

## Extra protection with our Contract Manufacturer's Liability Endorsement

### Why purchase Contract Manufacturer's Liability cover?

In Australia, there is a growing trend for businesses to undertake contract manufacturing for a third party. Often, the third party will be a large brand name that is particularly sensitive to any brand and reputation impacts resulting from accidental contamination.

Accidental contamination during manufacture or packaging of the product can potentially result in substantial lost profits for the third party. Unfortunately, the insured may have only very limited cover for such losses under their General Liability (CGL) or Contaminated Products Insurance (CPI) policies.

The cover provided by stand-alone CGL policies in the market is typically limited to property damage that occurs at the insured's premises, or to goods under the insured's care, custody or control. This means that the insured may not have adequate cover for the financial loss suffered by their customers as a result of accidental contamination.

Most CPI policies, too, have very limited third party cover. They commonly may include third party recall costs; however, any claim from a third party for their loss of profits is usually not covered.

Liberty Specialty Markets (Liberty) addresses this potential shortfall in cover with its Contract Manufacturer's Liability (CML) Endorsement.

### What does it cover?

Liberty's CML Endorsement covers loss of earnings incurred by a third party as a direct result of accidental contamination of an affected product which the insured is manufacturing under contract for the third party.

Liberty's CML Endorsement also includes cover for defence costs.

### What are the key benefits of the cover?

Liberty's CML Endorsement offers:

- ▶ Third party loss of earnings cover for up to 12 months
- ▶ Automatic inclusion of defence costs
- ▶ Limits up to \$15,000,000

## What sort of clients face this type of exposure?

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

### Case example

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.

The products were released to market and within the month, multiple consumer complaints were received by both retailers and Krason. Further investigation revealed that the product complaints related to a two-week period of production.

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. Krason and Muesli Bar Pty Ltd agreed a recall needed to be conducted.

Krason conducted the recall and sent their following invoice to Muesli Bar Pty Ltd. The chart below summarises the costs claimed, as well as the cover potentially provided by standard CPI and CGL policies, as compared with Liberty's CPI policy with CML Endorsement.

	AUD	CPI Policy	CGL	CPI with CML
Retailer recall costs	\$150,000	✓	?	✓
Advertising expenses	\$50,000	✓	✗	✓
Product replacement	\$500,000	✓	✗	✓
Krason's profit margin	\$500,000	✗	✗	✓
Krason's lost sales	\$100,000	✗	✗	✓
Total:	\$1,300,00			
<b>Total uninsured losses without CML:</b>	<b>\$600,000</b>			

✓ Coverage provided    ✗ Coverage not provided

The total loss incurred by Krason was \$1,300,000; however, a typical CPI 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 Liberty's CML Endorsement.

## Global reach. Financial strength. Local authority.

Distinct, complex and constantly evolving – every business is as unique as their insurance needs. To confidently progress in the face of risk and uncertainty requires a level of security you can only achieve through working with specialists.

Liberty Specialty Markets offers a breadth of world-class insurance and reinsurance services to brokers and insured clients. We bring value and solutions to more than 20,000 of Asia Pacific's most significant business and government organisations – helping protect what they earn, build and own.

We're part of the global Liberty Mutual Group, a Fortune 100 company that's been in business since 1912 with a Standard and Poor's 'A' (strong) rating.

[View our office locations](#)

[Meet our Crisis Management team members](#)



Connect and join the Liberty conversation

This document is intended to broadly illustrate the kinds of exposures a business can face. It is not a comment on insurance coverage available from Liberty. You should not rely on this information without first obtaining professional advice. © Liberty 2018. Please contact Liberty for a licence to use and distribute this document. This information is current as at February 2018. Liberty means Liberty Specialty Markets, a trading name of Liberty Mutual Insurance Company, Australia Branch (ABN 61 086 083 605) incorporated in Massachusetts, USA (the liability of members is limited); Liberty Specialty Markets Hong Kong Limited (No. 2400200); and Liberty Specialty Markets Singapore Pte Limited (UEN 201538069C) with a branch in Labuan (Company No. LF12903).