

Protecting Manufacturers: The Critical Role of E&O Insurance

By Jude Sedliak, RPLU

Senior Vice President, Underwriting, Berkley Service Professionals, a Berkley Company

October 21, 2024



In today's rapidly evolving technology landscape, the demand for products like computer chips, semiconductors, electric vehicle batteries and embedded software is skyrocketing. This surge presents significant opportunities for manufacturers, but it also introduces a range of professional liability exposures that many manufacturers may not fully understand. As brokers, it's crucial to educate your clients about the importance of Manufacturers Errors and Omissions (E&O) insurance to safeguard their businesses against these risks.

Catalysts for Industry Growth

The manufacturing sector is experiencing unprecedented growth, driven by federal initiatives such as the Infrastructure Investment and Jobs Act (IIJA), the CHIPS Act, and the Inflation Reduction Act (IRA). According to [Deloitte's 2024 Manufacturing Industry Outlook*](#), investments in semiconductor and clean technology manufacturing have surged, with commitments nearly doubling in 2021 compared to 2019. Additionally, around 200 new clean technology manufacturing facilities have been announced since the IRA's passage, representing an \$88 billion investment.

Manufacturers are under pressure to accelerate product development and enhance delivery efficiency. However, in their pursuit of growth and efficiency, manufacturers may overlook the professional liability exposures that can arise during the manufacturing process.

Protecting the Client's Business

While most manufacturers are aware of risks like property damage or bodily injury, they may be less familiar with the professional exposures related to negligence, defective products, design flaws, or quality control issues. This is where Manufacturers E&O insurance becomes indispensable. It protects companies from third-party financial losses and litigation resulting from alleged product or work defects.

Typical claims scenarios for Manufacturers E&O coverage include:

- Repetitive errors in mass production
- Design process mistakes leading to incorrect manufacturing
- Product labeling issues, such as omitted or misstated information
- Delays in manufacturing or delivery affecting projects relying on that part

Only One in Four Manufacturers Have E&O Coverage

Manufacturers E&O claims are often severe, averaging six figures. Smaller manufacturers, in particular, can be devastated by large claims, especially if there is reputational damage involved. Many manufacturers mistakenly believe that other policies, such as product liability or general liability, cover E&O exposures. However, Manufacturers E&O policies fill the gap between these coverages, yet only about one in four manufacturers purchase E&O coverage, which represents a big opportunity for brokers. Those who do often have limited policies only because they are required to by contractual obligations, resulting in insufficient coverage.

What Manufacturers E&O Covers

Manufacturers E&O insurance covers two main risks: damages caused by alleged product or work defects resulting in third-party financial loss without bodily injury or property damage, and related litigation expenses. This coverage not only protects a manufacturer's balance sheet but also its reputation.

Each policy can be tailored to fit the manufacturer's unique exposures, covering activities such as:

- Design, development, manufacturing, selling and value-added reselling of products
- Installation, training, support, servicing, maintenance and repair of products
- Advice, consultancy, design, planning, specification, labeling, and marketing of products

The Role of Brokers and Agents

Brokers and agents who understand the manufacturing segment and current E&O risks will be invaluable resources to their clients. By educating them about the importance of Manufacturers E&O insurance, brokers and agents can help their clients navigate the complexities of the modern manufacturing landscape, ensuring they are adequately protected against potential liabilities. Learn more about our [Manufacturers E&O coverage](#).

*Deloitte Research Center for Energy and Industrials, October 30, 2023

About the Author



Jude joined Berkley Service Professionals in 2021. He has more than 25 years of experience underwriting professional liability insurance in both the standard and nonstandard markets. Jude's vast professional liability knowledge covers more than a dozen E&O classes with specialization in miscellaneous professional, real estate and insurance agents.

Jude is a Registered Professional Liability Underwriter (RPLU) and holds a Bachelor of Science degree in Finance from LaSalle University in Philadelphia. He is based in Roswell, Georgia, and can be reached at jsedliak@berkleysp.com.

