Why Your Company May Need Product Liability Insurance

If your company manufactures any kind of product, from lemonade to engines, computers to clothing, it could easily find itself on the wrong side of a lawsuit by a plaintiff claiming your product(s) caused some kind of injury or damage. In today's litigious society, it is not even necessary for you to be the manufacturer of the product. Sellers are often sued alongside the manufacturers.

It's only natural that people want to be safe from injury and property damage whether from food poisoning, getting into an auto accident due to tire failure, or having the foundation of their home crack, but how do protect your company from liability? The answer may be with product liability insurance.

Most liability claims are covered as part of your company's commercial general liability (CGL) policy. However, products that are particularly likely to lead to liability may be handled separately. As part of a sound risk management program, you should know well in advance how your current coverage would respond to such claims.

The CGL policy covers any bodily injury and property damage occurring away from your business premises that happens as a result of your product or completed work. If a product is consumed on the same premises, such as food served in a restaurant, the policy provides coverage once the insured has relinquished possession of the product whether the injury or damage occurs on or away from the premises.

The standard policy excludes damage to the product when the damage was caused by some part of the product itself or faulty workmanship in its manufacturing. For example, one small part in a complex, expensive piece of equipment may fail and cause tremendous damage to that equipment. If the part that fails was purchased from an independent subcontractor, the insurer of the manufacturer of that part would cover damage to the equipment. By contrast, if the manufacturer of the expensive equipment itself produced the piece that failed, the damage is not insured under the CGL policy.

Product liability exposure lasts as long as the product is in use. Someone may be injured or damage may result from use of the product years after it was manufactured and the product may no longer be in production. Product liability insurance should be kept in force as long as the products are being used and could cause injury or damage. Partnerships and sole proprietorships are especially vulnerable. These business owners cannot evade personal liability exposure by taking cover behind a corporate shield; thus, they need to take particular care to keep product liability coverage continuously in force. Because of the continued liability exposure, insurers require insured's to provide detailed information about discontinued products.

The CGL provides coverage for product liability that may arise when products are sold internationally, but only if liability is determined by a lawsuit in the United States, Puerto Rico, or Canada. Since product liability lawsuits are often filed in the country where the alleged injury or damage occurred, any business whose products are sold overseas will need a foreign coverage endorsement added to its CGL policy.

Another type of coverage not provided by the CGL policy is the expense of a product recall, though this can be expensive and severely damaging to a company's reputation. Separate product withdrawal expense insurance may be available depending on the particulars of your business and its product.

The basic premise of most product liability lawsuits is that the product manufacturer or vendor failed to take appropriate steps to insure the product was safe and sound. It is impossible to eliminate all hazards in connection with many products. No matter what you do, someone could fall off a ladder or burn themselves with a hair dryer, and so forth. To show that you did everything possible to prevent such injuries, it is critically important to communicate with buyers and users of the product about such hazards. The thing to remember is that if there is a lawsuit, your best defense is to prove you took all reasonable measures to assure no one would be injured.