

Ten Important Insurance Coverages for Manufacturers

Manufacturers face more challenges now than ever with things like finding and keeping skilled labor, constant advances in automation, changing laws and regulations and much more. While insurance can't necessarily address these issues, there are many insurance coverages to address unexpected events that strongly impact your business. Here are 10 insurance coverages particularly important for manufacturers.

- 1. Equipment Breakdown-** Outside of labor, nothing is more important to the day to day operations of a manufacturer than their production equipment. Equipment Breakdown provides coverage from the sudden and accidental breakdown of machinery and equipment. For example, let's say a gear in a production machine suddenly breaks. Equipment Breakdown coverage will pay the cost to repair or replace the damaged machine. Equipment Breakdown also provides coverage for lost income and extra expenses caused by the incident. Equipment Breakdown can also provide coverage if a power surge knocks out a heating/cooling system or a phone system.
- 2. Business Income & Extra Expense-** Business Income & Extra Expense provides coverage for loss of income or extra expense incurred due to a covered cause of loss. This coverage is particularly important in the event of a catastrophic total loss like a fire or tornado. In the event of a claim, Business Income coverage is figured by the net income lost by the business during the claim period. Extra Expense coverage pays additional costs that can help a manufacturer get some form of business operations resumed. Examples of this coverage would be costs to expedite shipping on replacement production equipment or renting a temporary production location until the damaged location is repaired or rebuilt.
- 3. Manufacturer's Selling Price-** This is a property coverage provided by many companies as part of a manufacturer's coverage enhancement endorsement. In the event of a loss, the valuation of finished stock is figured at its selling price. This is important because the selling price is often significantly more than the replacement cost.
- 4. Contract Penalty Expense-** This is another coverage often included on a manufacturer's coverage enhancement endorsement. This coverage pays contractual penalties incurred for failure to timely deliver your product due to a covered cause of loss. For example, a pipe breaks in your facility and causes extensive water damage to stock that was due to be delivered the following day that results in the stock being ruined. Contract Penalty Expense coverage would pay any contractual penalties for that stock not arriving to your customer in the time contractually stipulated.
- 5. Products Liability-** One of if not the largest exposure for most manufacturers is Products Liability. Products Liability provides coverage for bodily injury or property damage due to your

product where your company is legally liable. With rising medical costs and jury decisions, these claims can become very costly. For additional protection I highly recommend considering commercial umbrella coverage.

- 6. Manufacturer's Errors & Omissions-** What happens if there is a product defect that does not result in bodily injury or property damage but does affect a third party financially? For example, let's say you manufacture a part that goes into a larger product, and there is an error in your product that results in your customer missing a production deadline and losing an order. Manufacturer's Errors & Omissions coverage would pay for things like lost income and contract penalties in situations like this where your company is legally liable.
- 7. Commercial Auto Liability-** Whether you have one vehicle or a larger fleet, Commercial Auto Liability is a large exposure to your business that is only growing. Commercial Auto Liability is the area insurance carriers seem to be encountering larger claims due to the rising medical costs and jury decisions I mentioned with Products Liability. Businesses need to explore measures like driver screening and telematics to help mitigate this exposure. This is another coverage area where a commercial umbrella can provide extra protection.
- 8. Workers Compensation-** Like many of these items, Workers Compensation could be its own blog, but this coverage is vital to manufacturers. Workers Compensation pays medical expenses and lost wages to an employee injured on the job per state statute. Workers Compensation can often be the largest insurance cost for a manufacturer. Manufacturers can help control Workers Compensation claims cost by doing things like proactive workplace safety programs and timely claims reporting.
- 9. Cyber-** Manufacturers can face a number of cyber exposures. The coverages most likely to be used by manufacturers are funds transfer fraud, phishing/social engineering, privacy liability and ransomware/extortion. For more information on cyber policies, check out my [cyber insurance blog](#).
- 10. Employment Practices Liability-** Employment Practices Liability or EPLI provides coverage for claims such as wrongful termination, discrimination and harassment allegations brought by employees for which you are found legally liable. EPLI coverage can also include third party coverage for discrimination and harassment claims brought by third parties such as customers or vendors. There are a couple other perks often included with EPLI policies. The first is most policies provide a sublimit of coverage for defense costs of wage and hour claims. The second is most policies provide business owners with a free HR Hotline. This can be used for all kinds of HR questions such as the proper steps to terminate an employee or changes to be made to an employee handbook.

This is a short snapshot of coverages that are important to manufacturers. It is important to work with an insurance professional to determine the best coverage for your manufacturing business. If you have any questions about these coverages or would like to review the insurance program for your manufacturing business, please contact me.

Dan Gabel, CRIS

Partner, Shore-Murphy & Associates of Casey

Office: (217) 932-2267

Cell: (217) 962-0461

E-Mail: dan@shoremurphycasey.com