

## Ohio Appellate Court Rules That Umbrella Policy Covers Loss Caused By Incorporation Of Defective Component Into Final Product

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An Ohio appellate court ruled that an umbrella insurer was obligated to defend and indemnify claims arising out of the incorporation of a defective component into glass bottles. *Motorists Mut. Ins. Co. v. Ironics, Inc.*, 2020 WL 261696 (Ohio. Ct. App. Jan. 17, 2020).

Ironics sold tube scale to Owens-Brockway for use in the production of glass bottles. Unbeknownst to Ironics, foreign particles were inadvertently mixed into the tube scale, a defect that was not discovered until Owens-Brockway had incorporated the tube scale into its glass bottles. Because the damage was irreversible, Owens-Brockway was required to scrap nearly 2,000 tons of bottles. When Owens-Brockway sued, Ironics sought defense and indemnity from Motorists under a general liability policy and an umbrella policy. The trial court ruled that there was no coverage under either policy. The appellate court reversed in part.

With respect to the general liability policy, the appellate court assumed, without deciding, that Ironics' delivery of non-conforming tube scale constituted an "occurrence" that caused "property damage." However, the court concluded that coverage was barred by a contractual liability exclusion. The court rejected Ironics' assertion that the exclusion did not encompass underlying negligence and product liability claims. The court explained that those tort claims were not cognizable under Ohio's economic-loss rule, which prevents recovery of damages for purely economic loss.

However, the appellate court ruled that Motorists was obligated to defend and indemnify Ironics under the umbrella policy. Emphasizing that the umbrella policy defines "occurrence" broadly to include "an accident, or a happening or event" resulting in property damage, the court concluded that Ironics' supply of defective tube scale was an "event."

As to whether the event resulted in "property damage" under the umbrella policy, Motorists argued that there must be damage to "other property" (aside from the insured's own defective tube scale) in order to trigger coverage. Furthermore, Motorists argued that the glass bottles could not be considered such "other property" because, under applicable case law, once an insured's defective component is irreversibly integrated into a product, the final product cannot be deemed "damage to other property" for the purposes of insurance coverage. The court rejected these assertions.

First, the court ruled that the umbrella policy does not require damage to other property because it defines “property damage” to include “physical injury to or destruction of tangible property . . . including all resulting loss of use of that property,” without any reference to “other property.” In addition, the court ruled that there was damage to other property (*i.e.*, the glass bottles) and that case law relating to integrated products was inapplicable. The court stated:

Unlike the limited scope of coverage applicable to CGL policies, the umbrella policy in this case is, by its very terms, designed to provide broad coverage for claims that are not otherwise covered by Ironics’ CGL policy . . . Given the differences between a CGL policy and an umbrella policy, it would be inappropriate to impose the [ ] integrated system rule here, especially where the rule itself is not contained in the policy language.

Finally, the court rejected Motorists’ contention that a “your product” exclusion, among others, precluded coverage. The court held that the glass bottles could not be deemed Ironics’ product, reiterating that “integrated product” case law was inapplicable in the context of the umbrella policy.

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