Are marketing personnel trained on how to sell the product?
- Are advertising, sales brochures, manuals, warnings and labels periodically reviewed by the legal department?
- Are customer complaints documented and conveyed to senior management?

Legal:

- Has an action plan been established in case of a lawsuit?

If you have answered "yes" to the majority of the questions outlined above, then you are well on your way to controlling your Manufacturers' E & O exposure.

About Us

Northbridge Insurance is a leading Canadian commercial insurer. Working with our broker partners, we focus on understanding the needs of our customers and on creating solutions that make a difference to their success.

For more information on making your business safer, contact Risk Services Department at **1.855.620.6262**.