Article

Weak Links in the Chain – the risks from conception to delivery of a product

Florian Beerli • December 03, 2024

Regardless of where a company is in the supply chain, they all have one thing in common – they seek to deliver quality and safe products to their customers. But sometimes mistakes or accidents happen that cause them to fall short of that expectation. However, many companies are not aware or prepared for the financial impact that a problem like this could bring.

An insurance policy that can cover the financial loss associated with these risks can be key in that preparation.

What could go wrong?

The lifecycle of a product is a complex one that includes designs and formulations, raw materials, various manufacturing processes, and a distribution reach that goes in many directions. Within that lifecycle, errors can occur before the product gets to its intended destination. For example, incorrect raw materials might be used which lead to impairment of the final product's quality. Faulty components might even come into play which lead to defects in consumer-level products, or a breakdown of machinery could lead to fragments of foreign material being in packaged food.

The list of things that could happen from conception to delivery of a product is vast and in some cases not the fault of the company suffering the brunt of the financial impact.

In addition to a product's lifecycle being complex, so too are the external factors that have had a significant impact on companies of all sizes. COVID-19 and the havoc it wreaked on supply chains has forced some companies to rely on suppliers with substandard quality control measures. This coupled with ever-changing and tightening regulatory requirements not only increases the risk if something goes wrong, it also requires that a company has the appropriate risk management in place to address the error.

What's the impact?

Production errors can lead to defects, adulterations, quality impairments, mislabelling, and packaging issues, all of which have the potential to lead to a claim for damages from customers or even result in a product recall.

The hit to a company's balance sheet of getting the product out of the market, redesigning, replacing, covering costs linked to business interruption, legal fees, and potential damages to a third party can be considerable.

What is the solution?

Historically, companies have sought out a traditional Product Recall policy, or a Manufacturers' Error & Omissions policy to address these concerns. While these policies can do a good job at addressing a lot of the risks, they can also exclude some key issues. Typically, a Manufacturers Errors & Omissions policy isn't going to cover any of the first party costs that a company incurs and typically a Product Recall policy isn't going to cover any quality related issues with a product. While every market may have a different product to address these concerns, it is important that any business that produces or sells products should ensure that they have an insurance solution that considers and covers the root causes of potential problems, not just the consequences.

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