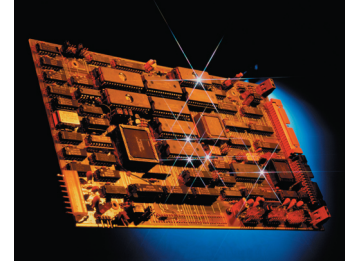


ERRORS AND OMISSIONS

Loss Scenarios for Manufacturing Companies



In the technology sector manufacturers face a diverse range of loss scenarios, ranging from errors or flaws in the product design to errors or contamination arising during production. No matter how stringent a company is with their quality control procedures these errors are often not discovered until thousands of end products have been distributed.

The cost to manufacturing companies can be vast, rectification expenses, damages, compensation and of course legal costs are just some of the ramifications of these errors manufacturers can face.

Consider the following loss scenarios and then ask yourself whether you have adequate protection in place.

Consider the following loss scenarios and then ask yourself whether you have adequate insurance protection in place.

FAILURE OF POWER SUPPLY SUB-ASSEMBLY

Potential Cost: \$1.3M

A well known manufacturing company supplied 20,000 ADSL cards (modems) which were to be installed in various exchanges of a local telecommunications carrier. Several faulty cards were reported and after investigation it was discovered that the power supply sub-assembly had failed due to the power converter. The carrier has initiated a claim against the integrator who is in turn seeking an indemnity from the manufacturer.

HARDWARE PERFORMANCE FAILURE

Potential Cost: \$20M

A manufacture agreed to develop and supply mobile point of sale devices to a reseller in the US. Due to alleged defective design by the manufacture, the reseller terminated the contract and sought compensation of up to \$20m for their future losses, costs and punitive damages.

REPEATED HARDWARE FAILURE

Potential Cost: \$10.5M

A telecommunications equipment manufacturer supplied network equipment to a mobile phone company. The mobile phone company alleged the equipment was faulty, causing systems to crash and outages to the network. As a result the mobile phone

company alleged there had been a breach of warranty and sought \$500,000 in damages for lost business and \$10,000,000 in lost revenue.

REPEATED AC POWER SUPPLY FAILURE WAS A SOFTWARE ERROR

Potential Cost: \$500,000

A manufacture undertook a contract for the production of rectifiers and the assembly of PCB's for use in the telecommunications industry. The contract was for sale of 24 volt rectifiers for use in 500 sites. After loss of system communications between the 24v rectifier and the monitoring and control module at base stations. The carrier claimed damages for lost business, together with replacement and upgrade costs. It was found that a write command error in the embedded microprocessor code of the rectifier caused the loss.

HIGHER THAN NORMAL FAILURE

Potential Cost \$4M

A manufacturer faced allegations of an epidemic failure rate of its hard disk drives. Following investigation it was found that during hot weather the drives failure rate increased due to a faulty mould compound. An OEM claimed compensation for its resultant lost revenue, return of purchase costs and replacement costs.

FAULTY CHIP CAUSES PRODUCT FAILURE

Potential Cost \$11M

This manufacture supplied a specifically designed interface card that contained a faulty chip. The customer was unable to monitor transactions or collect information for payments. The claimant alleged they suffered \$11m in damages due to recovery, replacement and installation costs, lost monitoring revenue, fault servicing costs, additional staffing and testing services.

DESIGN CORRECTION

Potential Cost \$300,000

A telecommunications manufacturer was sued by a disabled customer as their product did not accommodate their disability. The manufacture was ordered to make amendments to their design as it was found they did not identify barriers to disability accessibility and usability as part of the product design and development process as required by law. Resultant costs and damages were sought.

HARDWARE DAMAGE

Potential Cost \$500,000

A semiconductor device manufacturer supplied integrated circuits (IC's) to a major medical device manufacturer to be used in CAT scanning machines. Although the IC's were tested by both the semiconductor manufacturer and the medical device manufacturer as meeting specifications, one of the IC's did not work after installation. This resulted in a claim for nearly \$500,000 in lost revenue due to the closure of the CAT scanning unit.

DESIGN FLAW

Potential Cost \$2M

A world wide manufacturer of PCs was sued by its customers alleging the company knowingly concealed a design flaw that caused the computers to overheat and shut down. Customers claimed that the manufacturer knew a design flaw existed and as a result the computer was never able to reach the advertised performance levels. Resultant costs and damages were sought.

BREACH OF CONTRACT

Potential Cost \$20M

A PC manufacture was sued by its resellers for failing to fully honor the service contracts and warranties provided upon sale of the PC's. The resellers claim that they are operating at a net loss after having to undertake the liability for fulfilling customer warranties themselves. Damages for breach of contract and lost revenue were sought.

PRODUCT FAILURE

Potential Cost \$2M

The manufacturer of semiconductor devices supplied capacitors to a major PC hardware manufacturer to be used in sub-assemblies for train braking systems. Although the capacitors were tested by both the semiconductor manufacturer and the PC manufacturer, many failed after final installation, causing the braking system to shut down and taking the trains out of service.

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